

Company Registration No. 104194 (England and Wales)

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

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THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

COMPANY INFORMATION

Directors	Scott I. Duxbury David B. Fransen Stuart R. Timperley
Secretary	Peter J. Wastall
Company number	104194
Registered office	Vicarage Road Stadium Watford Herts WD18 0ER
Auditor	Myers Clark Egale 1 80 St Albans Road Watford Hertfordshire WD17 1DL

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

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THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 30 JUNE 2017

The directors present their report on the affairs of The Watford Association Football Club Limited ("the Company" or "the Club"), together with the financial statements for the year ended 30 June 2017.

Background

As at the year end, the Club's Board consists of three directors (as detailed in the Company information section on the first page), being the executive chairman and two independent non-executive directors. During the year, a director and then, executive chairman of the Company, resigned.

The executive chairman has responsibility, in close liaison with other directors, for the day to day running and long term operation and running of the Club and refers to the Board in regard to significant decisions affecting all aspects of the Club.

Business Review

The Club had previously retained its position in the Premier League for the 16/17 season and had another successful season in the League. The further retention of status, along with a significant profit on disposal of player registrations, has led to a second season where the Club has recorded a profit before taxation.

The Club finished in 17th position in the 2016/2017 Premier League season, recording 40 points from eleven wins and seven draws.

Principal Risks and Uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Company's long term performance. These risks and uncertainties are monitored by the Board on a regular basis.

Income

The Club derives its income from three principal sources: gate receipts, television and commercial relationships. All three sources of income are dependent on the performance of the first team and its appeal to football supporters. The performance of the first team is significantly influenced by the quality of the coaching staff and the players that the Club can attract in a highly competitive market on both domestic and European levels.

Expenditure

In order to attract talent, which will continue to improve the performances of the first team, the Club continually invests in the playing staff by way of both transfers and wages.

Regulatory environment

The Club is regulated by the rules of the FA, EPL, UEFA and FIFA. These regulations have a direct impact on the Club as they cover areas such as the division of centrally negotiated television deals and the operation of the transfer market. The Club has staff whose roles include ensuring that the Club monitors the evolution of the rules and ensures compliance with them.

Funding

Funds are provided by the Club's parent company Hornets Investment Limited. The Club reviews and updates its cash forecasts on a regular basis and keeps the owners aware of financial commitments going forwards.

The Board has considered the risks and uncertainties that face the business which are principally related to the costs and revenues involved in maintaining a playing squad and trading in players, and of maintaining its league status. It has also considered the financing requirements of the business that may result and these are referred to in note 1.2.

Corporation tax

In April 2017 the government made a change to the corporation tax legislation. This change restricts the amount of previously accumulated corporation tax losses that a company can utilise against its taxable profits in any one period. For the Club this means that corporation tax will be due in earlier periods than if the change in legislation had not taken place. The impact on cash flow will not be known until the corporation tax return has been prepared for each period. To mitigate the uncertainty, corporation tax returns will be prepared as soon as possible after the period end.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

Development and Performance

The Club's owners continues to be committed to new investment into the business in respect of playing staff and updating the facilities at the Stadium and the Club's Training Ground at London Colney. This strategy continues to be evident at the Vicarage Road Stadium with ongoing works relating to accessible stadium requirements and a new hospitality reception and lounge on the West side of the stadium. The Club continue to review options for further development of the stadium in order to increase capacities in both hospitality and general seating areas. Works to improve the Club's Training Ground at London Colney are also ongoing and the new thirty year lease signed is reflective of the intent to further improve facilities and ensure the Club is equipped with state of the art training facilities. The Club also continues to invest in its playing squad, in order to sustain performance and improve on its 17th position finish in the Premier League during 2016/2017.

Key Performance Indicators

	2017 £'000	2016 £'000
Turnover	123,907	94,449
Wages and salary costs	(76,015)	(57,900)
Other operating expenses	(29,978)	(23,938)
Amortisation and impairment of player registrations	(28,514)	(13,060)
Other operating income	62	10
Regulatory fees	(4,300)	-
Operating loss	(14,838)	(445)
Profit on disposal of player registrations	22,354	5,611
Net interest charges	(3,488)	(1,553)
Profit/(Loss) on ordinary activities before taxation	4,028	3,613
Cash generated (absorbed) by operations	19,019	24,055
Wages to revenue ratio	61%	61%
League position	17th (PL)	13th (PL)

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

Financial Review

Total turnover increased by £29,457,767 from £94,449,017 to £123,906,784.

Media revenue has increased by £29,914,351. This improvement is almost entirely due to an increase in central funding from the Premier League which increased by £31,206,693. This increase has been slightly offset by a reduction in income from FA Cup progression bonuses and associated TV and radio income due to a far earlier exit in the Competition during the 16/17 season than the previous year, the income generated fell from £1,204,250. Academy funding increased by £155,000 and there was a reduction of £167,100 relating to Football League funding received in the prior year which related to the 14/15 season. There were other reductions in media income mainly relating to the website and programme contracts totalling £75,991.

Commercial revenues for the period to 30 June 2017 total £5,192,956, an increase of £2,656,714 from revenue generated in the previous year. The prior year included a payment due in relation to a Sponsorship agreement, therefore, the comparable increase is actually £656,714. Of this increase £111,813 was generated by retail and the remaining figure was generated from sponsorship and advertising revenue.

Revenues generated on match days have reduced by £842,821. This reduction is due to a drop in Cup match income of £1,113,936 as a result of the early exit from both cup competitions in the 16/17 season as against progression to the FA Cup semi-final in the previous year. Season Ticket and match ticket income reduced by £240,627 due mainly to the cap introduced on the sale price of away match tickets. Match day related commercial revenues from the sale of boxes and lounges increased by £511,742 due to the introduction of the brand new high end hospitality development in the SW corner of the stadium incorporating The View and The Gallery.

Other income within turnover, mainly relates to player loan fees receivable, which has reduced from £3,842,930 to £751,770. An amount of £820,682 was received from UEFA relating to our players' participation in the Euros 2016 competition which did not occur in the prior year.

Salary costs, have increased from £57,899,964 to £76,014,960, with players' total salary costs having increased from £50,248,607 to £62,391,886, an increase of £12,143,279. Other football related salaries have increased from £5,356,083 to £10,029,167. Commercial, stadium and administrative salaries have increased from £2,295,274 to £3,593,907.

