

**Southampton Football Club Limited**

**Report and Financial Statements**

**31 May 1998**

Deloitte & Touche  
Mountbatten House  
1 Grosvenor Square  
Southampton  
SO15 2BZ



**REPORT AND FINANCIAL STATEMENTS 1998**

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## REPORT AND FINANCIAL STATEMENTS 1998

### 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

#### SECRETARY

B Truscott

#### TEAM MANAGER

Dave Jones

#### COMMERCIAL MANAGER

J O'Sullivan

#### REGISTERED OFFICE

The Dell  
Milton Road  
Southampton  
SO15 2XH

#### BANKERS

Barclays Bank PLC  
Southampton City Branch

#### SOLICITORS

Trethowan Woodford Southampton	Paris, Smith & Randall Southampton
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#### AUDITORS

Deloitte & Touche  
Chartered Accountants  
Southampton

## DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 May 1998.

### 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 loss for the year of £507,714 (1997: loss £3,624,031). No dividend (1997: £nil) is proposed. On 1 June 1998 the company accepted an offer from Blackburn Rovers Football Club for Kevin Davies for £7.25m. 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

The directors during the year were as follows:

A E Cowen  
I L Gordon  
B H D Hunt  
R J G Lowe  
M R Richards  
K St. John Wiseman

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.

Ted Bates was appointed president on 29 January 1998, following the sad loss of John Corbett. The directors wish to acknowledge the substantial contribution made to the club by Mr Corbett over the years.

### PLAYERS' REGISTRATION

As stated in accounting policy note 1, no underlying value of the registrations of players under contract is reflected in the accounts. Although not necessarily an indicator of current market value, the players are currently insured for a total of £26.1 million.

### 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 1998 represented 27 days of annual purchases. This figure excludes creditors in respect of player purchases which are paid on the date payment is contractually due.

### YEAR 2000

The company has made an initial evaluation of the risks and uncertainties associated with the year 2000. A plan to address the issues raised is being formulated and at this stage the indications are that the costs involved will not be significant.

**DIRECTORS' REPORT (continued)**

**AUDITORS**

During the year Ernst & Young resigned as auditors of the company and the directors have appointed Deloitte & Touche to fill the casual vacancy. A resolution to confirm their appointment will be proposed at the forthcoming Annual General Meeting.

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

19 November 1998

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company 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.



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

We have audited the financial statements on pages 6 to 15 which have been prepared under the accounting policies set out on pages 8 and 9.

### Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

### Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting 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 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

DELOITTE & TOUCHE  
Chartered Accountants and Registered Auditors

19 November 1998

**PROFIT AND LOSS ACCOUNT**  
**Year ended 31 May 1998**

	Note	Continuing operations 1998 £	Continuing operations 1997 £
<b>TURNOVER</b>	2	12,405,904	9,238,238
Cost of sales		7,132,869	6,561,731
Gross profit		5,273,035	2,676,507
Administrative expenses		1,543,146	1,474,072
<b>Operating profit before exceptional item and transfers</b>	3	3,729,889	1,202,435
Other operating costs - exceptional item	4	(696,711)	-
<b>Operating profit before transfers</b>		3,033,178	1,202,435
Net player transfers and signing on fees	7	(3,555,729)	(4,785,908)
<b>Operating loss</b>		(522,551)	(3,583,473)
Net interest receivable/(payable)	8	2,259	(40,558)
<b>Loss on ordinary activities before taxation</b>		(520,292)	(3,624,031)
Taxation on loss on ordinary activities	9	12,578	-
<b>Loss for the year</b>	18	(507,714)	(3,624,031)

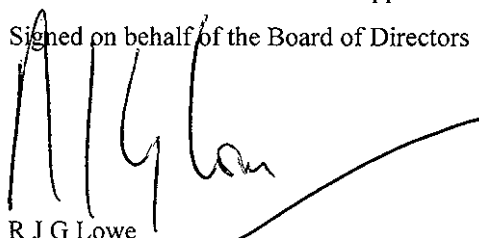
There are no recognised gains or losses for the current financial year and preceding financial period other than as stated in the profit and loss account.

**BALANCE SHEET**  
**Year ended 31 May 1998**

	Note	1998 £	1997 £
<b>FIXED ASSETS</b>			
Tangible assets	10	1,339,036	696,627
Investments	11	1,000	1,000
		<u>1,340,036</u>	<u>697,627</u>
<b>CURRENT ASSETS</b>			
Debtors	12	2,576,195	2,631,649
Cash and bank balances		4,518	3,562
		<u>2,580,713</u>	<u>2,635,211</u>
<b>CREDITORS: amounts falling due within one year</b>	13	<u>8,420,708</u>	<u>7,057,288</u>
<b>NET CURRENT LIABILITIES</b>		<u>(5,839,995)</u>	<u>(4,422,077)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		(4,499,959)	(3,724,450)
<b>CREDITORS: amounts falling due after more than one year</b>	14	612,775	880,570
<b>PROVISION FOR LIABILITIES AND CHARGES</b>	16	177,249	177,249
		<u>(5,289,983)</u>	<u>(4,782,269)</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	17	52,570	52,570
Profit and loss account	18	(5,342,553)	(4,834,839)
<b>EQUITY SHAREHOLDERS' FUNDS</b>	18	<u>(5,289,983)</u>	<u>(4,782,269)</u>

These financial statements were approved by the Board of Directors on 19 November 1998.

