



Accountants &
business advisers

**THE LIVERPOOL FOOTBALL CLUB
AND ATHLETIC GROUNDS PLC**

Company Number: 35668

ANNUAL REPORT

YEAR ENDED 31 JULY 2005



DIRECTORS' REPORT

The Directors submit their report and the audited accounts of The Liverpool Football Club and Athletic Grounds Plc for the year ended 31 July 2005.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for ensuring that the Directors' Report and other information included in the Annual Report is prepared in accordance with company law in the United Kingdom. The Directors intend to publish these accounts on the website www.liverpoolfc.tv. The maintenance and integrity of this website is the responsibility of the Directors.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

SUBSIDIARY UNDERTAKINGS AND JOINT VENTURE

Details of the company's subsidiary undertakings and joint venture are set out in note 13 to the accounts.

RESULTS AND DIVIDEND

The profit and loss account on page 24 shows a profit after taxation for the year of £7,533,000 (2004: loss £18,220,000).

The Directors do not recommend the payment of a dividend and the retained profit for the year of £7,533,000 has been transferred to reserves.

REVIEW OF THE BUSINESS

The principal activities of the company continued to be those of a professional football club and related activities. A review of the company's business is contained in the Business Review.

LAND AND BUILDINGS

In the opinion of the Directors a comparison between cost and market value of freehold and long leasehold land and buildings is of no real significance in the context of the company's operations.

PAYMENT POLICY TO CREDITORS

With respect to the immediately following accounting period in relation to all its suppliers, it is the company's policy:

- (i) to settle the terms of payment with those suppliers when agreeing the terms of each transaction;
- (ii) to ensure that those suppliers are made aware of the terms of payment; and
- (iii) to abide by the terms of payment.

Trade creditors at 31 July 2005 represented 24 days of annual purchases (2004: 23 days). This figure excludes creditors in respect of player acquisitions for which payment is made on the date it is contractually due.

EMPLOYEES

Within the bounds of commercial confidentiality, the company endeavours to keep staff at all levels informed of matters that affect the progress of the company and are of interest to them as employees.

The company operates an equal opportunities policy.

The aim of this policy is to ensure that there should be equal opportunity for all and this applies to external recruitment, internal appointments, terms of employment, conditions of service and opportunity for training and promotion regardless of gender, ethnic origin or disability.

Disabled persons are given full and fair consideration for all types of vacancy in as much as the opportunities available are constrained by the practical limitations of the disability. Should, for whatever reason, an employee of the company become disabled whilst in employment, every step, where appropriate will be taken to assist with rehabilitation and suitable re-training.

The company maintains its own health, safety and environmental policies covering all aspects of its operations. Regular meetings and inspections take place to ensure all legal requirements are adhered to and that the company is responsive to the needs of the employees and the environment.

CORPORATE GOVERNANCE

The company is not required to comply with the principles recommended in the Combined Code on Corporate Governance. However the Board supports the highest standards in corporate governance and has decided to follow certain provisions set out in the Code.

In addition to the Board of Directors, which is responsible for developing and implementing the company's strategy and policy, two committees have been established, namely a Remuneration Committee and an Audit Committee whose purpose and function is described thus:

REMUNERATION COMMITTEE

The committee consists of K E B Clayton, T D Smith and JD Burns. It considers and determines, on behalf of the Board, the terms of engagement and remuneration of the company's executive Directors. The committee meets when required during the year, normally on a minimum of two occasions.

AUDIT COMMITTEE

The committee consists of K E B Clayton, T D Smith and N White. It is responsible for reviewing the Annual Report and Accounts, ensuring compliance with accounting policies and satisfying itself as to the adequacy of the company's internal financial control.

The committee meets at least twice a year with the external auditors in attendance.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

During the year the company has maintained cover for its Directors and Officers and those of its subsidiary companies under a Directors' and Officers' liability insurance policy.

INTERNAL FINANCIAL CONTROL

The Board has overall responsibility for the system of internal financial control which is designed to provide reasonable assurance against material misstatement or loss. The key procedures which have been established that are designed to provide effective internal financial control are:

- Financial reporting within a comprehensive system of budgeting and forecasting and detailed periodic review of actual results with budget.
- Procedures for the appraisal, review and authorisation of capital and other expenditure.

