

Southampton Football Club Limited

Annual Report and Financial Statements

Year Ended

30 June 2017

Company Number 00053301



Southampton Football Club Limited

Company Information

Directors	L Reed R Krueger M Semmens T Steele D Thomas
Company secretary	T Greenwell
Registered number	00053301
Registered office	St Mary's Stadium Britannia Road Southampton Hampshire SO14 5FP
Independent auditors	BDO LLP Arcadia House Maritime Walk Ocean Village Southampton SO14 3TL

Southampton Football Club Limited

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Southampton Football Club Limited

Strategic Report (continued) For the Year Ended 30 June 2017

The directors are pleased to report another year of positive financial performance, achieving profit before interest and tax of £43.9m (2016: £8.1m). The Statement of Financial Position strengthened, with net assets increasing to £66.2m (2016: £31.6m) and, in addition, net debt has decreased from £24.9m in the 2016 Statement of Financial Position to net cash of £17.0m at 2017's date.

A summary of results is given below:

	2017 £'000s	2016 (as restated) £'000s
Turnover	178,334	121,092
Operating costs	(146,809)	(113,136)
Other operating income	-	4,349
Profit before player trading	31,525	12,305
Player trading	12,328	(4,215)
Profit before interest and tax	43,853	8,090

Financial overview

2017 saw the Company achieve its highest ever turnover. Broadcasting turnover increased by £52.5m from 2016, driven by four principal factors: 2016-17 season being the first of the new three-year Premier League TV rights deal, the club achieving three more live televised Premier League games than in the previous year, participation in the group stages of the UEFA Europa League and reaching the EFL Cup Final for the first time since 1979.

Match day income also benefitted from the Europa League and EFL Cup campaigns, increasing by £2.0m to £20.9m.

New sponsorship agreements, notably those with Under Armour and Virgin Media, contributed to a 44% growth in commercial turnover, which increased from £9.2m to £13.3m.

The wages to turnover ratio, a key performance indicator for the Company, improved in the financial year, being 61% in 2017 versus 68% in 2016, despite player remuneration growing 29% in 2017 (from £67.2m in 2016 to £86.6m in 2017).

As a result of the factors outlined above, the Company recorded an operating profit for the year, before player trading, of £31.5m (2016: £12.3m).

The financial effect of player trading resulted in profit before interest and taxation of £43.9m compared to £8.1m in 2016. Player trading comprised of profit on disposal of players' registrations of £42.1m (2016: £29.1m) offset by the amortisation of players' registrations of £29.0m (2016: £31.0m) and adverse movements in foreign exchange of (£0.8m) (2016: £2.3m).

Statement of financial position

Intangible fixed assets, being the capitalised element of each player's transfer fee which relates to their registration, increased from £84.9m to £97.3m through continued strengthening of players' contracts and player acquisitions, with the signings of Hojbjerg, McCarthy, Pied, Boufal and Gabbiadini to the first team squad and Latham, Klarer, Freeman and Afolabi to the development squads.

The directors consider the length of first team squad player contracts as a key performance indicator, with the average length remaining at the Statement of Financial Position date being 38 months (2016: 35 months). The Company's net debt position has improved year on year, moving from a net debt position of £24.9m at the 2016 Statement of Financial Position date to a net cash position of £17.0m in 2017.

Southampton Football Club Limited

Strategic Report (continued) For the Year Ended 30 June 2017

Football

At the conclusion of the 2016-17 season, the club finished 8th in the Premier League, representing a fourth top eight finish in as many years, whilst also competing in the UEFA Europa League for the second season running.

The Company's strategy is to strengthen the first team playing squad in order to compete in multiple competitions whilst simultaneously strengthening the overall operation of the club. Aside from the club's league position at each season end, key performance indicators in this area are:

- the number of players with international recognition at senior or U-21 level. The current first team squad has 26 players with this recognition (2016: 23) versus 12 at the time of promotion to the Premier League;
- international honours at youth level. 17 players represented their country at international youth level during the 2016-17 season (12 during the 2015-16 season);
- number of players signed on scholarship agreements. The club had an average of 29 scholars across the 2016-17 season (20 during the 2015-16 season);
- academy players representing the first team. 10 Academy players represented the first team in a competitive fixture during the 2016-17 season (3 during the 2015-16 season).

Commercial Activities

The club entered into sponsorship agreements with nine new partners for the 2016-17 season and beyond, most notably with Under Armour and Virgin Media. As a result, sponsorship turnover increased by 81% in 2017 compared to the prior year.

