

# **THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED**

## **Report and Financial Statements for the year ended 30th June 2010**

**Company Number: 104194**

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**Certified as signed original**

**The 2010 Annual Report and Financial Statements  
The Watford Association Football Club Limited**

**P. J. Wastall  
(Company Secretary)  
26th November 2010**

A handwritten signature in black ink, consisting of several loops and a final flourish, representing the name P. J. Wastall.

**Company Number: 104194**

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# 101st report of the Directors

## for the year ended 30 June 2010

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 and auditor's report for the year ended 30 June 2010

### Principal activity

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

### Business review

The Company reported a loss before taxation for the year of £3,689,000 (2009 - loss £1,788,000)

The directors are unable to recommend the payment of a dividend. Accordingly, the loss for the year has been combined with the accumulated deficit brought forward as shown in note 17 to the financial statements

The financial results for the year ended 30 June 2010, which are set out in statutory format on page 9, are summarised in an amended format below

	2010 £'000	2009 £'000
Turnover	11,258	21,805
Wages and salary costs	(10,876)	(14,997)
Other operating expenses	(7,914)	(8,553)
Amortisation and impairment of player registrations	(1,372)	(4,293)
Other operating income	551	1,115
Operating loss	(8,353)	(4,923)
Profit on disposal of players' registrations	5,129	3,774
Net interest charges	(465)	(639)
Loss on ordinary activities before taxation	(3,689)	(1,788)

### Turnover

Total revenue decreased by £10,547,000 from £21,805,000 to £11,258,000. The figure for 2010 includes £902,000 of catering income. Income from catering was previously included within Watford Catering Limited, a separate company and fellow subsidiary of Watford Leisure PLC, therefore not appearing within the Club accounts. The business, assets and liabilities of Watford Catering Limited were acquired by the Club on 1 July 2009 for a consideration of £664,000 which increased the loan position between Watford Leisure PLC and the Club. Catering income is therefore now reported within the Club and the comparable revenue against the previous year is £10,356,000, a reduction of £11,449,000.

Media revenue reduced by £10,414,000, reflecting a reduction in the amounts received from the FA Premier League, of £11,305,000. The amount received in 2009 totalled £12,298,000 in parachute payments whereas in 2010 an amount of £993,000 was received relating to the Premier League Solidarity payments and reconciling parachute payments. The League Basic Award increased from £1,178,000 in 2009 to £2,527,000 in 2010. Televised match income also increased from £70,000 in 2009 to £200,000 in 2010 due to two home league matches being televised in the year as against one home and one away match in the previous year, home matches attract a higher fee. Cup Match related media income fell from £566,000 in 2009 to £8,000 in 2010 - matches versus Tottenham in the Carling Cup and Chelsea in the FA Cup were televised in the previous year with associated income of £375,000 and progression through to the 5th round of the FA Cup with wins against Scunthorpe and Crystal Palace achieved prize money of £175,000.

# 101st report of the Directors continued

## for the year ended 30 June 2010

Commercial revenues increased by £201,000 mainly due to the inclusion of catering income of £483,000. The comparable figure with the previous year therefore shows a shortfall of £282,000 mainly relating to a reduction in sponsorship income.

Matchday revenues reduced by £137,000 from £4,488,000 in 2009 to £4,351,000 in 2010. Again, the transfer of Watford Catering Limited into the Club increased revenues in the Club by £419,000 in the year, so the comparable shortfall against the previous year is £556,000 mainly relating to Season Ticket income. Season Ticket prices were reduced by an average of 16% - 20% and the total number issued fell by circa 600 resulting in a significant reduction in income.

Other income in 2009 of £1,550,000 related to player loan fees. In 2010 an amount of £1,353,000 was received relating to the Elton John Concert.

### **Wages and salary costs**

Salary costs have reduced significantly from the previous year as the results of the business restructuring have become more evident, with costs falling from £14,997,000 in 2009 to £10,876,000 in 2010, a reduction of £4,121,000. The players' salaries have reduced by £2,744,000 from £10,500,000 in 2009 to £7,756,000 in 2010 and this downward trend will continue as player contracts expire and new contracts fall within the business plan's player salary structure. Football Management, Commercial, Stadium and Administrative salaries have all reduced due to the business restructuring and subsequent staff changes - a total reduction of £1,538,000 has been achieved, offset by the inclusion of catering related salaries.

### **Other operating expenses**

Other operating expenses continue to fall, with a reduction of £639,000. The 2010 amount of £7,914,000 includes catering costs of £565,000 and costs relating to the Elton John Concert of £721,000, so the comparable movement against the 2009 figure of £8,553,000 is a fall of £1,925,000. Following the comprehensive business review and cost reduction programme, cost savings have been achieved across the business, most notably within football where savings of £1,065,000 have been implemented and within stadium and administrative areas, where cost savings of £582,000 have been achieved. Retail costs have reduced by £249,000 in line with reduced income in the year.

### **Amortisation and impairment of player registrations**

Amortisation and impairment costs have reduced from £4,293,000 to £1,371,000. The prior year included £1,500,000 of amortisation relating to N Ellington, the player's book value had been previously impaired to a level relative to the known loan income which was generated. This book value was then fully amortised over the year long loan in last year's accounts. The remaining reduction is relative to the significantly lower net book value of our player registrations.