- The Directors have put in place an organisation structure appropriate for the size of the company with defined lines of responsibility and delegation of authority where the Board considers it necessary.

POST BALANCE SHEET EVENTS

Since the year-end the company has sold Milan Baros, El-Hadji Diouf and Josemi for total fees amounting to £13,845,000. The club has acquired the registration of Jan Kromkamp for a fee of £4,345,000.

DIRECTORS

The Directors in office in the year and their interests in the share capital of the company were:

ORDINARY SHARES (Number Held)

	31 July 2005	31 July 2004
D R Moores	17,923	17,923
N White FSCA	223	223
T D Smith	264	264
K E B Clayton FCA	25	25
R N Parry BSc FCA (Executive)	10	10
J D Burns	-	-
L A Wheatley FCA (Executive)	-	-
J H Cresswell BSc ACA	-	-

The ordinary shares held by K E B Clayton and R N Parry are held as nominee for DR Moores. DR Moores and T D Smith retire by rotation at the Annual General Meeting and are eligible for re-election.

AUDITORS

On 23 May 2005, PKF transferred their business to PKF (UK) LLP, a limited liability partnership. Under section 26(5) of the Companies Act 1989 the company consented to extend the audit appointment to PKF (UK) LLP from 23 May 2005. Accordingly, the audit report has been signed in the name of PKF (UK) LLP.

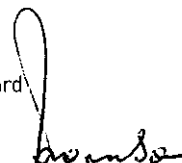
PKF (UK) LLP is eligible for re-appointment as auditor to the company and a resolution proposing its re-appointment will be proposed at the Annual General Meeting.

By order of the Board

W B Morrison

Secretary

12 January 2006



AUDITORS' REPORT

Independent auditors' report to the members of The Liverpool Football Club and Athletic Grounds Plc for the year ended 31 July 2005.

We have audited the financial statements of The Liverpool Football Club and Athletic Grounds Plc for the year ended 31 July 2005 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes.

These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities. Our responsibility is to audit the financial statements in accordance with the relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the company is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report, the Chairman's Statement, the Business Review and the Financial Highlights. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

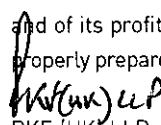
BASIS OF AUDIT OPINION

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.


We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 July 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


PKF (UK) LLP

Registered Auditors
Liverpool, UK
13 January 2006



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PROFIT & LOSS ACCOUNT

for the year ended 31 July 2005

	Operations excluding player amortisation and trading	Player amortisation and trading	2005 Total	2004 Total
Notes	£'000	£'000		£'000
Turnover including joint venture	122,413	–	122,413	92,349
Share of turnover of joint venture	(1,359)	–	(1,359)	(773)
Company turnover	121,054	–	121,054	91,576
Cost of sales	(14,299)	–	(14,299)	(13,164)
Gross profit	106,755	–	106,755	78,412
Other operating income	354	–	354	293
	107,109	–	107,109	78,705
Administrative expenses before exceptional costs	(81,950)	(24,250)	(106,200)	(85,384)
Administrative expenses – exceptional costs	(2,500)	–	(2,500)	(14,211)
Total administrative expenses	(84,450)	(24,250)	(108,700)	(99,595)
Operating loss	22,659	(24,250)	(1,591)	(20,890)
Profit on disposal of players' registrations	–	12,667	12,667	415
Profit/(loss) before interest and taxation	22,659	(11,583)	11,076	(20,475)
Interest receivable and similar income			117	51
Interest payable and similar charges			(1,730)	(1,479)
Profit/(loss) on ordinary activities before taxation			9,463	(21,903)
Tax on profit/(loss) on ordinary activities			(1,930)	3,683
Profit/(loss) for the financial year			7,533	(18,220)

All amounts relate to continuing operations.

There were no gains and losses other than as stated above.

