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**BIRMINGHAM CITY FOOTBALL CLUB PLC**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31ST AUGUST 2006**



# BIRMINGHAM CITY FOOTBALL CLUB PLC

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST AUGUST 2006

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**BIRMINGHAM CITY FOOTBALL CLUB PLC****DIRECTORS AND OFFICERS FOR THE YEAR ENDED 31ST AUGUST 2006**

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|                                |   |
|--------------------------------|---|
| <b>Directors and Officers:</b> | D. Gold (Chairman)<br>K. Brady (Managing Director)<br>D. Sullivan<br>B. Gold<br>R. Gold<br>H. Brandman<br>J.F. Wiseman<br>M. Wiseman<br>P. Deakin |
| <b>Company Secretary:</b>      | R A Bannister   |
| <b>Team Manager:</b>           | Steve Bruce   |
| <b>Registered Office:</b>      | St Andrew's Stadium<br>BIRMINGHAM<br>B9 4NH<br>Tel. No. 0121-772 0101   |
| <b>Auditors:</b>               | Edwards<br>Chartered Accountants and<br>Registered Auditors<br>Harmony House<br>34 High Street<br>Aldridge<br>WALSALL<br>WS9 8LZ                  |
| <b>Principal Bankers:</b>      | HSBC Bank plc<br>PO Box 66<br>Bennetts Hill<br>BIRMINGHAM<br>B2 5RJ   |
| <b>Principal Solicitors:</b>   | Henri Brandman & Co<br>71 Wimpole Street<br>LONDON<br>W1G 8AY   |
| <b>Company Number:</b>         | 27318   |

# BIRMINGHAM CITY FOOTBALL CLUB PLC

## FIVE YEAR TRADING RECORD

|  | <u>2006</u><br>£  | <u>2005</u><br>£  | <u>2004</u><br>£  | <u>2003</u><br>£  | <u>2002</u><br>£   |
|--|-------------------|-------------------|-------------------|-------------------|--------------------|
| Match Receipts, F.A. and<br>Football League Distributions                          | 17,913,106        | 20,869,620        | 21,476,371        | 16,822,849        | 6,850,512          |
| Commercial Activities including<br>television and radio fees                       | 22,203,780        | 21,836,315        | 23,860,447        | 19,657,347        | 8,333,524          |
| <b>INCOME</b>  | <u>40,116,886</u> | <u>42,705,935</u> | <u>45,336,818</u> | <u>36,480,196</u> | <u>15,184,036</u>  |
| Wages  | 26,796,954        | 27,347,929        | 23,159,177        | 19,994,000        | 13,206,229         |
| Other expenses   | 7,593,946         | 6,760,492         | 7,727,292         | 5,755,865         | 4,694,072          |
| <b>EXPENDITURE</b>   | <u>34,390,900</u> | <u>34,108,421</u> | <u>30,886,469</u> | <u>25,749,865</u> | <u>17,900,301</u>  |
| <b>OPERATING PROFIT/(LOSS)<br/>BEFORE AMORTISATION OF<br/>PLAYERS AND INTEREST</b> | <u>5,725,986</u>  | <u>8,597,514</u>  | <u>14,450,349</u> | <u>10,730,331</u> | <u>(2,716,265)</u> |

## **BIRMINGHAM CITY FOOTBALL CLUB PLC**

### **REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31ST AUGUST 2006**

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The directors present their report and the audited financial statements for the year ended 31st August 2006.

We would like to take this opportunity to thank everyone at the Club for their hard work during the year and to praise the fan base for their loyal support.

#### **PRINCIPAL ACTIVITY**

The principal activity of the company continued to be that of a Premier Football League Club for the football season 2005/6 and became a Championship Football League Club for the football season 2006/7.

#### **FINANCIAL AND OPERATING REVIEW**

Turnover for the year to 31st August 2006 was £40.1 million (2005: £42.7 million) down 6.1% on the previous year. This fall in income was a direct result of finishing 18<sup>th</sup> in the Premier League, thus *reducing substantially the merit award received.*

The full impact of relegation will become more apparent in the current financial year; we are currently budgeting for a reduction in turnover of approximately 50 % on the reported year to August 2006. All activity areas, i.e. match receipts, income from television and radio and commercial activities will be adversely affected by the Club's relegation.

When faced with relegation the Club took immediate action to alleviate the financial implications; in particular the annual wages bill was reduced by approximately £12 million with the release or sale of 13 first team squad players. Additionally, on the non-playing side, the Club made 7 redundancies and did not renew the contracts of 5 other personnel. These reductions, together with some automatic salary adjustments to reflect non premier league status, made a further saving of £740,000.

During the closed season we purchased players that we felt would give the Club the best chance of promotion at the end of the 2006/07 campaign. In order to finance this we sold Emile Heskey to Wigan and Jermaine Pennant to Liverpool for total fees of £12.2 million. This enabled us to acquire Cameron Jerome, Neil Danns, Stephen Kelly, Gary McSheffrey, Radhi Jaidi, Bruno N'Gotty and Artur Krysiak at a combined cost of £8.6 million (costs to rise depending on the Club's success).

The Club also brought in on loan from Arsenal: Sebastian Larsson, Fabrice Muamba and Nicklas Bendtner, all of whom have had a beneficial effect on the team. The Club has an agreement in place with Arsenal to purchase the registration of Sebastian Larsson.

More recently the Club also purchased the registration of Rowan Vine during the January 2007 transfer window for £2.5 million (*further payments due dependent on the Club's success*) and our captain Damien Johnson signed a new 3 year contract.

We are confident that we have the best squad in the Championship and have invested sufficient funds (the highest investment in the division) to give us every chance of success in achieving Premier League status at the end of this season.

The relegation of any team from the Premier League brings serious financial implications and the Board of Directors has been extremely pro-active in taking appropriate steps to lessen the impact for the Club. We are aware that a prolonged absence from the Premier League will force the club to make wide-ranging economies but I believe that we are in a much better position than previously relegated clubs to return to the Premier League at the first attempt.

**BIRMINGHAM CITY FOOTBALL CLUB PLC****REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31ST AUGUST 2006****RESULTS AND DIVIDENDS**

The results for the year are set out in the profit and loss account on page 10.

The profit on ordinary activities before taxation was £2.64m (2005 - £1.60m).

The company is unable to pay a dividend as it does not have available distributable reserves.

**Key performance indicators**

| Key performance indicator   | Target | 2006   | 2005   |
|---|--------|--------|--------|
| Turnover decrease   | 0%     | 6.06%  | 5.80%  |
| Staff costs/turnover  | 70%    | 66.79% | 64.04% |
| Operating profit excluding player amortisation and trading/turnover | 15%    | 14.27% | 20.13% |

**Notes to KPI's**

Turnover decrease = movement in turnover between 2005 and 2006 divided by 2005 and represented as a percentage.

Staff costs/turnover = staff costs per note 3 divided by turnover and expressed as a percentage.

Operating profit excluding to player amortisation and trading/turnover = Operating excluding prior to player amortisation and trading as per the profit and loss account, divided by turnover, expressed as a percentage.

