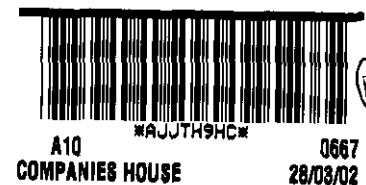


Southampton Football Club Limited

Report and Financial Statements

31 May 2001

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



REPORT AND FINANCIAL STATEMENTS 2001

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REPORT AND FINANCIAL STATEMENTS 2001

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
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 2001.

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 £130,326 (2000: loss £3,329,397). No dividend (2000: £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 period and R M Withers had an interest in 1,000,000 5p ordinary shares at the beginning of the period and 1,175,000 5p ordinary shares at the end of the period 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. Although not necessarily an indicator of current market value, the players are currently insured for a total of £30.1 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 2001 represented 34 days of annual purchases (2000: 25). 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. Therefore, Deloitte & Touche are deemed to continue as 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

Date 26/3/02

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 2001 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.

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 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 2001 and of its loss for the year then ended and have been properly prepared in accordance with the provisions of the Companies Act 1985.

Deloitte & Touche

DELOITTE & TOUCHE

Chartered Accountants and
Registered Auditors

Date: *27 March 2002*

PROFIT AND LOSS ACCOUNT
Year ended 31 May 2001

	Note	Operations excluding player trading 2001 £	Player trading* 2001 £	Continuing operations 2001 £	2000 £
TURNOVER	2	24,092,605	-	24,092,605	16,895,866
Cost of sales		(19,920,928)	-	(19,920,928)	(15,025,281)
Gross profit		4,171,677	-	4,171,677	1,870,585
Administrative expenses (comparatives include exceptional pension contribution of £300,000 see note 5)		(2,666,709)	(3,535,251)	(6,201,960)	(5,735,576)
Operating profit/(loss)	3	1,504,968	(3,535,251)	(2,030,283)	(3,864,991)
Profit on disposal of players and manager		-	1,969,349	1,969,349	587,380
Profit/(loss) before interest and taxation		1,504,968	(1,565,902)	(60,934)	(3,277,611)
Net interest payable	6			(69,392)	(51,786)
Loss on ordinary activities before taxation				(130,326)	(3,329,397)
Taxation on loss on ordinary activities	7			28,278	984,879
Loss for the year	19			(102,048)	(2,344,518)

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

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

There is no material difference between the results reported above and the results on an unmodified historical cost basis. Accordingly, a note of historical cost profit and losses has not been presented.

BALANCE SHEET

As at 31 May 2001

	Note	2001 £	2000 £
FIXED ASSETS			
Intangible assets	8	6,203,654	7,730,928
Tangible assets	9	503,571	547,818
Investments	10	1,000	1,000
		<u>6,708,225</u>	<u>8,279,746</u>
CURRENT ASSETS			
Stocks	11	481,419	383,393
Debtors	12	3,079,192	4,364,426
Cash and bank balances		2,233,115	5,097
		<u>5,793,726</u>	<u>4,752,916</u>
CREDITORS: amounts falling due within one year	13	<u>(11,399,513)</u>	<u>(9,987,184)</u>
NET CURRENT LIABILITIES		<u>(5,605,787)</u>	<u>(5,234,268)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		1,102,438	3,045,478
CREDITORS: amounts falling due after more than one year	14	(180,384)	(470,598)
PROVISION FOR LIABILITIES AND CHARGES	17	(587,499)	(2,138,277)
		<u>334,555</u>	<u>436,603</u>
CAPITAL AND RESERVES			
Called up share capital	18	52,570	52,570
Profit and loss account	19	281,985	384,033
EQUITY SHAREHOLDERS' FUNDS	19	<u>334,555</u>	<u>436,603</u>

These financial statements were approved by the Board of Directors on 26th March 2002
Signed on behalf of the Board of Directors



R J G Lowe
Director

NOTES TO THE ACCOUNTS
Year ended 31 May 2001

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 company has the continuing support of its ultimate parent company and therefore, the directors consider it appropriate to prepare the accounts on the going concern basis.

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.

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 are stated 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 2001

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 and ticket receipts, excluding transfer fees receivable.