BALANCE SHEET

as at 31 July 2005

	Notes	2005 £'000	2004 £'000
Fixed assets			
Intangible assets	10	80,105	58,744
Tangible assets	11	36,811	39,458
Investments	13	3	3
		116,919	98,205
Current assets			
Stock	14	1,283	1,732
Debtors	15	21,905	11,240
Cash at bank and in hand		678	254
		23,866	13,226
Creditors – amounts falling due within one year	16	(69,649)	(56,141)
Net current liabilities		(45,783)	(42,915)
Total assets less current liabilities		71,136	55,290
Creditors – amounts falling due after more than one year ...	16	(26,081)	(19,684)
Provision for liabilities and charges	17	(1,916)	-
Net assets		43,139	35,606
Capital and reserves			
Called up share capital	20	174	174
Share premium account	21	32,882	32,882
Profit and loss account	21	10,083	2,550
Shareholders' funds	22	43,139	35,606

Approved by the Board on 12 January 2006
and signed on its behalf by:

D R Moores Chairman

R N Parry Chief Executive

CASH FLOW STATEMENT

for the year ended 31 July 2005

	Notes	2005 £'000	2004 £'000
Reconciliation of operating loss			
to net cash inflow from operating activities			
Operating loss		(1,591)	(20,890)
Depreciation charges		3,728	2,512
Anfield Stadium additional depreciation	5	-	3,500
Transfer of deferred credits to profit and loss account		(128)	(139)
Profit on disposal of tangible fixed assets		(249)	(317)
Amortisation and impairment of players' registrations		24,250	17,286
Decrease in stocks		449	293
Increase in debtors		(10,107)	(1,717)
Increase in creditors		688	11,920
Net cash inflow from operating activities		17,040	12,448

CASH FLOW STATEMENT

Net cash inflow from operating activities		17,040	12,448
Returns on investments and servicing of finance	23	(1,511)	(1,388)
Taxation		1,863	(1,035)
Capital expenditure	23	(19,149)	(6,162)
Cash (outflow)/inflow before financing		(1,757)	3,863
Financing	23	(2,275)	(4,796)
Decrease in cash		(4,032)	(933)

Reconciliation of net cash flow to movement in net debt (note 24)

Decrease in cash		(4,032)	(933)
Cash outflow from decrease in bank borrowings		1,906	4,467
Repayment of finance leases and hire purchase contracts		369	329
Change in net debt resulting from cash flows		(1,757)	3,863
New finance leases and hire purchase contracts		-	(382)
Movement in net (debt)/funds in year		(1,757)	3,481
Net debt at 31 July 2004		(15,384)	(18,865)
Net debt at 31 July 2005		(17,141)	(15,384)

NOTES TO THE ACCOUNTS

for the year ended 31 July 2005

1. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial statements are as follows.

1.1 Basis of accounting

The financial statements have been prepared under the historical cost convention, and in accordance with applicable accounting standards. Group accounts consolidating the accounts of The Liverpool Football Club and Athletic Grounds Plc and its subsidiary undertakings for the year ended 31 July 2005 have not been prepared. Information relating to the company's joint venture investment is shown separately in note 13. The company's share of the joint venture's operating loss is excluded from the company's own operating loss as the company is not required to prepare consolidated accounts.

1.2 Turnover and income recognition

Turnover represents income receivable from the company's principal activities and is exclusive of value added tax and transfer fees. Matchday receipts are stated after percentage payments to The Football Association, The FA Premier League, UEFA and visiting clubs. Revenue from this source is recognised over the course of the football season as games are played. Sponsorship and similar commercial income is recognised over the duration of the respective contracts. Income arising from the fixed element of broadcasting revenue is recognised over the duration of the playing season. Facility fees which relate to live coverage or highlights of games are recognised as earned. Revenue arising from participation in European competitions is recognised as matches are played and is classified as matchday income and media income as appropriate.

1.3 Depreciation

Depreciation is provided on the cost of fixed assets appropriate to their estimated useful lives as follows

Freehold/long leasehold buildings	2%	Fixtures, fittings and equipment	10%
Youth Academy	2%	Motor vehicles	20%
Training Ground	2%	Computers	25%

Freehold and long leasehold land is not depreciated. Costs in connection with the new stadium project have not been depreciated. All other classes of tangible fixed assets are depreciated on a straight-line basis at the rates stated above, except for fixtures, fittings and equipment which are depreciated on the reducing balance method. The historical cost of the existing stadium is included under the heading "stands, fixtures, fittings and equipment" shown in note 11. The difference between its carrying value and the expected residual value will be provided for on a straight-line basis over a useful economic life of 4 years commencing in the year under review. The depreciation charge for the year in relation to the existing stadium has been reduced by £875,000 as a result of this change.

