The Watford Association Football Club Limited

Report and financial statements

For the year ended 30th June 2013

Contents

Company information

Directors	Raffaele Riva	Executive chairman
	Scott I. Duxbury	Executive director and chief executive
	Gian Luca Nani	Executive director and technical director
	David B. Fransen	Non-executive director
	Stuart R. Timperley	Non-executive director
Honorary Life Presidents	Sir Elton John CBE Graham Taylor OBE	
Football Manager	Gianfranco Zola	
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 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 2013

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 2013.

Principal activity

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

Business review

The Company recorded a profit before taxation for the year of £190,000 (2012 – loss £2,648,000).

The profit 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 previous 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 seen an emerging period of stability and growth for the Company. The Club has begun to flourish under new ownership and management both on and off the field and the Company's financial results for the year ended 30th June 2013 are evidence of that. Operating losses are significantly improved against the position for the previous financial year. The Company has reported an operating loss for the year of £2,074,000 which has been offset by an amount of profit on disposal of player registrations, culminating in a pre tax profit for the business of £190,000.

Turnover has increased by £6,949,000 including amounts relating to Play-Off participation of circa £2,575,000 with the remaining increase relating to the improved commercial performance of the business.

The operating loss position of £2,074,000 represents a £4,713,000 improvement from the previous year. This improvement has been achieved through the increased turnover offset by increased cost of sales mainly in the area of salaries.

The trading of non-core players remains a key element of the Club's business plan in order to reduce operating losses which are likely to occur whilst maintaining investment in a playing squad which it is hoped will compete and achieve in the football league Championship. The profit on player disposals for the year to the 30th June 2013 was £2,592,000

The key financial and performance indicators are as follows:

	2013 £'000	2012 £'000
Turnover	18,133	11,184
Wages and salary costs	(12,825)	(10,350)
Other operating expenses	(7,172)	(7,041)
Amortisation and impairment of player registrations	(645)	(1,224)
Other operating income	435	644
Operating loss	(2,074)	(6,787)
Profit on disposal of player registrations	2,592	6,400
Exceptional item		(2,125)
Net interest charges	(328)	(136)
Intercompany debt waiver		
Profit/(Loss) on ordinary activities before taxation	190	(2,648)
Cash generated (absorbed**)** by operations	176	(4,964)
Wages to revenue ratio	70%	90%
League position	3rd	11th

Financial Review

Total turnover increased by £6,949,000 from £11,184,000 to £18,133,000. This increase can be summarised as relating to participation in the Championship Play-Off Finals as well as increased commercial revenue in the year.

Media revenue has reduced by £634,000. This reduction is mainly due to a £612,000 decrease in the League Award central distributions in the year. TV income in the year was £320,000 against £210,000 generated in the previous season. However this and an increase in the Academy funding of £67,000 have been offset by reduced media income relating to Cup matches. In the previous season the Club progressed to the 4th round in the FA Cup where the Club's match against Tottenham generated television and radio income and the Club had benefited from the progression to the 4th round. During the 2012/13 season the Club failed to progress past the 3rd round and this fixture against Manchester City was not televised, contributing to a reduction in media income of £198,000.

Commercial revenues have increased by £6,089,000. This includes a reduction in catering income due to the outsourcing of this operation to The Lindley Group, meaning that rather than generating turnover offset with cost of sales and administrative costs, the Club received an amount of income per annum relative to turnover. The reduction in revenue is £357,000 (with further reductions outlined in match day revenues). However these amounts are offset by reduced costs. Retail income has improved by £185,000 in the year, with advertising and events related income seeing a small increase of £4,000. The remaining increase of £6,257,000 is from improved general commercial income in the year and Play-Off participation.

Revenues generated on match days increased by £1,494,000. The match day figure includes reduced match day catering income of £455,000 and improvement Season Ticket and League match income figures of £59,000 and £199,000 respectively. Cup match day income increased from £115,000 in the previous year to £185,000 in the current year, so an increase of £70,000, and match day commercial sales also increased by £46,000 from the previous year generating revenue of £648,000. The Play-Off competition generated total revenue of £2,575,000.

