

15 March 2010

Watford Leisure PLC
(“Watford Leisure” or the “Company”)

Unaudited Interim Results for the six months ended 31 December 2009

Chairman’s Statement

Introduction

I have pleasure in presenting the Interim Report to shareholders for the six months ended 31 December 2009.

The Watford Association Football Club Limited (“the Club”) has faced a challenging first six months of the 2009/10 financial year both on and off the pitch, culminating in an eventful Watford Leisure AGM on 15 December and my appointment as Chairman on an interim basis. I have of course been involved as a Non-Executive Director for more than a year now and formed part of a Board that has been endeavouring to stabilise the financial position of the Company and provide a platform for its future success.

Background

At the start of the financial year (1 July 2009) the Board were under no illusion as to the size of the challenges that still lay ahead. The Board were starkly aware that the Club, with the loss of its parachute payment from 2009/10 onwards, needed to make significant changes as the Club entered its new financial year with revenues projected to drop from approximately £22m in 2008/09 to £10.5m in 2009/10. The Board of Watford Leisure (the “Board”), commenced the development of the Club’s new five year rolling strategy in February 2009 as a response to the clear financial difficulties ahead. The Board then set about finalising the finer details of the strategy for implementation at the start of July 2009. Staffing levels across the whole Club had been reviewed and restructured such that the Club entered the new financial year with an appropriate staffing structure and a cost base reduction of 25% to 30% across its various departments. Despite all of this restructuring, it was clear that the Club had rapidly to address the football side of its business to bring about any form of financial stability.

The summer transfer window proved to be very successful for the Club in terms of incoming transfer fees but, despite this, the Board still required the Company’s major shareholders to agree on the best method for raising the funds required to fill the inherited gap in the Club’s finances. With no agreement in place between the two largest shareholders, Fordwat Limited (“Fordwat”) and Valley Grown Salads (“VGS”), VGS nevertheless supported the Club over the course of 2009 with a series of loans. As we entered the AGM on the 15 December 2009, uncertainty over the Club’s future financing remained. The subsequent resignations of the three Board Directors representing VGS and the demand for repayment of the outstanding VGS loans immediately prior to the AGM commencing, regrettably left the Club very close to administration. The Board was thankful to Fordwat for their support in stepping in to clear the VGS loans, thereby ensuring that the Club avoided being forced into administration and their further commitment to underwrite a £7.5m fund raising. It is currently envisaged that successful completion of the proposed fundraising, hopefully in April/May 2010, will see the Club firmly established as a viable and vibrant enterprise with a more robust financial future and a sound platform for progress both on and off the field.

A four man Board, independent of the two major shareholders, consisting of David Fransen (Non-Executive Director), Stuart Timperley (Non-Executive Director), Julian Winter (Director and CEO) and myself (Non-Executive Chairman) is now charged with taking the Club forward. I stepped into the Chairman role at the AGM to ensure that the Club continued with the business at hand and in order to bring some normality to the night’s proceedings. I subsequently accepted the role of Interim Chairman and have now agreed to act as Chairman of the Club going forward. The Board believes that, once the proposed fund raising has been implemented, the Club can pursue its key business and community objectives with confidence and restore harmony and stability for our fans, shareholders, staff, players and partners alike.

Financial Overview

The key financial and performance indicators are as follows:

	Unaudited half year ended 31 December 2009 £'000	Unaudited half year ended 31 December 2008 £'000
Revenue	5,163	10,990
Cost of sales	(7,444)	(10,552)
Administrative expenses	(1,860)	(3,330)
Other operating income	265	261
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Operating loss before interest, player trading, amortisation and exceptional items	(3,876)	(2,631)
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Loss before taxation	(172)	(2,279)

Financial Review

The interim results reflect the Club's first period without parachute payments from the Premier League and the consequent significant reduction in revenue levels. Revenue for the first six months of the year was £5,163,000 (2008: £10,990,000) and the loss on ordinary activities after taxation was £172,000 (2008: £2,279,000), reflecting the reduction in our cost base and increased profits from player trading.

Matchday revenue to 31 December 2009 is £2,043,000 compared with £2,647,000 to the same date in 2008. Season Ticket income is £350,000 down to date which is a reflection of the price reductions offered for the 2009/10 campaign combined with a reduced number of Season Ticket holders of circa 700. Matchday revenue to 31 December 2008 included net Carling Cup income of approximately £270,000; the net position to 31 December 2009 is much lower at £61,000 due to an earlier exit from this cup competition and the fact that during the 2008 campaign the Club had four home cup fixtures, two against Premiership opposition. The remainder of the shortfall is in catering and this is due to five fewer home games in the same period this year compared to last, one league and four Carling Cup games.

