

Southampton Football Club Limited

Report and Financial Statements

31 May 2000

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



REPORT AND FINANCIAL STATEMENTS 2000

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REPORT AND FINANCIAL STATEMENTS 2000

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

Glenn Hoddle

COMMERCIAL MANAGER

J O'Sullivan

REGISTERED OFFICE

The Dell
Milton Road
Southampton
SO15 2XH

BANKERS

Barclays Bank PLC
Southampton City Branch

SOLICITORS

Paris, Smith & Randall
Southampton

AUDITORS

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

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 May 2000

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 before tax for the year of £3,329,397 (1999: profit £2,262,170). No dividend (1999: £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. R M Withers was appointed as a director on 17 December 1999.

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 period.

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. Although not necessarily an indicator of current market value, the players are currently insured for a total of £27.2 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 2000 represented 25 days of annual purchases (1999: 33). 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

29 March 2001

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, which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. 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 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 2000 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

30 March 2001

DELOITTE & TOUCHE
Chartered Accountants and Registered Auditors

PROFIT AND LOSS ACCOUNT
Year ended 31 May 2000

	Note	Continuing operations	
		2000	1999
		£	£
TURNOVER	2	16,895,866	13,342,472
Cost of sales		(15,025,281)	(12,443,471)
Gross profit		1,870,585	899,001
Administrative expenses (including exceptional pension contribution of £300,000 see note 5)		(2,279,544)	(1,785,659)
Operating loss before amortisation of players	3	(408,959)	(886,658)
Amortisation of players		(3,456,032)	(4,346,047)
Operating loss		(3,864,991)	(5,232,705)
Profit on disposal of players		587,380	7,154,106
(Loss)/profit before interest and taxation		(3,277,611)	1,921,401
Net interest (payable)/receivable	6	(51,786)	340,769
(Loss)/profit on ordinary activities before taxation		(3,329,397)	2,262,170
Taxation on (loss)/profit on ordinary activities	7	984,879	(557,077)
(Loss)/profit for the year	18	(2,344,518)	1,705,093

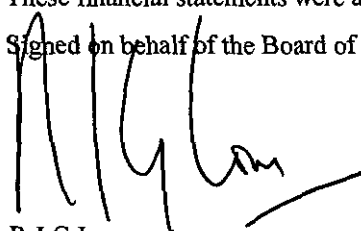
There are no recognised gains or losses for the current and preceding financial years other than as stated in the profit and loss account. Accordingly a statement of total recognised gains and losses has not been prepared.

BALANCE SHEET
As at 31 May 2000

	Note	2000 £	1999 £
FIXED ASSETS			
Intangible assets	8	7,730,928	7,237,184
Tangible assets	9	547,818	1,668,495
Investments	10	1,000	1,000
		<u>8,279,746</u>	<u>8,906,679</u>
CURRENT ASSETS			
Stock	11	383,393	-
Debtors	12	4,364,426	2,877,800
Cash and bank balances		5,097	75,897
		<u>4,752,916</u>	<u>2,953,697</u>
CREDITORS: amounts falling due within one year	13	<u>(9,987,184)</u>	<u>(7,493,633)</u>
NET CURRENT LIABILITIES		<u>(5,234,268)</u>	<u>(4,539,936)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		3,045,478	4,366,743
CREDITORS: amounts falling due after more than one year	14	(470,598)	(426,360)
PROVISION FOR LIABILITIES AND CHARGES	16	<u>(2,138,277)</u>	<u>(1,159,262)</u>
		<u>436,603</u>	<u>2,781,121</u>
CAPITAL AND RESERVES			
Called up share capital	17	52,570	52,570
Profit and loss account	18	384,033	2,728,551
EQUITY SHAREHOLDERS' FUNDS	18	<u>436,603</u>	<u>2,781,121</u>

These financial statements were approved by the Board of Directors on 29 March 2001

Signed on behalf of the Board of Directors



R J G Lowe
Director

NOTES TO THE ACCOUNTS
Year ended 31 May 2000

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.

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, 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 or in the period when the conditions are satisfied.

Assets under development

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

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.

Depreciation

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 have been valued at the lower of cost and net realisable value.

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 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.