Salary costs increased from a 2012 level of £10,350,000 to £12,825,000 in 2013: an increase of £2,475,000. An increase in the overall cost of players' salaries from £7,133,000 in 2012 to £8,564,000 explains £1,431,000 of this overall increase. There was also an amount of £703,000 payable in relation to the settlement of various football and office staff during the year as restructuring in both areas occurred following the purchase of the business by its new owners. Other directly football related salaries (professional and academy management, scouting and academy player) have increased by £853,000 from £1,495,000 in 2012 to £2,348,000 and commercial, stadium and administrative salaries have reduced by £512,000 from £1,722,000 in 2012 (including a £269,000 provision regarding a prior year income tax and national insurance liability and £225,000 relating to a revaluation of the Football League Limited Pension and Life Assurance Scheme) to £1,210,000 in 2013. This includes a reduction in catering salaries of £113,000 offset by increases across other business related salaries of £95,000.

Other operating expenses have seen a small increase of £132,000 from £7,041,000 in 2012 to £7,173,000 in 2013. This increase includes some areas of cost reduction coupled with areas of increased cost. Catering costs are effectively removed from the business due to the catering provision being outsourced and therefore there is a reduction in costs of £690,000. There is also a reduction in disposal of fixed assets of £458,000 as the 2012 figure included the provision of the disposal of the Red Lion public house. Offsetting those reductions are increases in costs relating to legal fees and other professional services of £516,000 including costs relating to the sale and purchase of the business and significant legal costs relating to legacy matters including the Football League Football Disciplinary Committee hearing and LNOC. Costs were also incurred in relation to participation in the Championship Play-Off Finals and these totalled £416,000. General football costs also increased in the year by £241,000 and reflecting the increase in revenue, retail costs increased by £71,000. Other areas account for the remaining £36,000 increase in the year.

Amortisation and impairment costs have reduced from £1,224,000 to £645,000. The reduction of £579,000 is reflective of a general decrease in amortisation charges of £366,000, in respect of the relatively few players whose contract values are capitalised. In addition the impairment charge for the year to 30th June 2012 was £263,000 compared to £50,000 for the year to 30th June 2013. The impairment charge relates to players whereby it is considered that their carrying value at the year end exceeds their recoverable amount.

Other operating income has reduced from £644,000 in 2012 to £435,000 in 2013. The figure includes rent receivable in the year from Saracens Rugby Club for the lease of the Vicarage Road Stadium for a number of games and amounts released to the Profit and loss account against disputed invoices charged in previous years which are no longer considered recoverable. In the previous year, the income generated from Saracens was significantly higher due to more games being hosted at Vicarage Road.

The profit on disposal of players' registrations comprises total profits of £2,592,000 mainly generated from the sales of A Mariappa, S Loach and M Taylor and several smaller profits generated by appearances, promotion and sell-on clauses from players sold in previous years, most notably D Graham. The prior year amount of £6,400,000 included profit on the disposal of D Graham and M Sordell as well as several smaller profits generated by appearances, promotion and sell-on clauses from players sold in previous years, most notably A Young.

The Team and Football Management

The first-team squad came within one victory of securing a place in the Premier League, when they lost out in the 2012/13 Championship Play-Off Final at Wembley Stadium. Led by Gianfranco Zola, the Football Management team are determined to continue the squad's development into the 2013/14 season such that the achievements of the previous year may be improved and, in doing so, automatic promotion to the top-flight attained.

Academy

The progress of talented young players through to first-team squad involvement remains of significance to the Club's owners and Board, with Head Coach Gianfranco Zola a key advocate of giving the best of Watford's young talent a chance to shine in high-profile situations. The relationship between the Club's Academy and The Harefield Academy remains as key today as when the partnership was first struck some six years ago.

