

The Watford Association Football Club Limited

Report and financial statements

For the year ended 30th June 2014

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Company information

Directors	Raffaele Riva Scott I. Duxbury Gian Luca Nani David B. Fransen Stuart R. Timperley (Gian Luca Nani resigned on the 2 nd September 2014)	Executive chairman Executive director and chief executive Executive director and technical director Non-executive director Non-executive director
Honorary Life Presidents	Sir Elton John CBE Graham Taylor OBE	
Football Manager	Slavisa Jokanovic	
Company Secretary	Peter Wastall	
Football Secretary	Gayle Vowels	
Registered office	Vicarage Road Stadium Watford Hertfordshire WD18 0ER	
Incorporation details	Incorporated in the United Kingdom on 22 nd 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 2014**

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 2014.

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 year of £344,000 (2013 - £190,000 profit).

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

Background

As at the year end, the Club's Board consisted of five directors (as detailed in the *Club information* section on page 1), being the executive chairman, the executive technical director, the chief executive and two independent non-executive directors. There were no changes during the year under review. Details of a change in the Club's directorate following the year end is set out later in this Directors' Report.

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

Financial Overview

The year under review has continued to see the Club progress under stable and ambitious ownership and management. Whilst on field performances did not result in the same successes as the previous season, resulting in a 13th place position in the Championship, financial performance has seen areas of impressive growth. Turnover in the reporting year has reduced by £1,443,000. However, the 2013 figure of £18,133,000 included £2,575,000 of revenue relating to participation in the Play-Off Finals and therefore there is an actual comparable growth of £1,132,000. The Company has reported an operating loss for the year of £1,428,000 which has been somewhat offset by an amount of profit on disposal of player registrations, culminating in a pre-tax loss for the business of £344,000, compared to the prior year profit of £190,000.

Wage and salary costs have reduced by £929,000, mainly due to the non-recurring costs of £703,000 included within the previous year, relating to the settlement of various football and office staff. Players' costs have also reduced due to lower playing bonuses reflective of the varying team performance from the previous season.

The operating loss position of £1,428,000 represents a £646,000 improvement from the previous year, which included a net contribution from play-off participation of £2,159,000.

The trading of non-core players continues to contribute to reducing operating losses which occur as the Club endeavours to remain a competitive force in the Football League Championship. The profit on player disposals for the year to the 30th June 2014 was £1,513,000.

Report of the directors continued
For the year ended 30th June 2014

The key financial and performance indicators are as follows:

	2014 £'000	2013 £'000
Turnover	16,690	18,133
Wages and salary costs	(11,896)	(12,825)
Other operating expenses	(6,959)	(7,172)
Amortisation and impairment of player registrations	(251)	(645)
Other operating income	988	435
Operating loss	<u>(1,428)</u>	<u>(2,074)</u>
Profit on disposal of player registrations	1,513	2,592
Exceptional item		
Net interest charges	(429)	(328)
Intercompany debt waiver		
Profit/(Loss) on ordinary activities before taxation	(344)	190
Cash generated (absorbed) by operations	(1,136)	176
Wages to revenue ratio	71%	70%
League position	13th	3rd

Financial Review

Total turnover reduced by £1,443,000 from £18,133,000 to £16,690,000. The prior year figure includes £2,575,000 relating to participation in the Championship Play-Off Finals. Turnover has therefore increased in other areas by £1,132,000.

Media revenue has remained broadly static, with an overall reduction of £20,000. This reduction includes a £61,000 decrease in the League Award central distributions in the year and reduced TV income, with £160,000 generated in the year against £320,000 in the previous season. These reductions are mainly offset by an increase in Premier League solidarity payments of £129,000 and FA Cup progression payments of £67,000.

Commercial revenues for the year to 30th June 2014 total £7,171,000, a reduction of £579,000 from the previous year figure of £7,750,000. However, commercial revenue for the previous season included £1,000,000 from Play-Off participation, the comparable position is therefore an improvement of £421,000. The increase includes £257,000 from Club partnerships and advertising, £191,000 from increased retail revenue and £16,000 from events. Overall catering revenue fell by £43,000. However the prior year figures include a year where the operation was operated in house and therefore costs were incurred which more than offset this increase. There was an increase of £10,000 relating to the outsourced catering contract.