Other operating expenses have increased by £6,051,716 from £23,926,666 in 2016 to £29,978,382 in 2017. £1,263,017 of this increase relates to the football operation, £1,469,795 relates to centralised youth and community costs and £1,465,958 relates to increased depreciation and disposal costs. Admin. and stadium related costs have increased by £1,337,430 with commercial costs increased by £515,516.

With continued significant investment into the playing squad, additions for the period totaled £72,800,838 compared to £64,399,831 for the previous season, amortisation and impairment costs have increased from £13,059,813 for the period to 30 June 2016 to £28,514,351 for the period to 30 June 2017.

The profit on disposal of players' registrations comprises total profits of £22,353,656, mainly generated from sales, appearance and sell-on clauses in relation to players Almen Abdi, Jose Jurado, Allan Nyom, Matej Vydra, Ikechi Anya, Odion Ighalo, Adlene Guedioura and Juanfran Fuentès.

The prior year amount of £5,611,360 was mainly generated from sales, appearance and sell-on clauses in relation to players Fernando Forestieri, Jonathon Bond, Migel Layun, Diego Fabbri, Jonathon Hogg and William Buckley.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

Financial Review Continued

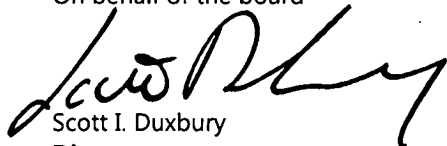
As in the previous year, the financial performance of the Club is reflective of its progression in the Premier League – turnover continues to grow significantly, as do the increased running costs associated with running a successful business within the Premier League. Continued investments in the playing squad and infrastructure of the stadium and training ground are evidenced by the capital additions in the year. This continued success has enabled continued development of the Club's infrastructure.

Profit for the year amounted to £8,141,168 (2016: £3,612,913). It should be noted when reviewing the accounts that £4,113,578 (2016: nil) of this profit relates to tax adjustments. This year the Club has had to provide for a deferred tax asset on its previously accumulated corporation tax losses and a deferred tax liability on its accelerated capital allowances. The net impact of these two adjustments is to increase the profit for the year by £4,194,520. As the Club utilises its tax losses in the coming years this adjustment will be reversed. A breakdown of the tax figure can be found in note 10 of the accounts and a breakdown of the deferred tax figure can be found in note 21.

Retention of the Premier League status for the 17/18 season maintains the Club's positive outlook. The Shareholders are committed to invest in the Club to enhance its value and performance on and off the pitch and will keep investing in upgrades for both the stadium and the training ground, along with strengthening the squad in an effort to increase commercial revenues and diversify the revenue streams.

The cash at bank at year end shows a credit position of £10,032,916, and the Company's net assets now exceed its liabilities by £2,859,090 albeit, this reversal of the previous net liability position of £5,282,078, does include £4,113,578 of tax on profits.

On behalf of the board



Scott I. Duxbury

Director

2 February 2018

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

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

Principal activities

The principal activity of the Company continues to be that of a professional football league club.

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

Scott I. Duxbury

Raffaele Riva

David B. Fransen

Stuart R. Timperley

(Resigned 2 November 2016)

During the year, Raffaele Riva resigned as Executive Chairman and as director of the Company on 2nd November 2016 and Scott I. Duxbury was appointed Executive Chairman from that date, and continuing as chief executive.

Results and dividends

The Company recorded a profit before taxation of £4,027,590 (2016 - £3,612,913).

The results for the year, together with a review of the Company's business performance for the year, its future prospects and its approach to financial risk management, are considered in the Strategic Report.

No ordinary dividends were paid. The directors do not recommend payment of a final dividend.

Directors' insurance

The Company has in place Directors' and Officers' Liability Insurance with a third party.

Disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment within the Company continues and that the appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee involvement

Within the bounds of commercial confidentiality, the Company endeavours to keep staff at all levels informed of matters that affect the progress of the Company and are of interest to them as employees.

The Company operates an equal opportunities policy. The aim of the policy is to ensure that there should be equal opportunity for all and this applies to external recruitment, internal appointments, terms of employment, conditions of service and opportunity for training and promotion regardless of gender, ethnic origin or disability. Disabled persons are given full and fair consideration for all types of vacancy in as much as the opportunities available are constrained by the practical limitations of their disability. Should for whatever reason, an employee of the Company become disabled whilst in employment, every step, where appropriate, will be taken to assist with rehabilitation and suitable retraining.

The Company maintains its own health, safety and environmental policies covering all aspects of its operations. Regular meetings and inspections take place to ensure all legal requirements are adhered to and that the Company is responsive to the needs of its employees and the environment.

Post reporting date events

Details of the post balance sheet events are set out in note 28 to the financial statements.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

Auditor

In accordance with the Company's articles, a resolution proposing that Myers Clark be reappointed as auditor of the Company will be put at a General Meeting.

Statement of directors' responsibilities

The directors are responsible for preparing the annual 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give 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:

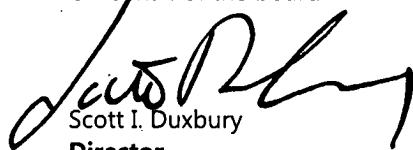
- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 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.

Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the Company's auditor is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the Company's auditor is aware of that information.

On behalf of the board



Scott I. Duxbury

Director

2 February 2018

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

Opinion

We have audited the financial statements of The Watford Association Football Club Limited (the 'company') for the year ended 30 June 2017 which comprise the Profit And Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows 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 FRS 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.

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 our audit:

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

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

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 the Directors' Report.

We have nothing to report in respect of the following matters where 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 determine 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.

Auditor's responsibilities for the audit of the financial statements

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 on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

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.



