

The Watford Association Football Club Limited

Report and financial statements

For the year ended 30th June 2012

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Company information

Directors	Raffaele Riva Gian Luca Nani Scott I. Duxbury David B. Fransen Stuart R. Timperley	Executive chairman Executive director and technical director Executive director and chief executive Non-executive director Non-executive director
Honorary Life Presidents	Sir Elton John CBE Graham Taylor	
Football Manager	Gianfranco Zola	
Company Secretary	Peter Wastall	
Football Secretary	Michelle Ives	
Registered office	Vicarage Road Stadium Watford Hertfordshire WD18 0ER	
Incorporation details	Incorporated in the United Kingdom on 22 July 1909 under Certificate of Incorporation number 104194	
Auditor	Myers Clark Iveco House Station Road Watford Hertfordshire WD17 1DL	
Bankers	Barclays Commercial Bank PO Box 729, Eagle Point 1 Capability Green, Luton Bedfordshire LU1 3US	
Website address	www.watfordfc.com	

Report of the directors

For the year ended 30th June 2012

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 30th June 2012.

Principal activity

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

Business review

The Company recorded a loss before taxation for the period of £2,648,000 (2011 – profit £9,649,000).

The loss for the year has been added to the deficit brought forward as shown in note 17 to the accounts.

Background

The Club's Board consists of five directors (as detailed in the *Club information* section on page 1), being the executive chairman, the executive technical director, chief executive and two independent non-executive directors. Details of the changes in the Club's directorate during the year are set out later in this Directors' Report.

At the end of the financial year, on 29 June 2012, the Club was acquired by Hornets Investment Limited from Watford Leisure Limited, being a change of Club ownership.

The chief executive has responsibility, in close liaison with the chairman and other directors, for the day to day 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.

Financial Overview

The 12-month period under review has culminated in a change of ownership for The Watford Association Football Club Limited. The business performance in the year has seen significant operating losses, offset by a high level of profit on the disposal of player registrations.

Turnover has remained broadly static, with Cup Match revenue associated with the 4th round fixture against Tottenham being the main reason for the £189,000 increase from the previous year.

The operating loss position of £6,787,000 represents a £2,737,000 worsening from the previous year. This movement includes a £1,031,000 increase in wages and salary costs and £1,089,000 increase in general operating expenses as well as a reduction in other operating income of £407,000 and increase amortisation and impairment of player registrations costs of £399,000, offset by increased turnover of £189,000.

The trading of players remained critical to reducing the Club's losses and the £6,400,000 profit on disposal of player registrations generated in the year to 30th June 2012 certainly helped minimize losses in the year.

An exceptional item of £2,125,000 is a provision for the non repayment of the amount due to the Club from the previous owners ultimate holding company Watford FC Limited (see note 25).

Report of the directors continued
For the year ended 30th June 2012

The key financial and performance indicators are as follows:

	2012 £'000	2011 £'000
Turnover	11,184	10,995
Wages and salary costs	(10,350)	(9,319)
Other operating expenses	(7,041)	(5,952)
Amortisation and impairment of player registrations	(1,224)	(825)
Other operating income	644	1,051
Operating loss	<u>(6,787)</u>	<u>(4,050)</u>
Profit on disposal of player registrations	6,400	869
Exceptional item	(2,125)	
Net interest charges	(136)	(172)
Intercompany debt waiver		13,000
Profit/(Loss) on ordinary activities before taxation	(2,648)	9,647
Cash absorbed by operations	(4,964)	(1,111)
Wages to revenue ratio	90%	85%
League position	11th	14th

Financial Review

Total turnover increased by £189,000 from £10,995,000 to £11,184,000. This increase can be summarised as relating to the FA Cup income and most particularly the televised match against Tottenham in the 4th round.

Media revenue has increased by £231,000. This increase is mainly attributable to the television and radio coverage of the Club's 4th round FA Cup fixture against Tottenham which attracted income of £130,000, and additional income generated through League televised fixtures; in 2011 one home and two away games were televised with the home games generating £100,000 and each of the away games generating £10,000. Last season two home games were televised and one away generating a total of £210,000. Other media related income increased by £11,000, mainly due to increased website earnings.