**PRINCIPAL RISKS AND UNCERTAINTIES**

The Board are aware of risks which affect the group and have sought to minimise those risks.

Relegation to the Football League is a risk all Premiership Clubs face. The Board have taken measures to prepare for the reduction in revenue following relegation. The Chairman's statement and the Managing Director's Review comment on this and what the Board are trying to achieve.

The acquisition of players and their related payroll costs are deemed the core activity risk and, whilst assisting the Manager in improving the playing squad, the Board is mindful of the pitfalls that are inherent in this area of the business. The aim is therefore to manage these costs whilst being as competitive as possible within the Club's financial constraints.

Risks are also reported on by the FA Premier League and Football League at meetings of their representatives of other League clubs and Club management regularly attend meetings which cover club secretarial, financial, commercial, and health and safety issues.

**BIRMINGHAM CITY FOOTBALL CLUB PLC****REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31ST AUGUST 2006**

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**FINANCIAL INSTRUMENTS**

The group's operations expose it to a variety of financial risks including the effects of changes in interest rates on debt, foreign currency exchange rates, credit risk and liquidity risk.

The group does not have material exposures in any of the areas identified above and, consequently does not use derivative instruments to manage these exposures.

The group's principal financial instruments comprise sterling cash and bank deposits, bank loans and overdrafts together with trade debtors and trade creditors that arise directly from its operations.

The main risks arising from the group's financial instruments can be analysed as follows:

***Price risk***

The group has no significant exposure to securities price risk, as it holds no listed equity investments.

***Foreign currency risk***

The group has no significant exposure in its trading operations to the risk of changes in foreign currency exchange rates.

***Credit risk***

The group's principal financial assets are bank balances, cash, and trade debtors, which represent the group's maximum exposure to credit risk in relation to financial assets.

The group's credit risk is primarily attributable to its trade debtors. Credit risk is managed by monitoring the aggregate amount and duration of exposure to any one customer depending upon their credit rating. The amounts presented in the balance sheet are net of allowances for doubtful debts, estimated by the group's management based on prior experience and their assessment of the current economic environment.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

***Liquidity risk***

The company's policy has been to ensure continuity of funding through operating within its overdraft facility and to match borrowing against the useful life of assets purchased.

**ENVIRONMENT**

The group's is to examine and develop a policy with regard to the environment to ensure that we understand and effectively manage the actual and potential environmental impact of our activities. Our operations are conducted such that we comply with all legal requirements relating to the environment in all areas where we carry out our business. During the period covered by this report the group has not incurred any fines or penalties or been investigated for any breach of environmental regulations.

**FIXED ASSETS**

Details of changes in fixed assets are set out in notes 8 and 9 to the financial statements.

In the opinion of the directors, the book value of freehold land and buildings included in fixed assets (note 9) is significantly less than the open market valuation.

**BIRMINGHAM CITY FOOTBALL CLUB PLC****REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31ST AUGUST 2006**

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**PAYMENT OF SUPPLIERS**

The company seeks the best possible terms from suppliers appropriate to its business and, in placing orders, gives consideration to quality, price and terms of payment which will be agreed with each supplier when details of each transaction are settled. The company will continue to honour its contractual and other legal obligations and to pay creditors on the dates agreed in contracts and purchase orders.

Transfer fees and similar transactions are such that any calculation of the number of creditor days inclusive of these balances would prove meaningless. However, creditor days excluding transfer fees for the company at 31st August 2006 were 69 days (2005: 70 days).

**DIRECTORS AND THEIR INTEREST IN THE SHARE CAPITAL**

None of the directors who acted during the period had an interest in the share capital at 31st August 2005 or 31st August 2006.

Details of directors' shareholdings in the holding company, Birmingham City plc, are declared within its financial statements.

In accordance with the Articles, D Sullivan, K Brady and P Deakin retire by rotation and being eligible, offer themselves for re-election.

**EMPLOYEES**

The company places considerable value on the involvement of its employees and recognises the importance of good communication within the workplace.

It is the company's policy to give full and fair consideration to all applications from disabled persons, *with due consideration being given to respective aptitudes and abilities*. The same policy applies in the event of employees who become disabled during employment. Appropriate training is provided where applicable.

The quality and commitment of our people have played a major role in our business success. This has been demonstrated in many ways. They have shown flexibility in adapting to changing business requirements and new ways of working. Employees' performance is aligned to group goals through an annual performance review process that is carried out with all employees.

**GOING CONCERN**

After making enquiries, the directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to prepare the financial statements on a going concern basis.

## BIRMINGHAM CITY FOOTBALL CLUB PLC

### REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31ST AUGUST 2006

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#### STATEMENT OF DISCLOSURE TO AUDITORS

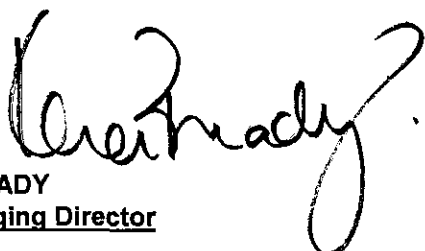
- So far as the directors' are aware, there is no relevant audit information of which the company's auditors are unaware, and
- They have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

#### AUDITORS

A resolution to re-appoint Messrs Edwards as auditors will be proposed at the Annual General Meeting.

#### APPROVAL

The report of the directors was approved by the Board on 29th January 2007 and signed on its behalf by:



**K. BRADY**  
**Managing Director**

**BIRMINGHAM FOOTBALL CLUB PLC****DIRECTORS' RESPONSIBILITIES FOR PREPARING THE FINANCIAL STATEMENTS**

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The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss for that year. 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 United Kingdom accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

The directors are responsible for the maintenance and integrity of the corporate and financial information on the group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements and other information included in annual reports may differ from legislation in other jurisdictions

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

**BIRMINGHAM CITY FOOTBALL CLUB PLC****INDEPENDENT AUDITORS' REPORT FOR THE YEAR ENDED 31ST AUGUST 2006****Independent Auditors' Report to the Shareholders of  
Birmingham City Football Club plc**

We have audited the financial statements of Birmingham City Football Club plc for the year ended 31<sup>st</sup> August 2006, which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes.