Paul Windmill (Senior Statutory Auditor)
for and on behalf of Myers Clark

5 February 2018

Chartered Accountants
Statutory Auditor

Egale 1
80 St Albans Road
Watford
Hertfordshire
WD17 1DL

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 30 JUNE 2017

	Notes	Operations excluding player trading £	Player trading £	Year ended 30 June 2017 £	Operations excluding player trading £	Player trading £	Year ended 30 June 2016 £
Turnover	3	123,906,784	-	123,906,784	94,449,017	-	94,449,017
Cost of sales		(94,243,770)	(28,514,351)	(122,758,121)	(71,163,184)	(13,059,813)	(84,222,997)
Gross profit		29,663,014	(28,514,351)	1,148,663	23,285,833	(13,059,813)	10,226,020
Administrative expenses		(16,049,572)	-	(16,049,572)	(10,681,153)	-	(10,681,153)
Other operating income		62,322	-	62,322	9,537	-	9,537
Operating loss	4	13,675,764	(28,514,351)	(14,838,587)	12,614,217	(13,059,813)	(445,596)
Interest receivable and similar income	8	26,837	-	26,837	14,983	-	14,983
Interest payable and similar expenses	9	(3,514,316)	-	(3,514,316)	(1,567,834)	-	(1,567,834)
Profit on disposal of player registrations		-	22,353,656	22,353,656	-	5,611,360	5,611,360
Profit before taxation		10,188,285	(6,160,695)	4,027,590	11,061,366	(7,448,453)	3,612,913
Tax on profit	10	4,113,578	-	4,113,578	-	-	-
Profit for the financial year		14,301,863	(6,160,695)	8,141,168	11,061,366	(7,448,453)	3,612,913

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2017

	2017 £	2016 £
Profit for the year	8,141,168	3,612,913
Other comprehensive income	-	-
Total comprehensive income for the year	<u>8,141,168</u>	<u>3,612,913</u>

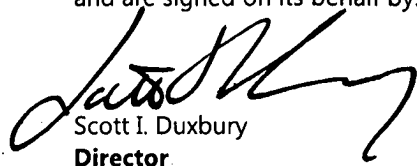
THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

BALANCE SHEET

AS AT 30 JUNE 2017

	Notes	2017 £	£	2016 £	£
Fixed assets					
Goodwill	11		35,412		53,118
Other intangible assets	11		91,795,431		54,510,633
Total intangible assets			91,830,843		54,563,751
Tangible assets	12		34,710,698		28,692,575
			126,541,541		83,256,326
Current assets					
Stocks	14	340,852		143,649	
Debtors falling due after more than one year	15	10,507,363		3,770,375	
Debtors falling due within one year	15	21,430,221		5,218,180	
Cash at bank and in hand		10,032,916		11,611,735	
		42,311,352		20,743,939	
Creditors: amounts falling due within one year	16	(76,796,485)		(91,264,554)	
Net current liabilities			(34,485,133)		(70,520,615)
Total assets less current liabilities			92,056,408		12,735,711
Creditors: amounts falling due after more than one year	17		(88,486,384)		(18,012,449)
Provisions for liabilities	20		(167,864)		-
Deferred capital grants and contributions	22		(543,070)		(5,340)
Net assets/(liabilities)			2,859,090		(5,282,078)
Capital and reserves					
Called up share capital	24		1,072,722		1,072,722
Profit and loss reserves			1,786,368		(6,354,800)
Total equity			2,859,090		(5,282,078)

The financial statements were approved by the board of directors and authorised for issue on 2 February 2018 and are signed on its behalf by:


Scott I. Duxbury
Director

Company Registration No. 104194

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2017

	Share capital £	Profit and loss reserves £	Total £
Balance at 1 July 2015	1,072,722	(9,967,713)	(8,894,991)
Year ended 30 June 2016:			
Profit and total comprehensive income for the year	-	3,612,913	3,612,913
Balance at 30 June 2016	1,072,722	(6,354,800)	(5,282,078)
Year ended 30 June 2017:			
Profit and total comprehensive income for the year	-	8,141,168	8,141,168
Balance at 30 June 2017	1,072,722	1,786,368	2,859,090

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2017

	Notes	2017 £	£	2016 £	£
Cash flows from operating activities					
Cash generated from operations	31	19,018,655		24,054,823	
Interest paid		(4,142,679)		(88,067)	
Net cash inflow from operating activities		<u>14,875,976</u>		<u>23,966,756</u>	
Investing activities					
Purchase of intangible assets		(47,996,998)		(31,948,000)	
Proceeds on disposal of intangibles		15,840,091		4,937,000	
Purchase of tangible fixed assets		(9,478,391)		(10,618,787)	
Proceeds on disposal of tangible fixed assets		2,400		-	
Interest received		26,837		14,983	
Net cash used in investing activities		<u>(41,606,061)</u>		<u>(37,614,804)</u>	
Financing activities					
Capital grants received		600,000		-	
Advance of directors loans		-		1,500,000	
Proceeds from borrowings		40,000,000		16,600,000	
Repayment of borrowings		(15,000,000)		(1,288,000)	
Proceeds of other loans		13,750,000		12,281,000	
Repayment of other loans		(15,251,734)		(4,389,000)	
Advance of finance leases		1,458,000		-	
Payment of finance leases obligations		(405,000)		-	
Net cash generated from financing activities		<u>25,151,266</u>		<u>24,704,000</u>	
Net (decrease)/increase in cash and cash equivalents		<u>(1,578,819)</u>		<u>11,055,952</u>	
Cash and cash equivalents at beginning of year		11,611,735		555,783	
Cash and cash equivalents at end of year		<u><u>10,032,916</u></u>		<u><u>11,611,735</u></u>	

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

1 Accounting policies

Company information

The Watford Association Football Club Limited is a private company limited by shares incorporated in England and Wales. The registered office is Vicarage Road Stadium, Watford, Herts, WD18 0ER.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the Company. Monetary amounts in these financial statements are rounded to the nearest £.

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of freehold properties and to include investment properties and certain financial instruments at fair value. The principal accounting policies adopted are set out below.

The Watford Association Football Club Limited is a wholly owned subsidiary of Hornets Investment Limited. The result of the Club are included in the consolidated accounts of Hornets Investment Limited which are available at 15-17 Grosvenor Gardens, London, SW1W 0BD.

1.2 Going concern

The Company made a profit before tax for the year of £4,027,590 (2016 - £3,612,913) and had net assets at 30 June 2017 of £2,859,090 (2016 net liabilities of- £5,282,078).

Following retention of Premier League status, the Company's income over the next twelve months; along with the continued support of the parent company, is sufficient to provide the necessary working capital for the Company and therefore it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

The Company's bankers have indicated that, so long as the Company continues to operate within its financial plan, regular renewal of the £5,000,000 (2016 - £5,000,000) overdraft facility will be available.