Revenues generated on match days have decreased by £1,004,000. However the prior year figure of £5,592,000 included £1,575,000 of revenue relating to Play-Off participation and therefore there is a comparable increase of £571,000. This relates to increases in season and match ticket income of £306,000 and an increase in match day commercial sales of £160,000, as well as additional income from cup match days of £125,000. The prior year included £26,000 of catering income before the operation was outsourced, but as previously reported this income was offset by costs.

Report of the directors continued **For the year ended 30th June 2014**

Wages and salary costs have reduced from a 2013 level of £12,825,000 to £11,896,000 in 2014, a reduction of £929,000. A reduction in the overall cost of players' salaries from £8,564,000 in 2013 to £8,026,000 explains £528,000 of this overall decrease. The reduction is mainly due to reduced bonuses payable in the year relating to changes in the bonus structure based on League position. There was an amount of £703,000 payable in 2013 relating to the settlement of various football and office staff contracts. This cost is non-recurring and therefore contributes to the reduced overall salary cost in 2014. The Class 1A national insurance contribution has increased by £50,000 between the two years and a provision of £69,000 is included in 2014 relating to prior year tax and national insurance liabilities. These amounts, as well as overall increases in salary costs across football management and commercial salaries of £86,000, offset an element of the reduction previously outlined from players and settlements. The remaining variance relates to a reclassification of match day salary costs which are not included in the prior year comparative.

Other operating expenses have seen a small decrease of £213,000 from £7,172,000 in 2013 to £6,959,000 in 2014. This decrease includes some areas of non-recurring cost reduction. As outlined previously, catering costs were incurred in the prior year before the operation was outsourced and these total £72,000 and Play-Off costs incurred in the prior year totalled £416,000. There were other cost savings across the business and these net to a total of £16,000. These reductions are offset by an increase in the cost of legal and other professional services of £235,000 and retail costs, enabling the higher revenue figures previously outlined, of £56,000. The increase in legal and professional services mainly relates to the legacy matters in concluding the LNOC Limited dispute. These costs, as well as those incurred in the previous years are offset by a contracted variable contribution from the bondholders, agreed when the Club was purchased. The income relating to this contribution is shown as other operating income.

Amortisation and impairment costs have reduced from £645,000 to £251,000. The prior year included an impairment charge of £263,000 and no impairment has been recorded in 2014. The remaining reduction of £131,000 is reflective of a general decrease in amortisation charges, due to the fact that only a small number of players have a capitalised contract value on the balance sheet.

Other operating income has increased from £435,000 in 2013 to £988,000 in 2014. The prior year figure included the final element of rent receivable from Saracens Rugby Club before its lease agreement at the Club expired and amounts relating to disputed invoices charged in previous years which were no longer considered payable. The current year figure mainly relates to a contribution from the bondholders in relation to the LNOC Limited matter.

The profit on disposal of players' registrations comprises total profits of £1,513,000, mainly generated from the sales of Britt Assombalonga, Jonathan Hogg and Craig Forsyth. The prior year amount of £2,592,000 included profit on the disposal of Adrian Mariappa, Scott Loach and Martin Taylor and several smaller profits generated by appearances, promotion and sell-on clauses from players sold in previous years.

The Team and Football Management

The 2013/14 season saw the team compete in the top half of the table for most of the season, but then ended somewhat disappointingly with a 13th position finish. The playing squad continues to be developed and enhanced and it is hoped that the 2014/15 season will see the Club achieve its goal of promotion to the Premier League.

