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**Proposal for Audit and Taxation Services to
Southampton Leisure Holdings PLC**

November 2005

Being
In That
Number

BDO

BDO Stoy Hayward

Friday 18 November, 2005

Mr Rupert Lowe
Chairman
Southampton Leisure Holdings PLC
The Friends Provident St. Mary's Stadium
Britannia Road
Southampton SO14 5FP

Dear Rupert

Proposal for audit and taxation services

I would like to thank you for inviting us to submit a proposal for the provision of audit and tax services to Southampton Leisure Holdings PLC and for the time you have spent with us during this proposal process.

From Stuart Lisle's experience as primary tax adviser to the group for the 6 years to 2004 and our past knowledge, we believe we understand what a business such as yours needs from their advisers, and how this service should be provided.

We believe that we are the right team for this engagement for the following reasons:

We have a pragmatic and open approach and will provide you with clear advice focused around the specific needs of Southampton Leisure Holdings PLC and its business, not the rest of the football industry.

We are a local team of respected advisers who will provide you with all the key services you require, where the balance of decision making power is held locally rather than centrally.

We are up front and honest on fees. We provide value for money services, taking into account the club's current financial position in respect of ongoing compliance services and a flexible approach to fees for special projects.

I detail our fee proposal on page 12 but the headline proposed fee for the provision of both audit and tax compliance is £24,000. I believe that this represents a keen and competitive proposal.

Our team has over 16 years experience of working with Southampton Leisure Holdings PLC. We are keen to re-establish this fruitful working relationship with your team. We will provide you with a distinctively different, valued service, focused on Southampton Leisure Holdings PLC.

I hope that this document provides you with the information you require and gives you the confidence to recommend the appointment of BDO Stoy Hayward as the supplier of audit and taxation services to Southampton Leisure Holdings PLC.

Should you require any further information, please do not hesitate to contact either Stuart Lisle or myself.

I look forward to hearing from you in due course.

Yours sincerely



Kim Hayward
Partner

Making a positive difference

If you stop and think for a moment and imagine an audit and tax service that really will make a difference to Southampton Leisure Holdings PLC, wouldn't you want it to include some special elements? Elements such as these that we enjoy delivering to our clients day in, day out:

- Being treated as an important client, regardless of what happens to the size and structure of your business in the future.
- Having access to the core local team when you need it.
- An integrated close-knit team with the knowledge and experience to provide independent challenge.
- Advice and support as you drive your business forward to achieving best practice in everything it does.
- Pragmatic, commercial insight into current and future areas of operation.
- An excellent audit and tax review conducted with the right level of independence and objectivity.
- A team and a process that leaves you with the feeling that you have been audited with some real value added.
- Commitment, energy and involvement from a passionate team that actively seeks to give more.
- A team that engages fully with local management to deliver tangible value from the service relationship.
- Being able to talk through issues without always being billed for time on the clock.

Understanding your business

Southampton Leisure Holdings PLC has gone through a period of immense change in the last 6 years; the development of the Friends Provident St Mary's Stadium and the subsequent move from The Dell, leading to the development of a £50m turnover business; to the relegation earlier this year which will see top line revenues significantly diminished.

During this period there have been significant business, accounting and fiscal issues for the board to deal with:

Southampton Leisure Holdings PLC broke the mould as far as stadium finance is concerned, being the first to finance the stadium with a 25 year term facility, creating a stable base for the club's finances. Two of the interesting features of the financing being the security given against ticket revenues (rather than a securitisation) and the detailed structuring of the business relationships between the various group members.

The change in accounting treatment for players and the associated impact on the taxation treatment. Stuart Lisle, our local tax partner, has worked with you on many of the issues that this has created, including putting forward the initial idea of rolling over the profit on the sale of James Beattie on the basis that his renegotiated contract may have brought him into the realms of the new taxation provisions.

As mentioned previously in this document, relegation has brought the need for the club to re think its cost structure. This has included cutting headcount and restructuring the playing squad and their wages.

The development of new businesses within the group, some more successful than others. These new ventures have included the financial services businesses associated with the football club's main sponsor and the development of the football club's very own FM radio station, The Saint, whose listener base is slowly but steadily growing.