Further afield the Company established a new subsidiary in the US, Southampton Football (North America) Inc., to facilitate the partner club activity being undertaken at a youth level in the US.

People

Investment off the pitch also continued and during the year the average number of employees increased by 13% (2017: 340 employees, 2016: 300 employees), with people investment across all areas of the business. This reiterates the Company's commitment to strengthen and support both footballing and commercial growth, where the directors recognise the importance of its most important asset, its people.

External Achievements

The directors were pleased to achieve external recognition during the year, most notably featuring as the highest ranked sports team in Financial Times FT1000, which lists the fastest growing European companies, finishing 317th overall in Europe and 60th in the UK.

Further recognition came in the form of 19th place in the 2017 annual report on the world's most valuable football brands conducted by Brand Finance (2016: 20th place) and 134th in the 2017 Top Track 250, which ranks Britain's private mid-market growth companies by turnover.

Future Developments

On 14 August 2017, Lander Sports (UK) International Investment Co. Ltd acquired the entire share capital of St Mary's Football Group Limited ("the Group"), becoming the immediate parent company. Since 14 August 2017, the ultimate controlling party is considered to be Mr. J Gao.

Southampton Football Club Limited

Strategic Report (continued)
For the Year Ended 30 June 2017

Principal risks & uncertainties

Team performance risk

As is common with many professional football clubs, a principal risk is associated with the performance of the first team and the league in which it operates. The Company manages the impact of this through close control of its direct costs, relative to forecast income.

Liquidity risk

The Company reported a net cash position of £17.0m as at the 2017 Statement of Financial Position date, increasing £41.9m from a net debt position of £24.9m at the 2016 date. In addition, gross debt decreased from £46.0m at the 2016 Statement of Financial Position date to £20.0m at the 2017 date.

In the year, the Company had access to a £25.0m working capital facility, all of which was fully repaid under the terms of the facility agreement at the Statement of Financial Position date (2016: £15.0m drawn, which was repaid during 2017). The directors continually assess the working capital needs of the Company and a facility has been made available for the Company for the 2017-18 season.

The Company considers the liquidity impact of its exposure to movements in foreign exchange, principally future transfer fees payable in Euros and debt funding in Swiss Francs, to be manageable as a result of its foreign exchange strategy.

Credit risk

This relates primarily to trade debtors from commercial activities and the Company monitors this risk closely with the aim of minimising it at all times.

This report was approved by the board and signed on its behalf:



R Krueger

Director

Date: 23.12.17

Southampton Football Club Limited

Directors' Report For the Year Ended 30 June 2017

The directors present their report and the financial statements for the year ended 30 June 2017.

Results and dividends

The profit for the year, after taxation, amounted to £34,632,000 (2016: £4,972,000).

No dividend (2016: £Nil) is proposed.

Directors

The directors who served during the year were:

G Rogers (resigned 12 May 2017)
K Liebherr (resigned 19 June 2017)
L Reed
R Krueger (appointed 19 June 2017)
M Semmens (appointed 19 June 2017)
T Steele (appointed 19 June 2017)
D Thomas (appointed 19 June 2017)

Future developments

No significant change in the principle activities of the Company is expected in the foreseeable future.

Employee involvement

The Company holds regular senior management, operational management and department meetings to ensure a flow of information across all levels. Alongside this are a number of Company-wide communication channels. During the year an internal newsletter was distributed to all employees and in December 2017 an intranet, Team Talk Live, was launched, whilst Company Handbooks, Performance and Development Reviews and strategic email communication supplement these. Finally, the Company encourages all staff members to present their suggestions and views at all levels on the Company's performance, encouraging creativity for improvement through feedback forums.

Employment of disabled persons

The Company ensures that all full and part time employees, and job applicants (actual or potential), are treated fairly in accordance with Company policies and values. Selection for employment, promotion, training or any other benefit is assessed objectively against the requirements for each job role, taking account of any reasonable adjustments that may be required for those with disabilities.

Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the directors have taken all the steps that ought to have been taken as directors in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Southampton Football Club Limited

Directors' Report (continued)
For the Year Ended 30 June 2017

Post Statement of Financial Position events

A full description of the events after the Statement of Financial Position date is stated in note 28.