This report is made solely to the company's shareholders, 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 shareholders those matters we are required to state to them in an auditor's 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 shareholders 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 (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements,

In addition we report to you if, in our opinion, 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. The other information comprises only the Directors' Report and the Five Year Trading Record. 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 International Standards on Auditing (UK and Ireland) 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 affairs of the company as at 31st August 2006 and of the company's profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Edwards  
Registered Auditors  
Chartered Accountants  
34 High Street  
Aldridge  
WALSALL  
WS9 8LZ

Date: 29th January 2007

**BIRMINGHAM CITY FOOTBALL CLUB PLC****PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST AUGUST 2006**

|  | <u>Notes</u> | <u>2006</u>  |   | <u>2005</u>       |
|--|--------------|--|---|-------------------|
|  |              | <u>Operations excluding player amortisation and trading</u><br>£ | <u>Player amortisation and trading</u><br>£ | <u>Total</u><br>£ |
| <b>TURNOVER</b>                                      | 2            | 40,116,886   | -   | 40,116,886        |
| Operating expenses                                   | 3            | (34,390,900)   | (10,083,745)                                | (44,474,645)      |
| <b>OPERATING PROFIT/(LOSS)</b>                       | 4            | 5,725,986  | (10,083,745)                                | (4,357,759)       |
| Profit on sale of players' registrations             | 1j           | -  | 7,063,136                                   | 7,063,136         |
| <b>PROFIT/(LOSS) BEFORE INTEREST AND TAXATION</b>    |              | 5,725,986  | (3,020,609)                                 | 2,705,377         |
| Bank interest receivable                             |              |  |   | 38,398            |
| Bank interest payable                                |              |  | (110,998)                                   | (31,684)          |
| <b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b> |              |  |   | 2,632,777         |
| Taxation on profit on ordinary activities            | 7            |  | (881,632)                                   | (17,421)          |
| <b>PROFIT FOR THE FINANCIAL YEAR</b>                 | 20 & 21      |  |   | 1,751,145         |

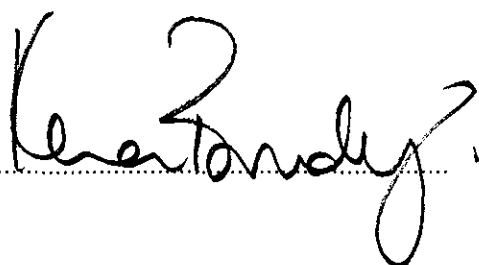
There were no recognised gains or losses other than those reported above.

Historical cost losses are not materially different to those stated above. All activities are derived from continuing operations.

**BIRMINGHAM CITY FOOTBALL CLUB PLC****BALANCE SHEET AS AT 31ST AUGUST 2006**

|  | <u>Note</u> | <u>2006</u>  |                     | <u>Restated<br/>2005</u> |                    |
|--|-------------|--------------|---------------------|--------------------------|--------------------|
|  |             | £            | £                   | £                        | £                  |
| <b>FIXED ASSETS</b>  |             |              |                     |                          |                    |
| Intangible assets  | 8           |              | 14,184,818          |                          | 18,511,726         |
| Tangible assets  | 9           |              | 12,528,513          |                          | 12,855,881         |
|  |             |              | <u>26,713,331</u>   |                          | <u>31,367,607</u>  |
| <b>CURRENT ASSETS</b>  |             |              |                     |                          |                    |
| Stocks   | 10          | 360,632      |                     | 193,941                  |                    |
| Debtors<br>(including £2,300,000 due in<br>more than one year (2005 - £Nil)) | 11          | 10,407,274   |                     | 11,158,614               |                    |
| Cash at bank and in hand   |             | 4,308,070    |                     | 6,403,785                |                    |
|  |             |              | <u>15,075,976</u>   | <u>17,756,340</u>        |                    |
| <b>CREDITORS: Amounts falling<br/>due within one year</b>                    | 12          | (23,341,656) |                     | (32,386,984)             |                    |
| <b>NET CURRENT LIABILITIES</b>   |             |              | <u>( 8,265,680)</u> | <u>(14,630,644)</u>      |                    |
| <b>TOTAL ASSETS LESS<br/>CURRENT LIABILITIES</b>                             |             |              | <u>18,447,651</u>   | <u>16,736,963</u>        |                    |
| <b>CREDITORS: Amounts falling<br/>due after more than one year</b>           | 13          |              | (19,598,866)        |                          | (19,610,519)       |
| Provisions for liabilities and charges                                       | 17          |              | ( 10,373)           |                          | ( 39,177)          |
| <b>NET LIABILITIES</b>   |             |              | <u>( 1,161,588)</u> | <u>( 2,912,733)</u>      |                    |
| <b>CAPITAL AND RESERVES</b>  |             |              |                     |                          |                    |
| Called up share capital  | 19          |              | 752,838             |                          | 752,838            |
| Share premium account  | 20          |              | 207,096             |                          | 207,096            |
| Capital redemption reserve   | 20          |              | 750                 |                          | 750                |
| Revaluation reserve  | 20          |              | 312,726             |                          | 312,726            |
| Profit and loss account  | 20          |              | ( 2,434,998)        |                          | (4,186,143)        |
| <b>SHAREHOLDERS' FUNDS</b>   | 21          |              | <u>( 1,161,588)</u> |                          | <u>( 2912,733)</u> |

The financial statements were approved by the Board of Directors on 29th January 2007.



K. Brady - Managing Director

## BIRMINGHAM CITY FOOTBALL CLUB PLC

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST AUGUST 2006

|  | <u>Note</u> | <u>2006</u><br>£ | <u>2005</u><br>£ |
|--|-------------|------------------|------------------|
| <b>CASH INFLOW FROM OPERATING ACTIVITIES</b>           | 25          | 3,778,709        | 3,255,627        |
| <b>Returns on Investments and Servicing of Finance</b> | 26(i)       | (72,600)         | 137,704          |
| <b>Taxation</b>  | 26(ii)      | -                | ( 21,756)        |
| <b>Capital Expenditure</b>                             | 26(iii)     | (5,798,095)      | (5,784,853)      |
| <b>Cash Outflow Before Financing</b>                   |             | (2,091,986)      | (2,413,278)      |
| <b>Financing</b>                                       | 26(iv)      | (45,111)         | 42,643           |
| <b>DECREASE IN CASH</b>                                |             | (2,137,097)      | (2,370,635)      |

## RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

|                                | <u>Note</u> | <u>2006</u><br>£ | Restated<br><u>2005</u><br>£ |
|--------------------------------|-------------|------------------|------------------------------|
| Decrease in cash in year       |             | (2,137,097)      | (2,370,635)                  |
| Loan from holding company      | 26(iv)      | -                | ( 83,050)                    |
| Cash to repay bank loan        | 26(iv)      | 45,111           | 40,407                       |
| <b>Increase in Net Debt</b>    | 27          | (2,091,986)      | (2,413,278)                  |
| Net debt at 1st September 2005 | 27          | (8,639,074)      | (6,225,796)                  |
| Net debt at 31st August 2006   | 27          | (10,731,060)     | (8,639,074)                  |

**BIRMINGHAM CITY FOOTBALL CLUB PLC****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST AUGUST 2006****1. ACCOUNTING POLICIES**

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

**(a) Basis of Accounting**

The financial statements have been prepared under the historical cost convention, in accordance with applicable accounting standards, as modified by the revaluation of certain freehold land and buildings.

**Comparative figures**

Financial Reporting Standard (FRS) 25 Financial Instruments: Disclosure and presentation requires a company to classify its shares as either financial liabilities or equity instruments. As a result the company's preference share capital has been reclassified as a financial liability, and included in the balance sheet as "Creditors: Amounts falling due after more than one year". The impact of this reclassification is that net assets and shareholders' funds (note 21) have reduced by £18,500 (2005: £18,500).

**(b) Turnover**

Turnover represents match receipts; executive box rentals, sponsorship and other income associated with the continuing principal activity of running a professional football club, and excludes Value Added Tax. Season ticket and sponsorship income received during the year, for the following season, is deferred to the next year. Income received for internet rights is credited to the profit and loss account on a straight line basis over the length of the contract.

