

Southampton Football Club Limited

Report and Financial Statements

31 May 2002

**Deloitte & Touche
Southampton**



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REPORT AND FINANCIAL STATEMENTS 2002

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REPORT AND FINANCIAL STATEMENTS 2002

OFFICERS AND PROFESSIONAL ADVISERS

PRESIDENT

Ted Bates

DIRECTORS

R J G Lowe (Chairman)

B H D Hunt (Vice Chairman)

A E Cowen

I L Gordon

M R Richards, FCA

K St John Wiseman, MA

R M Withers

SECRETARY

B Truscott

TEAM MANAGER

Gordon Strachan

REGISTERED OFFICE

The Friends Provident St Mary's Stadium

Britannia Road

Southampton

SO14 5FP

BANKERS

Barclays Bank PLC

Southampton City Branch

Southampton

SO14 2ZP

SOLICITORS

Paris, Smith & Randall

1 London Rd

Southampton

SO15 2AE

AUDITORS

Deloitte & Touche

Chartered Accountants and Registered Auditors

Southampton

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 May 2002.

PRINCIPAL ACTIVITY

The company is a football club, which participates in the FA Premier League, other leagues and cup competitions.

RESULTS, DIVIDENDS AND FUTURE PROSPECTS

The profit and loss account is set out on page 6 and shows a profit before tax for the year of £3,864,442 (2001: loss of £130,326). No dividend (2001: £nil) is proposed. The directors believe that the club is well placed both financially and in terms of its playing squad to take advantage of the continuing strength of being a Premier League football club.

DIRECTORS AND THEIR INTERESTS

A list of the present directors of the company is given on page 1.

The directors had no interests in the share capital of the company or any other group company, other than the parent undertaking at the year end.

The directors' interests in the share capital of the parent undertaking, Southampton Leisure Holdings PLC, are disclosed in the directors' report of that company. In addition I L Gordon had an interest in 848,000 5p ordinary shares in Southampton Leisure Holdings PLC at the beginning and end of the year and R M Withers had an interest in 1,175,000 5p ordinary shares at the beginning of the year and 1,300,000 5p ordinary shares at the end of the year in Southampton Leisure Holdings PLC.

PLAYERS' REGISTRATION

As stated in accounting policy note 1, the cost of acquired players is reflected in the accounts in order to comply with FRS10.

POLICY ON PAYMENT OF CREDITORS

The company values its relationship with its many suppliers. As part of meeting its obligations under each purchase transaction, the company's policy is to pay amounts due for settlement in accordance with the negotiated terms of trade.

Trade creditors at 31 May 2002 represented 37 days of annual purchases (2001: 34). This figure excludes creditors in respect of player purchases which are paid on the date payment is contractually due.

DIRECTORS' REPORT (continued)

AUDITORS

Under sections 252 and 386 of the Companies Act respectively, a resolution has been passed dispensing with the holding of annual general meetings and with the annual appointment of auditors.

Approved by the Board of Directors
and signed on behalf of the Board

A handwritten signature in black ink, appearing to read 'B Truscott', written over a horizontal line.

B Truscott
Secretary

27 March 2003

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom 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 as at the end of the financial year 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; and
- 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 to 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOUTHAMPTON FOOTBALL CLUB LIMITED

We have audited the financial statements of Southampton Football Club Limited for the year ended 31 May 2002 which comprise the profit and loss account, the balance sheet and the related notes 1 to 22. 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

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and 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 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 the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

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 at 31 May 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



DELOITTE & TOUCHE

Chartered Accountants and Registered Auditors
Southampton
28 March 2003

PROFIT AND LOSS ACCOUNT
Year ended 31 May 2002

	Note	Operations excluding player trading 2002 £	Player trading* 2002 £	Continuing operations 2002 £	2001 £
TURNOVER	2	33,882,151	-	33,882,151	24,092,605
Cost of sales		(26,278,073)	(6,235,237)	(32,513,310)	(19,920,928)
Gross profit		7,604,078	(6,235,237)	1,368,841	4,171,677
Administrative expenses		(4,555,621)	-	(4,555,621)	(6,201,960)
Operating profit/(loss)	3	3,048,457	(6,235,237)	(3,186,780)	(2,030,283)
Profit on disposal of players and manager		-	7,108,133	7,108,133	1,969,349
Profit/(loss) before interest and taxation		3,048,457	872,896	3,921,353	(60,934)
Net interest payable	6			(56,911)	(69,392)
Profit/(loss) on ordinary activities before taxation				3,864,442	(130,326)
Taxation on profit/(loss) on ordinary activities	7			(244,338)	28,278
Retained profit/(loss) for the year	19			3,620,104	(102,048)