Auditors

The auditors, BDO LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board and signed on its behalf:



R Krueger

Director

Date:

23.12.17

Southampton Football Club Limited

Directors' Responsibilities Statement For the Year Ended 30 June 2017

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under Company law the directors must not approve the financial statements unless they are satisfied that they a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies for the Company's financial statements and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 adequate accounting records that are sufficient to show and explain the Company's transactions and 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 2006. 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.

Southampton Football Club Limited

Independent Auditors' Report to the member of Southampton Football Club Limited

Opinion

We have audited the financial statements of Southampton Football Club Limited ("the Company") for the year ended 30 June 2017 which comprise the Statement of Comprehensive Income, Statement of Financial Position, the Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 June 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Southampton Football Club Limited

Independent Auditors' Report to the member of Southampton Football Club Limited (continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and Director's report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion;

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Southampton Football Club Limited

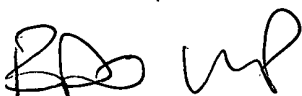
Independent Auditors' Report to the member of Southampton Football Club Limited (continued)

Auditor's responsibilities for the audit of the financial statements

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.



Malcolm Thixton (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Southampton
United Kingdom

23/12/17

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Southampton Football Club Limited

Statement of Comprehensive Income For the Year Ended 30 June 2017

	Note	Operations excluding player trading 2017 £'000	Player trading* 2017 £'000	Total 2017 £'000	Total 2016 £'000
Turnover	3	178,334	-	178,334	121,092
Cost of sales		(137,466)	(28,973)	(166,439)	(135,524)
Gross profit/(loss)		40,868	(28,973)	11,895	(14,432)
Administrative expenses		(9,343)	(796)	(10,139)	(10,901)
Other operating income		-	-	-	4,349
Operating profit/(loss)		31,525	(29,769)	1,756	(20,984)
Profit on disposal of players		-	42,097	42,097	29,074
Profit on ordinary activities before interest	6	31,525	12,328	43,853	8,090
Interest receivable and similar income	9	1,669	-	1,669	2,971
Interest payable and similar charges	10	(3,684)	-	(3,684)	(5,293)
Profit on ordinary activities before taxation		29,510	12,328	41,838	5,768
Tax on profit	11	(7,206)	-	(7,206)	(796)
Profit for the financial year		22,304	12,328	34,632	4,972
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		22,304	12,328	34,632	4,972

**Player trading represents the amortisation, loan fees payable, exceptional impairment, foreign exchange on player purchases and the profit or loss on disposal of player registrations*

The note on page 13 to 32 form part of these financial statements

Southampton Football Club Limited

Registered number: 00053301

Statement of Financial Position

As at 30 June 2017

	Note	2017 £000	2017 £000	2016 £000	2016 £000
Fixed assets					
Intangible assets	12		97,277		84,945
Tangible assets	13		4,616		3,164
			101,893		88,109
Current assets					
Stocks	14	1,460		450	
Debtors: amounts falling due within one year	15	28,630		61,742	
Debtors: amounts falling due after more than one year	15	15,913		3,770	
Cash at bank and in hand		37,026		21,051	
		83,029		87,013	
Creditors: amounts falling due within one year	16	(82,846)		(103,332)	
Net current assets/(liabilities)			183		(16,319)
Total assets less current liabilities			102,076		71,790
Creditors: amounts falling due after more than one year	17		(22,815)		(36,609)
Provisions for liabilities					
Deferred tax	20	(6,012)		-	
Other provisions	21	(7,004)		(3,568)	
			(13,016)		(3,568)
Net assets			66,245		31,613
Capital and reserves					
Called up share capital	22		501		501
Other reserves	23		14,686		14,686
Profit and loss account	23		51,058		16,426
			66,245		31,613

The financial statements were approved and authorised for issue by the board and were signed on its behalf:



R Krueger

Director

Date: 23.07.17

The notes on pages 13 to 31 form part of these financial statements.

Southampton Football Club Limited

Statement of Changes in Equity For the Year Ended 30 June 2017

	Called up share capital £000	Capital contribution reserve £000	Profit and loss account £000	Total Equity £000
At 1 July 2015	501	14,686	11,454	26,641
Profit and total comprehensive income for the year	-	-	4,972	4,972
	<hr/>	<hr/>	<hr/>	<hr/>
At 1 July 2016	501	14,686	16,426	31,613
Profit and total comprehensive income for the year	-	-	34,632	34,632
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2017	501	14,686	51,058	66,245
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Southampton Football Club Limited

Notes to the Financial Statements For the Year Ended 30 June 2017

1. Accounting policies

1.1 Company information

Southampton Football Club Limited is a Company incorporated in England & Wales under the Companies Act. The address of the registered office is given on the Company information page and the nature of the Company's operations and its principal activity is disclosed in the Strategic report.