Commercial revenues increased by £28,000, with catering income generated by non-match day functions increasing by £142,000, offset by a reduction in catering income from Saracens fixtures of £20,000 as well as reductions in retail income of £58,000 and other commercial sponsorships reducing by £36,000.

Revenues generated on match days reduced by £69,000 from £4,167,000 in 2011 to £4,098,000 in 2012. The income from Cup matches increased by £82,000 mainly due to ticketing income from the FA Cup fixture against Tottenham. Public catering receipts increased by £22,000 and match day corporate sales also increased by £23,000. League match ticket income decreased by £82,000 and season ticket income fell by £115,000, thus resulting in a net decrease across match ticketing overall of £197,000.

Salary costs increased from a 2011 level of £9,319,000 to £10,350,000 in 2012: an increase of £1,031,000. An increase in the overall cost of players' salaries from £6,452,000 in 2011 to £7,133,000 explains £681,000 of this overall increase. Other directly football related salaries (professional and academy management, scouting and academy player) have increased by £90,000 from £1,405,000 in 2011 to £1,495,000 and commercial, stadium and administrative salaries have reduced by £9,000 from £1,462,000 in 2011 to £1,453,000 in 2012. A provision of £269,000 has been made in relation to a potential prior year income tax and national insurance liability.

Report of the directors continued

For the year ended 30th June 2012

Other operating expenses have seen an increase of £1,089,000 from £5,952,000 in 2011 to £7,041,000 in 2012. This increase relates to consultancy fees totalling £242,000 which were charged in the year by the then parent, Watford FC Limited, to The Watford Association Football Club Limited. Also included is a provision for the loss on the possible disposal of the Red Lion Public House at a value of £464,000. The balance of the increase of £383,000 relates to general cost increases mainly against football related costs including agents' fees.

Amortisation and impairment costs have increased from £825,000 to £1,224,000. The increase of £399,000 is reflective of an impairment charge in the year of £263,000, where it is considered that some players carrying value at the year end exceeds their recoverable amount: no such charge was made in 2011. In addition, there has been a general increase in amortisation due to the fact that there were several playing additions during the year whose value has been amortised against the length of their contracts.

Other operating income includes rent receivable from Saracens Rugby Club for the lease of the Vicarage Road Stadium for a number of games. In previous years this charge related to a contract value but was based on a game by game value during the current year. The previous year's other operating income included amounts receivable as compensation for the departure of various playing staff to Cardiff FC.

The profit on disposal of players' registrations comprises total profits of £6,400,000, mainly generated from the sales of Danny Graham and Marvin Sordell and several smaller profits generated by appearances, promotion and sell-on clauses from players sold previous years, most notably Ashley Young. The prior year amount of £869,000 included profit on the disposal of William Buckley as well as several smaller profits generated by appearances, promotion and sell-on clauses from players sold in previous years.

The Team and Football Management

The Board appointed Gianfranco Zola as the Club's Football Manager in the early part of the new financial year 2012/2013 and looks forward to the continued development and ongoing achievements of the team under his control and leadership. The Manager is fully aware of the challenges, which both he and the team face in the competitive environment of the Championship League, but, nevertheless, both he and the Board are intent in working towards the delivery of promotion for the Club.

Academy

The new owners and Club Board recognise the continued and significant contribution from The Harefield Academy over many years and propose to develop and foster the Club's relationship with the Academy, as the Board looks to nurture identified young players through to the Club's squad and first team.

Community

The continued significant work and operations of Watford FC's Community Sports & Education Trust has again moved forward during the year, though some funding issues continue to beset the Trust, which appear similarly to be faced by such set-ups and clubs country-wide. Nevertheless, the Trust is constantly seeking to progress forward into suitable new areas and projects (particularly, the recent opening of Cedars Youth and Community Centre, in partnership with Harrow Council, is a significant and encouraging example). The Board regards the Trust as a valuable asset in its contribution both to the Club and local community.

Report of the directors continued

For the year ended 30th June 2012

Stadium

The on-going development of Vicarage Road Stadium, including ground development and improvements of facilities for the Club and its supporters, is currently under review by the Board and new owners and it is desired and anticipated that there will be considerable progress in these areas in the foreseeable future.

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's new owners are committed to new investment into the business in respect of playing staff and in order to update the facilities at the Stadium.