It is probable that the first financial statements to be prepared in accordance with International Financial Reporting Standards will be for the year ending 31 May 2008. Whilst this date may seem to be a long way off in the distance, the importance of establishing a sound project plan should not be underestimated or indeed the time involved to achieve a successful transition. Your local team has the experience to provide you with the guidance you need and will keep you informed of significant developments that impact the financial reporting of the football club.

Understanding your needs

High quality, robust decision making, focused on you

- Our approach is to review and advise each client on the unique characteristics of their business, ensuring that you will get the benefit of industry knowledge, but not become a slave to it.
- We listen to our clients and use the information gleaned to provide innovative robust advice. We are not arrogant enough to think that we know more about your business than you do, but hopefully we can bring our experiences to bear.
- In a profession not famed for directness, people know and choose us for our clarity of advice, honesty and realism. They see us as pragmatic, action-oriented and unstuffy. And they trust us to challenge them when appropriate.

Benefits to you:

- We have the ability to look at your business with fresh eyes. We will provide you with refreshing and innovative advice, not just 'what everyone else does'.
- Through close relationships with your team, the advice we provide will be closely aligned to your business, and it's inherent strategy.
- You'll enjoy working with us.

Genuine value for money, from straight talking professionals

- We are a firm who likes to invest in our clients. Our people will spend time taking an interest in your business and the challenges it faces.
- We offer quality advice but not at a premium.
- Because of Stuart's existing knowledge of Southampton Leisure Holdings, we can 'hit the ground running' in terms of working with you.
- We have high partner ratios compared to Big 4 firms - which means we can offer you a truly partner-led service.
- Our innovative approach is not limited to our advice and service standards. We extend this to our approach to fees, ensuring that the cost/benefit analysis is always on your side and arranging fees on a success basis, where appropriate.

Benefits to you:

- You benefit from high quality work and quick, robust decision-making.
- With greater partner involvement, our 'right first time' ratios are high.
- The board will understand what added value will come to the group before any project is undertaken.
- Confidence that your advisers value this work which generates a fair return.

A local team intent on delivering quality without bureaucracy

- Our service team will meet on a regular basis to discuss your business and the issues it faces - these meetings would be at no additional cost to Southampton Leisure Holdings PLC.
- Our service team will be partner led by Kim Hayward and Stuart Lisle, who will give advice to Southampton Leisure Holdings PLC, without the need to defer to central, non-stakeholding 'sector specialists' or technical partners, although as a listed PLC you will benefit from a National technical review process.
- We have short lines of communication which allow our team to be responsive to clients' requirements.
- BDO Stoy Hayward hold two Accountancy Age awards, "Employer of the Year" and "Large Firm of the Year" and are the only accountancy firm within the Sunday Times Top 100 Companies to Work For.

Benefits to you:

- You will work with a team of professionals who are accessible and committed to you and your business.
- Our approach to succession means that if there is a change within the team, you will not be paying for us to learn about your business all over again.
- The result of our approach to motivating staff is that you will be working with productive, engaged staff with the will and ability to satisfy your individual needs.

A firm of advisers with credibility and proven credentials

- The local team has over 16 years of working with Southampton Leisure Holdings PLC and Southampton Football Club.
- The key UK football clients of the firm include:

Millwall Football Club
Queens Park Rangers Football Club

Derby County Football Club
Walsall Football Club

- The key European football clients within our international network include:

Russian National Team
FC Red Star Belgrade
FC Sporting Lisbon

Borussia Mönchengladbach
Ajax
FC Bruges

Benefits to you

- We understand the sector in which you operate.
- Our advice remains client-led rather than sector-led.

As a key tool to support our proactive approach, we have set up a Southampton Leisure Holdings PLC extranet site. This site will be the central repository for all information salient to the work we undertake with you and currently holds this proposal document.

To access this extranet, please navigate to www.bdo.co.uk/bdosh/southampton_leisure

We will provide your username and password under separate cover for security reasons.