1.2 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 2).

The following principal accounting policies have been applied:

1.3 Financial reporting standard 102 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 4 Statement of Financial Position paragraph 4.12(a)(iv);
- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.39 to 11.48A;
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.29;
- the requirements of Section 33 Related Party Disclosures paragraph 33.1A.

This information is included in the consolidated financial statements of St Mary's Football Group Limited as at 30 June 2017 and these financial statements may be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ.

1.4 Going concern

The directors consider that the Company has adequate facilities in place to finance operations over the next twelve months. Accordingly, the directors consider it appropriate to prepare the accounts on a going concern basis.

1.5 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. The fixed element of broadcasting turnover is recognised straight line over the length of the football season, whilst facility fees for live coverage or highlights are recognised as and when the point of broadcast occurs. Merit payments are accounted for once known at the end of the season to which they relate, and accrued if not received by the end of the financial year. UEFA distributions from participation in the Europa League include market pool payments recognised over the matches played and fixed amounts for participation in individual matches, both recognised when matches are played. Match day income and those elements of commercial activities relating to matches are recognised when related matches are played; turnover from advance ticket sales is deferred accordingly. Other commercial income is recognised on a receivable basis once the contracted events have taken place.

Southampton Football Club Limited

Notes to the Financial Statements For the Year Ended 30 June 2017

1. Accounting policies (continued)

1.6 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, subject to any provision for impairment. Where there are deferred payment terms and no interest is charged, the future cash flows are discounted to their present value at the date of the transition using the prevailing market rate for such instruments. Contingent fees payable, which are dependent upon factors such as the number of first team appearances and international debuts being made, are capitalised in the year when it is considered probable that the conditions of the contract will be satisfied.

The Company does not consider it to be possible to determine value in use of an individual player in isolation as that player cannot generate cash flows on his own. As such, the Company considers the smallest cash-generating unit to contain all of the first team players, the stadium and the training facilities.

However, management may consider that an individual player is highly unlikely to play for the first team again, either due to serious injury or other circumstances outside the club's control, and therefore will not contribute to the future cash flows earned by the cash generating unit. In these instances, the Company compares the carrying value of the asset to its recoverable amount. To the extent that the carrying value exceeds the recoverable amount, the asset is impaired and the impairment loss is recognised in the Statement of Comprehensive Income.

1.7 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Company adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the Company. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to the Statement of Comprehensive Income during the period in which they are incurred.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

The estimated useful lives range as follows:

Motor vehicles	- between 4 to 5 years
Fixtures and fittings	- 5 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of Comprehensive Income.

Southampton Football Club Limited

Notes to the Financial Statements For the Year Ended 30 June 2017

1. Accounting policies (continued)

1.8 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

At each reporting date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in the Statement of Comprehensive Income.

1.9 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

1.10 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

1.11 Financial instruments

The Company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Comprehensive Income.

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

1.12 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

Southampton Football Club Limited

Notes to the Financial Statements For the Year Ended 30 June 2017

1. Accounting policies (continued)

1.13 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is pound sterling.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate.

1.14 Finance costs

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

1.15 Leased assets

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to profit or loss over the shorter of estimated useful economic life and the term of the lease:

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to profit or loss over the term of the lease and is calculated so that it represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

1.16 Pensions

The Company is one of a number of employers in a shared defined benefit scheme for playing staff. The Company recognises a liability for the present value of future contributions to the scheme's deficit.

1.17 Interest income

Interest income is recognised in the Statement of Comprehensive Income using the effective interest method.

1.18 Borrowing costs

All borrowing costs are recognised in the Statement of Comprehensive Income in the year in which they are incurred.

Southampton Football Club Limited

Notes to the Financial Statements For the Year Ended 30 June 2017

1. Accounting policies (continued)

1.19 Provisions for liabilities

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Statement of Comprehensive Income in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the Statement of Financial Position date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Statement of Financial Position.