The parent company has confirmed that they will not seek repayment of the loan of £45,476,584 (2016 - £20,520,054) if to do so would jeopardise the Club's ability to continue as a going concern. The Club's owner is committed to new investment into the business in respect of playing staff and in order to update the facilities at the Stadium and the ultimate beneficial owner has entered into a financial commitment to financially support the Company for the next 12 months.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

1 Accounting policies

(Continued)

1.3 Turnover

Turnover represents income arising from sales to third parties and excludes transfer fees receivable (which are dealt with in the profit on disposal of players' registrations) and value added tax. Included in turnover are match day receipts and other match day income.

Season ticket and corporate hospitality income is recognised over the period of the football season as home matches are played.

Fixed elements of English Premier League central broadcasting contracts are recognised over the period of the football season as league matches (home and away) are played.

Sponsorship contracts are recognised over the duration of the contract, either on a straight-line basis, or over the period of the football season, as appropriate, based on the terms of the contract.

Deferred revenue

Deferred revenue arises principally from the advance sale of season tickets, executive boxes and players' loan fees and is recognised as income in the period to which it relates.

1.4 Intangible fixed assets - goodwill

Goodwill arising from the acquisition of Watford Catering Limited (which was dissolved on 22nd March 2011) is capitalised as an intangible fixed asset and is amortised on a straight line basis over the economic life, estimated at 10 years.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

1 Accounting policies

(Continued)

1.5 Intangible fixed assets other than goodwill

Acquired players' registrations

The costs associated with the acquisition of players' registrations are initially recorded at the date of acquisition as intangible fixed assets. Part of the acquisition cost may be dependent upon the number of appearances and the directors exercise their judgement on the probability of the deferred consideration becoming payable and capitalising that cost as an intangible asset. These costs are fully amortised over the period of the relevant player's contract.

Intangible assets are tested for impairment at each balance sheet date. An impairment loss is recognised for the amount by which the assets carrying value exceeds its recoverable amount. The directors' valuation of a player's registration is arrived at by reference to market conditions and comparative data of recent transactions. Impairment losses are recognised in the profit and loss account.

Amortisation is charged to the profit and loss account on a straight-line basis over the length of each player's contract.

Software and website development costs

Software and website development costs (not research costs) are recognised as internally generated intangibles when the following can be demonstrated:

- a) the technical feasibility of completing the intangible asset so that it will be available for use or sale.
- b) its intention to complete the intangible asset and use or sell it.
- c) its ability to use or sell the intangible asset.
- d) how the intangible asset will generate probable future economic benefits.
- e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Amortisation is charged to the profit and loss account on a straight line basis over 10 years.

Pouring rights

Payments made to release the Company from exclusive supply provisions relating to alcoholic beverages have been recognised under the description of "Pouring rights". Pouring rights are capitalised as an intangible fixed asset and were amortised on a straight line basis over the economic life, estimated at 10 years. The Company's supply agreement was renegotiated in a prior year. As a result the asset was fully written down in that year's financial statements.

1.6 Tangible fixed assets

Tangible fixed assets are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses. Assets under construction are not depreciated until they are brought into use.

Capital grants and contributions to capital expenditure are credited to deferred income and released to the profit and loss account over the expected useful life of the assets to which they relate.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

1 Accounting policies

(Continued)

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Freehold land and buildings	over 25 years and 10 years
Leasehold improvements	over the shorter of the unexpired term of lease and 20 years
Plant and equipment	25% on reducing balance
Motor vehicles	25% on reducing balance

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is credited or charged to profit or loss.

1.7 Impairment of fixed assets

At each reporting period end date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

1.8 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost includes purchase price less discounts where applicable. Stock is valued on a FIFO basis. Net realisable value is based on estimated selling price. Provision is made for obsolete or slow moving stocks.

1.9 Cash at bank and in hand

Cash at bank and in hand are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

1.10 Financial instruments

The Company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the Company's balance sheet when the Company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally 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.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

1 Accounting policies

(Continued)

Basic financial assets

Basic financial assets, which include debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

Other financial assets

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

Impairment of financial assets

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the Company transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

If an arrangement constitutes a financing transaction, the financial liability is measured at the present value of future payments discounted at a market rate of interest for a similar debt instrument.

Basic financial liabilities

Basic financial liabilities, including creditors, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

1 Accounting policies

(Continued)

Other financial liabilities

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless hedge accounting is applied and the hedge is a cash flow hedge.

Debt instruments that do not meet the conditions in FRS 102 paragraph 11.9 are subsequently measured at fair value through profit or loss. Debt instruments may be designated as being measured at fair value through profit or loss to eliminate or reduce an accounting mismatch or if the instruments are measured and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Derecognition of financial liabilities

Financial liabilities are derecognised when the Company's contractual obligations expire or are discharged or cancelled.

1.11 Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the Company.

1.12 Derivatives

The Company enters into foreign exchange contracts in order to manage its exposure to foreign exchange risk.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to fair value at each reporting end date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset, whereas a derivative with a negative fair value is recognised as a financial liability.

1.13 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

1 Accounting policies

(Continued)

Deferred tax

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the Company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

1.14 Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of stock or fixed assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received. Termination benefits are recognised immediately as an expense when the Company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

Signing on fees

Signing on fees are charged to the profit and loss account on a straight line basis over the period of the player's contract.

1.15 Retirement benefits

The Company contributes to The Football League Limited Pension and Life Assurance Scheme for certain employees and also contributes to players' own pension plans, the assets of which are held separately from those of the Company in independently administered funds. Contributions payable are charged to the profit and loss account over the period to which they relate.

In addition the Company is making contributions in respect of its share of the deficit of the defined benefit section of The Football League Limited Pension and Life Assurance Scheme (the "Scheme"). A provision has been established for the Company's share of the deficit which exists in this section of the Scheme and this additional contribution is being charged to the profit and loss account over the remaining service life of those employees who are members of the Scheme.

Under the provisions of FRS 102 Section 28 the Scheme would be treated as a defined benefit multi-employer scheme. The Scheme's actuary has advised that the participating employer's share of the underlying assets and liabilities cannot be identified on a reasonable and consistent basis. Therefore in accordance with FRS 102 Section 28 the Scheme has been accounted for as if it were a defined contribution plan.