Directors and their interests

The directors at 30 June 2012, together with their beneficial interests in the shares of the Company and parent company, at the dates shown below, were as follows:

	<i>Parent Company</i> Watford Leisure Limited, from 1 July 2011 to 28 June 2012 (its name having been changed from Watford Leisure PLC on 20 October 2011)		<i>Parent Company</i> Hornets Investment Limited, from 29 June 2012 to 30 June 2012		<i>Company</i> from 1 July 2011 to 30 June 2012	
	Ordinary 1p shares		Ordinary £1 shares		Ordinary £1 shares A Ordinary £0.001 shares	
	2012	2011	2012		2012	2011
Mr. R. Riva	-	-	-		-	-
Mr. G. Luca Nani	-	-	-		-	-
Mr. S. I. Duxbury	-	-	-		-	-
Mr. D. B. Fransen	-	-	-		-	-
Professor S. R. Timperley	-	-	-		-	-

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

Report of the directors continued

For the year ended 30th June 2012

During the year:

Mr. L. Bassini was appointed as a non-executive director on 16 August 2011 and resigned on 28 June 2012, and Mr. G. Taylor resigned on 31 May 2012 as non-executive chairman and director.

Since the year ended 30 June 2012, there have been the following changes in the Company's directorate:

Appointments to the Board on 12 July 2012:

Mr. R. Riva	executive chairman
Mr. G. Luca Nani	executive director and technical director
Mr. S. I. Duxbury	executive director and chief executive,
none of whom own shares in the Company or parent company.	

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

Statement of 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 judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping 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 auditors

So far as the directors are aware, there is no relevant audit information of which the Company's auditor is unaware. Additionally, the directors 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.

Report of the directors continued

For the year ended 30th June 2012

Payments 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 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 2012 was 64 days.

Charitable and political donations

During the year the Company made charitable donations of £40,530. No political donations were made during the year.

Post balance sheet events

Details of the post balance sheet events are set out in note 23 to the financial statements.

Auditor

Following the take over of the Club the decision was made to change the auditor. Charterhouse (Accountants) LLP resigned as auditor and Myers Clark were appointed.

From the Board

The Board acknowledges the challenges which are currently evident, particularly with regard to funding issues, Stadium development and Club promotion. The chairman and directors wish to express their thanks and gratitude for the commitment and sustained endeavours of the Manager, the team, and all football and office staff and additionally to all the Club's supporters, and trust that the Club will enjoy sustained and significant progress during the coming year and beyond.

Signed on behalf of the Board of Directors

P J Wastall
Company Secretary

Approved by the Board on 16 November 2012

Independent auditor's report to the members of The Watford Association Football Club Limited

We have audited the financial statements of The Watford Association Football Club Limited for the year ended 30th June 2012 set out on pages 10 to 26. 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 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.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement as set out on Page 6, 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 and express an opinion on 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. In addition, we read all the financial and non-financial information in the directors' report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2012 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.

**Independent auditor's report
to the members of The Watford Association Football Club Limited continued**

Emphasis of matter – Going concern

In forming our opinion, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the Company's ability to continue as a going concern. At 30 June 2012 the Company's liabilities exceeded its total assets by £3,958,000.

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 it 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.

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:

- 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.

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

16 November 2012

**Chartered Accountants
Statutory Auditor**
Iveco House
Station Road
Watford
Hertfordshire
WD17 1DL

Profit and loss account
For the year ended 30th June 2012

	Note	Operations excluding player trading £'000	Player trading (note 9) £'000	2012 £'000	2011 £'000
Turnover	2	11,184	-	11,184	10,995
Cost of sales		13,160	1,224	14,384	12,946
Gross loss		(1,976)	(1,224)	(3,200)	(1,951)
Administrative expenses		4,231	-	4,231	3,150
		(6,207)	(1,224)	(7,431)	(5,101)
Other operating income	3	644	-	644	1,051
Operating loss		(5,563)	(1,224)	(6,787)	(4,050)
Profit on disposal of players' registrations		-	6,400	6,400	869
Exceptional Item	4	(2,125)	-	(2,125)	-
Waiver of amount due to parent undertaking		-	-	-	13,000
Interest receivable	5	-	-	-	2
Interest payable and similar charges	5	(136)	-	(136)	(172)
Profit/(loss) on ordinary activities before taxation	6	(7,824)	5,176	(2,648)	9,649
Tax on profit/(loss) on ordinary activities	8			-	-
Profit/(loss) for the financial year	17			£(2,648)	£9,649

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 page 13 to 26 form part of these financial statements.