### **Other operating income**

Other operating income includes rent receivable from Saracens Rugby Club for the lease of the Vicarage Road Stadium and from Kier London, the construction company involved in the ongoing key worker housing development at the Stadium, for the lease of office space at the Stadium. The previous year also included amounts payable as compensation from Reading FC in relation to their employment of Brendan Rodgers.

### **Profit on disposal of players' registrations**

The profit on disposal of players' registrations comprises total profits of £4,111,000 from the sales of T Smith, M Williamson and T Priskin and several smaller profits generated by appearances, promotion and sell-on clauses from players sold, mainly in previous years, totalling £1,018,000.

### **Risks and uncertainties**

The Board have 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 position. It has also considered the financing requirements of the business that may result and these are referred to in note 1a).

### Future developments

The Club is actively seeking new investment to drive the business forward and to continue with the redevelopment of the stadium

### Directors and their interests

The directors at 30 June 2010 together with their beneficial interests in the shares of the Company and parent company, Watford Leisure PLC, at that date, were as follows

	Parent company		Company	
	Ordinary 1p shares		Ordinary £1 shares	
	2010	2009	2010	2009
G Taylor Chairman (Non-Executive)	-	-	123	123
J Winter Chief Executive Officer (Executive)	-	-	-	-
D B Fransen (Non-Executive)	-	-	-	-
S R Timperley (Non-Executive)	-	-	-	-

None of the directors has any interest in the share capital of any other group company

During the year ended 30 June 2010, the following appointments, as directors, were terminated

G Russo - terminated 23 December 2009  
V Russo - terminated 23 December 2009  
R R Williams - terminated 23 December 2009  
C J Norton, as an alternate director for G Russo, V Russo and R R Williams - terminated 23 December 2009

There has been no change in directors since the year end

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

### Directors' responsibilities

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with 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 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, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

# 101st report of the Directors continued

## for the year ended 30 June 2010

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.

In so far as the directors are aware

- there is no relevant audit information of which the Company's auditor is unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

### Payment of suppliers

The Company seeks the best possible terms from suppliers appropriate to its business and, in placing orders, gives consideration to quality, price and terms of payment which will be agreed with each supplier when details of each transaction are settled. The Company will continue to honour its contractual and legal obligations and to pay contractors and suppliers on the dates agreed in contracts and purchase orders.

Being mindful that the Company transacts with many small suppliers the group endeavours to meet the Government's best practice guidelines and pay suppliers within thirty days from receipt of invoice whenever the invoice can be matched to an order and can be duly authorised with no queries arising thereon.

Overall, the ratio expressed in days between the amounts invoiced to the Company by its suppliers (excluding transfer fees payable) and the amount owed to its creditors at 30 June 2010 was 42 days.

### Charitable and political donations

During the year the Company made charitable donations amounting to £3,477. No political donations were made during the year.

### Post balance sheet events

Details of post balance sheet events are set out in note 24 to the financial statements.

### Auditors

A resolution concerning the reappointment of Chantrey Vellacott DFK LLP as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

Signed on behalf of the Board

P J Wastall  
Company Secretary



Approved by the Board on 31 October 2010



# **Independent auditor's report**

## **to the members of The Watford Association Football Club Limited**

We have audited the financial statements of the Club year ended 30 June 2010 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 auditors' 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.

### **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 30 June 2010 and of its loss 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.

### **Emphasis of matter - Going concern**

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in note 1a) to the financial statements concerning the Company's ability to continue as a going concern. At 30 June 2010 the company's liabilities exceeded its total assets by £10,958,000, following a loss for the year of £3,689,000.

The validity of the going concern basis is dependent on the assumptions underlying the financial projections being accurate, the financial projections being substantially realised and the Company's ability to raise sufficient new capital to the extent that may be required.

These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.



# **Independent auditor's report continued**

to the members of The Watford Association Football Club Limited

## **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

## **Matters on which we are required to report by exception**

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

*Chantrey Vellacott DfK LLP*

**DAVID JAMES (Senior Statutory Auditor)**  
for and on behalf of **CHANTREY VELLACOTT DFK LLP**  
**Chartered Accountants and Statutory Auditor**  
**London**  
1 November 2010

# Profit and loss account

for the year ended 30 June 2010

	Notes	Operations excluding player trading £'000	Player trading (note 8) £'000	2010 £'000	2009 £'000
<b>Turnover</b>					
Continuing operations		10,356	-	10,356	21,805
Acquisitions	9	902	-	902	-
	2	11,258	-	11,258	21,805
Cost of sales		15,049	1,372	16,421	23,288
<b>Gross loss</b>		(3,791)	(1,372)	(5,163)	(1,483)
Administrative expenses		3,741	-	3,741	4,555
		(7,532)	(1,372)	(8,904)	(6,038)
Other operating income	3	551	-	551	1,115
<b>Operating loss</b>		(6,981)	(1,372)	(8,353)	(4,923)
<b>Attributable to</b>					
Continuing operations		(7,157)	(1,372)	(8,529)	(4,923)
Acquisitions	9	176	-	176	-
Profit on disposal of players' registrations		-	5,129	5,129	3,774
Interest receivable	4	7	-	7	44
Interest payable and similar charges	4	(472)	-	(472)	(683)
<b>Loss on ordinary activities before taxation</b>	5	(7,446)	3,757	(3,689)	(1,788)
Tax on loss on ordinary activities	7			-	-
<b>Loss for the financial year</b>	17			£(3,689)	£(1,788)

The business, assets and liabilities of Watford Catering Limited were acquired by the Club on 1 July 2009 for a consideration of £664,000 which increased the loan position between Watford Leisure PLC and the Club (see note 9). None of the Company's other activities were acquired or discontinued during the above two financial years.