1.16 Leases

Rentals payable under operating leases, including any lease incentives received, are charged to income on a straight line basis over the term of the relevant lease.

Lease incentives are recognised in the profit and loss account on a straight-line basis over the term of the lease.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

1 Accounting policies

(Continued)

1.17 Grants

Capital grants are recognised at the fair value of the asset received when there is reasonable assurance that the grant conditions will be met and grants will be received.

Grants relating to an asset are recognised in income systematically over the asset's expected useful life. If part of such a grant is deferred it is recognised as deferred income rather than being deducted from the asset's carrying amount.

1.18 Foreign exchange

The Company's accounting records are maintained in Pounds sterling. Monetary assets and liabilities denominated in foreign currencies are translated into Pounds sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of transaction. All differences are taken to the profit and loss account.

2 Judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

Key sources of estimation uncertainty

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are as follows.

Current and deferred taxation

The complex nature of the tax legislation under which the Company operates necessitates the use of estimates and assumptions in assessing the tax amounts provided in the financial statements. Actual tax payable may differ from the amounts provided.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

3 Turnover and other revenue

The Company has one main business segment, that of professional football operations. As a result, no additional business segment information is required to be provided. It operates in one geographical segment, the United Kingdom, and accordingly no additional geographical information is required to be provided.

Notwithstanding this, a voluntary analysis of the revenue streams is given below to assist with an understanding of the business.

Revenue streams comprise:

Matchday - season and matchday tickets and corporate hospitality.

Media - television and broadcasting income, including distributions from the English Premier League broadcasting agreements, cup competitions and local radio.

Commercial - sponsorship income & merchandising.

Other - loan fee receivable and other sundry income.

	2017 £	2016 £
Turnover analysed by class of business		
Matchday	7,583,352	8,426,172
Media	109,558,024	79,643,673
Commercial	5,192,956	2,536,242
Other	1,572,452	3,842,930
	<u>123,906,784</u>	<u>94,449,017</u>

	2017 £	2016 £
Other significant revenue		
Interest income	26,837	14,983
Release of capital grants	62,270	2,270
Other	52	7,267
	<u>89,159</u>	<u>24,520</u>

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

4 Operating loss

	2017	2016
	£	£
Operating loss for the year is stated after charging/(crediting):		
Exchange losses	1,095,651	3,620,034
Release of capital grants	(62,322)	(9,537)
Depreciation of owned tangible fixed assets	3,078,743	1,898,381
Depreciation of tangible fixed assets held under finance leases	276,708	-
Loss on disposal of tangible fixed assets	11,665	62,828
Amortisation of intangible assets	28,572,404	13,077,519
Cost of stocks recognised as an expense	545,647	488,824
Operating lease charges	321,720	315,530
Regulatory fees	4,300,000	-
	<u> </u>	<u> </u>

Within amortisation is £2,759,108 of impairment (2016 - £660,000) on intangible fixed assets.

Exchange differences recognised in profit or loss during the year, except for those arising on financial instruments measured at fair value through profit or loss, amounted to £2,038,901 (2016 - £3,620,034).

5 Auditor's remuneration

	2017	2016
	£	£
Fees payable to the Company's auditor and associates:		
For audit services		
Audit of the financial statements of the Company	20,000	14,000
	<u> </u>	<u> </u>
For other services		
Other assurance services	5,000	5,000
	<u> </u>	<u> </u>

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

6 Employees

The average monthly number of persons (including directors) employed by the Company during the year was:

	2017 Number	2016 Number
Players	62	59
Coaching staff	61	51
Part-time coaching staff	22	17
Commercial staff	46	32
Part-time commercial staff	30	30
Administration	13	11
Ground staff	20	11
	<u>254</u>	<u>211</u>

In addition to the above the Company employed an average of 107 (2016 - 118) part-time match day staff during the year.

Their aggregate remuneration comprised:

	2017 £	2016 £
Wages and salaries	65,664,719	50,885,384
Social security costs	8,998,549	6,885,374
Pension costs	158,706	129,206
	<u>74,821,974</u>	<u>57,899,964</u>
Termination benefits made or committed	<u>1,192,986</u>	<u>-</u>

Termination benefits totalling £1,192,986 have been paid to 9 ex-employees since the termination of their employment contracts with the club. These payments relate to the monthly salary of the employees which is contractually due to be paid to them until they find alternative employment. The value of the termination benefits charged is therefore based on amounts that are contractually due and that have been paid to date; future amounts are disclosed as contingent liabilities as they will cease to be paid upon the ex-staff members finding suitable alternative employment. The amounts are payable monthly as salary and the club has sufficient funds to meet this expense.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

7 Directors' remuneration

	2017 £	2016 £
Remuneration for qualifying services	570,933	257,600

The number of directors for whom retirement benefits are accruing under defined contribution schemes amounted to 1 (2016 - 1). The charge to the profit and loss account in the year in relation to directors retirement benefits amounted to £17,600 (2016: £12,600).

Remuneration disclosed above include the following amounts paid to the highest paid director:

	2017 £	2016 £
Remuneration for qualifying services	553,333	245,000

8 Interest receivable and similar income

	2017 £	2016 £
Interest income		
Interest on bank deposits	26,837	14,983

Investment income includes the following:

Interest on financial assets not measured at fair value through profit or loss	26,837	14,983
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9 Interest payable and similar expenses

	2017 £	2016 £
Interest on financial liabilities measured at amortised cost:		
Interest payable to group undertakings	2,562,076	1,170,407
Other finance costs:		
Other interest	952,240	397,427
	3,514,316	1,567,834

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

10 Taxation

	2017 £	2016 £
Current tax		
UK corporation tax on profits for the current period	80,942	-
Deferred tax		
Origination and reversal of timing differences	(4,194,520)	-
Total tax credit	(4,113,578)	-

In April 2017 the corporation tax rate changed from 20% to 19%. The enacted rate of corporation tax will reduce to 17% from April 2020. The Company's deferred tax asset has been valued based on 17%.