Academy

The progress of young players is a matter of high priority at Watford FC, the Club being proud to continue its strong relationship with The Harefield Academy which allows secondary school-age young players to enjoy a rich mix of school education and football coaching under one roof. The chance for first-team inclusion for Watford's youth-team players is as demanding as ever but, with three Academy scholars having made their Club senior debuts last season, the Club's much-vaunted pathway from junior to senior recognition is still firmly in place, testament to individual and group progress. Watford's Under-18's knocked out FA Youth Cup holders Norwich City before falling narrowly to Liverpool in Round Five of the prestigious competition.

Report of the directors continued

For the year ended 30th June 2014

Community

Watford FC's place as a focus for the positive at the heart of the local community is a shining light which remains undimmed as the Club's registered charity, Watford FC's Community Sports & Education Trust, enters its tenth pioneering year of existence. During the past decade, the Trust has built on the foundation of its 'Football in the Community' predecessor and is, as alluded to in last year's report, now on the cusp of delivering a second community hub site in the north Watford area, adding to the rapid growth of the Cedars Youth & Community Centre facility in Harrow. Self-funding projects delivering into the local community, as well as larger projects such as the continuing success of the National Citizen Service offerings to local older teenagers, continue to form the back-bone of the Trust's huge breadth and depth of work. Added to this, the Club continues to meet with supporters face to face.

Stadium

Works began in Autumn 2013 on a new 3,000-plus seat stand situated to the east side of Watford FC's Vicarage Road Stadium, the Club's owners making good on their pledge to deliver increased supporter accommodation once match day attendances regularly reached the 15,000 level. As a result of this development, due to be fully open by late 2014, Vicarage Road's capacity will be over 20,000.

Discussions around the South-West corner development have continued with catering partners Centerplate UK, with both sides working towards the creation of a sustainable business plan.

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

Report of the directors continued
For the year ended 30th June 2014

Directors and their interests

The directors at 30th June 2014, together with their beneficial interests in the shares of the Company and parent company, at the dates shown below, were as follows:

	Parent Company Hornets Investment Limited From 1 st July 2013 to 30 th June 2014		Company from 1 st July 2013 to 30 th June 2014	
	Ordinary £1 shares 2014	2013	Ordinary £1 shares 2014	2013
Mr. R. Riva	-	-	-	-
Mr S.I. Duxbury	-	-	-	-
Mr G.L Nani	-	-	-	-
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.

There were no changes in the directorate during the year under review. Mr G.L. Nani resigned from the Board on 2nd September 2014. There are no other changes since the year end.

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.

**Report of the directors continued
For the year ended 30th June 2014**

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.

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 30th June 2014 was 39 days.

Charitable and political donations

During the year the Company made charitable donations of £49,868 (2013 - £2,220). No political donations were made during the year.

Post balance sheet events

Details of the post balance sheet events are set out in note 22 to the financial statements.

Auditor

In accordance with the Company's articles, a resolution proposing that Myers Clark be re-appointed as auditors of the Company, will be put at the Annual General Meeting.

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 team and welcome the recent appointment of Slavisa Jokanovic as head coach and give their thanks to all football and office staff and additionally to all the Club's supporters. The Board 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 13th November 2014

**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 2014 set out on pages 10 to 25. 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 30th June 2014 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 30th June 2014 the Company's liabilities exceeded its total assets by £4,112,000.

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**

13th November 2014

**Chartered Accountants
Statutory Auditor**

Iveco House
Station Road
Watford
Hertfordshire
WD17 1DL

Profit and loss account
For the year ended 30th June 2014

	Note	Operations excluding player trading £'000	Player trading (note 8) £'000	2014 £'000	2013 £'000
Turnover	2	16,690	-	16,690	18,133
Cost of sales		(14,551)	(251)	(14,802)	(16,854)
Gross profit/(loss)		2,139	(251)	1,888	1,279
Administrative expenses		(4,304)	-	(4,304)	(3,788)
		(2,165)	(251)	(2,416)	(2,509)
Other operating income	3	988	-	988	435
Operating loss		(1,177)	(251)	(1,428)	(2,074)
Profit on disposal of players' registrations		-	1,513	1,513	2,592
Interest receivable	4	4	-	4	8
Interest payable and similar charges	4	(433)	-	(433)	(336)
Profit/(loss) on ordinary activities before taxation	5	(1,606)	1,262	(344)	190
Tax on profit/(loss) on ordinary activities	7			-	-
Profit/(loss) for the financial year	16			(344)	£190

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 25 form part of these financial statements.