1.4 Intangible fixed assets

The costs associated with the acquisition of players' registrations are capitalised as intangible fixed assets. These costs are fully amortised in equal instalments over the period of players' initial contracts. Where a player's contract is extended beyond its initial period, amortisation is calculated over the period of the extended contract from the date on which it is signed. Players' registrations are written down for impairment when the carrying amount exceeds the amount recoverable through use or sale.

1.5 Signing on fees

In the opinion of the Directors, signing on fees are a normal part of a player's employment cost. Consequently, signing on fees are charged to the profit and loss account in the accounting period in which they are paid.

1.6 Stock

Stock represents goods for resale and is valued at the lower of invoice cost and net realisable value.

1.7 Finance leases, operating leases and hire purchase

Assets acquired under finance leases or hire purchase contracts are treated as tangible fixed assets and depreciation is provided accordingly. The present value of future rentals is shown as a liability and the interest element of rental obligations is charged to the profit and loss account over the period of the lease on a straight line basis. Operating lease rentals are charged to the profit and loss account as incurred.

1.8 Deferred taxation

Full provision is made for deferred tax assets and liabilities arising from differences between the recognition of gains and losses in the financial statements and their recognition for tax purposes. Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Deferred tax is measured on a non-discounted basis.

1.9 Pensions

The company operates its own contributory defined contribution scheme which is managed by Norwich Union. In addition, certain employees are members of The Football League Players' Retirement Income Scheme or The Football League Limited Pension and Life Assurance Scheme. Contributions are also paid to individuals' private pension schemes. Pension contributions are charged to the profit and loss account as they become payable. The company continues to make contributions in respect of its share of the deficit of the defined benefit section of The Football League Limited Pension and Life Assurance Scheme (the 'Scheme'). Accrual of benefits on a final salary basis was suspended with effect from 31st August 1999, when an actuarial review showed a substantial deficit.

As one of a number of participating employers the company is advised only of its share of the Scheme's deficit. Its share of the underlying assets and liabilities of the Scheme cannot be identified on a reasonable and consistent basis. Therefore, no disclosures are made under the provisions of FRS17, Retirement Benefits.

1.10 Deferred credits

Deferred credits relate to grants receivable from The Football Trust in relation to stadium improvements. These are transferred to the profit and loss account over the life of the assets to which the grants relate. Grants are repayable to The Football Trust in certain exceptional circumstances. In the opinion of the Directors such circumstances are unlikely to arise in the course of the company's normal operations.

1.11 Foreign currency transactions

Transactions denominated in foreign currencies are translated into sterling at rates of exchange approximating to those ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling as at that date. Translation differences are dealt with in the profit and loss account.

NOTES TO THE ACCOUNTS

for the year ended 31 July 2005

	2005 £'000	2004 £'000
2. TURNOVER		
Turnover comprises:		
Media	50,992	33,476
Matchday	33,088	26,415
Commercial	35,781	30,666
Visitors' Centre and Official Supporters' Club	1,193	1,019
	121,054	91,576
Turnover, all of which originates in the United Kingdom, can be analysed by destination as follows:		
United Kingdom	120,400	90,749
Rest of World	654	827
	121,054	91,576
3. OTHER OPERATING INCOME		
Other operating income comprises:		
Donations from Development Associations	313	263
Rent receivable	41	30
	354	293
4. ADMINISTRATIVE EXPENSES BEFORE EXCEPTIONAL COSTS		
Operations excluding player amortisation and trading:		
Depreciation of tangible fixed assets		
– owned by the company	3,479	2,253
– held under finance leases and hire purchase contracts	249	259
Profit on disposal of tangible fixed assets	(249)	(317)
Staff costs (note 8)	64,233	54,924
Grants released	(128)	(139)
Other operating charges	13,640	10,507
Operating lease rentals – land and buildings	407	350
– other	187	183
Auditors' remuneration – audit fee	24	23
– registration work	20	16
– other non-audit services	88	39
	81,950	68,098
Player amortisation and trading:		
Amortisation of players' registrations	22,847	17,286
Impairment of players' registrations	1,403	–
	106,200	85,384

Fees for other non-audit services in 2005 consist principally of charges regarding corporate taxation, VAT and matters in relation to corporate strategy.