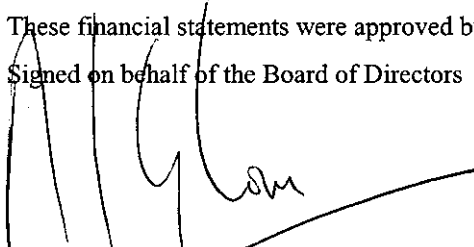
*Player trading represents the amortisation and the profit or loss on disposal of player registrations.

There are no recognised gains or losses for the current financial year or preceding financial year other than as stated above. Accordingly a statement of total recognised gains and losses has not been presented.

BALANCE SHEET
As at 31 May 2002

	Note	2002 £	2001 £
FIXED ASSETS			
Intangible assets	8	12,133,293	6,203,654
Tangible assets	9	651,467	503,571
Investments	10	1,000	1,000
		<u>12,785,760</u>	<u>6,708,225</u>
CURRENT ASSETS			
Stocks	11	363,998	481,419
Debtors	12	8,190,693	3,079,192
Cash and bank balances		9,789	2,233,115
		<u>8,564,480</u>	<u>5,793,726</u>
CREDITORS: amounts falling due within one year	13	<u>(16,915,721)</u>	<u>(11,399,513)</u>
NET CURRENT LIABILITIES		<u>(8,351,241)</u>	<u>(5,605,787)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		4,434,519	1,102,438
CREDITORS: amounts falling due after more than one year	14	(169,657)	(180,384)
PROVISION FOR LIABILITIES AND CHARGES	17	<u>(310,203)</u>	<u>(587,499)</u>
		<u>3,954,659</u>	<u>334,555</u>
CAPITAL AND RESERVES			
Called up share capital	18	52,570	52,570
Profit and loss account	19	3,902,089	281,985
EQUITY SHAREHOLDERS' FUNDS	19	<u>3,954,659</u>	<u>334,555</u>

These financial statements were approved by the Board of Directors on 27 March 2003.
Signed on behalf of the Board of Directors


R J G Lowe
Director

NOTES TO THE ACCOUNTS
Year ended 31 May 2002

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted by the directors are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Consolidated accounts

The financial statements present information about the company as an individual undertaking and not about its group. The company is a wholly owned subsidiary undertaking of Southampton Leisure Holdings PLC and so it is exempt from preparing group accounts under section 228 of the Companies Act 1985.

Turnover

Turnover represents the total amount receivable from the principal activities of the company, excluding transfer fees receivable, and is stated net of value added tax.

Intangible assets

The element of each player's transfer fee which relates to his registration is capitalised as an intangible asset and amortised over the period of his contract, including any agreed extensions. Contingent fees payable, which are dependent upon the number of first team appearances and international debuts made, are capitalised in the period when it is considered probable that the conditions of the contract will be satisfied.

Investments

Investments that are held for the long term are included in the balance sheet as fixed assets at cost. Provision is made where in the opinion of the directors impairment in value has occurred.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation less any provision for impairment. Depreciation is provided on all tangible fixed assets other than assets under development, at rates calculated to write off the cost or valuation, less estimated residual value, based on prices prevailing at the date of acquisition, of each asset evenly over its expected useful life, as follows:

Equipment	-	over 4 to 10 years
Motor vehicles	-	over 5 years

Stocks

Stocks are stated at the lower of cost and net realisable value. Provision is made for obsolete, slow moving or defective items where appropriate.

Signing on fees

Signing on fees are charged to cost of sales over the duration of the player's contract.

Deferred taxation

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law.

Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from these in which they are included in Financial Statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

NOTES TO THE ACCOUNTS

Year ended 31 May 2002

1. ACCOUNTING POLICIES (continued)

Football Trust grants

Grants received from The Football Trust in respect of ground improvements are treated as deferred income until the conditions for non-repayment are satisfied. Once these conditions have been met, the grants are amortised over the period of the related assets.

Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

Pensions

The company makes contributions to the Football League Pension Scheme on behalf of its employees who are members of that scheme. The charge in the accounts represents the premiums paid during the year.

2. TURNOVER

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties excluding transfer fees receivable. Turnover is attributable to one continuing activity, the operation of a professional football club.

3. OPERATING PROFIT/(LOSS)

	2002 £	2001 £
Operating profit/(loss) is stated after charging/(crediting):		
Amortisation of players	6,235,237	3,535,251
Auditors' remuneration		
- audit	12,000	12,000
- other services	9,000	7,981
Depreciation of fixed assets		
- owned	208,071	286,255
- held under finance leases and hire purchase contracts	24,239	51,067
Rentals under operating leases		
- plant and machinery	166,209	57,131
- land and building	93,416	52,795
- profit on fixed asset disposal	(7,695)	-

4. DIRECTORS' REMUNERATION

Director's remuneration is borne by the parent company. Certain directors have an interest in the supply of services to the company by their respective professional practices and companies in which they hold shares, details of which are set out below.

Director	Related undertaking	2002 £	2001 £
I L Gordon	Paris, Smith & Randall	63,283	123,549

B H D Hunt was paid £15,000 (2001: £36,000) by the parent undertaking during the year for consulting services.

NOTES TO THE ACCOUNTS

Year ended 31 May 2002

5. STAFF COSTS

	2002 £	2001 £
Wages and salaries	18,788,955	13,722,542
Social security costs	2,104,566	1,589,772
Pension contributions	175,904	178,003
	<u>21,069,425</u>	<u>15,490,317</u>

The average monthly number of employees employed by the company during the year is as follows:

	2002 No.	2001 No.
Direct	164	138
Administration	42	21
	<u>206</u>	<u>159</u>

In addition the company employs approximately 350 temporary staff on match days (2001: 200).

Certain staff of the company are members of either the Football League Limited Players Retirement Income Scheme, a defined contribution scheme, or the Football League Limited Pension and Life Assurance Scheme ('FLLPLAS'), a defined benefit scheme. As the company is one of a number of participating employers in the FLLPLAS, it is not possible to allocate any actuarial surplus or deficit and consequently contributions are expensed in the profit and loss account as they become payable. The assets of the schemes are held separately from those of the company, being invested with insurance companies.

Following a review of the Minimum Funding Requirement (MFR) of the FLLPLAS, accrual of the benefits on the final salary section of the scheme was suspended as at 31 August 1999. In light of the exceptional circumstances affecting the scheme, the trustees of the scheme commissioned an independent actuary's report on the MFR position and a substantial deficit was identified. Under the Pensions Act 1985 participating employers will be required to contribute to the deficiency. The Club was advised by the Premier League that a basis of apportionment of the deficit had been approved by the trustees and their advisors, although a number of important issues remain to be resolved that could impact on the final quantification of this liability. The provisional allocation notified to Southampton Football Club was £300,000 which is being repaid at £9,095 per month since July 2001.

Contributions payable by the Group to employees' (including executive directors) personal pension schemes are charged to the profit and loss account in the period to which they relate. The schemes are defined contribution schemes, the assets of which are held separately from the Group.

NOTES TO THE ACCOUNTS
Year ended 31 May 2002

6. NET INTEREST PAYABLE

	2002	2001
	£	£
Bank overdraft	(90,900)	(86,643)
Finance charges payable under finance leases and hire purchase contracts	(9,739)	(8,537)
Interest payable	(100,639)	(95,180)
Bank deposit interest receivable	43,728	25,788
	<u>(56,911)</u>	<u>(69,392)</u>

7. TAXATION ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

The taxation charge/(credit) is made up as follows:

	2002	2001
	£	£
Based on the profit/(loss) for the year:		
UK corporation tax at 30% (2001: 30%)	219,959	-
Deferred taxation	-	(36,933)
Adjustment in respect of prior years	24,379	8,655
	<u>244,338</u>	<u>(28,278)</u>

Factors affecting tax charge for the current period

The tax assessed for the period is lower than that resulting from applying the standard rate of corporation tax in the UK: 30% (2001: 30%).