Balance sheet
As at 30th June 2014

	Notes	2014 £'000	2013 £'000
Fixed assets			
Intangible assets	1(c) & 8	408	588
Tangible assets	1(d) & 9	15,304	12,974
		<u>15,712</u>	<u>13,562</u>
Current assets			
Stocks	1(h) & 10	183	69
Debtors	11	3,843	5,063
Cash at bank and in hand		298	417
		<u>4,324</u>	<u>5,549</u>
Creditors amounts falling due within one year	12	<u>(11,943)</u>	<u>(10,378)</u>
Net current liabilities		<u>(7,619)</u>	<u>(4,829)</u>
Total assets less current liabilities		8,093	8,733
Creditors amounts falling due after more than one year	13	(12,193)	(12,487)
Deferred capital grants and contributions	14	(12)	(14)
		<u>£(4,112)</u>	<u>£(3,768)</u>
Capital and reserves			
Called up share capital	15	1,073	1,073
Profit and loss account – accumulated deficit	16	(5,185)	(4,841)
Shareholders' funds	17	<u>£(4,112)</u>	<u>£(3,768)</u>

Approved by the Board of Directors on 13th November 2014 and signed on its behalf

R. RIVA – Chairman
Company registration number – 104194
The notes on pages 13 to 25 form part of these financial statements

Cash flow statement
For the year ended 30th June 2014

	Note	£'000	2014 £'000	£'000	2013 £'000
Operating activities					
Net cash (out)/inflow from operating activities	18(a)		(1,136)		176
Returns on investments and servicing of finance					
Interest received		4		8	
Interest paid		(529)		(141)	
Net cash outflow from returns on investments and servicing of finance			(525)		(133)
Capital expenditure					
Payments to acquire intangible fixed assets		(363)		(537)	
Payments to acquire tangible fixed assets		(3,142)		(547)	
Receipts from sales of intangible fixed assets		1,719		1,471	
			(1,786)		387
Net cash inflow/(outflow) before financing			(3,447)		430
Financing					
	18(b)				
Advances/(Repayments) of group loans		2,637		590	
Repayments of directors' loans		-		-	
(Repayment)/Advances of other loans		-		-	
Net cash inflow/(outflow) from financing			2,637		590
Increase/(decrease) in cash in for the year	18(c)		£(810)		£1,020

The notes on pages 13 to 25 form part of these financial statements.

Notes to the financial statements

For the year ended 30th June 2014

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 £344,000 and had net liabilities at 30th June 2014 of £4,112,000.

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. Secured bonds of £5,980,000 were hived down to the Club in February 2013 by a cancellation of the same amount of intercompany loan due to the parent company. The directors have been working with, and are grateful to, the existing bondholders for agreeing the future redemption dates of the bonds in order to improve the Company's cash flows. The Company is continually reviewing current business activity together with cash flow forecasts to ensure that the financial situation is improving.

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.

The parent company has confirmed that they will not seek repayment of the loan of £2,873,000 if to do so would jeopardise the Club's ability to continue as a going concern. The Club's owners are 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 2014

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 2014

g) Goodwill

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

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 21).

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:

	2014 £'000	2013 £'000
Matchday	3,808	5,592
Media	4,825	4,790
Commercial	8,057	7,751
	<u>£16,690</u>	<u>£18,133</u>

Notes to the financial statements continued
For the year ended 30th June 2014

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

	2014 £'000	2013 £'000
Rent receivable	-	260
Release of capital grants	2	4
Other	986	171
	<u>£988</u>	<u>£435</u>

4. Interest

	2014 £'000	2013 £'000
Interest receivable		
Bank deposit interest	<u>4</u>	<u>8</u>
Interest payable and similar charges		
Bank loan and overdraft interest	1	8
Other interest	432	328
	<u>£433</u>	<u>£336</u>