Balance sheet
As at 30th June 2012

	Notes	2012 £'000	2011 £'000
Fixed assets			
Intangible assets	1(c) & 9	908	943
Tangible assets	1(d) & 10	13,457	12,967
		<u>14,365</u>	<u>13,910</u>
Current assets			
Stocks	1(h) & 11	89	77
Debtors	12	1,209	2,051
Cash at bank and in hand		35	345
		<u>1,333</u>	<u>2,473</u>
Creditors amounts falling due within one year	13	<u>(10,515)</u>	<u>(9,177)</u>
Net current liabilities		<u>(9,182)</u>	<u>(6,704)</u>
Total assets less current liabilities		5,183	7,206
Creditors amounts falling due after more than one year	14	(9,124)	(8,494)
Deferred capital grants and contributions	15	<u>(17)</u>	<u>(21)</u>
		<u>£(3,958)</u>	<u>£(1,309)</u>
Capital and reserves			
Called up share capital	16	1,073	1,073
Profit and loss account – accumulated deficit	17	<u>(5,031)</u>	<u>(2,382)</u>
Shareholders' funds	18	<u>£(3,958)</u>	<u>£(1,309)</u>

Approved by the Board of Directors on 16 November 2012 and signed on its behalf

R. RIVA – Chairman
Company registration number – 104194
The notes on pages 13 to 26 form part of these financial statements

Cash flow statement
For the year ended 30th June 2012

	Note	£'000	2012 £'000	£'000	2011 £'000
Operating activities					
Net cash outflow from operating activities	19(a)		(4,964)		(1,111)
Returns on investments and servicing of finance					
Interest received		-		2	
Interest paid		(141)		(227)	
Net cash outflow from returns on investments and servicing of finance			(141)		(225)
Capital expenditure					
Payments to acquire intangible fixed assets		(1,175)		(1,276)	
Payments to acquire tangible fixed assets		(563)		(1,134)	
Receipts from sales of intangible fixed assets		6,550		3,330	
			4,812		920
Net cash inflow/(outflow) before financing			(293)		(416)
Financing					
	19(b)				
Advances/(Repayments) of group loans		1,023		(292)	
Repayments of directors' loans		(250)		-	
(Repayment)/Advances of other loans		(416)		82	
Net cash inflow/(outflow) from financing			357		(210)
Increase/(decrease) in cash in for the year	19(c)		£64		£(626)

The notes on pages 13 to 26 form part of these financial statements.

Notes to the financial statements

For the year ended 30th June 2012

1. Accounting policies

The principal accounting policies are as follows:

a) Basis of accounting

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

The Company made a loss for the year of £2,648,000 and had net liabilities at 30 June 2012 of £3,958,000.

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 the shareholders of the immediate parent company has been evident in the past and continues to be of significant importance. During the year to 30 June 2011 loans from certain directors of the Company and a former shareholder of the immediate parent company at that time (Watford Leisure Limited) totalling £6,478,168 were converted into secured bonds issued by Watford Leisure Limited. The directors have been working with, and are grateful to, the existing bondholders for extending the redemption dates of the bonds in order to improve the Company's cash flows. The Board are in the process of reviewing current business activity and preparing cash flow forecasts for the next two and five years.

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

The parent company has confirmed that they will not seek repayment of the loan of £8,375,657 if to do so would jeopardise the Club's ability to continue as a going concern. The Club's new 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 owners have entered into a financial commitment to financially support the company for the next 12 months.

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.

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

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.

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 transferred to the buyer.

Notes to the financial statements continued
For the year ended 30th June 2012

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 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.

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 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, 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 lease and 20 years

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 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.

Notes to the financial statements continued
For the year ended 30th June 2012

g) Goodwill

Goodwill arising from the acquisition of Watford Catering Limited (which was dissolved on 22 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.