NOTES TO THE ACCOUNTS

Year ended 31 May 2000

1. ACCOUNTING POLICIES (continued)

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. If the development of a new stadium is successful then the existing grant will be attributed to that stadium and will not become repayable.

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 and ticket receipts, excluding transfer fees receivable.

Turnover is attributable to one continuing activity, the operation of a professional football club, and to the new retail activity brought in-house this year.

3. OPERATING LOSS BEFORE AMORTISATION OF PLAYERS

This is stated after charging:

	2000 £	1999 £
Amortisation of players	3,456,032	4,346,047
Auditors' remuneration		
- audit	10,000	9,000
- other services	6,000	-
Depreciation of fixed assets		
- owned	243,703	217,720
- held under finance leases and hire purchase contracts	51,074	22,365
Rentals under operating leases		
- plant and machinery	17,644	-
- land and buildings	7,667	-

NOTES TO THE ACCOUNTS

Year ended 31 May 2000

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	2000 £	1999 £
I L Gordon	Paris, Smith & Randall	189,662	13,064

B H D Hunt was paid £36,000 (1999: £36,000) by the parent undertaking during the year for consulting services.

5. STAFF COSTS

	2000 £	1999 £
Wages and salaries	11,470,509	8,362,122
Social security costs	1,222,637	853,385
Pension contributions	499,149	369,619
	<u>13,192,295</u>	<u>9,585,126</u>

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

	2000 No.	1999 No.
Direct	112	90
Administration	17	15
	<u>129</u>	<u>105</u>

In addition the company employs approximately 200 temporary staff on match days (1999: 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, contributions are normally 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. Since then, the trustees of the scheme have commissioned an independent actuary's report on the MFR position and a substantial deficit has been identified. Under the Pensions Act 1985 participating employers will be required to contribute to the deficiency. The Club has recently been advised by the Premier League that a basis of apportionment of the deficit has been approved by the trustees and their advisors, although in practice there are a number of important issues which remain to be resolved and may impact on the final quantification of this liability. The provisional allocation notified to Southampton Football Club is £300,000 and accordingly provision for this amount has been made. As yet however, the Directors have not approved such a settlement. The charge for this provision has been disclosed as an exceptional item and is in addition to the normal pension costs of £199,149.

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 2000

6. NET INTEREST (PAYABLE)/RECEIVABLE

	2000 £	1999 £
Bank overdraft	(61,636)	-
Finance charges payable under finance leases and hire purchase contracts	(5,717)	(1,635)
Interest payable	(67,353)	(1,635)
Bank deposit interest receivable	15,567	342,404
	<u>(51,786)</u>	<u>340,769</u>

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

The taxation charge is made up as follows:

	2000 £	1999 £
Based on the profit for the year:		
UK corporation tax at 30% (1999: 30%)	(556,143)	864,880
Deferred taxation	(428,736)	(305,474)
Over provision in prior years	-	(2,329)
	<u>(984,879)</u>	<u>557,077</u>

8. INTANGIBLE FIXED ASSETS

	Player registrations £
Cost	
At 1 June 1999	13,195,453
Additions	4,536,941
Disposals	(4,159,750)
At 31 May 2000	<u>13,572,644</u>
Accumulated depreciation	
At 1 June 1999	5,958,269
Charge for the year	3,456,032
Disposals	(3,572,585)
At 31 May 2000	<u>5,841,716</u>
Net book value	
At 31 May 2000	<u>7,730,928</u>
At 31 May 1999	<u>7,237,184</u>

NOTES TO THE ACCOUNTS
Year ended 31 May 2000

9. TANGIBLE FIXED ASSETS

	Assets under development £	Equipment £	Motor vehicles £	Total £
Cost:				
At 1 June 1999	1,431,098	1,089,599	319,504	2,840,201
Additions	287,698	297,263	37,245	622,206
Disposals	-	(3,271)	(23,028)	(26,299)
Inter group transfer	(1,718,796)	-	-	(1,718,796)
	<u>-</u>	<u>1,383,591</u>	<u>333,721</u>	<u>1,717,312</u>
Depreciation:				
At 1 June 1999	277,040	717,780	176,886	1,171,706
Provided during the year	-	226,325	68,452	294,777
Disposals	-	(654)	(19,295)	(19,949)
Inter group transfer	(277,040)	-	-	(277,040)
	<u>-</u>	<u>943,451</u>	<u>226,043</u>	<u>1,169,494</u>
Net book value:				
At 31 May 2000	<u>-</u>	<u>440,140</u>	<u>107,678</u>	<u>547,818</u>
At 31 May 1999	<u>1,154,058</u>	<u>371,819</u>	<u>142,618</u>	<u>1,668,495</u>

The net book value for equipment includes £137,195 (1999: £44,728) relating to assets acquired under hire purchase contracts and finance leases.