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

	2014 £'000	2013 £'000
Amortisation of intangible fixed assets	268	663
Depreciation of tangible fixed assets	644	660
Loss on disposal of tangible fixed asset	34	6
Auditor's remuneration		
Audit fees	13	13
Taxation	-	-
Other	-	-
Operating leases – vehicles and equipment	40	30
Operating leases – property	<u>495</u>	<u>402</u>

Notes to the financial statements continued
For the year ended 30th June 2014

6. Employee information

	2014 £'000	2013 £'000
Staff Costs		
Wages and salaries	10,385	11,348
Social security costs	1,426	1,417
Other pension costs	85	60
	<u>£11,896</u>	<u>£12,825</u>

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

	2014 Number	2013 Number
Players	52	60
Coaching staff	38	37
Part-time coaching staff	14	16
Commercial staff	20	19
Part-time commercial staff	19	16
Administration	9	7
Ground staff	6	9
	<u>158</u>	<u>164</u>

In addition to the above the Company employed an average of 109 (2013 – 116) part-time match day staff during the year.

Directors' remuneration

	2014 £'000	2013 £'000
Directors' remuneration	350	400
Pension costs	20	20
	<u>370</u>	<u>420</u>
Highest paid director	<u>190</u>	<u>240</u>
Number of directors accruing benefits under money purchase schemes	<u>2</u>	<u>2</u>

Notes to the financial statements continued
For the year ended 30th June 2014

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

The tax position is reconciled as follows:

	2014 £'000	2013 £'000
(Loss)/profit before taxation	<u>(344)</u>	<u>190</u>
(Loss)/profit before taxation multiplied by the effective standard UK corporation tax rate of 21.5% (2013 – 23.5%)	(74)	45
Expenses not deducted for tax purposes	9	115
Depreciation in excess of capital allowances	27	63
Tax losses utilised	(62)	(301)
Other tax adjustments	100	78
	<u>£Nil</u>	<u>£Nil</u>

Tax losses at 30th June 2014 available for offset against future trading profits or transfer as group relief are in excess of £34 million.

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

8. Intangible fixed assets

	Goodwill £'000	Pouring rights £'000	Players' registrations £'000	Total £'000
Cost or valuation				
At 1 July 2013	177	752	1,872	2,801
Additions	-	-	345	345
Disposal	-	-	(1,193)	(1,193)
At 30 June 2014	<u>177</u>	<u>752</u>	<u>1,024</u>	<u>1,953</u>
Depreciation				
At 1 July 2013	71	752	1,390	2,213
Charge for the year	18	-	251	269
Disposal	-	-	(937)	(937)
At 30 June 2014	<u>89</u>	<u>752</u>	<u>704</u>	<u>1,545</u>
Net book value				
At 30 June 2014	<u>£88</u>	<u>£Nil</u>	<u>£320</u>	<u>£408</u>
At 30 June 2013	<u>£106</u>	<u>£Nil</u>	<u>£482</u>	<u>£588</u>

Notes to the financial statements continued
For the year ended 30th June 2014

9. 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 2013	546	13,474	203	2,404	16,627
Additions	2,595	65	20	327	3,007
Transfers	-	-	-	-	-
Disposals	-	-	-	(244)	(244)
At 30 June 2014	<u>3,141</u>	<u>13,539</u>	<u>223</u>	<u>2,487</u>	<u>19,390</u>
Depreciation					
At 1 July 2013	-	1,836	203	1,614	3,653
Charge for the year	-	391	1	252	644
Disposals	-	-	-	(210)	(210)
At 30 June 2014	<u>-</u>	<u>2,227</u>	<u>204</u>	<u>1,656</u>	<u>4,087</u>
Net book value					
At 30 June 2014	<u>£3,141</u>	<u>£11,312</u>	<u>£19</u>	<u>£831</u>	<u>£15,303</u>
At 30 June 2013	<u>£546</u>	<u>£11,638</u>	<u>-</u>	<u>£790</u>	<u>£12,974</u>