Pragmatic and cohesive service delivery

Our approach to your audit

Obviously you understand what an audit is and how it is completed, so for the purposes of this document we have sought to explain our audit methodology in overview, rather than labour in detail on every aspect of the process.

The key to delivering a focused and efficient audit is effective communication. We deal with audit issues head on and work with management to agree the approach early in the process, avoiding nasty surprises. BDO Stoy Hayward has a consistent audit methodology that manages our clients' and the firm's risk effectively. The process that we follow will ensure a robust and independent audit. Supported by our integrated software, Compass 3, we use secure extranet sites to facilitate ongoing communication and project management. Underpinning this is an approach which encourages discussion at all levels of your business.



Our approach to your taxation services

We propose a well-planned, but flexible and effective tax compliance service, enabling you to meet all deadlines with minimum disruption to your business. We will combine service delivery and project management with regular, open communication with you and the tax authorities to help you achieve your aims and minimise your tax liability.

The foundation of our tax services is a thorough understanding of your business and its key drivers, in order to create a tax strategy that enhances rather than conflicts with your commercial needs.



We will provide you with a integrated local team who can help Southampton Leisure Holdings PLC to effectively manage its tax liabilities and meet all its compliance needs.

One team, total support

Given what you have told us and Stuart's existing relationship with Southampton Leisure Holdings PLC, we have selected a high quality team for your business.

The team has the relevant skills and experience to support you and to help you realise your aspirations. Our proposed team is as follows:



Authority and influence

Kim Hayward, audit and client relationship partner

Kim will be your audit and client relationship partner. He will lead the team and will have ultimate responsibility for the quality of service we deliver to you. He will have the authority to resolve issues or make judgements on technical matters quickly.

Kim has 18 years of experience as an audit partner, 16 of them gained with Ernst & Young. He has worked with many publicly and privately owned clients, and looks after the majority of the larger audit clients of the Southampton office. He was the football club's audit partner prior to the acquisition by Secure Retirement PLC. He is the Southampton office Managing Partner.



Experience and expertise

Stuart Lisle, tax partner

Stuart will be your tax partner and will have responsibility for the delivery of our tax service to Southampton Leisure Holdings PLC.

Stuart spent 6 years working as your primary tax adviser in his time at Deloitte, where he was involved in projects such as the financing for St Marys, player deals, the new accounting basis for players, the Capital Allowances claims for St Marys and Staplewood, the HMIT Compliance Review of players' agents fees and many other areas.



Accessible and responsive

Paul Bricknell, audit director

Paul will be working closely with Kim and will be responsible for managing your audit process to ensure that it is completed in a smooth and efficient manner so as to meet reporting deadlines and he will work closely with Dave Jones. He will be your main audit point of contact on a day to day basis. He will lead the year end audit and will co-ordinate the work plans and reporting procedures.

Previously, with Burnett Swayne, he worked on both the audit of Southampton Football Club and with the provision of the full range of Accounting and Company Secretarial support for the club.

Paul has experience of public limited companies through the audit of both fully listed and AIM listed clients. He is also experienced in the local sports sector as audit director of Rose Bowl PLC, the holding company of Hampshire Cricket Limited.

Contact details for the team can be found on the back cover of this document.

Continuity

We place great importance on working relationships and retained knowledge. We consider staff continuity to be mutually beneficial and we can assure you that this will be maintained where possible. Historically we have a low turnover of staff.

Tell it clearly Tell it straight



Positive change

We appreciate that for many of our clients, transition is not a regular occurrence and can give rise to concerns.

It is however one of our core skills and we will help you through the process, ensuring efficient change with minimal disruption to your business. We will also invest significant partner time with Kim and Stuart and manager time with Paul, during the transition process to extend and refresh our understanding of how your businesses operate and the factors that drive them.

This process, which will be completed at our expense, is also an important step in further developing our relationship with you.

Benefits of change

It is our aim to ensure that you experience the positive benefits of change with very little disruption to you. You will receive:

- A fresh pair of eyes bringing new ideas.
- A new, constructive challenge to your systems and processes.
- A team which is enthusiastic and responsive to your needs.
- Limited disruption to your finance and management teams.