**(c) Investments**

Investments held as fixed assets are stated at cost. Where there is evidence of impairment, investments are written down to their recoverable amount.

**(d) Tangible Fixed Assets Depreciation**

Depreciation has been provided to write off the cost or valuation of tangible fixed assets over their expected useful lives on a straight line basis and, in addition, where there is evidence of impairment, tangible fixed assets will be written down to their recoverable amounts. The following expected useful lives have been used:-

|                         |   |                      |
|-------------------------|---|----------------------|
| Freehold land           | - | Not depreciated      |
| Freehold property       | - | 50 years             |
| Long leasehold property | - | 50 years             |
| Fixtures and equipment  | - | between 3 to 5 years |
| Motor vehicles          | - | 5 years              |

**BIRMINGHAM CITY FOOTBALL CLUB PLC****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST AUGUST 2006**

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**1. ACCOUNTING POLICIES (continued)****(e) Leased Assets**

Assets held under finance leases are included in the balance sheet and depreciated in accordance with the group's normal accounting policies. The present value of future rentals is shown as a liability. The interest element of rental obligations is charged in the profit and loss account over the period of the lease in proportion to the balance of capital repayments outstanding.

Rentals payable under operating leases are charged to the profit and loss account as incurred.

**(f) Grants**

Grants and donations received in respect of safety work and ground developments are credited to deferred capital grants and are released to the profit and loss account over the anticipated useful life of the assets to which they relate. Football Trust grants received towards revenue expenditure are released to the profit and loss account as the related expenditure is incurred.

**(g) Stock**

Stock is stated at the lower of cost or net realisable value.

**(h) Player Transfer Costs**

The costs associated with the acquisition of players' registrations are capitalised as intangible assets. These costs are amortised over the period of the players' initial contracts. The amortisation periods are between 1 and 5 years. An impairment review is also carried out on an annual basis, and where there is evidence of impairment, players' registrations are written down to their recoverable amounts.

**(i) Signing-On Fees**

Signing-on fees are due to players if they are still in the service of the Club on future dates specified in their contracts. They are charged to the profit and loss account in the accounting period in which the liability becomes payable.

Instalments due in the future, on continued service, are not provided but are noted as contingent liabilities within note 23b.

**(j) Profit on Sale of Players' Registrations**

The profit on sale of players' registrations represents the proceeds of sale less the net book value of the registration and any direct costs.

**BIRMINGHAM CITY FOOTBALL CLUB PLC****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST AUGUST 2006****1. ACCOUNTING POLICIES (continued)****(k) Deferred Taxation**

The payment of taxation is deferred or accelerated because of timing differences between the treatment of certain items for accounting and taxation purposes. Full provision for deferred taxation is made under the liability method, without discounting, on all timing differences that have arisen but not reversed by the balance sheet date, unless such provision is not permitted by FRS19. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

In accordance with FRS19, deferred tax is not provided for:

- (a) revaluation gains on land and buildings, unless there is a binding agreement to sell them at the balance sheet date;
- (b) gains on the sale of non-monetary assets, whereon the basis of all available evidence it is more likely than not that the taxable gain will be rolled over into replacement assets.

**(l) Pensions**

Eligible employees of the company are members of the Football League Limited Pensions and Life Assurance scheme. The company does not make contributions to the scheme. The assets and liabilities of the scheme are managed independently of the company and do not form part of these financial statements.

**(m) Financial instruments**

The group does not use financial instruments for speculative purposes. The group's financial instruments consist of amounts receivable from customers, football clubs, cash, short-term deposits, bank loans and payments to suppliers.

**2. TURNOVER**

|   | <u>2006</u><br>£ | <u>2005</u><br>£ |
|---|------------------|------------------|
| Turnover which arises in the UK comprises:-   |                  |                  |
| Match receipts, F.A. and League distributions | 17,913,106       | 20,869,620       |
| Television and radio coverage                 | 13,983,708       | 13,965,482       |
| Commercial activities                         | 8,220,072        | 7,870,833        |
|   | <hr/>            | <hr/>            |
|   | 40,116,886       | 42,705,935       |
|   | <hr/> <hr/>      | <hr/> <hr/>      |

## BIRMINGHAM CITY FOOTBALL CLUB PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST AUGUST 2006

## 3. OPERATING EXPENSES

|   | <u>2006</u>       | <u>2005</u>       |
|---|-------------------|-------------------|
|   | £                 | £                 |
| Amortisation of players' registrations (note 8)   | 10,083,745        | 11,092,638        |
| Staff costs (note 6)                              | 26,796,954        | 27,347,929        |
| Depreciation (note 9)                             | 554,930           | 547,845           |
| Amortisation of deferred capital grants (note 16) | ( 56,969)         | ( 57,326)         |
| Loss on disposal of fixed assets                  | -                 | 2,518             |
| Other operating expenses                          | 7,095,985         | 6,267,455         |
|   | <hr/>             | <hr/>             |
| <b>Operating expenses</b>                         | <b>44,474,645</b> | <b>45,201,059</b> |
|   | <hr/> <hr/>       | <hr/> <hr/>       |

The company has adopted format 2 of the Companies Act when preparing its Profit and Loss Account. Expenses previously classified as costs of sales or other operating costs are now classified in one single category – operating expenses. This more accurately reflects the operations of the company, enables easier comparisons of the costs of the business for the user of the financial statements and is the format adopted by the majority of the current FA Premiership clubs. The major components of operating expenses with comparatives are analysed above.

## 4. OPERATING LOSS

|   | <u>2006</u> | <u>2005</u> |
|---|-------------|-------------|
|   | £           | £           |
| <b>The Operating loss is stated</b>                   |             |             |
| <b>after charging/(crediting):-</b>                   |             |             |
| Aggregate directors' emoluments                       | 577,972     | 510,119     |
| Auditors' remuneration:                               |             |             |
| Audit services  | 13,000      | 12,500      |
| Non-audit work  | 1,540       | 2,620       |
| Depreciation of tangible fixed assets – owned         | 554,930     | 547,845     |
| Release of deferred income from Football Trust Grants | ( 56,969)   | ( 57,326)   |
| Equipment leased under operating leases               | 121,990     | 104,521     |
| Premises leased under an operating lease              | 84,000      | 84,000      |
|   | <hr/>       | <hr/>       |

**BIRMINGHAM CITY FOOTBALL CLUB PLC****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST AUGUST 2006****5. DIRECTORS' REMUNERATION (Excluding Pension Contributions)**

|                                   | <u>2006</u><br>£ | <u>2005</u><br>£ |
|-----------------------------------|------------------|------------------|
| Aggregate directors' remuneration | 577,972          | 510,119          |
| Highest paid director             | 183,926          | 197,000          |

Aggregate directors' emoluments include £140,000 paid to Roldvale Limited for David Sullivan (2005 - £140,000), and £140,000 paid to Gold Group International Limited in respect of David and Ralph Gold (2005 - £140,000).

The company has not made any contributions to directors' personal pension arrangements in the year.