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

2 (a). AMORTISATION CHARGES TO PROFIT AND LOSS ACCOUNT

In 2000, the amortisation of registrations was shown separately on the face of the Profit and Loss account. The presentation has been amended within these accounts to include the amortisation charge within administrative expenses. Comparatives for the year ending 31 May 2000 have been amended accordingly and are set out in detail below:

	Operations excluding player trading £	Player trading £	Total 2000 £
Turnover	16,895,866	-	16,895,866
Cost of sales	(15,025,281)	-	(15,025,281)
Gross profit	1,870,585	-	1,870,585
Administrative expenses	(2,279,544)	(3,456,032)	(5,735,576)
Operating loss	(408,959)	(3,456,032)	(3,864,991)
Profit on disposal of players	-	587,380	587,380
Loss before interest and taxation	(408,959)	(2,868,652)	(3,277,611)

NOTES TO THE ACCOUNTS
Year ended 31 May 2001

3. OPERATING PROFIT/(LOSS)

This is stated after charging:

	2001	2000
	£	£
Amortisation of players	3,535,251	3,456,032
Auditors' remuneration		
- audit	12,000	10,000
- other services	7,981	6,000
Depreciation of fixed assets		
- owned	286,255	243,703
- held under finance leases and hire purchase contracts	51,067	51,074
Rentals under operating leases		
- plant and machinery	57,131	17,644
- land and buildings	52,795	7,667

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	2001	2000
		£	£
I L Gordon	Paris, Smith & Randall	123,549	189,662

B H D Hunt was paid £15,000 (2000: £36,000) by the parent undertaking during the year for consulting services.

5. STAFF COSTS

	2001	2000
	£	£
Wages and salaries	13,722,542	11,470,509
Social security costs	1,589,772	1,222,637
Pension contributions	178,003	499,149
	<u>15,490,317</u>	<u>13,192,295</u>

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

	2001	2000
	No.	No.
Direct	138	112
Administration	21	17
	<u>159</u>	<u>129</u>

In addition the company employs approximately 200 temporary staff on match days (2000: 200).

NOTES TO THE ACCOUNTS

Year ended 31 May 2001

5. STAFF COSTS (continued)

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 in practice there are a number of important issues which 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 and accordingly provision for this amount was made in the 2000 accounts. As yet, however, the Directors have not approved such a settlement. The charge for the normal pension cost is £178,003 (2000: £199,499 excluding the exceptional costs of £300,000).

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.

6. NET INTEREST PAYABLE

	2001 £	2000 £
Bank overdraft	(86,643)	(61,636)
Finance charges payable under finance leases and hire purchase contracts	(8,537)	(5,717)
Interest payable	(95,180)	(67,353)
Bank deposit interest receivable	25,788	15,567
	<u>(69,392)</u>	<u>(51,786)</u>

7. TAXATION ON LOSS ON ORDINARY ACTIVITIES

The taxation credit is made up as follows:

	2001 £	2000 £
Based on the loss for the year:		
UK corporation tax at 30% (2000: 30%)	-	(556,143)
Deferred taxation	(36,933)	(428,736)
Adjustment in respect of prior years	8,655	-
	<u>(28,278)</u>	<u>(984,879)</u>

The tax credit is low due to the non-provision of dererred tax in the year.

NOTES TO THE ACCOUNTS

Year ended 31 May 2001

8. INTANGIBLE FIXED ASSETS

	Player registrations £
Cost	
At 1 June 2000	13,572,644
Additions	3,119,825
Disposals	(3,311,635)
At 31 May 2001	<u>13,380,834</u>
Accumulated depreciation	
At 1 June 2000	5,841,716
Charge for the year	3,535,251
Disposals	(2,199,787)
At 31 May 2001	<u>7,177,180</u>
Net book value	
At 31 May 2001	<u>6,203,654</u>
At 31 May 2000	<u>7,730,928</u>

9. TANGIBLE FIXED ASSETS

	Equipment £	Motor vehicles £	Total £
Cost:			
At 1 June 2000	1,383,591	333,721	1,717,312
Additions	318,740	7,275	326,015
Disposals	(22,350)	(48,825)	(71,175)
At 31 May 2001	<u>1,679,981</u>	<u>292,171</u>	<u>1,972,152</u>
Depreciation:			
At 1 June 2000	943,451	226,043	1,169,494
Provided during the year	294,839	42,483	337,322
Disposals	(8,940)	(29,295)	(38,235)
At 31 May 2001	<u>1,229,350</u>	<u>239,231</u>	<u>1,468,581</u>
Net book value:			
At 31 May 2001	<u>450,631</u>	<u>52,940</u>	<u>503,571</u>
At 31 May 2000	<u>440,140</u>	<u>107,678</u>	<u>547,818</u>

The net book value for equipment includes £86,128 (2000: £137,195) relating to assets acquired under hire purchase contracts and finance leases.