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 an 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 taxation 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:

	2012 £'000	2011 £'000
Matchday	4,098	4,167
Media	5,424	5,194
Commercial	1,662	1,634
Other	-	-
	<u>£11,184</u>	<u>£10,995</u>

Notes to the financial statements continued
For the year ended 30th June 2012

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 income.

3. Other operating Income

	2012 £'000	2011 £'000
Rent receivable	630	533
Release of capital grants	4	4
Compensation receivable	-	445
Other	10	69
	<u>£644</u>	<u>£1,051</u>

4. Exceptional item

The exceptional item relates to a provision for the possible non repayment of the amount due to the Club from the previous owners ultimate holding company Watford F C Limited. (see note 25)

5. Interest

	2012 £'000	2011 £'000
Interest receivable		
Bank deposit interest	<u>-</u>	<u>2</u>
Interest payable and similar charges		
Group interest	-	28
Bank loan and overdraft interest	34	10
Other interest	102	134
	<u>£136</u>	<u>£172</u>

Notes to the financial statements continued
For the year ended 30th June 2012

6. Profit/(loss) on ordinary activities before taxation

	2012 £'000	2011 £'000
Amortisation of intangible fixed assets	1,242	842
Depreciation of tangible fixed assets	546	516
Loss on disposal of tangible fixed asset	464	-
Auditor's remuneration		
Audit fees	43	16
Taxation	4	4
Other	38	4
Operating leases – vehicles and equipment	26	27
Operating leases – property	396	389
	<u>396</u>	<u>389</u>

7. Employee information

	2012 £'000	2011 £'000
Staff Costs		
Wages and salaries	8,852	8,242
Social security costs	1,209	1,018
Other pension costs	289	58
	<u>£10,350</u>	<u>£9,318</u>

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

	2012 Number	2011 Number
Players	49	48
Coaching staff	32	29
Part-time coaching staff	16	15
Commercial staff	18	19
Part-time commercial staff	18	18
Part-time catering staff	59	59
Administration	7	10
Ground staff	8	8
	<u>207</u>	<u>206</u>

In addition to the above the Company employed an average of 201 (2011 – 211) part-time match day staff during the year.

Notes to the financial statements continued
For the year ended 30th June 2012

Directors' remuneration

	2012 £'000	2011 £'000
Directors' remuneration	23	247
Pension costs	-	-
	<u>23</u>	<u>247</u>
Highest paid director	<u>23</u>	<u>201</u>
Number of directors accruing benefits under money purchase schemes	<u>-</u>	<u>-</u>

8. Tax on profit/(loss) on ordinary activities

The tax position is reconciled as follows:

	2012 £'000	2011 £'000
Profit/(loss) before taxation	<u>(2,648)</u>	<u>9,649</u>
Profit/(loss) before taxation multiplied by the effective standard UK corporation tax rate of 25.5% (2011 – 28%)	(675)	2,702
Expenses not deducted for tax purposes	670	7
Depreciation in excess of capital allowances	25	48
Waiver of intercompany balance not chargeable for tax purposes	-	(3,640)
Tax losses utilised	(20)	-
Unused tax losses carried forward	-	883
	<u>£Nil</u>	<u>£Nil</u>

Tax losses at 30 June 2012 available for offset against future trading profits or transfer as group relief are in excess of £35 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 30th June 2012

9. Intangible fixed assets

	Goodwill £'000	Pouring rights £'000	Players' registrations £'000	Total £'000
Cost or valuation				
At 1 July 2011	177	752	1,814	2,743
Additions	-	-	1,358	1,358
Disposal	-	-	(536)	(536)
At 30 June 2012	<u>177</u>	<u>752</u>	<u>2,636</u>	<u>3,565</u>
Depreciation				
At 1 July 2011	35	752	1,013	1,800
Charge for the year	18	-	1,224	1,242
Disposal	-	-	(385)	(385)
At 30 June 2012	<u>53</u>	<u>752</u>	<u>1,852</u>	<u>2,657</u>
Net book value				
At 30 June 2012	<u>£124</u>	<u>£Nil</u>	<u>£784</u>	<u>£908</u>
At 30 June 2011	<u>£142</u>	<u>£Nil</u>	<u>£801</u>	<u>£943</u>