1.20 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Statement of Financial Position date, except that:

- the recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- where they relate to timing differences in respect of interests in subsidiaries, associates, branches and joint ventures and the Company can control the reversal of the timing differences and such reversal is not considered probable in the foreseeable future.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

Southampton Football Club Limited

Notes to the Financial Statements For the Year Ended 30 June 2017

2. Judgments in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements, the directors have made the following key judgements and estimates:

- determine whether there any indicators of impairment of player registrations that are held as intangible assets;

Factors taken into consideration are whether the player is highly unlikely to play for the first team again, either through serious injury or other factors outside of the club's control;

- where such indicators exist, to determine the net realisable value of the player registration. This is based on an agreed selling price in the event that the player has been transferred subsequent to the year end or, if there has been no such transfer, management's best estimate of the disposal proceeds (less associated costs) based on recent player transactions;
- if a player is considered to be outside of the first team squad and highly unlikely to play for the first team again, management must determine whether the contract is onerous and any associated provision required as a result of obligations at the balance sheet date. Such onerous contract provisions are estimated based on the unavoidable cost (least net cost) of exiting the contract;
- determine whether contingent liabilities exist in relation to contingent transfer fees payable;

Management assess whether it is probable that the conditions will be met based on experience and the circumstances of the player concerned.

3. Turnover

An analysis of turnover by class of business is as follows:

	2017 £000	2016 £000
Broadcasting	142,968	90,430
Match day	20,927	18,882
Commercial	13,271	9,197
Other	1,168	2,583
	<u>178,334</u>	<u>121,092</u>

Materially all turnover arose within the United Kingdom.

4. Other operating income

Other operating income represents compensation fees receivable.

Southampton Football Club Limited

Notes to the Financial Statements For the Year Ended 30 June 2017

5. Exceptional items

Exceptional items included within cost of sales are as follows:

	2017 £000	2016 £000
Impairment of player registrations	1,416	-
Cost of onerous and cancelled contracts	1,840	-
	<u>3,256</u>	<u>-</u>

6. Operating profit

The operating profit is stated after charging:

	2017 £000	2016 £000
Stock recognised as an expense	2,175	2,205
Depreciation of tangible fixed assets	1,519	1,224
Amortisation of intangible assets, including goodwill	27,394	31,031
Impairment of intangible assets	1,416	-
Exchange differences	796	-
Other operating lease rentals	182	179
Defined contribution pension cost	351	690
	<u>35,773</u>	<u>35,229</u>

The operating profit is stated after crediting:

Exchange differences	-	(2,258)
Profit on disposal of tangible fixed assets	(1)	(13)
	<u>(1)</u>	<u>(2,271)</u>

The auditors were remunerated by Southampton Football Club Limited on behalf of the Group, of which Southampton Football Club Limited is a member. The total remuneration amounted to £38,000 (2016: £36,000).

Southampton Football Club Limited

Notes to the Financial Statements For the Year Ended 30 June 2017

7. Employees

Staff costs, including directors' remuneration, were as follows:

	2017 £000	2016 £000
Wages and salaries	95,389	71,839
Social security costs	12,947	9,680
Cost of defined contribution scheme	351	690
	<u>108,687</u>	<u>82,209</u>

The average monthly number of employees, including the directors, during the year was as follows:

	2017 No.	2016 No.
Administrative	110	87
Football	230	213
	<u>340</u>	<u>300</u>

In addition the company employs approximately 324 temporary staff on match days (2016: 239).

8. Directors' remuneration

	2017 £000	2016 £000
Directors' emoluments	1,034	955
Company contributions to defined contribution pension schemes	81	96
Compensation for loss of office	580	-
	<u>1,695</u>	<u>1,051</u>

There were 5 directors in the company's defined contribution pension scheme during the year (2016: 2). The total amount payable to the highest paid director in respect of emoluments was £545,000, (2016: £539,000). Company pension contributions of £54,000 (2016: £66,000) were made to a money purchase scheme on their behalf.