Signed on behalf of the Board of Directors

  
R J G Lowe  
Director

## NOTES TO THE ACCOUNTS

Year ended 31 May 1998

### 1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable 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.

#### Going concern

The directors consider the company has the continuing support of its ultimate parent company and have therefore prepared the accounts on the going concern basis.

#### Consolidated accounts

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.

#### Depreciation

Depreciation is provided on all tangible fixed assets 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

#### Deferred taxation

Deferred taxation is provided using the liability method on all timing differences which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse.

#### Transfer and signing on fees

Fees payable to and receivable from other football clubs on the transfer of players' registrations together with associated costs are dealt with through the profit and loss account in the year in which the transfer takes place. Signing on fees are charged in the period in which the contract commences. Contingent fees payable and receivable, dependent upon the number of first team appearances and international debuts made, are taken to the profit and loss account in the period when the conditions of the contract are satisfied. No underlying value of the registrations of players currently under contract is therefore reflected in the assets of the company.

#### Assets under development

Assets under development are stated at the amount of costs incurred to date less provision for any permanent diminution in value. No depreciation is provided during the development phase.

#### Investments

Investments which 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 a permanent diminution in value has occurred.

#### Football Trust grants

Grants received from The Football Trust in respect of ground improvements are treated as deferred income as these may become repayable in whole or in part if The Dell is sold.

## NOTES TO THE ACCOUNTS

Year ended 31 May 1998

### 1. ACCOUNTING POLICIES (continued)

#### 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 group 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 and ticket receipts, excluding transfer fees receivable.

Turnover is attributable to one continuing activity, the operation of a professional football club.

### 3. OPERATING PROFIT BEFORE EXCEPTIONAL ITEM AND TRANSFERS

This is stated after charging:

	1998 £	1997 £
Auditors' remuneration	9,000	9,265
Depreciation of fixed assets		
- owned	211,130	141,543
- held under finance leases and hire purchase contracts	12,370	12,370
Loss on sale of assets	11,427	22,726
Merger costs	-	224,431
Rentals under operating leases – plant and machinery	2,001	-

### 4. OTHER OPERATING COSTS - EXCEPTIONAL ITEM

During the year the directors reviewed both the carrying value of assets under development, in the context of the planning applications made for the new football stadium, and the treatment of costs recently incurred in relation to the club's proposed relocation. Although a stadium at Stoneham remains a remote option, the uncertainties are such that they believe that a provision should be made against specific costs already capitalised in respect of that site and that other relocation costs incurred in the year should be expensed. The combined charge of £696,711 has been treated as an exceptional item.

# NOTES TO THE ACCOUNTS

Year ended 31 May 1998

## 5. DIRECTORS' REMUNERATION

The directors received no remuneration during the year. However, 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	1998 £	1997 £
B H D Hunt	Brian Hunt	-	20,000
I L Gordon	Paris Smith & Randall	8,536	31,055

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

## 6. STAFF COSTS

	1998 £	1997 £
Wages and salaries	5,263,849	4,281,023
Social security costs	501,025	420,496
Pension contributions	184,822	75,019
	<u>5,949,696</u>	<u>4,776,538</u>

The above amounts exclude signing on fees payable and compensation paid, which are included in note 7, net player transfer and signing on fees.

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

	1998 No.	1997 No.
Direct	70	64
Selling	10	15
Administration	15	16
	<u>95</u>	<u>95</u>

In addition the company employs approximately 200 temporary staff on match days (1997: 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.

**NOTES TO THE ACCOUNTS**

**Year ended 31 May 1998**

**7. NET PLAYER TRANSFER AND SIGNING ON FEES**

	1998 £	1997 £
Transfer fees receivable	4,875,000	3,897,500
Transfer fees payable	(7,358,462)	(6,059,916)
Signing on fees payable	(1,072,267)	(1,984,992)
Compensation paid	-	(638,500)
	<u>(3,555,729)</u>	<u>(4,785,908)</u>

On 1 June 1998 the company accepted an offer from Blackburn Rovers Football Club for Kevin Davies for £7.25m. The sale of this player will therefore be included in the results for the year ending 31 May 1999.

**8. NET INTEREST RECEIVABLE/(PAYABLE)**

	1998 £	1997 £
Bank overdraft	(32,313)	(53,431)
Finance charges payable under finance leases and hire purchase contracts	(3,196)	(6,322)
Interest payable	(35,509)	(59,753)
Bank deposit interest receivable	37,768	19,195
	<u>2,259</u>	<u>(40,558)</u>

**9. TAXATION ON LOSS ON ORDINARY ACTIVITIES**

The taxation charge is made up as follows:

	1998 £	1997 £
Based on the loss for the year:		
UK corporation tax at 33% (1997: 33%)	2,329	-
Over provision in prior years	(14,907)	-
	<u>(12,578)</u>	<u>-</u>

The tax charge is high due to brought forward trading losses not being available to set against investment income earned during the year.