10. Tangible fixed assets

	Assets under construction £'000	Freehold ground premises and improvements £'000	Leasehold property and improvements £'000	Motor vehicles, equipment, fixtures and fittings £'000	Total £'000
Cost					
At 1 July 2011	594	13,338	218	1,773	15,923
Additions	960	147	-	393	1,500
Transfers	(115)	-	-	115	-
Disposals	-	(945)	-	-	(945)
At 30 June 2012	<u>1,439</u>	<u>12,540</u>	<u>218</u>	<u>2,281</u>	<u>16,478</u>
Depreciation					
At 31 July 2011	-	1,624	158	1,174	2,956
Charge for the year	-	303	30	213	546
Disposals	-	(481)	-	-	(481)
At 30 June 2012	<u>-</u>	<u>1,446</u>	<u>188</u>	<u>1,387</u>	<u>3,021</u>
Net book value					
At 30 June 2012	<u>£1,439</u>	<u>£11,094</u>	<u>£30</u>	<u>£894</u>	<u>£13,457</u>
At 30 June 2011	<u>£594</u>	<u>£11,714</u>	<u>£60</u>	<u>£599</u>	<u>£12,967</u>

Notes to the financial statements continued
For the year ended 30th June 2012

The above disposal relates to the transfer of the Red Lion public house. On the purchase of the Club by the new owners it was also agreed to transfer the legal ownership of the Red Lion pub to Mr L. Bassini for no cost. The actual transfer has not occurred and is under review but the accounts include a provision for loss on disposal of the Red Lion pub of £464,358 which represents the net book value as at 29 June 2012.

11. Stocks

	2012 £'000	2011 £'000
Goods for resale	£89	£77

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

12. Debtors

	2012 £'000	2011 £'000
Trade debtors	535	1,453
Other debtor	2,125	-
Provision for non-repayment of other debtor	(2,125)	-
Other debtors	10	10
Prepayments and accrued income	664	588
	£1,209	£2,051

The other debtor is due from Watford F C Limited and has been provided for in full during the year. (see note 25). Other debtors includes £10,183 (2011 - £10,183) which falls due after more than one year. Prepayments and accrued income includes £Nil (2011 - £65,254) which falls due after more than one year.

13. Creditors amounts falling due within one year

	2012 £'000	2011 £'000
Bank overdraft (secured)	638	1,012
Directors' loans	250	500
Other loans	744	492
Trade creditors	2,254	2,722
Players' registration costs	428	258
Other taxes and social security	1,085	509
Accruals	3,152	1,402
Deferred revenue	1,964	2,282
	£10,515	£9,177

Notes to the financial statements continued
For the year ended 30th June 2012

The bank overdraft of £638,047 (2011 - £1,012,000) 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 immediate parent company being Hornets Investment Limited.

Other loans payable within one year of £743,961 (2011 - £492,000) includes £668,961 (2011 - £Nil) loan from Watford FC's Community Sports & Education Trust which is repayable in June 2013. Also included in other loans repayable within one year is an unsecured loan and interest free loan of £75,000.

Directors loans represent a £250,000 (2011 – £500,000) unsecured loan, attracting interest at 3.5% above Barclays Bank base rate.

14. Creditors amounts falling due after more than one year

	2012 £'000	2011 £'000
Other loans	-	669
Amount owed to parent company	8,376	7,353
Accruals and deferred revenue	748	472
	£9,124	£8,494

The maturity of total debt may be analysed as follows:

	2012 £'000	2011 £'000
In one year or less	994	992
Between one and two years	8,376	8,022
Between two and five years	-	-
	£9,370	£9,014

The prior year loan of £668,961 from Watford FC's Community Sports & Education Trust is repayable in June 2013 and has been reclassified as due within one year.