Southampton Football Club Limited

Notes to the Financial Statements For the Year Ended 30 June 2017

9. Interest receivable and similar income

	2017	2016
	£000	£000
Imputed interest charge on transfer fees receivable	1,600	2,878
Bank interest receivable	69	93
	<hr/> 1,669	<hr/> 2,971

10. Interest payable and similar charges

	2017	2016
	£000	£000
Other loan interest payable	1,797	2,421
Finance leases and hire purchase contracts	-	2
Imputed interest charge on transfer fees payable	1,887	2,870
	<hr/> 3,684	<hr/> 5,293

Southampton Football Club Limited

Notes to the Financial Statements For the Year Ended 30 June 2017

11. Taxation

	2017 £000	2016 £000
Current tax		
Current tax on profits for the year	402	-
Total current tax charge	<u>402</u>	<u>-</u>
Deferred tax		
Origination and reversal of timing differences	7,841	1,385
Adjustment in respect of previous periods	(671)	(589)
Effect of rate change on opening balance	(366)	-
Total deferred tax charge	<u>6,804</u>	<u>796</u>
Total tax charge	<u>7,206</u>	<u>796</u>

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2016: lower than) the standard rate of corporation tax in the UK of 19.75% (2016: 20%). The differences are explained below:

	2017 £000	2016 £000
Profit on ordinary activities before tax	41,838	5,768
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.75% (2016 - 20%)	8,263	1,154
Effects of:		
Non-tax deductible depreciation	18	46
Expenses not deductible for tax purposes	14	2
Adjustments to tax charge in respect of prior periods (deferred tax)	(671)	(589)
Deferred tax not recognised	-	42
Effect of rate change	(366)	89
Group relief surrendered / (claimed)	(52)	52
Total tax charge for the year	<u>7,206</u>	<u>796</u>

There are no factors that may affect future tax charges.

Southampton Football Club Limited

Notes to the Financial Statements For the Year Ended 30 June 2017

12. Intangible assets

	Player registrations £000
Cost	
At 1 July 2016	144,782
Additions	52,296
Disposals	(32,188)
	<hr/>
At 30 June 2017	164,890
	<hr/>
Amortisation	
At 1 July 2016	59,837
Charge for the year	27,394
On disposals	(21,034)
Impairment	1,416
	<hr/>
At 30 June 2017	67,613
	<hr/>
Net book value	
At 30 June 2017	97,277
	<hr/> <hr/>
At 30 June 2016	84,945
	<hr/> <hr/>

Southampton Football Club Limited

Notes to the Financial Statements For the Year Ended 30 June 2017

13. Tangible fixed assets

	Motor vehicles £000	Fixtures and fittings £000	Assets in course of construction £000	Total £000
Cost or valuation				
At 1 July 2016	36	7,769	473	8,278
Additions	42	1,547	1,424	3,013
Disposals	(42)	(3,176)	-	(3,218)
Transfers between classes	-	1,069	(1,069)	-
	<u>36</u>	<u>7,209</u>	<u>828</u>	<u>8,073</u>
At 30 June 2017	36	7,209	828	8,073
Depreciation				
At 1 July 2016	36	5,078	-	5,114
Charge for the year on owned assets	-	1,519	-	1,519
Disposals	-	(3,176)	-	(3,176)
	<u>36</u>	<u>3,421</u>	<u>-</u>	<u>3,457</u>
At 30 June 2017	36	3,421	-	3,457
Net book value				
At 30 June 2017	-	3,788	828	4,616
At 30 June 2016	-	2,691	473	3,164

The net book value of tangible fixed assets includes an amount of £442,000 (2016: £663,000) in respect of assets held under finance leases and hire purchase contracts. The related depreciation charge on these assets for the year was £221,000 (2016: £221,000).

14. Stocks

	2017 £000	2016 £000
Goods for resale	<u>1,460</u>	<u>450</u>

The difference between purchase price or production cost of stocks and their replacement cost is not material.

Southampton Football Club Limited

Notes to the Financial Statements For the Year Ended 30 June 2017

15. Debtors

	2017 £000	2016 £000
Due within one year:		
Trade debtors	5,356	4,090
Amounts owed by group undertakings	12,407	12,848
Other debtors	174	125
Prepayments and accrued income	4,516	4,934
Deferred taxation	-	792
Transfer fees receivable	6,177	38,953
	28,630	61,742
Due after more than one year:		
Transfer fees receivable	15,913	3,770

16. Creditors: amounts falling due within one year

	2017 £000	2016 £000
Shareholder loan	9,000	11,000
Other loans	-	15,000
Transfer fees payable	27,688	42,779
Trade creditors	3,545	1,750
Amounts owed to group undertakings	2,682	1,882
Corporation tax	402	-
Other taxation and social security	6,514	6,325
Obligations under finance lease and hire purchase contracts	-	200
Other creditors	352	1,843
Accruals and deferred income	32,663	22,553
	82,846	103,332