NOTES TO THE ACCOUNTS

Year ended 31 May 2001

10. FIXED ASSET INVESTMENTS

	2001 £
Ordinary shares in subsidiary at cost:	
At 1 June 2000 and 31 May 2001	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 registered in England and Wales.

11. STOCKS

	2001 £	2000 £
Consumable stocks	481,419	383,393

12. DEBTORS

	2001 £	2000 £
Amount due from group undertakings	1,507,596	2,740,522
Trade debtors	1,180,895	1,327,217
Prepayments	381,610	11,189
Other debtors	9,091	285,498
	<u>3,079,192</u>	<u>4,364,426</u>

All the above amounts are due within one year.

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2001 £	2000 £
Bank overdraft (secured)	-	4,046,698
Amounts due to parent company	1,632,048	2,095,496
Amounts due to subsidiary undertaking	3,967,383	711,312
Obligations under finance leases and hire purchase contracts	35,724	36,621
Trade creditors	1,603,765	803,455
Corporation tax	33,765	33,765
Other taxes and social security costs	1,328,285	694,231
Accruals and deferred income	2,798,543	1,565,606
	<u>11,399,513</u>	<u>9,987,184</u>

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

NOTES TO THE ACCOUNTS

Year ended 31 May 2001

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

	2001	2000
	£	£
Obligations under finance leases and hire purchase contracts	80,384	116,108
Trade creditors	100,000	354,490
	<u>180,384</u>	<u>470,598</u>

15. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

	2001	2000
	£	£
Amounts payable:		
Within one year or on demand	35,724	36,621
Between one and two years	35,724	35,726
Between two and five years	44,660	80,382
	<u>116,108</u>	<u>152,729</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 2001, the company was committed to making the following payments under non-concancellable operating leases to 31 May 2002.

	Land and buildings	Other
	£	£
Leases which expire:		
Within one year	-	14,501
Within two to five years	-	20,924
Five years or more	87,750	-
	<u>87,750</u>	<u>35,425</u>

NOTES TO THE ACCOUNTS

Year ended 31 May 2001

17. PROVISION FOR LIABILITIES AND CHARGES

	2001 £	2000 £
Deferred taxation	-	28,278
Grants from The Football Trust towards ground improvements	177,249	177,249
Contingent transfer fees payable	110,250	1,632,750
Pensions (see note 5)	300,000	300,000
	<u>587,499</u>	<u>2,138,277</u>

	2001 Provided £	Not provided £	2000 Provided £	Not provided £
Deferred tax				
Capital allowances in excess of depreciation	-	(50,834)	(19,898)	-
Provisions	-	(85,280)	(270,681)	-
Player registrations	-	84,836	318,857	-
Other timing differences	-	-	-	-
	<u>-</u>	<u>(51,278)</u>	<u>28,278</u>	<u>-</u>
Opening balance	28,278		457,013	
Current year credit	(36,933)		(428,735)	
Adjustment in respect of prior years	8,655		-	
	<u>-</u>		<u>28,278</u>	

No provision is made for deferred tax assets, the realisation of which is not reasonably certain.

	2001 £	2000 £
Contingent transfer fees		
Opening balance	1,632,750	525,000
Utilised in the year	(472,500)	(525,000)
Provision for contingent element of transfer fee payable	-	1,632,750
Released in the year	(1,050,000)	-
	<u>110,250</u>	<u>1,632,750</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 2001

18. SHARE CAPITAL

	2001 £	2000 £
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 £	2001 Total £	2000 Total £
At 1 June	52,570	384,033	436,603	2,781,121
Loss for the financial year	-	(102,048)	(102,048)	(2,344,518)
At 31 May	52,570	281,985	334,555	436,603

20. CONTINGENT LIABILITIES

Excluding items provided in the balance sheet, at 31 May 2001 Southampton Football Club had a liability to pay up to £1,930,000 (2000: £1,545,000) 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 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 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.