DIRECTORS' REPORT

The directors present their report and the financial statements of the Company for the year ended 31st May 1997.

PRINCIPAL ACTIVITY

The principal activity of the Company continues to be that of a professional football club.

REVIEW OF BUSINESS

The results of the year's trading are shown on page 11 of the financial statements.
A net loss of £2,890,025 arose in the year.
A review of the Company's business and future developments is set out in the Chairman's Report.

DIVIDEND

The directors do not recommend the payment of a dividend.

FIXED ASSETS

Information relating to changes in the fixed assets is given in note 10 to the financial statements.

DIRECTORS

The directors in office in the year and their beneficial interests in the share capital of the company at the end of the financial year and of the previous financial year (or date of appointment where later) were as follows:

	Number of Stock Units	
	31 May 1997	31 May 1996
P R Johnson	23,947	2,497
Sir Desmond H Pitcher DL	105	15
B C Finch	777	21
R J Hughes	15	3
Sir Philip Carter CBE	721	103
Dr D M Marsh	48	10
K M Tamlin	119	17
W Kenwright	174	25
A J L Abercromby	105	15
Lord Grantchester	2,754	112

In accordance with the Articles of Association, Sir D H Pitcher DL, Dr D M Marsh and Mr R J Hughes retire by rotation. Sir D H Pitcher DL being eligible offers himself for re-election. Dr D M Marsh and Mr R J Hughes, whilst being eligible, do not offer themselves for re-election and thus will retire from office following the Annual General Meeting. No other nominations have been received.

The Board of Directors, in accordance with the Articles of Association determined at a Board Meeting on 17 October 1997, that with effect from 28 November 1997 the maximum number of directors should be eight.

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; and
- prepare the financial statements on the going concern basis unless it is in appropriate 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 to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

AUDITORS

The auditors, KPMG have signified their willingness to continue in office if re-appointed at the forthcoming annual general meeting at a remuneration to be fixed by the Directors.

Approved by the Board on 30th October 1997
and signed on its behalf by

M. J. Dunford, Secretary

PROFIT AND LOSS ACCOUNT
For the year ended 31 May 1997

	Notes	1997 £	As restated 1996 £
Turnover	2	18,881,961	17,004,370
Direct operating costs		(15,882,385)	(15,699,947)
Gross Profit		2,999,576	1,304,423
Other income	3	162,899	141,137
Operating Profit	4	3,162,475	1,445,560
Interest receivable	5	5,710	6,170
Interest payable	6	(509,416)	(858,988)
Profit			
on ordinary activities before transfer fees		2,658,769	592,742
Net transfer fees	7	(5,548,794)	(8,403,019)
Loss			
on ordinary activities before taxation		(2,890,025)	(7,810,277)
Taxation	9	-	-
Loss for the year	15	(2,890,025)	(7,810,277)

All amounts relate to continuing operations.

There is no material difference between reported profits and losses and historical cost profits and losses.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	1997 £	As restated 1996 £
Loss for the Financial Year	(2,890,025)	(7,810,277)
Unrealised surplus on revaluation of properties	-	1,136,292
Total recognised gains and losses relating to the year	(2,890,025)	(6,673,985)
Prior year adjustment	1,024,862	-
Total gains and losses recognised since last annual report	(1,865,163)	(6,673,985)

BALANCE SHEET
At 31 May 1997

	Notes	1997		As restated 1996	
		£	£	£	£
Fixed Assets					
Tangible assets	10		15,387,772		14,145,206
Current Assets					
Stocks	11	338,839		684,838	
Debtors - within one year	12	3,822,832		1,080,698	
- greater than one year	12	4,000,000		-	
Cash at bank and in hand		36,377		37,248	
		8,198,048		1,802,784	
Creditors					
Amounts falling due within one year	13	(13,402,982)		(17,875,127)	
Net Current Liabilities			(5,204,934)		(16,072,343)
Total Assets Less Current Liabilities			10,182,838		(1,927,137)
Capital and Reserves					
Called up share capital	14		35,000		5,000
Share premium account	15		24,967,500		9,997,500
Revaluation reserve	15		5,663,617		5,663,617
Profit and loss account	15		(20,483,279)		(17,593,254)
Shareholders' funds	16		10,182,838		(1,927,137)