Report of the directors continued
For the year ended 30th June 2013

Community
A registered charity, Watford FC's Community Sports & Education Trust continues to defy funding cuts and other external challenges to deliver an extraordinary depth and breadth of services to people within the Club's local community. The power of the Trust's provision was best highlighted in summer 2012 when it delivered a National Citizen Service four-week course to over 100 local young people using an army of volunteers aided by Trust staff, an initiative quickly recognized at national level. Further to last year's opening of the Cedars Youth & Community Centre, the Trust is driving forward progress with regard to the delivery of a second community hub site in Meriden, north Watford.

Stadium
Last year's report alluded to the then new owners' and Board's desire to undertake considerable progress in relation to stadium development. The expectation was, at the end of this accounting period, that this would manifest itself across two major projects. Significant progress is expected with regard to both the stadium's south-west corner – partnering with catering rights holder The Lindley Group to increase matchday hospitality provision – as well as via a new East Stand, set to increase stadium capacity by circa 3,000 seats towards the end of the 2013/14 season.

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 2013, 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 July 2012 to 30 June 2013		*Company* from 1 July 2012 to 30 June 2013	
	Ordinary £1 shares		Ordinary £1 shares A Ordinary £0.001 shares	
	2013	2012	2013	2012
Mr. R. Riva	-	-	-	-
Mr. S. I. Duxbury	-	-	-	-
Mr. G. Luca 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.

During the year:

There were the following appointments to the Board on 12 July 2012:

Mr. R. Riva	executive chairman
Mr. S. I. Duxbury	executive director and chief executive
Mr. G. Luca Nani	executive director and technical director

none of whom own shares in the Company or parent company.

Since the year ended 30 June 2013, there have been no changes in the Company's directorate.

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.

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 2013 was 36 days.

Charitable and political donations

During the year the Company made charitable donations of £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 23 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 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 6 November 2013

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 2013 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 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 2013 the Company's liabilities exceeded its total assets by £3,768,000.

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) **6 November 2013**
for and on behalf of Myers Clark

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

Profit and loss account
For the year ended 30th June 2013

	Note	Operations excluding player trading £'000	Player trading (note 9) £'000	2013 £'000	2012 £'000
Turnover	**2**	18,133	-	18,133	11,184
Cost of sales		(16,209)	(645)	(16,854)	(14,384)
Gross profit/(loss)		1,924	(645)	1,279	(3,200)
Administrative expenses		(3,788)	-	(3,788)	(4,231)
		(1,864)	(645)	(2,509)	(7,431)
Other operating income	**3**	435	-	435	644
Operating loss		(1,429)	(645)	(2,074)	(6,787)
Profit on disposal of players' registrations		-	2,592	2,592	6,400
Exceptional Item	**4**	-	-	-	(2,125)
Interest receivable	**5**	8	-	8	-
Interest payable and similar charges	**5**	(336)	-	(336)	(136)
Profit/(loss) on ordinary activities before taxation	**6**	(1,757)	1,947	190	(2,648)
Tax on profit/(loss) on ordinary activities	**8**			-	-
Profit/(loss) for the financial year	**17**			£190	£(2,648)

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 2013

	Notes	2013 £'000	2012 £'000
Fixed assets			
Intangible assets	**1(c) & 9**	588	908
Tangible assets	**1(d) & 10**	12,974	13,457
		13,562	14,365
Current assets			
Stocks	**1(h) & 11**	69	89
Debtors	**12**	5,063	1,209
Cash at bank and in hand		417	35
		5,549	1,333
Creditors amounts falling due within one year	**13**	(10,378)	(10,515)
Net current liabilities		(4,829)	(9,182)
Total assets less current liabilities		8,733	5,183
Creditors amounts falling due after more than one year	**14**	(12,487)	(9,124)
Deferred capital grants and contributions	**15**	(14)	(17)
		£(3,768)	£(3,958)
Capital and reserves			
Called up share capital	**16**	1,073	1,073
Profit and loss account – accumulated deficit	**17**	(4,841)	(5,031)
Shareholders' funds	**18**	£(3,768)	£(3,958)

Approved by the Board of Directors on 6 November 2013 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 2013