The Company has no recognised gains or losses other than those included in the results above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the results shown above and their historical cost equivalents.

The notes on pages 12 to 26 form part of these financial statements.



# Balance sheet

at 30 June 2010

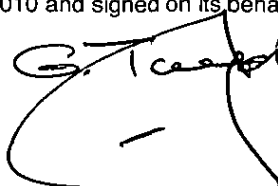
	Notes	2010 £'000	2009 £'000
<b>Fixed assets</b>			
Intangible assets	1 (c) & 8	978	2,218
Tangible assets	1 (d) & 10	13,074	12,868
		<u>14,052</u>	<u>15,086</u>
<b>Current assets</b>			
Stocks	1 (h) & 11	113	96
Debtors	12	3,574	2,433
Cash at bank and in hand		686	37
		<u>4,373</u>	<u>2,566</u>
<b>Creditors amounts falling due within one year</b>	13	<u>13,867</u>	<u>10,311</u>
<b>Net current liabilities</b>		<u>(9,494)</u>	<u>(7,745)</u>
<b>Total assets less current liabilities</b>		<u>4,558</u>	<u>7,341</u>
<b>Creditors amounts falling due after more than one year</b>	14	(15,491)	(14,581)
<b>Deferred capital grants and contributions</b>	15	(25)	(29)
		<u>£(10,958)</u>	<u>£(7,269)</u>
<b>Capital and reserves</b>			
Called up share capital	16	1,073	1,073
Profit and loss account - accumulated deficit	17	(12,031)	(8,342)
<b>Shareholders' funds</b>	18	<u>£(10,958)</u>	<u>£(7,269)</u>

Approved by the Board of Directors on 31 October 2010 and signed on its behalf

**G TAYLOR** - Chairman

Company registration number - 104194

The notes on pages 12 to 26 form part of these financial statements



# Cash flow statement

for the year ended 30 June 2010

	Notes	2010 £'000	2009 £'000
<b>Operating activities</b>			
Net cash outflow from operating activities	19 (a)	(6,346)	(1,722)
<b>Returns on investments and servicing of finance</b>			
Interest received	7	44	
Interest paid	(303)	(693)	
<b>Net cash outflow from returns on investments and servicing of finance</b>		(296)	(649)
<b>Capital expenditure</b>			
Payments to acquire intangible fixed assets	(1,928)	(3,424)	
Payments to acquire tangible fixed assets	(248)	(433)	
Receipts from sales of intangible fixed assets	4,056	8,538	
Receipts from sales of tangible fixed assets	111	-	
		1,991	4,681
<b>Net cash (outflow) / inflow before financing</b>		(4,651)	2,310
<b>Financing</b>	19 (b)		
(Repayments) / advances of group loans	(153)	1,896	
Advances / (repayments) of bank and other loans	5,341	(6,809)	
<b>Net cash inflow / (outflow) from financing</b>		5,188	(4,913)
<b>Increase / (decrease) in cash in the year</b>	19 (c)	£537	£(2,603)

The notes on pages 12 to 26 form part of these financial statements

# Notes to the financial statements

for the year ended 30 June 2010

## 1 Accounting policies

The principal accounting policies are as follows

### a) Basis of accounting

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards

The Company made a loss for the year of £3,689,000 and had net liabilities at 30 June 2010 of £10,958,000

The financial statements have been prepared on a going concern basis which the directors of the Company believe to be appropriate for the reasons outlined below

The directors acknowledge that the football club, similar to many other Championship clubs, will be likely to continue making operating losses. Therefore, the Company remains reliant upon its ability to raise finance through other means

The support of the directors of the Company and shareholders of the parent company has been evident in the past and continues to be of significant importance. During the year to 30 June 2010 loans totalling £6,978,168 were made available by certain directors of the Company and a shareholder of the parent company. Of these loans, £6,478,168 was converted into secured bonds issued by the parent company after the year end (see note 24). The directors will be working to ensure that the parent company is able to satisfy the conditions of the Bond upon expiry, or otherwise seek to ensure the continued support of the Bond holders

The Company's bankers have indicated that, so long as the Company continues to operate within its financial plan, regular renewal of the £1m overdraft facility will be available and extensions to this will be considered to bridge gaps in cashflow

The Company has prepared detailed cash flow forecasts for the period to 30 June 2015. Those forecasts show that the Company does not currently have facilities in place to fund all of the projected cash requirements over the next twelve month period. The directors acknowledge that as a football club which invests significantly in its youth and recruitment policies, the trading of players is critical to the business model of the Company. The directors are confident that through a combination of player sales and directors and / or shareholder support the requirement to 30 June 2011 will be satisfied