17. Creditors: amounts falling due after more than one year

	2017 £000	2016 £000
Shareholder loan	11,000	20,000
Transfer fees payable	11,663	16,363
Accruals and deferred income	152	246
	22,815	36,609

Southampton Football Club Limited

Notes to the Financial Statements For the Year Ended 30 June 2017

18. Loans and overdrafts

Analysis of the maturity of loans is given below:

	2017 £000	2016 £000
Amounts falling due within one year		
Other loans	-	15,000
Shareholder loans	9,000	11,000
	<u>9,000</u>	<u>26,000</u>
Amounts falling due 1-2 years		
Shareholder loans	11,000	9,000
	<u>11,000</u>	<u>9,000</u>
Amounts falling due 2-5 years		
Shareholder loans	-	11,000
	<u>-</u>	<u>11,000</u>

A loan of £20,000,000 (2016: £31,000,000) is repayable over 2 years (2016: 3) at an annual interest rate of 5% (2016: 5%). The loan is unsecured. Since the Statement of Financial Position date this loan has been converted to equity.

Other loans represents a facility that was fully repaid at the year end (2016: £15,000,000). The facility, when drawn, was repayable on demand and at an annual interest rate of 4.99% (2016: 5%).

19. Hire purchase and finance leases

Minimum lease payments under hire purchase fall due as follows:

	2017 £000	2016 £000
Within one year	-	200
	<u>-</u>	<u>200</u>

Southampton Football Club Limited

Notes to the Financial Statements For the Year Ended 30 June 2017

20. Deferred taxation

	Deferred tax £000	
Deferred tax asset at 1 July 2016		792
Charged to Statement of Comprehensive Income		(6,804)
		<u> </u>
Deferred tax liability at 30 June 2017		(6,012)
		<u> </u>
The deferred tax (liability)/asset is made up as follows:		
	2017 £000	2016 £000
Decelerated capital allowances	177	35
Unutilised losses	1,865	7,291
Short term timing differences	69	95
Gains rolled over	(8,123)	(6,629)
	<u> </u>	<u> </u>
	(6,012)	792
	<u> </u>	<u> </u>

21. Provisions for liabilities

	Contingent transfer Fees £000	Provisions for other costs £000	Total £000
At 1 July 2016	3,568	-	3,568
Arising in the year	4,701	1,840	6,541
Utilised in the year	(3,105)	-	(3,105)
	<u> </u>	<u> </u>	<u> </u>
At 30 June 2017	5,164	1,840	7,004
	<u> </u>	<u> </u>	<u> </u>

The provision for other costs relates to the contractual wage obligations on players that have been fully impaired.

Southampton Football Club Limited

Notes to the Financial Statements For the Year Ended 30 June 2017

22. Share capital

	2017 £000	2016 £000
Shares classified as equity		
Allotted, called up and fully paid		
501,000 Ordinary shares of £1 each	501	501

23. Reserves

The Company's capital and reserves are as follows:

Share capital

Called up share capital represents the nominal value of the shares issued.

Capital contribution reserve

During 2009, a fellow group company waived amounts owed from the company resulting in a Capital Contribution. This contribution is non-refundable, bears no interest and may be distributed after all accumulated losses have been taken into account.

Profit and loss account

Profit and loss account represents cumulative profits or losses net of dividends paid and other adjustments.

Southampton Football Club Limited

Notes to the Financial Statements For the Year Ended 30 June 2017

24. Pensions

Southampton Football Club ('the club') participates in the Football League Pension and Life Assurance Scheme ('the Scheme'). The Scheme is a funded multi-employer defined benefit scheme, with 92 participating employers, and where members may have periods of service attributable to several participating employers. The club is unable to identify its share of the assets and liabilities of the Scheme and therefore accounts for its contributions as if they were paid to a defined contribution scheme.

The last actuarial valuation was carried out at 31 August 2014 where the total deficit on the on-going valuation basis was £21.8 million. The key assumptions used to calculate the deficit at the 31 August 2014 actuarial valuation are:

Discount Rate	5.4% per annum for the 1st 7 years, 4.4% per annum for the following 10 years and 3.4% per annum thereafter.
RPI inflation:	3.2% per annum
Pension Increases:	3.0% per annum, for benefits accrued prior to 6 April 1997, and 3.7% per annum for benefits accrued after 6 April 1997.
Mortality (pre-retirement):	None
Mortality (post-retirement):	SAPS CMI 2013 2.0%

The accrual of benefits ceased within the Scheme on 31 August 1999, therefore there are no contributions relating to current accrual. The club pays monthly contributions based on a notional split of the total expenses and deficit contributions of the Scheme.