**6. STAFF COSTS**

|  | <u>2006</u><br>£  | <u>2005</u><br>£  |
|--|-------------------|-------------------|
| <b>Staff costs during the year were made up as follows:-</b> |                   |                   |
| Wages, salaries, signing on fees                             | 24,477,848        | 24,733,305        |
| Social Security costs  | 2,319,106         | 2,614,624         |
|  | <u>26,796,954</u> | <u>27,347,929</u> |

**The average number of persons employed by the company during the year was as follows:-**

|                             | <u>2006</u><br>No. | <u>2005</u><br>No. |
|-----------------------------|--------------------|--------------------|
| Playing staff               | 59                 | 56                 |
| Training staff              | 18                 | 15                 |
| Training ground staff       | 17                 | 16                 |
| Commercial and fund raising | 21                 | 21                 |
| Shop                        | 10                 | 10                 |
| Administration and other    | 25                 | 22                 |
|                             | <u>150</u>         | <u>140</u>         |

The company also employs approximately 376 temporary staff on match days. (2005 – 346).

## BIRMINGHAM CITY FOOTBALL CLUB PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST AUGUST 2006

## 7. TAXATION

|   | <u>2006</u><br>£ | <u>2005</u><br>£ |
|---|------------------|------------------|
| Corporation tax charge/(credit) at 30% (2005 – 22.2%) | 910,436          | (21,756)         |
| Deferred tax (note 16)                                | (28,804)         | 39,177           |
|   | <hr/>            | <hr/>            |
| Total tax charge on ordinary activities               | 881,632          | 17,421           |
|   | <hr/> <hr/>      | <hr/> <hr/>      |

The tax losses not utilised at 31st August 2005 amount to £Nil (2005 - £291,000).

**Factors affecting the current tax charge/(credit) for the year**

| <i>Current tax reconciliation:</i>   | <u>2006</u><br>£ | <u>2005</u><br>£ |
|--|------------------|------------------|
| Profit on ordinary activities before taxation  | 2,632,777        | 1,600,005        |
|  | <hr/>            | <hr/>            |
| Profit on ordinary activities multiplied by standard rate of Corporation Tax in the UK of 30% (2005 - 30%) | 789,833          | 480,001          |
| Expenses not deductible for tax purposes   | 17,743           | 13,278           |
| Excess of capital allowances over depreciation for year  | ( 47,125)        | 142,907          |
| Use of tax losses carried forward (2005 tax losses brought forward)  | ( 87,446)        | 46,104           |
| Roll-over relief for intangible fixed assets   | -                | (677,177)        |
| Indexation allowance on gains on intangible fixed assets   | -                | ( 34,489)        |
| Reduction in tax due to lower rate of 22.2% applied for 2005   | -                | 7,620            |
| Clawback of tax relief for amortisations of players with rollover relief                                   | 237,431          | -                |
|  | <hr/>            | <hr/>            |
| <b>Actual current tax charge/(credit)</b>  | <b>910,436</b>   | <b>( 21,756)</b> |
|  | <hr/> <hr/>      | <hr/> <hr/>      |

Profits on sale of players' registrations are taxable.

**Factors that may affect future tax charges**

The company expects to continue to be able to claim capital allowances in excess of depreciation in future years.

## BIRMINGHAM CITY FOOTBALL CLUB PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST AUGUST 2006

## 8. INTANGIBLE FIXED ASSETS

|                                  | <u>Players'<br/>Registrations</u><br>£ |
|----------------------------------|--|
| <b>Cost:</b>                     |  |
| At 1st September 2005            | 33,831,062                             |
| Additions                        | 11,224,023                             |
| Disposals                        | (16,326,225)                           |
|                                  | <hr/>                                  |
| At 31st August 2006              | 28,728,860                             |
|                                  | <hr/> <hr/>                            |
| <b>Accumulated Amortisation:</b> |  |
| At 1st September 2005            | 15,319,336                             |
| Charge for the year              | 10,083,745                             |
| Eliminated on disposals          | (10,859,039)                           |
|                                  | <hr/>                                  |
| At 31st August 2006              | 14,544,042                             |
|                                  | <hr/> <hr/>                            |
| <b>Net Book Value:</b>           |  |
| At 31st August 2006              | 14,184,818                             |
|                                  | <hr/> <hr/>                            |
| At 31st August 2005              | 18,511,726                             |
|                                  | <hr/> <hr/>                            |

## BIRMINGHAM CITY FOOTBALL CLUB PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST AUGUST 2006

## 9. TANGIBLE FIXED ASSETS

|                           | Freehold<br>Land and<br>Buildings<br>£ | Long<br>Leasehold<br>Land and<br>Buildings<br>£ | Fixtures<br>and<br>Equipment<br>£ | Motor<br>Vehicles<br>£ | Total<br>£        |
|---------------------------|--|---|-----------------------------------|------------------------|-------------------|
| <b>Cost or Valuation:</b> |  |   |                                   |                        |                   |
| At 1st September 2005     | 12,933,050                             | 1,669,103                                       | 3,100,593                         | 108,844                | 17,811,590        |
| Additions                 | -                                      | 130,000   | 97,562                            | -                      | 227,562           |
|                           | <u>12,933,050</u>                      | <u>1,799,103</u>                                | <u>3,198,155</u>                  | <u>108,844</u>         | <u>18,039,152</u> |
| At 31st August 2006       | 12,933,050                             | 1,799,103                                       | 3,198,155                         | 108,844                | 18,039,152        |
|                           | <u>12,933,050</u>                      | <u>1,799,103</u>                                | <u>3,198,155</u>                  | <u>108,844</u>         | <u>18,039,152</u> |
| <b>Depreciation:</b>      |  |   |                                   |                        |                   |
| At 1st September 2005     | 2,375,844                              | 105,969   | 2,441,173                         | 32,723                 | 4,955,709         |
| Charge for the year       | 258,661                                | 33,382  | 241,118                           | 21,769                 | 554,930           |
|                           | <u>2,634,505</u>                       | <u>139,351</u>                                  | <u>2,682,291</u>                  | <u>54,492</u>          | <u>5,510,639</u>  |
| At 31st August 2006       | 2,634,505                              | 139,351   | 2,682,291                         | 54,492                 | 5,510,639         |
|                           | <u>2,634,505</u>                       | <u>139,351</u>                                  | <u>2,682,291</u>                  | <u>54,492</u>          | <u>5,510,639</u>  |
| <b>Net Book Value:</b>    |  |   |                                   |                        |                   |
| At 31st August 2006       | 10,298,545                             | 1,659,752                                       | 515,864                           | 54,352                 | 12,528,513        |
|                           | <u>10,298,545</u>                      | <u>1,659,752</u>                                | <u>515,864</u>                    | <u>54,352</u>          | <u>12,528,513</u> |
| At 31st August 2005       | 10,557,206                             | 1,563,134                                       | 659,420                           | 76,121                 | 12,855,881        |
|                           | <u>10,557,206</u>                      | <u>1,563,134</u>                                | <u>659,420</u>                    | <u>76,121</u>          | <u>12,855,881</u> |