The actual (credit)/charge for the year can be reconciled to the expected charge for the year based on the profit or loss and the standard rate of tax as follows:

	2017 £	2016 £
Profit before taxation	4,027,590	3,612,913
Expected tax charge based on the standard rate of corporation tax in the UK of 19.75% (2016: 20.00%)	795,449	722,583
Tax effect of expenses that are not deductible in determining taxable profit	777,001	6,305
Tax effect of utilisation of tax losses not previously recognised	(1,516,987)	(859,000)
Change in unrecognised deferred tax assets	(4,194,520)	-
Group relief	(263,211)	-
Depreciation on assets not qualifying for tax allowances	288,690	130,112
Taxation credit for the year	(4,113,578)	-

Tax losses at 30 June 2017 available for offset against future trading profits are in excess of £25 million (2016 - £35 million).

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

11 Intangible fixed assets

	Goodwill	Website	Pouring rights	Players' registrations	Total
	£	£	£	£	£
Cost					
At 1 July 2016	177,060	162,437	752,067	67,520,074	68,611,638
Additions - separately acquired	-	321,721	-	72,800,838	73,122,559
Disposals	-	-	-	(12,018,692)	(12,018,692)
At 30 June 2017	177,060	484,158	752,067	128,302,220	129,715,505
Amortisation and impairment					
At 1 July 2016	123,942	-	752,067	13,171,878	14,047,887
Amortisation charged for the year	17,706	40,347	-	28,514,351	28,572,404
Disposals	-	-	-	(4,735,629)	(4,735,629)
At 30 June 2017	141,648	40,347	752,067	36,950,600	37,884,662
Carrying amount					
At 30 June 2017	35,412	443,811	-	91,351,620	91,830,843
At 30 June 2016	53,118	162,437	-	54,348,196	54,563,751

The figure for cost of player registrations are historic cost figures for purchased players only. Accordingly, the net book amount of player registrations will not reflect, nor is it intended to reflect, the current market value of these players nor does it take any account of players developed through the Club's youth system.

The directors consider the net book value of intangible assets to be significantly greater than their book value.

The amortisation of players' registration costs is included within cost of sales in the profit and loss account.

There is impairment of £2,759,108 (2016 - £660,000), included within the amortisation charge for the year.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

12 Tangible fixed assets

	Freehold land and buildings £	Leasehold land and buildings £	Assets under construction £	Plant and equipment £	Total £
Cost					
At 1 July 2016	24,595,256	1,752,236	3,633,734	4,904,366	34,885,592
Additions	3,326,849	337,610	1,057,532	4,665,649	9,387,640
Disposals	(145,624)	-	-	(99,349)	(244,973)
Transfers	2,980,362	517,906	(3,629,534)	131,266	-
At 30 June 2017	30,756,843	2,607,752	1,061,732	9,601,932	44,028,259
Depreciation and impairment					
At 1 July 2016	3,732,742	414,195	-	2,046,080	6,193,017
Depreciation charged in the year	1,538,679	299,745	-	1,517,027	3,355,451
Eliminated in respect of disposals	(140,717)	-	-	(90,190)	(230,907)
At 30 June 2017	5,130,704	713,940	-	3,472,917	9,317,561
Carrying amount					
At 30 June 2017	25,626,139	1,893,812	1,061,732	6,129,015	34,710,698
At 30 June 2016	20,862,514	1,338,041	3,633,734	2,858,286	28,692,575

The net carrying value of tangible fixed assets includes the following in respect of assets held under finance leases or hire purchase contracts.

	2017 £	2016 £
Fixtures and fittings	1,051,492	-
Depreciation charge for the year in respect of leased assets	276,708	-

13 Financial instruments

	2017 £	2016 £
Carrying amount of financial assets		
Debt instruments measured at amortised cost	20,653,218	7,600,336
Instruments measured at fair value through profit or loss	943,250	-
Carrying amount of financial liabilities		
Measured at amortised cost	113,864,236	98,911,303

The Company entered into a forward foreign exchange contract on the 30 June 2017 to purchase €25,275,000. The date of settlement is the 28 September 2017.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

14 Stocks

	2017 £	2016 £
Goods for resale	340,852	143,649

The estimated replacement cost of stocks does not materially differ from their balance sheet value.

15 Debtors

	2017 £	2016 £
Amounts falling due within one year:		
Trade debtors	1,497,946	2,462,295
Transfer fees receivable	13,536,428	1,367,666
Other debtors	2,125,000	2,125,000
Provision for non-repayment of other debtor	(2,125,000)	(2,125,000)
Derivative financial instruments	943,250	-
Prepayments and accrued income	5,452,597	1,388,219
	<u>21,430,221</u>	<u>5,218,180</u>

	2017 £	2016 £
Amounts falling due after more than one year:		
Transfer fees receivable	5,618,844	3,770,375
Prepayments and accrued income	526,135	-
	<u>6,144,979</u>	<u>3,770,375</u>
Deferred tax asset (note 21)	4,362,384	-
	<u>10,507,363</u>	<u>3,770,375</u>
Total debtors	<u>31,937,584</u>	<u>8,988,555</u>

The other debtor is due from Watford FC Limited and has been provided for in full during a prior year.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

16 Creditors: amounts falling due within one year

	Notes	2017 £	2016 £
Obligations under finance leases	19	486,000	-
Other borrowings	18	1,201,584	28,488,303
Trade creditors		3,346,287	2,257,180
Player registration costs		35,108,286	32,484,394
Corporation tax		80,942	-
Other taxation and social security		6,937,691	5,515,700
Other creditors		7,000,000	-
Directors' loans		965,015	965,015
Accruals and deferred income		21,670,680	21,553,962
		<u>76,796,485</u>	<u>91,264,554</u>

Other creditors of £7,000,000 relates to amounts payable on transfer fees received in advance. A further £5,250,000 is repayable after more than one year. The corresponding debtor is shown in note 16 under transfer fees receivable. Total interest charged during the year is £677,455. Interest prepaid at the year end was £669,778.

17 Creditors: amounts falling due after more than one year

	Notes	2017 £	2016 £
Obligations under finance leases	19	567,000	-
Other borrowings	18	44,818,961	5,318,961
Trade creditors		31,540,364	7,523,342
Long term directors' loans		1,930,030	2,895,045
Other creditors		5,250,000	-
Accruals and deferred income		4,380,029	2,275,101
		<u>88,486,384</u>	<u>18,012,449</u>

18 Loans and overdrafts

	2017 £	2016 £
Loans from group undertakings	45,476,584	20,520,054
Other loans	3,439,006	16,182,255
	<u>48,915,590</u>	<u>36,702,309</u>
Payable within one year	2,166,599	28,488,303
Payable after one year	46,748,991	8,214,006

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

18 Loans and overdrafts

(Continued)

Loans from group undertakings

Loans from group undertakings includes the following loans with the immediate parent company Hornets Investment Limited:

A £40,000,000 loan, attracting interest of 6% above LIBOR. The full balance is due in more than one year. Total interest charged in the year is £2,211,710 (2016 - £nil). Unpaid interest at the year end amounted to £1,192,329 (2016 - £nil).