The financial statements were approved by the Board on ~~25th September~~ 30th October 1997 and signed on its behalf by

P. R. Johnson & R. J. Hughes
Directors

CASH FLOW STATEMENT
For the year ended 31 May 1997

	Notes	1997 £	1997 £	1996 £	1996 £
CASH INFLOW FROM OPERATING ACTIVITIES	17a		3,004,565		782,433
Returns on investments and servicing of finance					
Interest received		5,710		6,170	
Interest paid		(748,284)		(604,442)	
Net cash outflow from returns on investments and servicing of finance			(742,574)		(598,272)
Taxation					
Tax refunded			-		-
Capital Expenditure and Financial Investment					
Purchase of tangible fixed assets		(1,476,082)		(3,602,878)	
Grants from The Football Trust		12,118		100,000	
Sale of vehicles		6,000		-	
Transfer fees paid		(10,405,210)		(9,183,019)	
Transfer fees received		4,891,131		705,000	
Net cash outflow for capital expenditure and financial investment			(6,972,043)		(11,980,897)
NET CASH OUTFLOW BEFORE FINANCING			(4,710,052)		(11,796,736)
Financing					
Issue of new share capital, including premium		15,000,000		-	
Expenses paid in connection with share issue		(96,231)		-	
Net cash inflow from financing			14,903,769		-
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	17b		10,193,717		(11,796,736)

NOTES TO THE ACCOUNTS
For year ended 31 May 1997

1. ACCOUNTING BASIS AND POLICIES

These accounts have been prepared on the historical cost basis of accounting as modified to include valuations of the Club's properties, and in accordance with applicable UK accounting standards and accounting policies consistent with those adopted previously. The principal accounting policies are as follows:

(i) Turnover

Turnover is stated exclusive of value added tax and match receipts are included net of percentage payments to visiting clubs, The F.A. Premier League and The Football Association.

(ii) Fixed Assets and Depreciation

Depreciation is not provided on freehold properties. It is the group's policy to maintain all its properties in such a condition that the estimated aggregate residual values are at least equal to their book values. Consequently, any element of depreciation would, in the opinion of the directors, be immaterial. Residual values are appraised each year by reference to the estimated depreciated replacement cost of the properties in aggregate, and the Goodison Park stadium in particular. Provision will be made against the cost of the properties in the event of any permanent diminution in their values. Depreciation on other fixed assets has been calculated at 25% on book value.

(iii) Stocks

Stocks are valued at the lower of cost and net realisable value.

(iv) Transfer Fees

Transfer fees payable and receivable are dealt with in the profit and loss account in the year in which the transfer contract is signed.

(v) Signing-on Fees and Loyalty Bonuses

There has been a change in accounting policy in the year in respect of Signing-on Fees and Loyalty Bonuses which has been accounted for as a prior period adjustment. The Board believes that signing-on fees represent a normal part of the employment cost of the player and as such should be charged to the profit and loss account in the period in which the payment is made. Previously a proportion of Fees and Bonuses due in the future dependent on continued service were accrued at the Balance Sheet date.

The prior period adjustment gives rise to a cumulative credit to reserves at 31 May 1996 of £1,024,862 of which £873,175 relates to prior years. 1996 comparative figures have been restated in accordance with the new policy resulting in a decrease in a loss for that financial year of £151,687.

Instalments due in the future on continued service are noted as contingent liabilities at Note 19.

(vi) Grants

Government grants towards freehold properties are deducted from the cost of these assets. Although this treatment is permitted by Statement of Standard Accounting Practice No 4, it is not in accordance with Schedule 4 to the Companies Act 1985 under which the freehold properties should be stated at their purchase price or production cost and the government grants treated as deferred income and released to profit and loss account over the useful life of the corresponding assets.

The directors are of the opinion that, as the freehold properties are not depreciated as explained above and the government grants would therefore remain in the balance sheet in perpetuity, the treatment otherwise required by the Companies Act 1985 would not present a true and fair view of the group's effective investment in non-depreciating assets.