**NOTES TO THE ACCOUNTS**  
**Year ended 31 May 1998**

**10. TANGIBLE FIXED ASSETS**

	<b>Assets under development</b>	<b>Equipment</b>	<b>Motor vehicles</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Cost:</b>				
At 1 June 1997	-	1,000,674	232,193	1,232,867
Additions	-	93,964	133,283	227,247
Intergroup transfer	958,427	-	-	958,427
Disposals	-	(85,992)	(61,892)	(147,884)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 May 1998	958,427	1,008,646	303,584	2,270,657
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Depreciation:</b>				
At 1 June 1997	-	461,908	74,332	536,240
Provided during the year	-	162,783	60,717	223,500
Provision for diminution in value	277,040	-	-	277,040
Disposals	-	(85,992)	(19,167)	(105,159)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 May 1998	277,040	538,699	115,882	931,621
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net book value:</b>				
At 31 May 1998	681,387	469,947	187,702	1,339,036
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 May 1997	-	538,766	157,861	696,627
	<hr/>	<hr/>	<hr/>	<hr/>

The net book value for equipment includes £67,093 (1997: £79,463) relating to assets acquired under hire purchase contracts and finance leases.

Assets under development represent the new stadium project.

**11. FIXED ASSET INVESTMENTS**

	<b>1998</b>
	<b>£</b>
<b>Ordinary shares in subsidiary at cost:</b>	
At 1 June 1997 and 31 May 1998	1,000
	<hr/>

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:

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

The above company is registered in England and Wales.

# NOTES TO THE ACCOUNTS

Year ended 31 May 1998

## 12. DEBTORS

	1998 £	1997 £
Amount due from group undertakings	828,124	819,627
Trade debtors	1,706,340	1,799,752
Corporation tax	350	480
Prepayments	16,710	11,790
Other debtors	24,671	-
	<u>2,576,195</u>	<u>2,631,649</u>

All the above amounts are due within one year.

## 13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1998 £	1997 £
Football Trust loan	-	50,000
Bank overdraft (secured)	1,442,236	308,623
Amounts due to parent company	3,300,365	2,945,647
Amounts due to subsidiary	735,168	52,113
Obligations under finance leases and hire purchase contracts	8,161	18,205
Trade creditors	1,957,871	2,720,259
Other taxes and social security costs	589,902	400,826
Accruals and deferred income	387,005	561,615
	<u>8,420,708</u>	<u>7,057,288</u>

The bank borrowings are secured upon group freehold properties.

The Football Trust advanced the company £300,000 during 1995. The loan, which was interest free, was fully repaid during the year.

**NOTES TO THE ACCOUNTS**

**Year ended 31 May 1998**

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

	1998 £	1997 £
Obligations under finance leases and hire purchase contracts	7,991	16,152
Trade creditors	604,784	864,418
	<u>612,775</u>	<u>880,570</u>

**15. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS**

	1998 £	1997 £
Amounts payable:		
Within one year	8,161	18,205
In two to five years	7,991	16,152
	<u>16,152</u>	<u>34,357</u>

The obligations under finance leases and hire purchase contracts are secured on the related assets (see note 10).

**16. PROVISION FOR LIABILITIES AND CHARGES**

	1998 £	1997 £
Grants from The Football Trust towards ground improvements	<u>177,249</u>	<u>177,249</u>

**17. SHARE CAPITAL**

	1998 £	1997 £
<b>Authorised:</b>		
Ordinary shares of £1 each	<u>60,000</u>	<u>60,000</u>
<b>Allotted, called up and fully paid:</b>		
Ordinary shares of £1 each	<u>52,570</u>	<u>52,570</u>

## **NOTES TO THE ACCOUNTS**

**Year ended 31 May 1998**

### **18. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES**

	Share Capital £	Profit and loss account £	1998 Total £	1997 Total £
At 1 June	52,570	(4,834,839)	(4,782,269)	(1,158,238)
Loss for the financial year	-	(507,714)	(507,714)	(3,624,031)
At 31 May	<u>52,570</u>	<u>(5,342,553)</u>	<u>(5,289,983)</u>	<u>(4,782,269)</u>

### **19. CONTINGENT LIABILITIES**

At 31 May 1998 Southampton Football Club has a liability to pay up to £600,000 (1997: £1,152,200) to other clubs in respect of players under contract, dependent upon the number of first team appearances and international debuts made. Following the sale of a player since the year end, the maximum liability is now £225,000.

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.

### **20. ULTIMATE PARENT UNDERTAKING**

The directors consider the ultimate parent undertaking to be Southampton Leisure Holdings PLC (formerly Secure Retirement PLC), a company registered in England and Wales. 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 Dell, Milton Road, Southampton SO15 2XH.

### **21. 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.