Working in partnership with you

We would like you to think of us as an extension of your team, working closely with you to provide constructive business feedback and practical support to Dave Jones and his team, while of course maintaining an appropriate level of independence, objectivity and challenge.

Fees

We are committed to providing a high quality service that represents value for money.

Our approach to fees is that of “no surprises”. No additional fees arise unless we have agreed with you in advance that there has been a change in scope or that a discussion has turned into a project, for which we will quote and agree a price with you. We want you to feel comfortable that you can contact us at any point without feeling that “the clock is ticking”.

Audit

Our proposed audit fee for the year ending 31 May 2006 is £18,000 excluding disbursements and VAT. Included within this fee are:

- Quarterly partner-led meetings and mid quarter progress calls.
- Ad hoc communications and advice throughout the year.

Our proposed fee for the review of the interim statements to 30 November 2005 is £4,000 excluding disbursements and VAT.

Corporation tax compliance

Our proposed fee for tax compliance is £6,000, excluding disbursements and VAT. Quarterly partner-led meetings and the half year tax review work are included within this fee.

Agreeing fees in future years

Once appointed, these fees will form the basis for future fees. Thereafter unless the scope changes we would only revise our fee in line with staff costs as reflected in our charge-out rates.

Taxation Advice

In the past you have been used to a fixed retainer for the provision of ad-hoc advice which has led to a lot of spirited discussion and misunderstanding. We use realistic charge-out rates and do not need to mask them. In our view it is better to be open and honest and agree fees on a project by project basis.

Please note that we do not normally charge for ad-hoc telephone advice during the year or for occasional support, unless a specific exercise is requested. Therefore you will not receive bills for other work unless this has been agreed in advance.

Other services

For any additional services we will quote and agree a fee with you in advance. These will be based on our hourly charge-out rates which we will be pleased to provide to you. Our commitment, for all fee related matters is that we will discuss and agree everything with you in advance and that you will never receive a surprise bill.

About BDO Stoy Hayward

BDO Stoy Hayward Southampton

- 10 partners and 200 staff.
- Full range of business services.
- Largest team of tax specialists on the South Coast.
- Our larger clients include; Hendy, Rose Bowl PLC, VT Group, Draper Tools, Haynes Publishing, M&W Mack, Snows Motor Group and CI Traders.



BDO Stoy Hayward nationally

- 220 partners working with over 2,500 staff.
- 16 offices across the UK.
- Sixth largest National firm of accountants.
- Full range of business services.
- A reputation for attracting successful businesses and helping them fulfil their ambitions.
- Leading advisers to AIM listed companies.
- Accountancy Age 'Employer of the Year' and 'Large Firm of the Year'.



International BDO network

We are part of the world's fifth largest accountancy network, with

- More than 600 offices in over 100 countries.
- Over 20,000 employees world-wide.
- Annual revenues of US\$3.0 billion.
- Strong personal relationships throughout network to facilitate cross border transactions.

BDO Stoy Hayward values

Our Core Values represent the principles we are committed to upholding now and in the future. They define what we stand for as a firm, and are there to guide us in our day-to-day work and decisions.

Our firm is distinctive and as we grow we want to preserve and build on the strengths of our culture and the characteristics that make us successful, different and an enjoyable place to work. Living up to our Core Values will help us to achieve this.

Honesty And Integrity

This goes much further than adherence to professional standards; it is about openness and prudent judgement. It is about being trustworthy and straightforward in all our working relationships.

Taking Personal Responsibility

We treat each other as equals. We all have a strong sense of responsibility to colleagues and the firm, and everyone has the right to operate with flexibility and freedom. We appreciate and recognise every individual's strengths. We can be ourselves.

Strong and Personal Client Relationships

Our client relationships are more than just business partnerships; we aim to understand people as well as business, and build long-standing relationships based on mutual respect and trust. We care about the success of our clients and are committed to delivering value. We adopt a professional approach and it is important that our clients enjoy working with us.

Mutual Support

We treat each other with consideration and respect and have a strong ethos of sharing and consultation. We go to great lengths to help each other out. We stand up for each other and do not have a blame culture.