(vii) Deferred Taxation

Deferred tax is provided at current rates in respect of the tax effect of all material timing differences, to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

2. TURNOVER

	1997 £	1996 £
Match receipts and income from related footballing activities	15,529,974	13,595,556
Commercial and sundry income	3,351,987	3,408,814
	18,881,961	17,004,370

3. OTHER INCOME

	1997 £	1996 £
Donations from development associations	154,997	119,699
Rents receivable	7,902	21,438
	162,899	141,137

4. OPERATING PROFIT

	1997 £	1996 £
The operating profit is stated after charging:		
Depreciation	246,748	204,556
Costs of capital restructuring	96,230	-
Auditors' remuneration - for audit	15,000	14,000
for other services	7,456	7,000

5. INTEREST RECEIVABLE

	1997 £	1996 £
Bank deposit interest	5,605	-
Other interest	105	6,170
	5,710	6,170

6. INTEREST PAYABLE

	1997 £	1996 £
On bank overdrafts	508,374	857,259
On other liabilities	1,042	1,729
	509,416	858,988

7 TRANSFER FEES

	1997	1996
	£	£
Transfer fees payable and related levies	(17,023,960)	(9,183,019)
Transfer fees receivable	11,475,166	780,000
	(5,548,794)	(8,403,019)

8. PARTICULARS OF EMPLOYEES

	1997	1996
	Number	Number
The average weekly number of employees during the year was as follows:		
Playing, training and management	62	65
Management and administration	64	61
Catering and sales	51	44
	177	170

		As restated
Aggregate payroll costs were as follows:	1997	1996
	£	£
Wages and salaries	9,887,270	8,837,304
Social security costs	922,526	755,534
Other pension costs	123,294	320,035
	10,933,090	9,912,873

Other pension costs comprise contributions made by the Company in respect of the majority of its permanent employees to pension schemes which are independently administered by the Football League Limited, together with contributions made to individual pension contracts with insurance companies under agreements with certain employees. All pension arrangements are defined contribution schemes and contributions are charged to the profit and loss account in the year to which they relate.

The directors received no emoluments from the company during the year.

9. TAXATION

No taxation arises on the results of the current year and losses are available for relief against future profits for taxation purposes.

In view of the continuing use of the freehold properties by the company in the future, no provision is considered necessary in respect of the potential tax liability which might arise in the event of the disposal of the properties at the amounts at which they are included in these accounts, and in the opinion of the directors it is impracticable and of no useful purpose to attempt to quantify it.

10 TANGIBLE FIXED ASSETS

	Properties £	Plant and equipment £	Vehicles £	Total £
Cost or valuation				
at 1 June 1996	13,614,000	1,433,992	145,942	15,193,934
Grants	-	(12,118)	-	(12,118)
Additions	967,890	525,218	20,204	1,513,312
Disposals	-	(5,880)	(6,000)	(11,880)
Revaluation adjustment	-	-	-	-
At 31 May 1997	14,581,890	1,941,212	160,146	16,683,248
Depreciation				
At 1 June 1996	-	965,657	83,071	1,048,728
Provided during year	-	233,359	25,269	258,628
On disposals	-	(5,880)	(6,000)	(11,880)
At 31 May 1997	-	1,193,136	102,340	1,295,476
Net book value				
At 31 May 1997	14,581,890	748,076	57,806	15,387,772
At 31 May 1996	13,614,000	468,335	62,871	14,145,206

The Club's properties are freehold, with the exception of certain minor residential properties which are long leasehold.

The Club's premises at Goodison Park (including the Megastore), the training grounds at Bellefield and Netherton, together with certain minor residential properties were revalued at £13,614,000 by Edward Symmons & Partners, Chartered Surveyors, as at the 14th May 1996. Their book value has been adjusted accordingly and the surplus on revaluation of £1,136,292 has been credited to reserves.

The freehold buildings at Goodison Park (including the Megastore) were valued at depreciated replacement cost, and the land at open market value for its existing use.

The valuation of the training grounds has been prepared on an existing use value basis, and the residential properties have been revalued at open market value basis with the benefit of full vacant possession or subject to and with the benefit of the various leases/agreements as appropriate.