NOTES TO THE ACCOUNTS

for the year ended 31 July 2005

	2005 £'000	2004 £'000
5. ADMINISTRATIVE EXPENSES – EXCEPTIONAL COSTS		
Additional costs	2,500	-
Termination payments	-	10,711
Anfield Stadium additional depreciation	-	3,500
	2,500	14,211

The current year additional costs charge of £2,500,000 relates to a provision made for potential costs arising as a result of the delay in securing a shirt sponsor. The Directors have taken advice and consider this provision to be sufficient to fully discharge any potential liability to Reebok as a result of the delay.

6. INTEREST RECEIVABLE AND SIMILAR INCOME		
Bank interest	14	51
Other	103	-
	117	51

7. INTEREST PAYABLE AND SIMILAR CHARGES		
On bank loans and overdrafts	1,597	1,353
Finance charges under finance leases and hire purchase contracts	55	48
Other	78	78
	1,730	1,479

8. DIRECTORS AND EMPLOYEES		
Aggregate amounts for both staff and Directors charged in respect of:		
Wages and salaries	56,996	48,688
Social security costs	6,957	5,900
Pension costs	280	336
	64,233	54,924

The Directors of the company received the following remuneration:

Emoluments (excluding pension contributions)	772	677
Aggregate payments to defined contribution pension schemes	62	93

Highest paid Director's remuneration:

Emoluments	607	539
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The Chairman and the non-executive Directors received no emoluments in the year (2004: £nil). At 31 July 2005, two Directors had retirement benefits accruing under defined contribution pension schemes (2004: 2).

During the year the average number of full-time employees was:	Number	Number
Players, manager and coaches	104	99
Ground and maintenance staff	46	47
Administration, commercial and other	140	134
	290	280

Full-time employees are those employed for more than 20 hours per week. In addition, the company employed on matchdays on average 670 part-time employees (2004: 615). The company also employs an additional 65 part-time scouts and coaches (2004: 50).

NOTES TO THE ACCOUNTS

for the year ended 31 July 2005

	2005 £'000	2004 £'000
9. UK CORPORATION TAX		
Current tax on income/(loss) for the year	21	(1,157)
Adjustments in respect of previous years	(7)	(706)
	<u>14</u>	<u>(1,863)</u>
Deferred taxation (note 17)		
Current year	1,916	(2,453)
Prior year	-	633
Tax on profit/(loss) on ordinary activities	<u>1,930</u>	<u>(3,683)</u>
The tax payable differs from the profit for the year multiplied by the standard rate of corporation tax in the UK (30%). The differences are explained below:		
Profit/(loss) on ordinary activities before taxation	<u>9,463</u>	<u>(21,903)</u>
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% [2004: 30%]	2,839	(6,571)
Effects of:		
- Adjustment to tax in respect of previous years	(7)	(706)
- Expenses not deductible for tax purposes/income not taxable	(20)	81
- Depreciation in excess of capital allowances	865	1,474
- Reversal of provisions	(423)	-
Losses relieved	(3,228)	2,397
Losses unutilised	-	1,462
Marginal tax relief	(12)	-
	<u>14</u>	<u>(1,863)</u>

10. INTANGIBLE FIXED ASSETS

Cost	
At 1 August 2004	107,128
Additions in year	46,106
Disposals in year	(18,528)
At 31 July 2005	<u>134,706</u>
Amortisation	
At 1 August 2004	48,384
Charge for year	22,847
Impairments in year	1,403
Disposals in year	(18,033)
At 31 July 2005	<u>54,601</u>
Net book amount	
At 31 July 2005	<u>80,105</u>
At 31 July 2004	<u>58,744</u>

NOTES TO THE ACCOUNTS

for the year ended 31 July 2005

11. TANGIBLE FIXED ASSETS

	Land and buildings Freehold	Land and buildings Long leasehold	Stands, fixtures, fittings and equipment	Motor vehicles	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 August 2004	18,191	3	45,340	40	63,574
Additions	1,032	-	190	-	1,222
Disposals	(161)	-	-	-	(161)
At 31 July 2005	19,062	3	45,530	40	64,635
Depreciation					
At 1 August 2004	1,273	-	22,813	30	24,116
Charge for year	230	-	3,494	4	3,728
Disposals	(20)	-	-	-	(20)
At 31 July 2005	1,483	-	26,307	34	27,824
Net book amounts					
At 31 July 2005	17,579	3	19,223	6	36,811
At 31 July 2004	16,918	3	22,527	10	39,458

The net book amount of stands, fixtures, fittings and equipment includes £950,962 (2004: £1,200,305) in respect of assets held under finance leases or hire purchase contracts.