Assets under development represent the new stadium project.

10. FIXED ASSET INVESTMENTS

	2000
	£
Ordinary shares in subsidiary at cost:	
At 1 June 1999 and 31 May 2000	<u>1,000</u>

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 registered in England and Wales.

11. STOCKS

	2000	1999
	£	£
Goods for resale	<u>383,393</u>	<u>-</u>

NOTES TO THE ACCOUNTS
Year ended 31 May 2000

12. DEBTORS

	2000 £	1999 £
Amount due from group undertakings	2,740,522	1,044,229
Trade debtors	1,327,217	1,653,969
Prepayments	11,189	17,617
Other debtors	285,498	161,985
	<u>4,364,426</u>	<u>2,877,800</u>

All the above amounts are due within one year.

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2000 £	1999 £
Bank overdraft (secured)	4,046,698	95,534
Amounts due to parent company	2,095,496	2,260,221
Amounts due to subsidiary undertaking	711,312	728,707
Obligations under finance leases and hire purchase contracts	36,621	7,991
Trade creditors	803,455	1,059,601
Corporation tax	33,765	643,826
Other taxes and social security costs	694,231	686,489
Accruals and deferred income	1,565,606	2,011,264
	<u>9,987,184</u>	<u>7,493,633</u>

The bank borrowings are secured upon group freehold properties.

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

	2000 £	1999 £
Obligations under finance leases and hire purchase contracts	116,108	-
Trade creditors	354,490	426,360
	<u>470,598</u>	<u>426,360</u>

15. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

	2000 £	1999 £
Amounts payable:		
Within one year or on demand	36,621	7,991
Between one and two years	35,726	-
Between two and five years	80,382	-
	<u>152,729</u>	<u>7,991</u>

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

NOTES TO THE ACCOUNTS
Year ended 31 May 2000

16. PROVISION FOR LIABILITIES AND CHARGES

	2000 £	1999 £
Deferred taxation	28,278	457,013
Grants from The Football Trust towards ground improvements	177,249	177,249
Contingent transfer fees payable	1,632,750	525,000
Pensions (see note 5)	300,000	-
	<u>2,138,277</u>	<u>1,159,262</u>

	2000 Provided £	Not provided £	1999 Provided £	Not provided £
Deferred tax				
Capital allowances in excess of depreciation	(19,898)	-	5,512	(6,670)
Provisions	(270,681)	-	(200,877)	(8,446)
Player registrations	318,857	-	652,378	-
Other timing differences	-	-	-	(1,295,564)
	<u>28,278</u>	<u>-</u>	<u>457,013</u>	<u>(1,310,680)</u>
Opening balance	457,013		762,487	
Current year credit	(428,735)		(305,474)	
	<u>28,278</u>		<u>457,013</u>	

	2000 £	1999 £
Contingent transfer fees		
Opening balance	525,000	-
Utilised in the year	(525,000)	-
Provision for contingent element of transfer fee payable	<u>1,632,750</u>	<u>525,000</u>
	<u>1,632,750</u>	<u>525,000</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.

NOTES TO THE ACCOUNTS
Year ended 31 May 2000

17. SHARE CAPITAL

	2000 £	1999 £
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

18. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Share Capital £	Profit and loss account £	2000 Total £	1999 Total £
At 1 June	52,570	2,728,551	2,781,121	1,076,028
Loss for the financial year	-	(2,344,518)	(2,344,518)	1,705,093
At 31 May	52,570	384,033	436,603	2,781,121

19. CONTINGENT LIABILITIES

Excluding items provided in the balance sheet, at 31 May 2000 Southampton Football Club had a liability to pay up to £1,545,000 (1999: £40,000) 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.

20. ULTIMATE PARENT UNDERTAKING

The directors consider the ultimate parent undertaking to be Southampton Leisure Holdings 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.