	Note	£'000	2013 £'000	£'000	2012 £'000
Operating activities					
Net cash in/(out)flow from operating activities	**19(a)**		176		(4,964)
Returns on investments and servicing of finance					
Interest received		8		-	
Interest paid		(141)		(141)	
Net cash outflow from returns on investments and servicing of finance			(133)		(141)
Capital expenditure					
Payments to acquire intangible fixed assets		(537)		(1,175)	
Payments to acquire tangible fixed assets		(547)		(563)	
Receipts from sales of intangible fixed assets		1,471		6,550	
			387		4,812
Net cash inflow/(outflow) before financing			430		(293)
Financing	**19(b)**				
Advances/(Repayments) of group loans		590		1,023	
Repayments of directors' loans		-		(250)	
(Repayment)/Advances of other loans		-		(416)	
Net cash inflow/(outflow) from financing			590		357
Increase/(decrease) in cash in for the year	**19(c)**		£1,020		£64

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

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 profit for the year of £190,000 and had net liabilities at 30 June 2013 of £3,768,000.

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. These secured bonds were taken on by the new parent undertaking on purchase of the Club and in February 2013 the majority of the secured bonds were hived down to the Company by cancellation of the same amount of intercompany loan due to new parent company. 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 Company is continually reviewing current business activity together with cash flow recasts for the next two and five years 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 £2,986,000 if to do so would jeopardise the Club's ability to continue as a going concern. 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 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.

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.

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:

	2013 £'000	2012 £'000
Matchday	5,592	4,098
Media	4,790	5,424
Commercial	7,751	1,662
Other	-	-
	£18,133	£11,184

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

	2013 £'000	2012 £'000
Rent receivable	260	630
Release of capital grants	4	4
Other	171	10
	£435	£644

4. Exceptional item

The prior year 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

	2013 £'000	2012 £'000
Interest receivable		
Bank deposit interest	8	-
Interest payable and similar charges		
Bank loan and overdraft interest	8	34
Other interest	328	102
	£336	£136

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

	2013 £'000	2012 £'000
Amortisation of intangible fixed assets	663	1,242
Depreciation of tangible fixed assets	660	546
Loss on disposal of tangible fixed asset	-	464
Auditor's remuneration		
Audit fees	13	43
Taxation	-	4
Other	-	38
Operating leases – vehicles and equipment	30	26
Operating leases – property	402	396

7. Employee information

	2013 £'000	2012 £'000
Staff Costs		
Wages and salaries	11,348	8,852
Social security costs	1,417	1,209
Other pension costs	60	289
	£12,825	£10,350

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

	2013 Number	2012 Number
Players	60	49
Coaching staff	37	32
Part-time coaching staff	16	16
Commercial staff	19	18
Part-time commercial staff	16	18
Part-time catering staff	-	59
Administration	7	7
Ground staff	9	8
	164	207

In addition to the above the Company employed an average of 116 (2012 – 201) part-time match day staff during the year.

Directors' remuneration

	2013 £'000	2012 £'000
Directors' remuneration	400	23
Pension costs	20	-
	420	23
Highest paid director	240	23
Number of directors accruing benefits under money purchase schemes	2	-

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

The tax position is reconciled as follows:

	2013 £'000	2012 £'000
Profit/(loss) before taxation	190	(2,648)
Profit/(loss) before taxation multiplied by the effective standard UK corporation tax rate of 23.5% (2012 – 25.5%)	45	(675)
Expenses not deducted for tax purposes	115	670
Depreciation in excess of capital allowances	63	25
Tax losses utilised	(301)	(20)
Other tax adjustments	78	-
	£Nil	£Nil

Tax losses at 30 June 2013 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.