Contracted capital commitments at 31 July 2005 for which no provision has been made in these financial statements amount to £229,740 (2004: £202,000).

Additions to freehold land and buildings include £1,032,000 in relation to costs incurred in connection with the new stadium project. Total costs capitalised to date in connection with this project amount to approximately £7,024,000 and have not been depreciated. The Directors consider the useful economic life of the existing stadium to be 4 years including the current year. The difference between the current carrying value and the expected residual value as at 31 July 2008 will be fully provided for over this period.

	2005 £'000	2004 £'000
12. LEASE COMMITMENTS		
The company has operating lease commitments to pay during the next year as follows:		
Land and buildings		
Expiring after five years	249	249
Other		
Expiring within one year	4	42
Expiring between two and five years	165	75
	169	117

NOTES TO THE ACCOUNTS

for the year ended 31 July 2005

13. INVESTMENTS

(a) Investments in wholly owned group undertakings comprise:

LFC Properties Limited	LFC Television Limited	LFC Financial Services Limited
LFC Leisure Limited	LFC TV Limited	LFC Travel Limited
LFC Services Limited	LFC Limited	Liverpool Football Club Limited
Liverpool Limited		

The subsidiaries did not trade in the year. They are incorporated in England and Wales with issued share capital of 100 ordinary £1 shares except for LFC Services Limited and Liverpool Limited both of which have issued share capital of 1,000 ordinary £1 shares. None of the subsidiaries has reserves at the balance sheet date. Amounts owed by The Liverpool Football Club and Athletic Grounds Plc to group undertakings are shown in note 16 to the accounts.

(b) Investments in joint ventures comprise:

Liverpoolfc.tv Limited, a company incorporated in England and Wales. The company's accounting reference date is 31 July and its principal activity is to own and operate the official Liverpool Football Club internet portal.

It has an authorised, issued and fully paid up share capital of £1000 divided into 500 A shares of £1 each and 500 B shares of £1 each. Both classes of share rank pari passu and are equal in all respects.

The Liverpool Football Club and Athletic Grounds Plc holds the whole of the B class shares which represent 50% of the total issued share capital.

Liverpoolfc.tv Limited has prepared audited accounts for the year ended 31 July 2005. Amounts attributable to The Liverpool Football Club and Athletic Grounds Plc based on audited accounts and calculated by reference to the proportion of shares it holds in the joint venture company are below:

	2005 £'000	2004 £'000
Share of operating loss	(171)	(528)
Less share of interest receivable	2	-
	<u>(169)</u>	<u>(528)</u>
Share of fixed assets	7,557	8,090
Share of current assets	553	111
	<u>8,110</u>	<u>8,201</u>
Share of liabilities due within one year	582	488
Share of liabilities due after more than one year	1,735	1,735
	<u>2,317</u>	<u>2,223</u>

The company's share of the joint venture's operating loss is excluded from the company's own operating loss as consolidated accounts are not required.

Amounts owed by The Liverpool Football Club and Athletic Grounds Plc to its joint venture company £664,000 (2004: £338,000) are shown in note 16 to the accounts. Amounts owed to The Liverpool Football Club and Athletic Grounds Plc by its joint venture company, £225,000 (2004: £25,000) are shown in note 15 to the accounts.