The directors consider that new investment into the business is absolutely vital in order to allow the Company to move forward from what has been a difficult time financially. The directors will continue to manage the Company's resources and seek to increase income and control costs at all times. These financial statements show the dramatic cost reductions that have already been made to ensure that the impact of the loss of £12 million of revenue has been minimised and the current period will show further reductions in costs, as many players' contracts expired and new contracts were signed within the business structure necessary to enable sustainability

The directors are confident that the going concern basis is appropriate, and believe that new investment will be forthcoming in the period required and that otherwise bond holder support will enable the Company more time to secure such investment



## **b) 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

- i) Season ticket and corporate hospitality income is recognised over the period of the football season as home matches are played
- ii) Fixed elements of FA Premier League and Football League central broadcasting contracts are recognised over the period of the football season as league matches (home and away) are played and Football League appearance fees are accounted for as earned
- iii) 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. Catering revenues are recognised on an earned basis. Income from the sale of branded products is recognised at the point of dispatch when significant risks and rewards of ownership are deemed to have been transferred to the buyer

## **c) Intangible assets**

- i) 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 asset's 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.

- ii) Amortisation

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

## **d) Tangible fixed assets, capital grants and depreciation**

Tangible fixed assets are stated at their gross cost or valuation less accumulated depreciation and 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 are released to the profit and loss account over the expected useful lives of the assets to which they relate.

Depreciation is charged to the profit and loss account, to write off the cost of property, plant and equipment less estimated residual value, on a reducing balance basis, over their estimated useful lives as follows:

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

# Notes to the financial statements continued

for the year ended 30 June 2010

## **e) 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. Prepayments/accruals arising at each period end are included within prepayments and accrued income or accruals within current assets and liabilities, as appropriate. Where a player's registration is transferred, any signing on fees payable in respect of future periods are charged against the profit/(loss) on disposal of players' registrations in the period in which the disposal is recognised.

## **f) 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.

## **g) Goodwill**

Goodwill arising from the acquisition of Watford Catering Limited is capitalised as an intangible fixed asset and is amortised on a straight line basis over the economic life, estimated at 10 years.

## **h) Stocks**

Stocks are stated at the lower of cost and net realisable value.

## **i) 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.

## **j) Operating leases**

Payments made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease. Lease incentives are recognised in the profit and loss account as an integral part of the total lease expense.

Rental receipts are recognised in the profit and loss account on a straight line basis over the term of the lease.

## **k) Pensions**

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. The pension cost charges represent contributions payable by the Company during the year (see also note 22).

## **l) Deferred taxation**

Deferred tax is provided in full, where appropriate, in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax balances are not discounted.

## 2 Turnover

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.

	2010 £'000	2009 £'000
Matchday	4,351	4,488
Media	4,090	14,504
Commercial	1,464	1,263
Other	1,353	1,550
	<u>£11,258</u>	<u>£21,805</u>

Revenue streams comprise

**Matchday** - season and matchday tickets, corporate hospitality and matchday catering income

**Media** - television and broadcasting income, including distributions from the FA Premier League broadcasting agreements, Football League funding, cup competitions and local radio

**Commercial** - sponsorship income, merchandising, conference and banqueting and other sundry

**Other** - Elton John Concert (2009 player loan fees receivable)

## 3 Other operating income

	2010 £'000	2009 £'000
Rent receivable	519	529
Release of capital grants	4	4
Compensation receivable	-	550
Other	28	32
	<u>£551</u>	<u>£1,115</u>

## 4 Interest

	2010 £'000	2009 £'000
Interest receivable		
Bank deposit interest	<u>£7</u>	<u>£44</u>
Interest payable and similar charges		
Group interest	165	214
Bank loan and overdraft interest	12	71
Other interest	295	398
	<u>£472</u>	<u>£683</u>



# Notes to the financial statements continued

for the year ended 30 June 2010

<b>5 Loss on ordinary activities before taxation</b>	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
This is stated after charging		
Amortisation of intangible fixed assets	1,159	4,260
Impairment of intangible fixed assets	230	33
Depreciation of tangible fixed assets	744	888
Impairment of tangible fixed assets	-	435
Auditor's remuneration		
audit fees	16	22
taxation	3	3
other	3	7
Operating leases - vehicles and equipment	42	51
Operating leases - property	529	538

The impairment of intangible fixed assets made in the year ended 30 June 2010 of £230,000 related to a player's registration. The impairment was made to reduce the carrying value of the player's registration to fair value less cost of sale. The fair value was determined by the directors on the basis of known income.

The impairment of tangible fixed assets made to 30 June 2009 relates to the Red Lion public house. The impairment was made to reduce the carrying value of the asset to fair value. The fair value was determined by the directors by reference to market data available in 2009. There has been no further change to the carrying value during 2010.