An unsecured interest free loan of £626,584 (2016 - £2,864,236). This is repayable on demand and is therefore due within one year.

A £2,250,000 loan, attracting interest of 4.5% per annum. The balance due in less than one year is £450,000 (2016 - £nil). The balance due in more than one year is £1,800,000 (2016 - £2,250,000). Total interest charged in the year is £101,250 (2016 - £101,250). There was no unpaid interest due at the year end (2016 - £76,007).

A £1,000,000 loan, fully repayable in more than one year (2016 - £1,000,000), attracting interest of 4.5% per annum. Total interest charged in the year was £45,000 (2016 - £45,000). Unpaid interest at the year end amounted to £148,408 (2016 - £103,408).

A £1,600,000 loan, fully repayable in more than one year (2016 - £1,600,000), attracting interest of 6% per annum. Total interest charged during the year was £96,000 (2016 - £96,828). Unpaid interest at the year end amounted to £147,551 (2016 - £51,551).

Other loans

Other loans includes the following:

A secured loan from Watford FC Community and Sports Education Trust of £468,961 (2016 - £518,961), attracting interest of 1.5% above Barclays Bank base rate. The balance due in less than one year is £50,000 (2016 - £50,000). The balance due in more than one year is £418,961 (2016 - £468,961). The total interest charged for the year is £9,786 (2016 - £13,417).

An unsecured interest free loan of £75,000 (2016 - £75,000) due within one year.

An unsecured directors loan of £2,895,045, attracting interest at 3% per annum. The balance due in less than one year is £965,015 (2016 - £965,015). The balance due in more than one year is £1,930,030 (2016 - £2,895,045). Total interest charged in the year totals £88,438 (2016 - £75,252). Unpaid interest at the year end amounted to £82,092 (2016 - £71,444).

Security

Hornets Investment Limited hold a fixed and floating charge secured on the total assets of the Company.

Barclays Bank PLC hold a fixed and floating charge secured on the total assets of the Company. Barclays also hold a legal charge and guarantee and debenture charge secured on the Vicarage Road Stadium

Watford FC Community Sports & Education Trust hold a legal charge secured on the Vicarage Road Stadium.

The carrying amount of the total assets of the Company is £165,068,173 (2016 - £104,000,000) and the carrying amount of the Vicarage Road Stadium is £25,626,139 (2016 - £20,826,000).

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

19 Finance lease obligations

	2017 £	2016 £
Future minimum lease payments due under finance leases:		
Within one year	486,000	-
In two to five years	567,000	-
	<u>1,053,000</u>	<u>-</u>

Finance lease payments represent rentals payable by the Company for a certain item of plant and machinery. The finance lease liability is secured by the asset held under the lease. The lease agreement includes fixed lease payments, and no restrictions are placed on the use of the asset.

The term of the lease is 36 monthly repayments, due to end in August 2019.

20 Provisions for liabilities

	Notes	2017 £	2016 £
Deferred tax liabilities	21	<u>167,864</u>	<u>-</u>

21 Deferred taxation

The following are the major deferred tax liabilities and assets recognised by the Company and movements thereon:

	Liabilities 2017 £	Liabilities 2016 £	Assets 2017 £	Assets 2016 £
Balances:				
Accelerated capital allowances	167,864	-	-	-
Tax losses	-	-	4,362,384	-
	<u>167,864</u>	<u>-</u>	<u>4,362,384</u>	<u>-</u>

	2017 £
Movements in the year:	
Liability at 1 July 2016	-
Credit to profit or loss	(4,194,520)
Liability/(Asset) at 30 June 2017	<u>(4,194,520)</u>

Of the deferred tax asset set out above, £1.2m is expected to reverse within 12 months and relates to the utilisation of tax losses against future expected profits of the same period.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

22 Deferred income

	2017 £	2016 £
Arising from deferred capital grants and contributions	543,070	5,340

Capital grants include a balance of £3,070 (2016 - £5,340) relating to the grant received principally from the Football Stadium Improvement Fund, formerly the Football Trust, towards the costs of stadium re-development.

During the year a grant of £600,000 was received from Fabulous Fan Fayre Limited, towards the cost of catering equipment. At the balance sheet date £540,000 of this remains within deferred income.

23 Retirement benefit schemes

Defined contribution schemes	2017 £	2016 £
Charge to profit or loss in respect of defined contribution schemes	158,706	129,206

Defined benefit scheme

	2017	2016
	£	£
Liability at start of the year	358,117	391,875
Payments in year	(68,987)	(63,072)
Increase in provision	31,069	29,314
Liability at end of year	320,199	358,117

The Company has been advised of its share of the deficit of the Scheme. The most recent actuarial valuation of the Scheme was at August 2014 and indicated that contributions required from the Company towards making good the deficit was £391,875 at 1 September 2014 (the total deficit in the Scheme at this date was £21.8 million). The Company's share of the deficit is being paid over a period of five and a half years commencing September 2014.

Additional contributions are being charged to the profit and loss account over the remaining life of those employees who are members of the Scheme. The amount charged to the profit and loss account during the year was £31,069 (2016 - £29,314).

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

24 Share capital

	2017 £	2016 £
Issued and fully paid		
1,072,722 ordinary shares of £1 each	1,072,722	1,072,722
1,300,000 ordinary 'A' shares of £0.001 each	-	-
	<u>1,072,722</u>	<u>1,072,722</u>

The Ordinary 'A' shares rank pari-passu with the existing Ordinary shares. The shares have attached to them full voting rights, dividend and capital distribution (including on winding up). Any capital distribution shall be applied amongst the holders of the A ordinary shares and ordinary shares pari-passu as though the same constituted one class of shares pro rata to their numerical holdings notwithstanding they are of different nominal values. They do not confer any rights of redemption. Hornets Investment Limited own 99.7% of the Company's issued share capital.