14. STOCKS

Goods for resale	<u>1,283</u>	<u>1,732</u>
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NOTES TO THE ACCOUNTS

for the year ended 31 July 2005

	2005 £'000	2004 £'000
15. DEBTORS		
Trade debtors	16,055	3,705
Other debtors	363	1,881
Amounts owed by joint venture	225	25
Prepayments and accrued income	5,262	5,629
	21,905	11,240

16. CREDITORS		
Amounts falling due within one year		
Bank loans and overdrafts	11,941	9,151
Trade creditors	18,735	9,713
Amounts owed to group undertakings and joint venture	664	338
Corporation tax	21	-
Other taxation and social security	6,347	8,402
Net obligations under finance lease and hire purchase contracts	277	369
Other creditors	4,556	1,376
Accruals	7,478	10,274
Deferred credits (note 18)	120	128
Deferred income	19,510	16,390
	69,649	56,141

Other creditors includes an amount of £408,000 (2004: £408,000) being the company's share of the deficit on The Football League Limited Pension and Life Assurance Scheme due within one year (see note 25).

Finance leases and hire purchase creditors are secured on the assets concerned.

Amounts falling due after more than one year		
Bank loans	5,360	5,600
Trade creditors	17,972	10,530
Net obligations under finance lease and hire purchase contracts	241	518
Other creditors	620	1,028
Deferred credits (note 18)	1,888	2,008
	26,081	19,684

(a) The bank loans are repayable as follows:

Within one year or less or on demand	4,467	6,133
In more than one year but not more than two years	4,467	2,800
In more than two years but not more than five years	893	2,800

The bank loan is being repaid by five equal and consecutive annual instalments of £2,800,000 which commenced in July 2003. Interest accrues during each period at the rate determined by the bank to be the aggregate of the bank's margin of 1.15% per annum above LIBOR and the mandatory cost rate. Under the terms of an interest rate swap agreement dated 21 March 2002, the maximum interest rate chargeable on the above loan is 5.79%. The agreement expires in 2007, being co-terminus with the maturity of the principal loan. The loan is secured by a legal charge over the company's freehold and long leasehold land and buildings.

An additional loan of £5m was drawn down in October 2004. The principal purpose of the loan was to assist in funding player acquisitions. Repayment of the loan, which began in June 2005, is by six instalments of amounts sufficient to repay the loan by the end of the term. Interest on the loan is charged at 1.5% above the bank's base rate. Should the player cease permanently to play football for the Club, the bank reserves the right to require that the loan is repaid in full immediately.

(b) Trade creditors falling due after more than one year relate to contractual payments due on the acquisition of players' registrations.

(c) Other creditors falling due after more than one year, £620,000 (2004: £1,028,000) represents the proportion of the company's share of the revised deficit on The Football League Limited Pension and Life Assurance Scheme due after more than one year. An amount of £nil (2004: £205,000) within this sum is due after more than five years from the balance sheet date (see note 25).

(d) The company has entered into foreign exchange agreements with its bankers. The total amount payable under the terms of the agreements is €24,700,000 (2004: €17,600,000). €14,600,000 (2004: €3,400,000) is included within creditors falling due within one year. The remaining balance of €10,100,000 (2004: €14,200,000) is included within creditors falling due after more than one year.

NOTES TO THE ACCOUNTS

for the year ended 31 July 2005

	2005 £'000	2004 £'000
17. PROVISION FOR LIABILITIES AND CHARGES		
Deferred taxation		
This comprises deferred taxation attributable to:		
Accelerated capital allowances	2,258	2,550
Other timing differences	(323)	(746)
Roll over claims on intangible fixed assets	583	593
	2,518	2,397
Less losses available	(602)	(2,397)
	1,916	-

The movements in deferred tax balances during the year were as follows:

At 31 July 2004	-	1,820
Transfer to/(from) profit and loss account	1,916	(1,820)
At 31 July 2005	1,916	-

Deferred tax is measured on a non-discounted basis at the tax rates expected to apply in the periods in which the timing differences reverse, based on tax rates and laws substantially enacted at the balance sheet date.

18. DEFERRED CREDITS

The Football Trust – grants receivable		
At 31 July 2004	2,136	2,154
Receivable for year	-	121
Credited to profit and loss account	(128)	(139)
At 31 July 2005	2,008	2,136

19. CONTINGENT LIABILITIES

Additional transfer fees payable of £6,214,000 (2004: £3,500,000) will arise if certain conditions in transfer contracts at 31 July 2005 are fulfilled.

Under the terms of certain contracts for the sale of players' registrations, future payments may be received by the company. As at 31 July 2005, the maximum amount that could be received is £1,655,000 (2004: £3,255,000).