9. Intangible fixed assets

	Goodwill £'000	Pouring rights £'000	Players' registrations £'000	Total £'000
Cost or valuation				
At 1 July 2012	177	752	2,636	3,565
Additions	-	-	401	401
Disposal	-	-	(1,165)	(1,165)
At 30 June 2013	177	752	1,872	2,801
Depreciation				
At 1 July 2012	53	752	1,852	2,657
Charge for the year	18	-	645	663
Disposal	-	-	(1,107)	(1,107)
At 30 June 2013	71	752	1,390	2,213
Net book value				
At 30 June 2013	£106	£Nil	£482	£588
At 30 June 2012	£124	£Nil	£784	£908

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 2012	1,439	12,540	218	2,281	16,478
Additions	-	41	1	141	183
Transfers	(893)	893	-	-	-
Disposals	-	-	(16)	(18)	(34)
At 30 June 2013	546	13,474	203	2,404	16,627
Depreciation					
At 31 July 2012	-	1,446	188	1,387	3,021
Charge for the year	-	390	31	239	660
Disposals	-	-	(16)	(12)	(28)
At 30 June 2013	-	1,836	203	1,614	3,653
Net book value					
At 30 June 2013	£546	£11,638	-	£790	£12,974
At 30 June 2012	£1,439	£11,094	£30	£894	£13,457

11. Stocks

	2013 £'000	2012 £'000
Goods for resale	69	£89

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

12. Debtors

	2013 £'000	2012 £'000
Trade debtors	437	535
Transfer fees receivable	1,180	-
Other debtor	2,125	2,125
Provision for non-repayment of other debtor	(2,125)	(2,125)
Rent deposit	10	10
Prepayments and accrued income	3,436	664
	£5,063	£1,209

The other debtor is due from Watford F C Limited and has been provided for in full during the prior year (see note 25). Other debtors includes £Nil (2012 - £10,183) which falls due after more than one year.

13. Creditors amounts falling due within one year

	2013 £'000	2012 £'000
Bank overdraft (secured)	-	638
Directors' loans	250	250
Other loans	305	744
Trade creditors	1,251	2,254
Players' registration costs	255	428
Other taxes and social security	707	1,085
Accruals	2,650	3,152
Deferred revenue	4,960	1,964
	£10,378	£10,515

Other loans payable within one year of £304,815 (2012 - £743,961) includes £229,815 (2012 – Nil) secured bond and an unsecured loan and interest free loan of £75,000 (2012 - £75,000). The repayment date of the loan from Watford FC's Community Sports & Education Trust of £668,961 included in 2012 as due within one year has been extended and is now included in creditors due in more than one year.

Directors loans represent a £250,000 (2012 – £250,000) unsecured loan, attracting interest at 3.5% above Barclays Bank base rate.

14. Creditors amounts falling due after more than one year

	2013 £'000	2012 £'000
Other loans	6,418	-
Amount owed to parent company	2,986	8,376
Accruals and deferred revenue	3,083	748
	12,487	£9,124

The maturity of total debt may be analysed as follows:	2013 £'000	2012 £'000
In one year or less	555	748
Between one and two years	669	8,376
Between two and five years	232	-
In more than five years	8,504	-
	£9,960	£9,124

The prior year loan of £668,961 from Watford FC's Community Sports & Education Trust which was repayable in June 2013 is now repayable on 30th June 2015 and has been reclassified as due in more than one year.

During the financial year the part of the loan due to the Company's immediate parent company Hornets Investment Limited was repaid by assigning £5,980,000 of loan notes owed from the immediate parent company to the Company. Other loans include £5,750,185 of secured bonds due in more than one year.

15. Deferred capital grants and contributions

	Capital grants £'000	Contributions to capital expenditure £'000	Total £'000
At 1 July 2012	15	2	17
Credited to the profit and loss account	(3)	-	(3)
At 30 June 2013	12	2	14

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

16. Share capital

	2013 £'000	2012 £'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 2012	(5,031)
Profit for the year	190
At 30 June 2013	£(4,841)

18. Reconciliation of movements on shareholders' funds

	2013 £'000	2012 £'000
Profit/(loss) for the financial year	190	(2,648)
Opening shareholders' funds	(3,958)	(1,310)
Closing shareholders' funds	£(3,768)	£(3,958)

Shareholders' funds are fully attributable to equity interests.