The differences are explained below:

	2002	2001
	%	%
Standard tax rate for period as a percentage of profits	30	30
Effects of:		
Expenses not deductible for tax purposes	2	(201)
Capital allowances in excess of depreciation	-	(22)
Movement in short term timing differences	(1)	155
Group relief not paid for	(25)	38
	<u>6</u>	<u>-</u>
Current tax rate for period as a percentage of profits	<u>6</u>	<u>-</u>

Factors that may affect the future tax charge

A deferred tax asset has not been recognised in respect of timing differences relating to depreciation in excess of capital allowances, as there is insufficient evidence that the assets will be recovered. The amount of the asset not recognised is £27,656. The asset would be recovered if there are sufficient suitable profits in the future.

NOTES TO THE ACCOUNTS
Year ended 31 May 2002

8. INTANGIBLE FIXED ASSETS

	Player registrations £
Cost	
At 1 June 2001	13,380,834
Additions	12,239,644
Disposals	(485,517)
At 31 May 2002	<u>25,134,961</u>
Accumulated depreciation	
At 1 June 2001	7,177,180
Charge for the year	6,235,237
Disposals	(410,749)
At 31 May 2002	<u>13,001,668</u>
Net book value	
At 31 May 2002	<u>12,133,293</u>
At 31 May 2001	<u>6,203,654</u>

9. TANGIBLE FIXED ASSETS

	Equipment £	Motor vehicles £	Total £
Cost			
At 1 June 2001	1,679,981	292,171	1,972,152
Additions	427,097	9,680	436,777
Disposals	(991,672)	(180,125)	(1,171,797)
At 31 May 2002	<u>1,115,406</u>	<u>121,726</u>	<u>1,237,132</u>
Depreciation			
At 1 June 2001	1,229,350	239,231	1,468,581
Provided during the year	210,421	21,889	232,310
Disposals	(950,438)	(164,788)	(1,115,226)
At 31 May 2002	<u>489,333</u>	<u>96,332</u>	<u>585,665</u>
Net book value			
At 31 May 2002	<u>626,073</u>	<u>25,394</u>	<u>651,467</u>
At 31 May 2001	<u>450,631</u>	<u>52,940</u>	<u>503,571</u>

The net book value for equipment includes £48,477 (2001: £86,128) relating to assets acquired under hire purchase contracts and finance leases.

NOTES TO THE ACCOUNTS

Year ended 31 May 2002

10. FIXED ASSET INVESTMENTS

	£
Ordinary shares in subsidiary at cost:	
At 1 June 2001 and 31 May 2002	1,000

Details of the investment in which the company holds more than 10% of the nominal value of any class of share capital are as follows:

Name of company	Holding	Proportion held	Nature of business
Saints Supporters Club Limited	Ordinary shares	100%	Supporters club

The above company is incorporated in Great Britain.

11. STOCKS

	2002 £	2001 £
Consumable stocks	363,998	481,419

12. DEBTORS

	2002 £	2001 £
Amount due from group undertakings	1,358,556	1,507,596
Trade debtors	5,914,701	1,180,895
Prepayments	159,786	381,610
Other debtors	757,650	9,091
	<u>8,190,693</u>	<u>3,079,192</u>

All the above amounts are due within one year.

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2002 £	2001 £
Bank overdraft (secured)	2,981,945	-
Amounts due to parent company	1,677,313	1,632,048
Amounts due to Group undertaking	1,387,670	3,967,383
Obligations under finance leases and hire purchase contracts	35,726	35,724
Trade creditors	4,914,692	1,603,765
Corporation tax	219,959	33,765
Other taxes and social security costs	1,920,590	1,328,285
Accruals and deferred income	3,777,826	2,798,543
	<u>16,915,721</u>	<u>11,399,513</u>

The bank borrowings in the year are secured upon group freehold properties.