**BIRMINGHAM CITY FOOTBALL CLUB PLC****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST AUGUST 2006****9. TANGIBLE FIXED ASSETS (continued)**

|                                |                                     |
|--------------------------------|-------------------------------------|
| Land and building comprises:-  | <u>Freehold<br/>Properties</u><br>£ |
| Cost and valuation 1991        | 1,153,807                           |
| Additions at cost 1991 to 2006 | 11,779,243                          |
|                                | <hr/>                               |
| Depreciation                   | 12,933,050<br>( 2,634,505)          |
|                                | <hr/>                               |
| At 31st August 2006            | 10,298,545                          |
|                                | <hr/> <hr/>                         |
| At 31st August 2005            | 10,557,206                          |
|                                | <hr/> <hr/>                         |

The freehold buildings occupied by the company were revalued on an existing use basis by Messrs Chestertons, Chartered Surveyors. If the properties had not been revalued, they would have been included in the balance sheet at the following amounts:-

|                          | <u>2006</u><br>£ | <u>2005</u><br>£ |
|--------------------------|------------------|------------------|
| Cost                     | 12,620,324       | 12,620,324       |
| Accumulated depreciation | ( 2,552,252)     | ( 2,299,846)     |
|                          | <hr/>            | <hr/>            |
|                          | 10,068,072       | 10,320,478       |
|                          | <hr/> <hr/>      | <hr/> <hr/>      |

It is not the company's intention to revalue the freehold property on an ongoing basis and the existing 1991 valuation has been rolled forward as permitted under the transitional provisions of FRS15.

**10. STOCK**

|                  | <u>2006</u><br>£ | <u>2005</u><br>£ |
|------------------|------------------|------------------|
| Goods for resale | 360,632          | 193,941          |
|                  | <hr/> <hr/>      | <hr/> <hr/>      |

**BIRMINGHAM CITY FOOTBALL CLUB PLC****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST AUGUST 2006****11. DEBTORS**

|                 | <u>2006</u>       | <u>2005</u>       |
|-----------------|-------------------|-------------------|
|                 | £                 | £                 |
| Trade debtors   | 9,651,807         | 10,332,654        |
| Other debtors   | 42,608            | 86,587            |
| Corporation tax | -                 | 21,756            |
| Prepayments     | 712,859           | 717,617           |
|                 | <u>10,407,274</u> | <u>11,158,614</u> |

Included within trade debtors is £6,611,145 (2005 - £1,181,165) in respect of transfer fees receivable, of which £2,300,000 (2005 - £Nil) not due until after more than one year.

**12. CREDITORS: Amounts falling due within one year**

|  | <u>2006</u>       | <u>2005</u>       |
|--|-------------------|-------------------|
|  | £                 | £                 |
| Bank loan                                  | 48,668            | 44,673            |
| Bank overdraft                             | 41,382            | -                 |
| Trade creditors                            | 7,719,030         | 9,428,092         |
| Other creditors                            | 5,398             | 80,050            |
| Corporation Tax                            | 888,680           | -                 |
| Taxation and social security costs         | 3,013,457         | 2,278,888         |
| Accruals                                   | 796,625           | 1,002,034         |
| Accruals and deferred income               | 10,771,447        | 19,496,278        |
| Capital grants (deferred income) (note 16) | 56,969            | 56,969            |
|  | <u>23,341,656</u> | <u>32,386,984</u> |

Included within creditors is £5,471,503 (2005 - £6,918,355) in respect of transfer fees payable.

## BIRMINGHAM CITY FOOTBALL CLUB PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST AUGUST 2006

## 13. CREDITORS: Amounts falling due after more than one year

|  | <u>2006</u><br>£  | Restated<br><u>2005</u><br>£ |
|--|-------------------|------------------------------|
| Amount due to holding company              | 14,648,566        | 14,648,566                   |
| Bank loan                                  | 282,014           | 331,120                      |
| Preference share capital (note 15)         | 18,500            | 18,500                       |
|  | <hr/>             | <hr/>                        |
| Net debt due after more than one year      | 14,949,080        | 14,998,186                   |
| Deferred income                            | 2,514,037         | 2,419,615                    |
| Capital grants (deferred credits)(note 16) | 2,135,749         | 2,192,718                    |
|  | <hr/>             | <hr/>                        |
|  | <u>19,598,866</u> | <u>19,610,519</u>            |

The bank loan is secured on the land and buildings.

Included within bank loans is £87,372 (2005 - £112,477) due after more than five years repayable in equal instalments by 2012.

|  | <u>No</u> | <u>2006</u><br>£ | <u>No</u> | <u>2005</u><br>£ |
|--|-----------|------------------|-----------|------------------|
| Authorised   |           |                  |           |                  |
| 4.2% redeemable cumulative preference shares of 50p each | 40,000    | 20,000           | 40,000    | 20,000           |
|  | <hr/>     | <hr/>            | <hr/>     | <hr/>            |
| Allotted, Called Up and Fully Paid                       |           |                  |           |                  |
| 4.2% redeemable cumulative preference shares of 50p each | 37,000    | 18,500           | 37,000    | 18,500           |
|  | <hr/>     | <hr/>            | <hr/>     | <hr/>            |

The company may redeem cumulative preference shares at par any time upon giving not less than three months previous notice in writing to the holders of the cumulative preference shares. On an earlier winding up, the cumulative preference shares carry priority over the ordinary shares to the extent of their par value plus any arrears of dividends (which are cumulative for a period of three years). The preference shares carry no votes except on a winding up or on variations of their rights.

# BIRMINGHAM CITY FOOTBALL CLUB PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST AUGUST 2006

### 14. DEBT OBLIGATIONS

The borrowing of the company relates to a bank loan, amount due to holding company and preference shares, the maturity of which is analysed below:

|  | <u>2006</u><br>£ | <u>2005</u><br>£ |
|--|------------------|------------------|
| Within one year                                  | 48,668           | 44,673           |
| More than one year but not more than two years   | 52,663           | 48,668           |
| More than two years but not more than five years | 181,959          | 169,975          |
| After five years                                 | 14,714,458       | 14,795,543       |
|  | <hr/>            | <hr/>            |
| Total borrowings                                 | 14,997,748       | 15,042,859       |
|  | <hr/> <hr/>      | <hr/> <hr/>      |

### 15. DEBT POSITION

|   | <u>2006</u><br>£ | <u>2005</u><br>£ |
|---|------------------|------------------|
| Cash at bank and in hand                                  | 4,308,070        | 6,403,785        |
| Bank overdraft  | ( 41,382)        | -                |
|   | <hr/>            | <hr/>            |
| Net cash at bank and in hand                              | 4,266,688        | 6,403,785        |
|   | <hr/>            | <hr/>            |
| Bank loan due within one year                             | ( 48,668)        | ( 44,673)        |
| Bank loan due after more than one year                    | ( 282,014)       | ( 331,120)       |
| Amount due to holding company                             | (14,648,566)     | (14,648,566)     |
|   | <hr/>            | <hr/>            |
| Loans   | (14,979,248)     | (15,024,359)     |
|   | <hr/>            | <hr/>            |
| <b>Debt as reported prior to FRS 25</b>                   | (10,712,560)     | ( 8,620,574)     |
| Remaining debt from reclassification of preference shares | ( 18,500)        | ( 18,500)        |
|   | <hr/>            | <hr/>            |
| <b>Debt reported under FRS 25</b>                         | (10,731,060)     | ( 8,639,074)     |
|   | <hr/> <hr/>      | <hr/> <hr/>      |

### 16. DEFERRED CAPITAL GRANT

Included within creditors is £2,192,718 (2005 - £2,249,687) relating to deferred capital grants.