19. Notes to the cash flow statement

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

	2013 £'000	2012 £'000
Operating loss	(2,074)	(6,787)
Exceptional item	-	(2,125)
Amortisation and impairment of intangible fixed assets	662	1,242
Depreciation and impairment of tangible fixed assets	660	546
Loss on disposal of tangible fixed assets	5	464
Capital grant released	(4)	(4)
Decrease/(increase) in stocks	20	(12)
(Increase)/decrease in debtors	(2,674)	842
Increase in creditors	3,581	870
Net cash in/(out)flow from operating activities	176	£(4,964)

b) Analysis of changes in net debt

	At 1 July 2012 £'000	Cash flows £'000	Other changes £'000	At 30 June 2013 £'000
Cash at bank and in hand	35	382	-	417
Bank overdraft	(638)	638	-	-
Net cash at bank and in hand	(603)	1,020	-	417
Intergroup balance	(8,376)	(590)	5,980	(2,986)
Directors' loans within 1 year	(250)	-	-	(250)
Other loans due within 1 year	(744)	-	439	(305)
Directors' loans due after 1 year	-	-	-	-
Other loans due after 1 year	-	-	(6,419)	(6,419)
	(9,370)	(590)	-	(9,960)
	(£9,973)	430	-	(9,543)

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

	2013 £'000	2012 £'000
Increase/(Decrease) in cash in the year	1,020	64
Cash (inflow)/outflow from (increase)/decrease in debt	(590)	(356)
Change in net debt resulting from cash flows	430	(292)
Other non-cash changes	-	-
Movement in net debt in the year	430	(292)
Net debt at 1 July 2012	(9,973)	(9,681)
Net debt at 30 June 2013	(9,543)	£(9,973)

d) Major non-cash transactions

During the year there were no major non-cash transactions. (2012 – None)

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 2013, which has not been provided for in the financial statements, is as follows:

	£'000
On contracts expiring :	
Within one year	75
Between two to five years	100
	175

The Company's commitments for rental payments under operating leases payable during the year ended 30 June 2013 are as follows:

	Land and buildings £'000	Other £'000
On contracts expiring:		
Within one year	3	5
Between one and two years	5	-
Between two and five years	8	18
	16	23

The Company signed a new licence for a period of 10 years for the use of the training ground facilities with University College of London on 1 July 2013 for a total annual fee of £488,500.

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 2013 is £897,500 (2012 - £1,700,000). Since the year end none of this has become payable. Of the contingent amount £600,000 (2012 - £280,000) 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 £175,000 (2012 - £347,000).

At 30 June 2013 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 (2012 – Nil).

22. Pension costs

Certain of the Company's ex-employees are members of the Football League Limited Pension and Life Assurance Scheme ("FLLPLAS"), a defined benefit scheme. The Company is one of a number of participating employers in FLLPLAS. The assets of the scheme are held separately from those of the Company, being invested with insurance companies. Under the provisions of FRS 17 the scheme is accounted for as a defined contribution scheme. Following an actuarial valuation as at 31 August 2008, updated to 30 June 2012, the Company has been advised by the trustees that its share of the actuarial deficit is £346,019 (of which £36,592 is payable in less than one year), included in accruals, and that it is required to pay £5,256 per month for the next six years and £3,109 per month for the following three years. There has been no further update received.

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 £1,452,000 will be reflected in the financial statements for the current year. Since the year end there have been several new player registrations acquired.

The Company have also signed a letter of intent to develop the east stand during the near future at a cost of £1,680,000.

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 Gianpaolo Pozzo.

25. Related party and directors' transactions

At 30 June 2013 the Company owed £2,985,594 (2012 - £8,375,657) to Hornets Investment Limited, the immediate parent company. The loan is interest free, unsecured and has no fixed repayment date.

During the financial year the part of the loan due to the Company's immediate parent company Hornets Investment Limited was repaid by assigning £5,980,000 of loan notes owed from the immediate parent to the Company.

As at 30 June 2013 the Company had loan notes of £1,590,996 owed to David Fransen, a director of the Company (2012 – Nil) which accrue interest at 5% until 29 June 2013 and 3% thereafter. Interest owed as at 30 June 2013 amounted to £26,938 (2012 – Nil).

During the prior 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 be owed, therefore, to the Club by the previous owner's 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 represented the net book value as at 29 June 2012.