NOTES TO THE ACCOUNTS

Year ended 31 May 2002

14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2002	2001
	£	£
Obligations under finance leases and hire purchase contracts	44,657	80,384
Trade creditors	125,000	100,000
	<u>169,657</u>	<u>180,384</u>

15. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

	2002	2001
	£	£
Amounts payable:		
Within one year or on demand	35,726	35,724
Between one and two years	44,657	35,724
Between two and five years	-	44,660
	<u>80,383</u>	<u>116,108</u>

The obligations under finance leases and hire purchase contracts are secured on the related assets (see note 9).

16. FINANCIAL COMMITMENTS

At 31 May 2002, the company was committed to making the following payments under non-cancellable operating leases to 31 May 2002.

	2002		2001	
	Land and buildings	Other	Land and buildings	Other
	£	£	£	£
Leases which expire:				
Within one year	-	25,247	-	14,501
Within two to five years	-	138,826	-	20,924
Five years or more	93,086	-	87,750	-
	<u>93,086</u>	<u>164,073</u>	<u>87,750</u>	<u>35,425</u>

NOTES TO THE ACCOUNTS

Year ended 31 May 2002

17. PROVISION FOR LIABILITIES AND CHARGES

	2002 £	2001 £
Deferred taxation	-	-
Grants from The Football Trust towards ground improvements	-	177,249
Contingent transfer fees payable	110,250	110,250
Pensions (see note 5)	199,953	300,000
	<u>310,203</u>	<u>587,499</u>

	2002 £	2001 £
Analysis of deferred tax balance		
Capital allowances in excess of depreciation	(10,437)	-
Short term timing differences	(54,025)	-
Player registrations	64,462	-
	<u>-</u>	<u>-</u>

	2002 £	2001 £
Contingent transfer fees		
Opening balance	110,250	1,632,750
Utilised in the year	-	(472,500)
Released in the year	-	(1,050,000)
	<u>110,250</u>	<u>110,250</u>
Closing balance	<u>110,250</u>	<u>110,250</u>

The Directors have made provision for contingent transfer fees where they consider it probable that the contingency will occur and the contractual amount will become payable

	2002 £	2001 £
Pension provision		
Opening balance	300,000	300,000
Created in the year	-	-
Utilised in the year	(100,047)	-
	<u>199,953</u>	<u>300,000</u>
Closing balance	<u>199,953</u>	<u>300,000</u>

NOTES TO THE ACCOUNTS

Year ended 31 May 2002

18. SHARE CAPITAL

	2002 £	2001 £
Authorised:		
Ordinary shares of £1 each	60,000	60,000
Allotted, called up and fully paid:		
Ordinary shares of £1 each	52,570	52,570

19. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Share capital £	Profit and loss account £	2002 Total £	2001 Total £
At 1 June	52,570	281,985	334,555	436,603
Profit/(loss) for the financial year	-	3,620,104	3,620,104	(102,048)
At 31 May	52,570	3,902,089	3,954,659	334,555

20. CONTINGENT LIABILITIES

Excluding items provided in the balance sheet, at 31 May 2002 Southampton Football Club had a liability to pay up to £2,795,000 (2001: £1,930,000) to other clubs in respect of players under contract, dependent upon the number of first team appearances and international debuts made.

There are unlimited cross guarantees between Southampton Football Club Limited and Dell Estates Limited, given to Barclays Bank PLC to secure the bank borrowings of the group.

21. ULTIMATE PARENT UNDERTAKING

The directors consider the ultimate parent undertaking to be Southampton Leisure Holdings PLC, a company incorporated in Great Britain. The consolidated accounts of Southampton Leisure Holdings PLC are those of both the largest and smallest group of which the company is a member and for which group accounts are prepared.

Copies of the group accounts may be obtained from the Company Secretary, Southampton Leisure Holdings PLC, The Friends Provident St Mary's Stadium, Britannia Road, Southampton SO14 5FP.

22. RELATED PARTY TRANSACTIONS

The company has utilised the exemption given under Financial Reporting Standard No.8 paragraph 3c as a wholly owned subsidiary not to disclose transactions with other entities that are part of, or investees in, the Southampton Leisure Holdings PLC group.