15. Deferred capital grants and contributions

	Capital grants £'000	Contributions to capital expenditure £'000	Total £'000
At 1 July 2011	19	2	21
Credited to the profit and loss account	(4)	-	(4)
At 30 June 2012	£15	£2	£17

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

Notes to the financial statements continued
For the year ended 30th June 2012

16. Share capital

	2012 £'000	2011 £'000
Allotted, called up and fully paid		
1,072,722 Ordinary shares of £1 each	1,073	1,073
13,000,000 Ordinary 'A' shares of £0.001 each	-	-
	£1,073	£1,073

13,000,000 Ordinary 'A' shares with a nominal value of £0.001 were issued on 12 December 2011 to Watford Leisure Limited in consideration of the write off of the intercompany loan during the year ended 30 June 2011 of £13,000,000. The Ordinary 'A' shares rank pari-passu with the existing Ordinary shares. The whole of the 13,000,000 'A' Ordinary shares and 1,028,828 £1 Ordinary shares were transferred to Hornets Investment Limited on 29 June 2012, which latter company therefore now owns 99.7% of the Company's issued share capital.

17. Reserves

	Profit and Loss account £'000
At 1 July 2011	(2,383)
Loss for the year	(2,648)
At 30 June 2012	£(5,031)

18. Reconciliation of movements on shareholders' funds

	2012 £'000	2011 £'000
Profit/(loss) for the financial year	(2,648)	9,649
Opening shareholders' funds	(1,310)	(10,959)
Closing shareholders' funds	£(3,958)	£(1,310)

Shareholders' funds are fully attributable to equity interests.

Notes to the financial statements continued
For the year ended 30th June 2012

19. Notes to the cash flow statement

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

	2012 £'000	2011 £'000
Operating loss	(6,787)	(4,050)
Exceptional item	(2,125)	-
Amortisation and impairment of intangible fixed assets	1,242	842
Depreciation and impairment of tangible fixed assets	546	516
Loss on disposal of tangible fixed assets	464	16
Capital grant released	(4)	(4)
(Increase)/decrease in stocks	(12)	36
Decrease/(increase) in debtors	842	(742)
Increase in creditors	870	2,275
Net cash outflow from operating activities	<u>£(4,964)</u>	<u>£(1,111)</u>

b) Analysis of changes in net debt

	At 1 July 2011 £'000	Cash flows £'000	Other changes £'000	At 30 June 2012 £'000
Cash at bank and in hand	345	(310)	-	35
Bank overdraft	(1,012)	374	-	(638)
Net cash at bank and in hand	<u>(667)</u>	<u>64</u>	<u>-</u>	<u>(603)</u>
Intergroup balance	(7,353)	(1,023)	-	(8,376)
Directors' loans within 1 year	(500)	250	250	-
Other loans due within 1 year	(492)	417	(669)	(744)
Directors' loans due after 1 year	-	-	(250)	(250)
Other loans due after 1 year	(669)	-	669	-
	<u>(9,014)</u>	<u>(356)</u>	<u>-</u>	<u>(9,370)</u>
	<u>£(9,681)</u>	<u>(292)</u>	<u>-</u>	<u>(£9,973)</u>

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

	2012 £'000	2011 £'000
Increase/(Decrease) in cash in the year	64	(626)
Cash (inflow)/outflow from (increase)/decrease in debt	(356)	210
Change in net debt resulting from cash flows	<u>(292)</u>	<u>(416)</u>
Other non-cash changes	-	13,000
Movement in net debt in the year	<u>(292)</u>	<u>12,584</u>
Net debt at 1 July 2011	<u>(9,681)</u>	<u>(22,265)</u>
Net debt at 30 June 2012	<u>£(9,973)</u>	<u>£(9,681)</u>

Notes to the financial statements continued
For the year ended 30th June 2012

d) Major non-cash transactions

During the year there were no major non-cash transactions. (2011 - £13,000,000 of intercompany debt owing to Watford Leisure Limited (formerly Watford Leisure PLC) was waived.)

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 2012, which has not been provided for in the financial statements, is as follows:

On contracts expiring :	£'000
Within one year	163
Between two to five years	184
	£347

The Company's commitments for rental payments under operating leases payable during the year 30 June 2012 are as follows:

	Land and buildings £'000	Other £'000
On contracts expiring:		
Within one year	336	5
Between two and five years	-	18
	£336	£23

The Company's commitments for the new pitch contract at Vicarage Road stadium signed during the year ended 30 June 2012 are as follows, the £653,000 has been provided for in the accounts:

	Other £'000
On contracts expiring:	
Within one year	-
Between two and five years	653
	£653

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 2012 is £1,700,000 (2011 - £1,400,000). Since the year end none of this has become payable. Of the contingent amount £1,280,000 (2011 - £1,130,000) relates to clauses linked to promotion to the Premiership or international appearances.