<b>6 Employee information</b>	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
Staff costs		
Wages and salaries	9,624	13,271
Social security costs	1,192	1,537
Other pension costs	60	189
	<b>£10,876</b>	<b>£14,997</b>

The average monthly number of persons employed by the Company was as follows

	<b>2010</b>	<b>2009</b>
	<b>Number</b>	<b>Number</b>
Players	49	48
Coaching staff	31	32
Part-time coaching staff	13	9
Commercial staff	20	25
Part-time commercial staff	17	14
Part-time catering staff	61	-
Administration	10	16
Ground staff	9	10
	<b>210</b>	<b>154</b>

In addition to the above the Company employed an average of 211 (2009 - 122) part-time match day staff during the year.

The acquisition of Watford Catering Limited has increased staff numbers in the Company, however staffing levels across the commercial and administrative areas have reduced as a result of the business restructuring which was undertaken late in the previous financial year

<b>Directors' remuneration</b>	<b>2010 £'000</b>	<b>2009 £'000</b>
Directors' remuneration	235	336
Pension costs	9	-
	<b>244</b>	<b>336</b>
Highest paid director	<b>133</b>	<b>233</b>
Number of directors accruing benefits under money purchase schemes	<b>1</b>	<b>-</b>

## 7 Tax on loss on ordinary activities

No liability to corporation tax arises in view of the tax loss suffered in the year

The tax position is reconciled as follows

	<b>2010 £'000</b>	<b>2009 £'000</b>
Loss before taxation	<b>(3,689)</b>	<b>(1,788)</b>
Loss before taxation multiplied by the effective standard UK corporation tax rate of 28.0% (2009 - 28.0%)	<b>(1,033)</b>	<b>(501)</b>
Expenses not deducted for tax purposes	4	2
Depreciation in excess of capital allowances	124	237
Other temporary differences	-	(34)
Unused tax losses carried forward	905	255
Group relief	-	41
	<b>£Nil</b>	<b>£Nil</b>

Tax losses at 30 June 2010 available for offset against future trading profits or transfer as group relief are in excess of £32 million

Under the accounting policy no provision is required for deferred taxation and there is no potential liability

# Notes to the financial statements continued

for the year ended 30 June 2010

## 8 Intangible fixed assets

	Goodwill £'000	Pouring rights £'000	Players' registrations £'000	Total £'000
<b>Cost or valuation</b>				
At 1 July 2009	-	752	9,756	10,508
Additions	177	-	1,008	1,185
Disposals	-	-	(4,591)	(4,591)
At 30 June 2010	<b>177</b>	<b>752</b>	<b>6,173</b>	<b>7,102</b>
<b>Depreciation</b>				
At 1 July 2009	-	752	7,538	8,290
Charge for the year	18	-	1,371	1,389
Disposals	-	-	(3,555)	(3,555)
At 30 June 2010	<b>18</b>	<b>752</b>	<b>5,354</b>	<b>6,124</b>
<b>Net book value</b>				
At 30 June 2010	<b>£159</b>	<b>£Nil</b>	<b>£819</b>	<b>£978</b>
At 30 June 2009	<b>£Nil</b>	<b>£Nil</b>	<b>£2,218</b>	<b>£2,218</b>

## 9 Acquisition

	£'000
<b>Watford Catering Limited - net assets acquired</b>	
Fixtures & fittings	11
Stock	24
Debtors	43
Amount owed by the Company	429
Bank	22
Creditors	(42)
Net Assets acquired	<b>487</b>
Consideration	<b>664</b>
Goodwill	<b>177</b>

The business, assets and liabilities of Watford Catering Limited were acquired by the Club for a consideration of £664,000 on 1 July 2009. The consideration was satisfied by increasing the intercompany loan position between the Club and Watford Leisure PLC, the parent company of Watford Catering Ltd.

The results for the business of Watford Catering Limited, included in the Company's profit and loss account for the period to 30 June 2010 are shown below. Watford Catering Limited's profit for the year ended 30 June 2009 was £145,000.

					2010	
					£'000	
	Turnover				902	
	Cost of sales				565	
	Gross profit				337	
	Administrative expenses				161	
	Operating profit				176	
10	<b>Tangible fixed assets</b>				<b>Motor vehicles, equipment, fixtures and fittings</b>	
		<b>Assets under construction</b>	<b>Freehold ground, premises and improvements</b>	<b>Leasehold property and improvements</b>	<b>£'000</b>	<b>Total £'000</b>
		£'000	£'000	£'000	£'000	£'000
	<b>Cost</b>					
	At 1 July 2009	-	12,659	879	2,599	16,137
	Additions	868	11	1	181	1,061
	Disposals	-	-	(662)	(603)	(1,265)
	At 30 June 2010	<b>868</b>	<b>12,670</b>	<b>218</b>	<b>2,177</b>	<b>15,933</b>
	<b>Depreciation</b>					
	At 1 July 2009	-	1,105	527	1,637	3,269
	Charge for the year	-	233	237	274	744
	Disposals	-	-	(636)	(518)	(1,154)
	At 30 June 2010	<b>-</b>	<b>1,338</b>	<b>128</b>	<b>1,393</b>	<b>2,859</b>
	<b>Net book value</b>					
	At 30 June 2010	<b>£868</b>	<b>£11,332</b>	<b>£90</b>	<b>£784</b>	<b>£13,074</b>
	At 30 June 2009	<b>£Nil</b>	<b>£11,554</b>	<b>£352</b>	<b>£962</b>	<b>£12,868</b>
11	<b>Stocks</b>				<b>2010</b>	<b>2009</b>
					£'000	£'000
	Goods for resale				£113	£96