10. Stocks

	2014 £'000	2013 £'000
Goods for resale	<u>£183</u>	<u>£69</u>

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 30th June 2014

11. Debtors

	2014 £'000	2013 £'000
Trade debtors	693	437
Transfer fees receivable	1,230	1,180
Other debtor	2,125	2,125
Provision for non-repayment of other debtor	(2,125)	(2,125)
Rent deposit	-	10
Prepayments and accrued income	1,920	3,436
	<u>£3,843</u>	<u>£5,063</u>

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

12. Creditors amounts falling due within one year

	2014 £'000	2013 £'000
Bank overdraft (secured)	691	-
Directors' loans	250	250
Other loans	974	305
Parent company	-	-
Trade creditors	1,909	1,251
Players' registration costs	219	255
Other taxes and social security	734	707
Accruals	1,892	2,650
Deferred revenue	5,274	4,960
	<u>£11,943</u>	<u>£10,378</u>

Other loans payable within one year of £973,776 (2013 - £304,815) includes £668,961 (2013 – Nil) unsecured and interest free loan from Watford FC Community Sports & Education Trust, £229,815 (2013 – £229,815) secured bond and an unsecured and interest free loan of £75,000 (2013 - £75,000).

Directors' loans represent a £250,000 (2013 – £250,000) unsecured loan, attracting interest at 3.5% above Barclays Bank base rate.

Notes to the financial statements continued
For the year ended 30th June 2014

13. Creditors amounts falling due after more than one year

	2014 £'000	2013 £'000
Other loans	5,750	6,418
Amount owed to parent company	5,623	2,986
Accruals and deferred revenue	820	3,083
	<u>12,193</u>	<u>12,487</u>

The maturity of total debt may be analysed as follows:

	2014 £'000	2013 £'000
In one year or less	1,224	555
Between one and two years	1,350	669
Between two and five years	2,282	232
In more than five years	7,741	8,504
	<u>£12,597</u>	<u>£9,960</u>

Other loans represent £5,750,000 secured bonds due after more than one year.

During the financial year the loan to the Company by its immediate parent company Hornets Investment Limited increased in order to provide funding towards the cost of the new stand. The loan total includes £1,000,000 loan repayable on 30th September 2015 on which interest is accrued at 4.5% per annum and £1,750,000 which is repayable in 5 equal instalments commencing 31st December 2015 on which interest is accrued at 4.5% per annum. The balance of the loan is unsecured, carries no interest and has no fixed repayment date.

14. Deferred capital grants and contributions

	Capital grants £'000	Contributions to capital expenditure £'000	Total £'000
At 1 st July 2013	12	2	14
Credited to the profit and loss account	(2)	-	(2)
At 30 th June 2014	<u>10</u>	<u>2</u>	<u>12</u>

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 2014

15. Share capital

	2014 £'000	2013 £'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

The Ordinary 'A' shares rank pari-passu with the existing Ordinary shares. Hornets Investment Limited own 99.7% of the Company's issued share capital.

16. Reserves

	Profit and Loss account £'000
At 1 st July 2013	(4,841)
Loss for the year	(344)
At 30th June 2014	£(5,185)

17. Reconciliation of movements on shareholders' funds

	2014 £'000	2013 £'000
Profit/(loss) for the financial year	(344)	190
Opening shareholders' funds	(3,768)	(3,958)
Closing shareholders' funds	£(4,112)	£(3,768)

Shareholders' funds are fully attributable to equity interests.