The grant is in respect of the substantial redevelopment of the stadium. The grant has been treated as a deferred capital grant and is being amortised in line with the depreciable assets to which it relates.

**BIRMINGHAM CITY FOOTBALL CLUB PLC****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST AUGUST 2006****17. PROVISIONS FOR LIABILITIES AND CHARGES**

|   |               |               |
|---|---------------|---------------|
|   |               | £             |
| Excess of depreciation over<br>At 1st September 2005  |               | 39,177        |
| Amount (credited) to profit and loss account (note 7) |               | (28,804)      |
|   |               | <u>10,373</u> |
| Deferred taxation comprises:                          |               |               |
|   | <u>2006</u>   | <u>2005</u>   |
|   | £             | £             |
| Excess of depreciation over<br>Capital allowances     | (429,373)     | (550,554)     |
| Roll over relief for intangible assets                | 439,746       | 677,177       |
| Losses  | -             | ( 87,446)     |
|   | <u>10,373</u> | <u>39,177</u> |

**18. FINANCIAL INSTRUMENTS**

The company's financial instruments comprise borrowings, cash and liquid resources, and various items such as trade debtors and trade creditors that arise directly from its operations. The main purpose of the financial instruments is to finance the company's operations.

It is, and has been throughout the year under review, the company's policy that no trading in financial instruments shall be undertaken.

**Short Term Debtors and Creditors**

Short term debtors and creditors (all of which are denominated in sterling) have been excluded from the following disclosures.

**Interest Rate Risk Profile**

The interest rate risk profile of the company's financial liabilities at 31st August was:

|                     | <u>Total</u> | <u>Floating Rate</u><br><u>Financial</u><br><u>Liabilities</u> | <u>Fixed Rate</u><br><u>Financial</u><br><u>Liabilities</u> | <u>Non interest</u><br><u>Bearing</u><br><u>Financial</u><br><u>Liabilities</u> |
|---------------------|--------------|--|---|---|
| Sterling            | £            | £  | £   | £   |
| At 31st August 2006 | 15,039,130   | 41,382   | 330,682   | 14,667,066  |
| At 31st August 2005 | 15,042,859   | -  | 375,793   | 14,667,066  |

Note 27 sets out the analysis of the movement in net debt during the year.

**BIRMINGHAM CITY FOOTBALL CLUB PLC****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST AUGUST 2006****18. FINANCIAL INSTRUMENTS (continued)**

The fair values of the fixed rate financial liabilities at 31st August 2006 was also approximately £331,000 (2005 – £376,000). The fair value has been calculated using market interest rates at the balance sheet date.

The weighted average interest rate of the fixed rate financial liabilities is 5.5% (2005 – 5.5%).

The weighted average period for which the interest rate is fixed is one year (2005 – two years).

The floating rate financial liability comprises a sterling denominated bank overdraft that bears interest at normal commercial rates.

The bank overdraft bears interest at bank base rate plus 1.25%.

The maturity of the financial liabilities are set out at note 14.

The interest rate risk profile of the company's financial assets at 31st August 2006 was:

|                        | <u>Total</u>     | <u>Cash at Bank</u> | <u>Short-term</u> |
|------------------------|------------------|---------------------|-------------------|
|                        | <u>£</u>         | <u>and in hand</u>  | <u>Deposits</u>   |
| <b>Sterling</b>        |                  | <u>£</u>            | <u>£</u>          |
| At 31st August 2006    |                  |                     |                   |
| - non-interest bearing | 51,886           | 51,886              | -                 |
| - floating rate        | 4,256,184        | -                   | 4,256,184         |
| - fixed rate           | -                | -                   | -                 |
|                        | <u>4,308,070</u> | <u>51,886</u>       | <u>4,256,184</u>  |
| <b>Sterling</b>        |                  |                     |                   |
| At 31st August 2005    |                  |                     |                   |
| - non-interest bearing | 163,903          | 163,903             | -                 |
| - floating rate        | 1,515,000        | -                   | 1,515,000         |
| - fixed rate           | 4,724,882        | -                   | 4,724,882         |
|                        | <u>6,403,785</u> | <u>163,903</u>      | <u>6,239,882</u>  |

Cash at bank and in hand at 31st August 2006 and 2005 is made up of uncleared funds and cash requirements which could not be placed on deposit.

Surplus cash and deposits are placed with banks overnight and earn interest at prevailing rates between 3% and 4% in the money market.

## BIRMINGHAM CITY FOOTBALL CLUB PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST AUGUST 2006

## 18. FINANCIAL INSTRUMENTS (continued)

**Maturity of borrowing facilities**

The company has an overdraft facility £5.00m (2005 - £5.00m) due for review in August 2007. The undrawn committed facilities at 31st August 2006 in respect of which all conditions have been met at that date were £4.96m (2005 - £5.00m).

**Currency risk**

The company has no significant exposures to foreign currencies.

**Liquidity risk**

The maturity profiles of the company's borrowings are set out at note 14.

## 19. SHARE CAPITAL

|   | 2006      |           | Restated<br>2005 |           |
|---|-----------|-----------|------------------|-----------|
|   | No        | £         | No               | £         |
| <b>(a) Authorised</b>                         |           |           |                  |           |
| Ordinary shares of 50p each                   | 5,000,000 | 2,500,000 | 5,000,000        | 2,500,000 |
| <b>(b) Allotted, Called Up and Fully Paid</b> |           |           |                  |           |
| Ordinary shares of 50p each                   | 1,505,676 | 752,838   | 1,505,676        | 752,838   |

## 20. RESERVES

|                       | Share<br>Premium<br>£ | Capital<br>Redemption<br>Reserve<br>£ | Revaluation<br>Reserve<br>£ | Profit<br>and Loss<br>Account<br>£ |
|-----------------------|-----------------------|---------------------------------------|-----------------------------|------------------------------------|
| At 1st September 2005 | 207,096               | 750                                   | 312,726                     | (4,186,143)                        |
| Retained profit       | -                     | -                                     | -                           | 1,751,145                          |
| At 31st August 2006   | 207,096               | 750                                   | 312,726                     | (2,434,998)                        |

## BIRMINGHAM CITY FOOTBALL CLUB PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST AUGUST 2006

## 21. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

|  | 2006               |  | 2005               |
|--|--------------------|--|--------------------|
|  | £                  |  | Restated           |
|  | £                  |  | £                  |
| Profit for the financial year                      | 1,751,145          |  | 1,582,584          |
| Opening shareholders funds                         | (2,894,233)        |  | (4,476,817)        |
| Reclassification of preference shares<br>(note 15) | ( 18,500)          |  | ( 18,500)          |
| Opening shareholders' funds as restated            | <u>(2,912,733)</u> |  | <u>(4,493,317)</u> |
| Closing shareholders funds                         | <u>(1,161,588)</u> |  | <u>(2,912,733)</u> |

## 22. RELATED PARTY TRANSACTIONS

Goods and services to the value of £3,360 (2005 - £Nil) have been supplied to the Club by Nettcollex Limited in which D Sullivan (director) has an interest. At the balance sheet date £Nil was due to Nettcollex Limited from the company.