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

# Notes to the financial statements continued

for the year ended 30 June 2010

<b>12 Debtors</b>	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
Trade debtors	792	1,214
Transfer fees receivable	2,265	156
Other debtors	10	204
Prepayments and accrued income	507	859
	<b>£3,574</b>	<b>£2,433</b>

Other debtors includes £10,183 (2009 - £10,183) which falls due after more than one year

Prepayments and accrued income includes £130,329 (2009 - £185,934) which falls due after more than one year

<b>13 Creditors amounts falling due within one year</b>	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
Bank overdraft (secured)	727	615
Directors' loans	500	1,468
Other loans	6,721	912
Trade creditors	990	879
Players' registration costs	531	1,473
Amount due to fellow subsidiary	-	429
Other taxes and social security	346	989
Accruals	1,780	1,312
Deferred revenue	2,272	2,234
	<b>£13,867</b>	<b>£10,311</b>

The bank overdraft of £727,000 (2009 - £615,000) is due in its entirety within one year and is secured by a charge over the Company's stadium and a cross company guarantee with the parent company

Other loans payable within one year of £6,721,000 (2009 - £912,000) includes a loan to the Company by Fordwat Limited of £6,478,168 which was secured by a legal charge over the Company's stadium and is guaranteed by Watford Leisure PLC. In July 2010 this loan was transferred to Watford Leisure PLC (note 24). In addition £167,796 of a £503,000 unsecured interest free loan from The Football League is included. The total amount of the loan outstanding is £335,200 with monthly instalments of £13,983 being deducted from the Football League Award. The loan from Watford FC's Community Sports & Education Trust of £668,961, which was repayable in less than one year in 2009, is now repayable in June 2013 following the Trustees agreeing to a formal extension of repayment. Both this and the remaining balance payable on the Football League loan are included in other loans falling due after more than one year (note 14).

Directors' loans payable within one year of £500,000 is an amount owing to D Fransen and is repayable on 31 January 2011. The loan is unsecured and is accruing interest at 3.5% above base rate. The prior year loan of £1,468,000 related to amounts owing to Valley Grown Salads, a company controlled by two of the then directors, G and V Russo. This loan was repaid during the year.

<b>14 Creditors amounts falling due after more than one year</b>	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
Loans (note 13)	836	336
Amount owed to parent company (note 24 and 25)	14,167	13,656
Accruals and deferred revenue	488	589
	<b>£15,491</b>	<b>£14,581</b>

The maturity of total debt may be analysed as follows	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
In one year or less	7,221	2,380
Between one and two years	14,334	13,824
Between two and five years	669	168
	<b>£22,224</b>	<b>£16,372</b>

#### 15 Deferred capital grants and contributions

	<b>Capital grants</b>	<b>Contributions to capital expenditure</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At 1 July 2009	26	3	29
Credited to the profit and loss account	(4)	-	(4)
At 30 June 2010	<b>£22</b>	<b>£3</b>	<b>£25</b>

Capital grants comprise grants received principally from the Football Stadia Improvement Fund, formerly the Football Trust, towards the costs of stadium re-development

#### 16 Share capital

	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
Authorised		
1,250,000 Ordinary shares of £1 each	<b>£1,250</b>	<b>£1,250</b>
Allotted, called up and fully paid		
1,072,722 Ordinary shares of £1 each	<b>£1,073</b>	<b>£1,073</b>

# Notes to the financial statements continued

for the year ended 30 June 2010

## 17 Reserves

	Profit and loss account £'000
At 1 July 2009	(8,342)
Loss for the year	(3,689)
<b>At 30 June 2010</b>	<b>£(12,031)</b>

## 18 Reconciliation of movements on shareholders' funds

	2010 £'000	2009 £'000
Loss for the financial year	(3,689)	(1,788)
Opening shareholders' funds	(7,269)	(5,481)
Closing shareholders' funds	<b>£(10,958)</b>	<b>£(7,269)</b>

Shareholders' funds are fully attributable to equity interests

## 19 Notes to the cash flow statement

### a) Reconciliation of operating loss to net cash outflow from operating activities

	2010 £'000	2009 £'000
Operating loss	(8,353)	(4,923)
Amortisation and impairment of intangible fixed assets	1,389	4,293
Depreciation and impairment of tangible fixed assets	744	1,323
Capital grant released	(4)	(4)
Decrease in stocks	7	19
Decrease in debtors	1,011	77
Decrease in creditors	(1,140)	(2,507)
Net cash outflow from operating activities	<b>£(6,346)</b>	<b>£(1,722)</b>



## 19 Notes to the cash flow statement (continued)

### b) Analysis of changes in net debt

	At 1 July 2009 £'000	Cash flows £'000	Other changes £'000	At 30 June 2010 £'000
Cash at bank and in hand	37	649	-	686
Bank overdraft	(615)	(112)	-	(727)
Net cash at bank and in hand	(578)	537	-	(41)
Intergroup balance	(13,656)	153	(664)	(14,167)
Directors' loans within 1 year	(1,468)	968	-	(500)
Other loans due within 1 year	(912)	(6,478)	669	(6,721)
Other loans due after 1 year	(336)	169	(669)	(836)
	(16,372)	(5,188)	(664)	(22,224)
	£(16,950)	£(4,651)	£(664)	£(22,265)