	2005 Number	2005 £
20. CALLED UP SHARE CAPITAL		
Authorised - ordinary shares of £5 each	50,000	250,000
Allotted, issued and fully paid - ordinary shares of £5 each	34,823	174,115
There has been no change in share capital in the year.		

NOTES TO THE ACCOUNTS

for the year ended 31 July 2005

	2005	2005
21. RESERVES		
	Share premium account £'000	Profit and loss account £'000
The movement on reserves during the year was as follows:		
At 31 July 2004	32,882	2,550
Profit for the year	-	7,533
At 31 July 2005	32,882	10,083

	2005 £'000	2004 £'000
22. SHAREHOLDERS' FUNDS		
The reconciliation of movements in shareholders' funds was as follows:		
Profit/(loss) for the year	7,533	(18,220)
Net addition to/(deduction from) shareholders' funds	7,533	(18,220)
Opening shareholders' funds	35,606	53,826
At 31 July 2005	43,139	35,606

	2005 £'000	2005 £'000	2004 £'000	2004 £'000
23. GROSS CASH FLOWS				
Returns on investments and servicing of finance				
Grants received	-		121	
Interest received	117		51	
Interest paid	(1,573)		(1,512)	
Interest element of finance leases and hire purchase contracts	(55)		(48)	
		(1,511)		(1,388)
Capital expenditure				
Payments to acquire tangible fixed assets	(1,490)		(3,795)	
Proceeds from sale of tangible fixed assets	390		957	
	(1,100)		(2,838)	
Payments to acquire intangible fixed assets	(26,215)		(7,498)	
Proceeds from sale of intangible fixed assets	8,166		4,174	
	(18,049)	(19,149)	(3,324)	(6,162)
Financing				
New bank loans	5,000		-	
Repayment of bank loans	(6,906)		(4,467)	
Capital element of finance leases and hire purchase contracts	(369)		(329)	
		(2,275)		(4,796)

NOTES TO THE ACCOUNTS

for the year ended 31 July 2005

24. ANALYSIS OF CHANGES IN NET DEBT

	At 31 July 2004 £'000	Cash Flows £'000	At 31 July 2005 £'000
Cash at bank and in hand	254	424	678
Overdraft	(3,018)	(4,456)	(7,474)
.....	(2,764)	(4,032)	(6,796)
Debt due within 1 year	(6,133)	1,666	(4,467)
Debt due after 1 year	(5,600)	240	(5,360)
Finance leases	(887)	369	(518)
	<u>(15,384)</u>	<u>(1,757)</u>	<u>(17,141)</u>

Material non-cash transactions

During the year, the company entered into finance lease and hire purchase contracts in respect of assets with a total capital value at the date of inception of the contracts of £nil (2004: £382,000).

25. PENSIONS

a) Defined contribution schemes

Assets of defined contribution pension schemes are held separately from those of the company and are separately administered. Total contributions charged to the profit and loss account during the year amounted to £280,000 (2004: £336,000).

b) Defined benefit scheme

The company has been advised only of its share of the deficit arising on the defined benefit section of The Football League Limited Pension and Life Assurance Scheme (the 'Scheme') following its suspension on 31st August 1999. The latest actuarial valuation of the Scheme was on 31st August 2002, which revealed an increased deficit.

The revised deficit is payable over a period of 10 years, which commenced May 2003.

A summary of movements in the provision is shown below:-

	2005 £'000	2004 £'000
Provision at 1 August 2004	1,436	1,843
Payments in year	(408)	(407)
Provision at 31 July 2005	1,028	1,436

26. RELATED PARTIES

During the year, the company sold goods and services with a value of £57,343 (2004: £75,444) to its joint venture company Liverpoolfc.tv Limited. The joint venture company supplied services with a value of £781,116 (2004: £582,514) to the company during the year.

Amounts owed by the joint venture company to The Liverpool Football Club and Athletic Grounds Plc at 31 July 2005 are shown in note 15. Amounts owed to the joint venture company at 31 July 2005 are shown in note 16.

27. CONTROLLING PARTY

D R Moores, a director of the company, controls the company as a result of holding 51.6% of its issued shared capital.

The Liverpool Football Club and Athletic Grounds Plc

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