Goods and services to the value of £981 (2005 - £21,268) have been supplied by the Club to Gold Group International which is owned by D Gold and R Gold (directors). At the balance sheet date £Nil was due from Gold Group International to the company.

Henri Brandman & Co (Henri Brandman - Director) acted as Solicitors on behalf of the Club during the year with fees amounting to £31,500 (2005 - £9,500). At the balance sheet date £Nil was due from the company to Henri Brandman & Co.

Sport Newspapers Limited, which is owned by D Sullivan, D Gold and R Gold, carried out certain administrative duties during the year for which it charged £52,000 (2005 - £52,000). See note 5. At the balance sheet date £52,000 was due from the company to Sport Newspapers Limited.

## 23. CONTINGENT LIABILITIES AND POST BALANCE SHEET EVENTS

## (a) Player Transfer Costs

Under the terms of certain contracts with other football clubs in respect of player transfers, additional amounts would become payable if certain specific performance conditions are met. The maximum that could be payable in respect of transfers to 31st August 2006 is £5,771,250 (2005 - £10,729,000). Since the year end and to the approval of these accounts £Nil of this has crystallised and additional transfer fees payable have amounted to £2,893,750 with transfer receivables of £1,125,000.

## (b) Signing-On Fees and Image Rights Payable

The maximum possible commitments in respect of signing-on fees and image rights due to players under contracts at the year end which are payable on future dates specified in their contracts and not provided for in the accounts, amounted to £3,280,426 (2005 - £5,305,000).

## BIRMINGHAM CITY FOOTBALL CLUB PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST AUGUST 2006

## 23. CONTINGENT LIABILITIES AND POST BALANCE SHEET EVENTS (continued)

## (c) HM Customs &amp; Excise

HM Customs & Excise has issued an assessment for repayment of £608,000 (2005 - £157,000) of input VAT previously recovered which relates to payments made under the contractual arrangements between the company and certain football agents. The company considers the VAT concerned has been properly recovered and, accordingly, an appeal has been lodged against the assessment, consequently no provision has been made within these accounts. The company awaits the outcome of a VAT tribunal which was heard in November 2006.

## 24. CAPITAL AND OTHER FINANCIAL COMMITMENTS

## (a) Capital Commitments

|                                   | <u>2006</u>    | <u>2005</u> |
|-----------------------------------|----------------|-------------|
|                                   | £              | £           |
| Contracted but not provided for:- |                |             |
| Leasehold land and buildings      | 706,201        | -           |
|                                   | <u>706,201</u> | <u>-</u>    |

## (b) Lease Commitments

The company had annual commitments under operating leases for plant and equipment and leasehold land and buildings as follows:-

|  | <u>2006</u>    | <u>2005</u>    |
|--|----------------|----------------|
|  | £              | £              |
| Expiring:  |                |                |
| Within one year - (plant and equipment)            | 97,430         | -              |
| Between two and five years - (plant and equipment) | 44,940         | 123,343        |
| Over five years - (land and buildings)             | 84,000         | 84,000         |
|  | <u>226,370</u> | <u>207,343</u> |

## 25. RECONCILIATION OF OPERATING LOSS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

|  | <u>2006</u>      | <u>2005</u>      |
|--|------------------|------------------|
|  | £                | £                |
| Operating loss after amortisation of players     | (4,357,759)      | (2,495,124)      |
| Player transfer costs including amortisation     | 10,083,745       | 11,092,638       |
| Depreciation                                     | 554,930          | 547,845          |
| Loss on sale of assets                           | -                | 2,518            |
| Amortisation of deferred income                  | (56,969)         | ( 57,326)        |
| Increase(decrease) in stocks                     | (166,691)        | 141,421          |
| Decrease/(increase) in debtors                   | 6,159,564        | (4,596,870)      |
| Decrease in creditors                            | (8,438,111)      | (1,379,475)      |
|  | <u>3,778,709</u> | <u>3,255,627</u> |
| <b>Net Cash Inflow from Operating Activities</b> | <u>3,778,709</u> | <u>3,255,627</u> |

## BIRMINGHAM CITY FOOTBALL CLUB PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST AUGUST 2006

## 26. GROSS CASH FLOWS

|  | <u>2006</u><br>£   | <u>2005</u><br>£    |
|--|--------------------|---------------------|
| (i) <b>Returns on Investments and Servicing of Finance</b> |                    |                     |
| Bank interest received                                     | 38,398             | 169,388             |
| Bank interest paid   | (110,998)          | (31,684)            |
|  | <u>(72,600)</u>    | <u>137,704</u>      |
| (ii) <b>Taxation</b>                                       |                    |                     |
| Corporation Tax paid                                       | -                  | (21,756)            |
|  | <u>-</u>           | <u>(21,756)</u>     |
| (iii) <b>Capital Expenditure</b>                           |                    |                     |
| Payments to acquire tangible fixed assets                  | (227,562)          | ( 325,702)          |
| Receipts from sales of tangible fixed assets               | -                  | 16,000              |
| Payments for purchases of players' contracts               | (12,670,875)       | (12,875,014)        |
| Receipts from sales of players' contracts                  | 7,100,342          | 7,399,863           |
|  | <u>(5,798,095)</u> | <u>( 5,784,853)</u> |
| (iv) <b>Financing</b>                                      |                    |                     |
| Receipt of loan from holding company                       | -                  | 83,050              |
| Capital repayment of bank loan                             | (45,111)           | (40,407)            |
|  | <u>(45,111)</u>    | <u>42,643</u>       |

## 27. ANALYSIS OF CHANGES IN NET DEBT

|                            | <u>01.09.05</u><br>£000 | <u>Cash Flows</u><br>£000 | <u>31.08.06</u><br>£000 |
|----------------------------|-------------------------|---------------------------|-------------------------|
| Cash in hand and at bank   | 6,403,785               | (2,095,715)               | 4,308,070               |
| Bank overdraft             | -                       | (41,382)                  | (41,382)                |
|                            | <u>6,403,785</u>        | <u>(2,137,097)</u>        | <u>4,266,688</u>        |
| <b>Net funds</b> (note 15) | 6,403,785               | (2,137,097)               | 4,266,688               |
| <b>Loans</b>               | (15,042,859)            | 45,111                    | (14,997,748)            |
|                            | <u>(15,042,859)</u>     | <u>45,111</u>             | <u>(14,997,748)</u>     |
| <b>Net Debt</b> (note 15)  | (8,639,074)             | (2,091,986)               | (10,731,060)            |
|                            | <u>(8,639,074)</u>      | <u>(2,091,986)</u>        | <u>(10,731,060)</u>     |

## 28. ULTIMATE PARENT UNDERTAKING

The ultimate parent undertaking is Birmingham City plc, a company registered in England and Wales, number 3304408. The accounts of the company can be obtained from St. Andrews Stadium, Birmingham, B9 4NH.