### c) Reconciliation of net cash flows to movement in net debt

	2010 £'000	2009 £'000
Increase / (decrease) in cash in the year	537	(2,603)
Cash (inflow) / outflow from (increase) / decrease in debt	(5,188)	4,913
Change in net debt resulting from cash flows	(4,651)	2,310
Non-cash consideration	(664)	-
Movement in net debt in the year	(5,315)	2,310
Net debt at 1 July 2009	(16,950)	(19,260)
Net debt at 30 June 2010	£(22,265)	£(16,950)

### d) Major non-cash transactions

The acquisition of the business, assets and liabilities of Watford Catering Limited by the Club was completed by an increase of the intercompany loan position between the Club and Watford Leisure PLC (see note 9)



# Notes to the financial statements continued

for the year ended 30 June 2010

## 20 Financial commitments

The maximum amount of payments due in respect of deferred signing on fees for playing staff under contract with the Company as at 30 June 2010, which has not been provided for in the financial statements, is as follows

	£'000
On contracts expiring	
Within one year	150
Within two to five years	135
	<hr/>
	£285
	<hr/>

The Company's commitments for rental payments under operating leases payable during the year to 30 June 2011 are as follows

	Land and buildings £'000	Other £'000
On contracts expiring		
Within one year	-	1
Within two to five years	423	23
	<hr/>	<hr/>
	£423	£24
	<hr/>	<hr/>

## 21 Contingent liabilities and assets

The Company has liabilities under transfer agreements to pay additional sums dependent on players' attainment and subsequent transfer value. The maximum that could be payable in respect of transfers made before 30 June 2010 is £1,850,000 (2009 - £937,400). Since the year end £324,375 of this has become payable. Of the contingent amount £972,500 (2009 - £367,500) relates to clauses linked to promotion to the Premiership or international appearances.

Of the amount outlined at note 12 relating to transfer fees receivable, £1,450,000 is due from Portsmouth FC. These payments are expected to be made direct to the Club by the Premier League in accordance with Premier League rules C51 and C53 (since 30 June 2010, £950,000 has been received). However, the payments have been received conditional upon the Premier League being able to recoup them should any third parties be able successfully to challenge the so called Football Creditor rule. The directors are confident that whilst a contingent liability does exist, it appears unlikely that these monies will need to be repaid.

The maximum possible commitments in respect of signing-on-fees due to players under contracts at the year end, which are payable on future dates specified in their contracts and not provided for in the accounts, amounted to £285,000 (2009 - £253,000).

At 30 June 2010 the Club has sums receivable from other clubs in respect of players under contract, dependent upon the number of first team appearances. Due to the uncertainty of receipt of these contingent assets, it is not practical to disclose the amount likely to be received.

## **22 Pension costs**

Certain of the Company's ex-employees are members of the Football League Limited Pension and Life Assurance Scheme ("FLLPLAS"), a defined benefit scheme. The Company is one of a number of participating employers in FLLPLAS. The assets of the scheme are held separately from those of the Company, being invested with insurance companies. Under the provisions of FRS 17 the scheme is accounted for as a defined contribution scheme. Following an actuarial valuation as at 31 August 2008, updated to 30 June 2010, the Company has been advised by the trustees that its share of the actuarial deficit is £182,952 (of which £25,029 is payable in less than one year), included in accruals, and that it is required to pay £2,510 per month for the next ten years.

A replacement money purchase scheme was set up from 1 August 1999 and all current employer contributions are paid into that scheme.

## **23 Capital commitments**

The Company has contracted for, but not provided for in the financial statements, capital expenditure totalling approximately £285,000 which relates to the construction and fit-out of the Club's offices at the Vicarage Road Stadium.

## **24 Post balance sheet events**

Subsequent to the year end the Company has purchased players with registration costs amounting to £475,000. These amounts will be capitalised in the financial statements for the next financial year. The Club has not received any proceeds from the sale of players since the year end.

On 13 July 2010, a 364 day Secured Bond was issued by Watford Leisure PLC for a total of £10,142,000. At that date, the Club loan from Fordwat Limited of £6,478,168 and loans to the parent company from D Fransen of £2,050,000 (see note 26) plus loan notes of £592,000 were all converted into bonds. Unpaid interest on the Fordwat Limited loan was also converted. A balance of £935,294 was generated as a cashflow into the Company for working capital purposes. The bonds are secured by a second charge over the Vicarage Road Stadium and are due for repayment on 12 July 2011. In order to satisfy the terms of the Bond £13,000,000 of the intercompany debt between the Club and Watford Leisure PLC was waived, leaving the Club with positive net assets. Watford Leisure PLC, has given representations that it will not seek repayment of any remaining amounts owed by the Company in the next 12 months.

## **25 Parent Company and control**

The parent company, and ultimate controlling party, is Watford Leisure PLC.