Notes to the financial statements continued
For the year ended 30th June 2014

18. Notes to the cash flow statement

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

	2014 £'000	2013 £'000
Operating loss	(1,428)	(2,074)
Amortisation and impairment of intangible fixed assets	269	662
Depreciation and impairment of tangible fixed assets	644	660
Loss on disposal of tangible fixed assets	34	5
Capital grant released	(2)	(4)
Decrease/(increase) in stocks	(114)	20
(Increase)/decrease in debtors	1,270	(2,674)
Increase in creditors	(1,809)	3,581
Net cash in/(out)flow from operating activities	£(1,136)	£176

b) Analysis of changes in net debt

	At 1 st July 2013 £'000	Cash flows £'000	Other changes £'000	At 30 th June 2014 £'000
Cash at bank and in hand	417	(119)	-	298
Bank overdraft	-	(691)	-	(691)
Net cash at bank and in hand	417	(810)	-	(393)
Intergroup balance	(2,986)	(2,637)	-	(5,623)
Directors' loans within 1 year	(250)	-	-	(250)
Other loans due within 1 year	(305)	-	(669)	(974)
Directors' loans due after 1 year	-	-	-	-
Other loans due after 1 year	(6,419)	-	669	(5,750)
	(9,960)	(2,637)	-	(12,597)
	£(9,543)	£(3,447)	-	£(12,990)

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

	2014 £'000	2013 £'000
Increase/(Decrease) in cash in the year	(810)	1,020
Cash (inflow)/outflow from (increase)/decrease in debt	(2,637)	(590)
Change in net debt resulting from cash flows	(3,447)	430
Other non-cash changes	-	-
Movement in net debt in the year	(3,447)	430
Net debt at 1 st July 2013	£(9,543)	£(9,973)
Net debt at 30 th June 2014	£(12,990)	£(9,543)

d) Major non-cash transactions

During the year there were no major non-cash transactions. (2013 – None)

Notes to the financial statements continued
For the year ended 30th June 2014

19. 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 30th June 2014, which has not been provided for in the financial statements, is as follows:

	£'000
On contracts expiring :	
Within one year	-
Between two to five years	179
	179

The Company's commitments for rental payments under operating leases payable during the year ended 30th June 2014 are as follows:

	Land and buildings £'000	Other £'000
On contracts expiring:		
Within one year	-	-
Between one and two years	-	24
Between two and five years	-	16
More than five years	495	-
	495	40

20. 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 30th June 2014 is £8,534,000 (2013 - £897,500). Since the year end none of this has become payable. Of the contingent amount £8,117,000 (2013 - £655,000) relates to clauses linked to promotion to the Premiership or international appearances.

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 £179,000 (2013 - £175,000).

At 30th June 2014 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, £2,231,250 has become due.

Notes to the financial statements continued

For the year ended 30th June 2014

21. 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. Based on an actuarial valuation as at 31st August 2008, updated to 30th June 2012, the Company has calculated that its share of the actuarial deficit is £309,427 (of which £38,788 is payable in less than one year), included in accruals, and that it is required to pay £5,256 per month for the next five years and £3,109 per month for the following three years. There have been no further updates received.

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

22. Post balance sheet events

As outlined in note 20, subsequent to the year end, sums have been receivable from other clubs in respect of appearance and sell on clauses for players previously sold. It is estimated that net income of at least £2,231,250 is to be reflected in the financial statements for the current year. Since the year end various players' registrations have been sold or terminated and in respect of those it is estimated that net income of £210,000 is to be reflected in the financial statements for the current year.

The Company also agreed a further £500,000 of loan funding from the parent company after the balance sheet date.

23. 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 Gino Pozzo.

24. Related party and directors' transactions

At 30th June 2014 the Company owed £5,632,376 (2013 - £2,985,594) to Hornets Investment Limited, the immediate parent company. The loan total includes £1,000,000 loan repayable on 30th September 2015 on which interest is accrued at 4.5% per annum and £1,750,000 which is repayable on 25th October 2018 on which interest is accrued at 4.5% per annum. The balance of the loan is unsecured, carries no interest and has no fixed repayment date. The total interest accrued for the year was £40,019 of which £23,770 was paid and £16,249 remains outstanding as at the year end date.

As at 30th June 2014 the Company had loan notes of £1,590,996 (2013 - £1,590,996) owed to David Fransen, a director of the Company, which accrue interest at 5% until 29th June 2013 and 3% thereafter. Interest owed as at 30th June 2014 amounted to £74,668 (2013 - £26,938).