If the freehold properties had not been revalued regularly since 1983 they would have been included at the following amounts on the basis previously appertaining:

	1997	1996
	£	£
Cost	8,832,260	8,134,370
Aggregate depreciation	177,293	169,944
Net book value	8,654,967	7,964,426

11. STOCKS

	1997	1996
	£	£
Refreshments, souvenirs and goods for resale	329,934	675,933
Maintenance stocks	8,905	8,905
	338,839	684,838

12. DEBTORS

	1997	1996
	£	£
Trade debtors - within one year	3,592,408	708,654
- greater than one year	4,000,000	-
Other debtors	8,935	195,665
Prepayments and accrued income	221,489	176,379
	7,822,832	1,080,698

In 1996, other debtors included a bridging loan of £190,500 to an officer of the company other than a director.

13. CREDITORS

	1997	As restated 1996
Amounts falling due within one year	£	£
Trade creditors	7,333,010	595,149
Social security and other taxes	81,965	628,407
Other creditors	1,854	56,133
Accruals and deferred income	1,572,259	1,986,956
	8,989,088	3,266,645
Bank overdraft	4,413,894	14,608,482
	13,402,982	17,875,127

The bank overdraft is secured by fixed and floating charges over all the company's assets and undertakings.

14. EQUITY SHARE CAPITAL

	1997 £	1996 £
Authorised:		
35,000 (1996 - 5,000) stock units of £1 each	35,000	5,000
Allotted, issued and fully paid:		
35,000 (1996 - 5,000) stock units of £1 each	35,000	5,000

15 RESERVES

	Share Premium Account £	Revaluation Reserve £	Profit and Loss Account £
Balance at 1 June 1996-as previously stated	9,997,500	5,663,617	(18,618,116)
Prior year adjustment	-	-	1,024,862
	9,997,500	5,663,617	(17,593,254)
Premium arising from rights issue	14,970,000	-	-
Loss for the year	-	-	(2,890,025)
Adjustment on revaluation of properties	-	-	-
Balance at 31 May 1997	24,967,500	5,663,617	(20,483,279)

16. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS

	1997 £	As restated 1996 £
Loss for the year	(2,890,025)	(7,810,277)
New share capital subscribed, including premium	15,000,000	-
Adjustment on revaluation of properties	-	1,136,292
Net (reduction)/addition to shareholders' funds	12,109,975	(6,673,985)
Shareholders funds at 1 June 1996	(1,927,137)	4,746,848
Shareholders' funds at 31 May 1997	10,182,838	(1,927,137)

17. CASH FLOW STATEMENT

(a) Reconciliation of operating profit to operating cash flows:

	1997 £	As restated 1996 £
Operating profit	3,162,475	1,445,560
Depreciation charges	246,748	204,556
Loss/(profit) on sale of tangible fixed asset	(6,000)	-
(Increase)/Decrease in stocks	345,999	(475,951)
(Increase)/Decrease in debtors	(8,099)	2,300,414
Increase/(Decrease) in creditors	(832,789)	(2,692,146)
Rights Issue costs	96,231	-
Cash flow from operating activities	3,004,565	782,433

(b) Analysis of changes in Net Debt

	At 1 June 1996	Cash flows	At 31 May 1997
	£	£	£
Cash at bank and in hand	37,248	(871)	36,377
Bank overdrafts	(14,608,482)	10,194,588	(4,413,894)
	(14,571,234)	10,193,717	(4,377,517)

18 FUTURE CAPITAL EXPENDITURE

	1997	1996
	£	£
Capital expenditure contracted for but not provided for in these accounts amounted to	-	512,000

19. CONTINGENT LIABILITIES

No provision is included in the accounts for transfer fees of £1,134,000 which are contingent upon future appearances of certain players, and signing-on fees and loyalty bonuses of £6,676,280 which will become due to certain players if they are still in the service of the Club on specific future dates.

The proposed terms of the recently negotiated Premier League BskyB Contract includes the Advance receipts of monies upon fulfilment of the terms of the Contract in the future. The maximum amount that could be repayable is £816,000. (31 May 1996: £Nil)

20. POST BALANCE SHEET EVENTS

Since 31st May 1997 the Club has incurred £3.9 million net transfer fees payable.

REPORT OF THE AUDITORS TO THE MEMBERS OF THE EVERTON FOOTBALL CLUB COMPANY LIMITED

We have audited the financial statements on pages 11 to 19.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 10 the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with 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 polices 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 31st May 1997 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG.

KPMG
Chartered Accountants
Registered Auditors

Richmond House
1 Rumford Place
Liverpool L3 9QY

30 October, 1997