At 30 June 2010 the Company owed £14,167,000 (2009 - £13,656,000) to the parent company. Part of the amount owed to the parent company bears interest at 2% over HSBC Bank plc base rate. The balance is secured by a floating charge over all the undertakings and assets of the Company (see also note 24).

Interest amounting to £165,000 (2009 - £214,000) has been charged to the loan balance in the year to 30 June 2010.

# Notes to the financial statements continued

for the year ended 30 June 2010

## 26 Related party and directors' transactions

A director, J Winter is a director of Watford FC's Community Sports & Education Trust, a charitable company. At 30 June 2010, in addition to the loan shown in note 13, £8,779 was owed to the Trust (2009 - £79,943). The movement in the year includes additional interest of £13,948, a further amount of sponsorship of £34,500 and miscellaneous amounts totalling £10,197 offset by invoices paid on behalf of the Trust by the Club totalling £129,809. Since the year end further amounts have been loaned or paid on behalf of the Trust.

A number of loans were made to the Club by G Russo and Valley Grown Salads ("VGS"), a company controlled by former directors, G and V Russo. As at 30 June 2009 loans from VGS totalled £1,467,849 and were repayable in less than one year. This amount included a loan of £162,821 which attracted interest of 6.72% per annum and the remainder, an amount of £1,305,028, attracted interest of 9.54% per annum. This latter loan was increased by £514,972 on 17 July 2009. In addition, two loans were made available by G Russo, one of £650,000 on 21 July 2009 and a second of £1,250,000 on 27 August 2009, both attracting interest at 7% per annum.

The total of the VGS loan of £1,982,821 plus the £650,000 loan from G Russo were repaid on the 29 September 2009 and replaced by a single loan from VGS of £2,632,821. This loan was due for repayment upon demand and accrued interest at an interest rate of Barclays Bank base rate plus 3.5% per annum. This loan was secured against the stadium, by way of debenture ranking behind existing secured creditors. This loan was extended with further amounts of £1,000,000 on 26 November 2009 and £1,250,000 on 30 November 2009. The G Russo loan of £1,250,000 was repaid on 1 December 2009. The interest rate on the VGS loan changed to 4.5% above Barclays Bank base rate from 26 November 2009.

Following the resignation of G Russo, V Russo and R R Williams from the Board of Watford Leisure PLC on 15 December 2009, and subsequent termination of their positions as directors of The Watford Association Football Club Limited, VGS demanded immediate repayment of its total loan of £4,882,821 plus any unpaid interest and fees. The total amount of interest related to all loans from G Russo and VGS in the period from 1 July 2009 to the date of repayment was £112,682 (2009 - £74,046).

The £4,882,821 loan plus unpaid interest and fees was repaid and Fordwat Limited, a 37.16% shareholder in Watford Leisure PLC, loaned the Club the amount of £4,933,563 on 21 December 2009. Unpaid interest of £44,605 was added to this loan on 24 February 2010 and further loans of £1,000,000 and £500,000 were made on 24 March 2010 and 24 June 2010 respectively. The Fordwat Limited loan was repayable upon demand and accrues interest at an interest rate of the Barclays Bank base rate plus 4.5% and was secured against the Vicarage Road Stadium by way of debenture ranking behind existing secured creditors. The total loan amount as at 30 June 2010 was £6,478,168 and the total amount of interest related to this loan to 30 June 2010 was £144,570.

Subsequent to the year end, on 13 July 2010, the Fordwat Limited loan with accrued interest to that date was converted into a 364 day Bond with Watford Leisure PLC, the parent company of the Club.

During the year, D Fransen, a director of the Company, loaned the Company £500,000, drawn down in three instalments, £200,000 on 22 January 2010, £100,000 on 29 January 2010 and £200,000 on 23 February 2010. This loan is unsecured and repayable on 31 January 2011 and is accruing interest at 3.5% above the Barclays Bank base rate. The total amount of interest related to this loan for the period is £8,066 - this interest has not been paid and is provided for in accruals.

During 2009 the Company made purchases of £284,000 from a fellow subsidiary, Watford Catering Limited. The Company recharged administration costs during the same year of £29,000. At 30 June 2009 £429,000 was owed to Watford Catering Limited by the Company.

## Company information

<b>Directors</b>	G Taylor - Non Executive Chairman J Winter - Chief Executive Officer D B Fransen - Non Executive Director S R Timperley - Non Executive Director
<b>Honorary Life Presidents</b>	Sir Elton John CBE Graham Taylor
<b>Football Manager</b>	M MacKay
<b>Company Secretary</b>	P J Wastall
<b>Football Secretary</b>	M Ives
<b>Registered Office</b>	Vicarage Road Stadium Watford Hertfordshire WD18 0ER
<b>Incorporation details</b>	Incorporated in the United Kingdom on 22 July 1909 under Certificate of Incorporation number 104194
<b>Auditor</b>	Chantrey Vellacott DFK LLP Russell Square House 10-12 Russell Square London WC1B 5LF
<b>Bankers</b>	Barclays Commercial Bank PO Box 729, Eagle Point 1 Capability Green, Luton Bedfordshire LU1 3US
<b>Website address</b>	<a href="http://www.watfordfc.com">www.watfordfc.com</a>