The results of the 2014 valuation were rolled forward to 30 June 2017 on the same assumptions as detailed above, and the club's notional share of the deficit was £200,000 (£276,000 as at 30 June 2016).

The club currently pays total contributions of £98,000 per annum and based on the actuarial valuation assumptions detailed above will be sufficient to pay off the deficit by 28 February 2020.

As at 30 June 2017, based on an appropriate discount rate of 1.29% per annum, the present value of the club's outstanding contributions (i.e. their future liability) is £344,000. This amounts to £98,000 (2016: £98,000) due within one year and £147,000 (2016: £246,000) due after more than one year and is included within other payables.

A financial cost of £4,000 (2016: £10,000) is made to the Profit & Loss statement during the year, representing the interest cost on the outstanding deficit of the Scheme.

The funding objective of the Trustees of the Scheme is to have sufficient assets to meet the Technical Provisions of the Scheme. In order to remove the deficit revealed at the previous actuarial valuation (dated 31 August 2014), deficit contributions are payable by all participating clubs. Payments are made in accordance with a pension contribution schedule. As the Scheme is closed to accrual, there are no additional costs associated with the accruing of members' future benefits. In the case of a club being relegated from the Football League and being unable to settle its debt then the remaining clubs may, in exceptional circumstances, have to share the deficit.

Upon the wind-up of the Scheme with a surplus, any surplus will be used to augment benefits. Under the more likely scenario of there being a deficit, this will be split amongst the clubs in line with their contribution schedule. Should an individual club leave the Scheme, they may be required to pay their share of the deficit based on a proxy buyout basis (i.e. valuing the benefits on a basis consistent with buying out the benefits with an insurance company).

Southampton Football Club Limited

Notes to the Financial Statements For the Year Ended 30 June 2017

25. Contingent liabilities

Excluding items already provided in the Statement of Financial Position, at 30 June 2017 the Company had a liability to pay up to £12,665,000 (2016: £9,646,000) to other clubs in respect of players under contract, dependent upon the number of first team appearances, goals scored and international debuts made.

At 30 June 2017 the Company had contingent sums receivable from other clubs in respect of players sold. Due to the uncertainty of receipt of these contingent assets it is not practicable to disclose the amount likely to be received.

26. Capital commitments

At 30 June 2017 the Company had capital commitments as follows:

	2017 £000	2016 £000
Contracted for but not provided in these financial statements	748	1,413

27. Commitments under operating leases

At 30 June 2017 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2017 £000	2016 £000
Not later than 1 year	27	167
Later than 1 year and not later than 5 years	20	79
	47	246

28. Related party transactions

The Company has loan notes of £20,000,000 (2016: £31,000,000) in issue to the ultimate controlling party at the Statement of Financial Position date. Interest accrued at 30 June 2017 amounted to £389,000 (2016: £412,000). Interest was charged on the loan of £1,548,000 (2016: £1,639,000) and is included in other interest payable.

The Company is a wholly owned subsidiary of St Mary's Football Group Limited and has taken advantage of the exemption conferred by Section 33.1A of FRS102 "Related Party Disclosures" not to disclose transactions with St Mary's Football Group Limited or other wholly owned subsidiaries within the group.

Southampton Football Club Limited

Notes to the Financial Statements For the Year Ended 30 June 2017

29. Ultimate parent company and parent undertaking of larger group

At the Statement of Financial Position date, the Company was a subsidiary of St Mary's Football Group Limited which was the ultimate parent Company, incorporated in Great Britain. The ultimate controlling party at the Statement of Financial Position date was K Liebherr.

The largest and smallest group in which the results of the Company are consolidated is that headed by St Mary's Football Group Limited, incorporated in Great Britain. The consolidated accounts of this company are available to the public and may be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ. No other group accounts include the results of the Company.

On 14 August 2017, Lander Sports (UK) International Investment Co. Ltd acquired the entire share capital of St Mary's Football Group Limited. Since 14 August 2017 the directors consider the ultimate controlling party to be Mr J. Gao.

30. Post Statement of Financial Position events

Since the Statement of Financial Position date the Company has entered into the sale and purchase of players with net transactions amounting to £22,900,000 payable (2016: £6,081,000 receivable).