Notes to the financial statements continued

For the year ended 30th June 2012

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 £347,000 (2011 - £147,000).

At 30 June 2012 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 disclose the amount likely to be received. Since the year end no amounts have been received (2011 - £1,018,750).

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 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 2012, the Company has been advised by the trustees that its share of the actuarial deficit is £375,564 (of which £29,544 is payable in less than one year), included in accruals, and that it is required to pay £5,256 per month for the next seven years and £3,109 per month for the following three years.

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

23. Post balance sheet events

Subsequent to the year end, various players' registrations have been sold or terminated. In respect of those it is estimated that net income of £2,421,000 will be reflected in the financial statements for the current year. No player registrations have been acquired.

24. Parent Company and control

The immediate parent company is Hornets Investment Limited, a company registered in England and Wales. The ultimate parent company and controlling party is Hornets Management S.a.r.l. a company registered in Luxembourg. The majority shareholder and therefore the ultimate controlling party is Mr Giampaolo Pozzo.

At 30 June 2012 the Company owed £8,375,657 to Hornets Investment Limited (formerly to Watford Leisure Limited). The loan is interest free, unsecured and has no fixed repayment date.

Within the year consultancy invoices were charged by Watford FC Ltd to the Company on a monthly basis. The total amount invoiced and paid in the year totalled £242,000 exclusive of VAT.

As at 30 June 2011 the immediate parent company was Watford Leisure Limited (formerly Watford Leisure PLC) and the ultimate parent company was Watford FC Limited, both companies incorporated in England and Wales. The ultimate controlling party was Mr L. Bassini.

At 30 June 2011 the Company owed £7,353,263 to Watford Leisure Limited (formerly Watford Leisure PLC). 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. Interest amounting to £28,000 has been charged to the loan balance in the year to 30 June 2012.

Notes to the financial statements continued
For the year ended 30th June 2012

25. Related party and directors' transactions

A director in office during the year, Professor S. R. Timperley, is a Trustee of Watford FC's Community Sports & Education Trust ("The Trust"), a charitable company. At 30 June 2012, in addition to the loan shown in note 13, £19,592 was owed to the Company (2011 - Company owed Trust £18,805). The movement in the year mainly includes additional interest of £13,417 and repayments and other miscellaneous amounts totalling £46,870, offset by invoices paid by the Company on behalf of the Trust totalling £98,683. Since the year end further amounts have been paid on behalf of the Trust and amounts have been repaid by the Trust to the Company.

During a previous financial year, Mr D.B. Fransen, a director of the Company, loaned the Company £500,000. The loan is unsecured and is accruing interest at 3.5% above the Barclays Bank base rate. £250,000 of this loan was repaid on 29 September 2011. The total amount of interest related to this loan for the period is £11,836 - this interest has not been paid and is provided for within accruals. The original repayment terms for this loan have been amended, with the balance of £250,000 now repayable on 29 June 2013.

During the year the company had the following transactions with Watford F C Limited, the previous ultimate holding company. The total amount receivable was £2,125,383 as at 30 June 2012. The amount consists of payments made for and on behalf of the holding company totalling £50,814. An amount of £568,267 which is the total of cash amounts advanced to Mr L. Bassini by the company for the renovation of the Red Lion public house for which no invoices were received. Two additional amounts of £606,302 relating to repayment of an advance on receipts due in relation to the Danny Graham transfer and £900,000 related to repayment of an advance of receipts due in relation to Football League Award. The amounts were borrowed in the name of the Club, but the funds were never directly received by the Club - the amounts are provided for as potentially being due to the original lender by the Club, but are also considered to therefore be owed to the Club by the previous owners ultimate holding company, Watford F C Ltd. A provision has been entered for the possibility of non payment of this debt. (see note 4)

On the purchase of the Club by the new owners it was also agreed to transfer the legal ownership of the Red Lion pub to Mr L. Bassini for no cost. The actual transfer has not occurred and is under review but the accounts include a provision for loss on disposal of the Red Lion public house of £464,358 which represents the net book value as at 29 June 2012.