25 Financial commitments, guarantees and contingent liabilities

Contingent liabilities and assets

The Company has liabilities under transfer agreements to pay additional sums dependent upon players' attainment and subsequent transfer value. The maximum that can be calculated and could be payable in respect of transfers made before 30 June 2017 is £19,835,622 (2016 - £13,092,436). Since the year end £50,000 has become payable (2016 - £10,875,000) and an amount of £nil (2016 - £3,750,000) in sell on clauses not able to be calculated as a contingent sum until sale.

A sum of £795,680 (2016 - £nil) is the maximum amount payable pending the outcome of an investigation into the terms of an employment contract of an ex-employee relating to termination benefits with an additional amount of £42,787 for the Employer's NI contributions being payable if the maximum amount is paid.

A sum of £367,288 (2016 - £nil) is payable for the termination benefits of 8 ex-employees who are contractually due to be paid their monthly salaries until they find suitable alternative employment. The amount disclosed is the maximum that could be payable should these employees not find alternative employment for the duration of their terminated employment contracts with the club, all of which have an expiry date of June 2019. Should the maximum amount be paid, the club will also have incurred costs of £50,686 in relation to the respective Employer's NI contributions.

At 30 June 2017 the Club had sums receivable from other clubs in respect of players, dependent upon the number of first team appearances or percentage sell-on clauses. Due to the uncertainty of receipt of these contingent assets, it is not practical to the amount likely to be received. Since the year end £1,001,443 (2016 - £200,000) has become due.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

26 Operating lease commitments

Lessee

At the reporting end date the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2017 £	2016 £
Within one year	589,450	483,000
Between two and five years	1,773,800	1,582,000
In over five years	8,767,400	766,000
	<u>11,130,650</u>	<u>2,831,000</u>

27 Capital commitments

Amounts contracted for but not provided in the financial statements:

	2017 £	2016 £
Acquisition of tangible fixed assets	<u>407,200</u>	<u>-</u>

28 Events after the reporting date

As outlined in note 25, subsequent to the year end, sums have been receivable from other clubs in respect of appearance and sell-on clauses in respect of players previously sold. It is estimated that net income of at least £1,001,443 (2016 - £45,000) is to be reflected in the financial statement for the current year. Since the year end various players' registration have been sold or terminated and in respect of those it is estimated that net income of £3,801,256 (2016 - £15,586,000) is to be reflected in the financial statement for the current year.

Since the year end there have been several new player registrations. The net payments to which the Club is committed in respect of those transactions is estimated to be £49,666,000 (2016 - £51,838,000) (dependent upon certain exchange rates at the date of payment), with further potential amounts of £4,160,000 (2016 - £4,334,000) due dependent upon Club and / or player performance.

The immediate parent company, Hornets Investment Limited loan of £40,000,000 has now been increased to £55,000,000. The Company has also entered into a separate agreement with Hornets Investment Limited to borrow an additional £20,000,000.

An amount of £965,015 (2016 - £965,015) has been repaid in respect of a Director's loan.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

29 Related party transactions

As at 30 June 2017 the Company owed £45,476,584 (2016 - £5,751,019) to Hornets Investment Limited, its immediate parent company. Details of the loan are included at note 18.

During the year the Company made a repayment of £965,015 towards the unsecured loan from one of its directors of £2,895,045 (2016 - £3,860,060), accruing interest at 3% per annum, repayable over a 4 year period. The loan is outstanding as at the year end date and interest owed as at 30 June 2017 is £82,092 (2016 - £71,444). Interest included in the accounts this year totalled £88,438.

One of the directors is also a trustee of Watford FC Community Sports & Education Trust, a charitable company. As at 30 June 2017 a secured loan of £468,961 (2016 - £518,961) was owed to the Trust. Interest is accruing at 1.5% above the Barclays Bank base rate. The total interest charged for the year was £9,786 (2016 - £13,417) and all interest amounts are paid.

During the year a salary of £30,500 (2016 - £33,021) was paid to the majority shareholder and ultimate controlling party.

During the year a total amount of £94,884 (2016 - £43,600) in respect of administration fees, was paid to Fidentis Advisors Limited, a company incorporated in England and Wales. Raffaele Riva is the director of the Company and the majority shareholder. Of the above amount £1,200 (2016 - £6,000) remains outstanding as at the balance sheet date.

During the year a commission fee of £195,000 (2016 - £30,000) and finance services fee of £75,000 (2016 - £nil) was paid to BGB Aurea Limited, a company incorporated in England & Wales. Raffaele Riva is the director and owns 50% of the share capital.

Also during the year £3,468,609 (2016 - £1,302,045) was paid to Udinese Calcio SpA, a company under common control, in respect of transfer fees, £9,633,647 (2016 - £2,272,304) in respect of sell on fees and £24,287 (2016 - £nil) in respect of solidarity fees. £1,800 (2016 - £nil) was received from corporate hospitality and £19,417 (2016 - £nil) in respect of solidarity received.

Remuneration of key personnel:

Other than the directors there are no other members of key management. Directors remuneration is reported in note 7.

30 Controlling party

The immediate parent company is Hornets Investment Limited, a company registered in England and Wales. The ultimate parent company and controlling party is Diversify Sport Investment SL, a company registered in Spain. The sole shareholder and therefore the ultimate controlling party is Gino Pozzo.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

31 Cash generated from operations

	2017 £	2016 £
Profit for the year after tax	8,141,168	3,612,913
Adjustments for:		
Taxation credited	(4,113,578)	-
Finance costs	3,514,316	1,567,834
Investment income	(26,837)	(14,983)
Loss on disposal of tangible fixed assets	11,665	62,828
Amortisation and impairment of intangible assets	28,572,404	13,077,519
Depreciation and impairment of tangible fixed assets	3,355,451	1,898,381
Foreign exchange gains on cash equivalents	232,899	3,620,035
Profit on disposal of player registrations	(22,353,656)	(5,611,360)
(Decrease) in deferred income	(62,270)	(2,270)
Movements in working capital:		
(Increase) in stocks	(197,203)	(16,055)
(Increase) in debtors	(2,952,194)	(1,479,620)
Increase in creditors	4,896,490	7,339,601
Cash generated from operations	19,018,655	24,054,823