Media revenue has fallen by £4,941,000 to £2,249,000. Total Football and Premier League distributions to the Club fell by £4,960,000. Premier League distributions were £6,179,000 during the equivalent six month period in 2008 but only £577,000 in 2009 and this includes 50% of the new solidarity payment, as well as residual parachute payments. The League Award income from the Football League is £645,000 higher than during the same period last year as its full year distributions are significantly improved on the previous year. TV income is slightly up with two home games having been televised generating £200,000. In 2008, one home league match and one Carling Cup match had been televised generating income of £160,000. Programme income has reduced by £20,000 - a new contract was entered into this season at a reduced level versus the previous year's deal.

Commercial revenues are significantly reduced against the same period last year with income of £871,000 against £1,153,000. Revenue generated from Saracens' catering is £68,000 down to date, with conference and banqueting and other sundry revenue reduced by £19,000. Sponsorship and advertising income makes up the remainder of the shortfall.

Cost of sales has reduced by £3,108,000, the majority of this being football related cost savings of £2,598,000. This is evidence of the work being undertaken to restructure football costs to reduce them to a more manageable and affordable level. The cost of sales figure to 31 December 2008 included provisions for termination settlements and the forecast full year reduction is estimated to be approximately £4,500,000. The balance relates to cost savings across the remainder of the business.

Administrative expenses have also fallen by £1,470,000. This reduction includes £904,000 on salaries costs. However the period to 31 December 2008 contained a provision relating to a claim by Mark Ashton (the Club's former CEO) which was subsequently not utilised. Other administrative costs declined by £566,000 including a reduction in the depreciation charge of £201,000.

The profit realised on player disposals in the period is £4,484,000. This primarily relates to profits arising from the sales of M Williamson, T Smith, T Priskin, T Robinson and J McAnuff (totaling approximately £4.2m). The balance relates to appearance fees paid in relation to players transferred in previous seasons. Amortisation is significantly reduced, due to the reduced value of capitalised player registrations.

Financing costs fell by £123,000. The prior year included amounts relating to the financing of bought forward player transfer monies.

The cost reduction measures undertaken to compensate for the loss of the parachute income have gone some way to managing its adverse impact on the Club. However, with an operating loss before interest, player trading and amortisation of £3,876,000 for the six month period, there is still further ongoing work required to ameliorate this loss making position. The profit on player disposals has offset the loss for the period and reduced it to £172,000. It is most likely that the Club will continue to trade players going forwards in order to reduce its potential operating losses before interest, player trading and amortisation.

Cash absorbed by operations was £3,829,000 and cash generated by player sales in the period totalled £1,767,000. Cash absorbed by player purchases was £1,507,000; this includes amounts payable on players purchased in previous years, most notably the final instalment relating to the purchase of N Ellington. New loans resulted in a cash inflow of £3,466,000 - VGS advanced further monies during the period, increasing its aggregate loan position from £1,468,000 at 30 June 2009 to £4,883,000. This loan was repaid by Fordwat on 21 December 2009. The Fordwat loan as at 31 December 2009 totalled £4,941,000 including accrued interest and fees due on VGS's loan at repayment. Overall, there was a net cash outflow of £480,000 against an outflow of £2,223,000 for the equivalent period last year.

As evidenced from the above financial review, the Club has been operating as a going concern thanks largely to the valuable financial support received from its major shareholders (and Directors) and such support will most likely continue to be required until costs can be further brought in line with revenues.

The Team and Football Management

The Board would like to thank Malky Mackay (Team Manager) and his staff and players for their tremendous efforts in the season to date. Despite the major transitioning of the squad the performances on the pitch have been a credit to all concerned. The Club has set out to be a competitive Championship Club and Malky Mackay has led the squad in a positive and professional manner and established a real sense of togetherness amongst the players and staff as the Club seeks to reinsert its strong identity and footballing credentials. The Board has supported the manager through the acquisition of players to develop the squad and the introduction of key loan players to supplement the playing staff further as the Club rectifies its off-pitch financial position. The Club now has in place rigorous processes to support the acquisition of players and the efforts of John Stephenson (Head of Football Business and Development), Malky Mackay (Manager) and Julian Winter (CEO) are vital to ensuring that the Club secures the right kind of players in line with the financial model established in the Club's business strategy. As a Board, we should never lose sight of the fact that we are a competitive and proud football club and will do all we can to support the development of a successful football team on the pitch. We have now set out a clear path for the Club to follow and the shape of the football squad required and we feel that the Club is making progress week on week in this critical area.

Looking ahead

Despite the pressures we have experienced and the scale of the Club, there are many elements of our activities that differentiate us as a Club and of which we should be proud. The Club has a unique Academy in partnership with the Harefield Academy in Hillingdon and the Board has ensured that the Academy will be at the heart of its football development programme moving

forwards. It is vital that the Club is excellent at developing its own talent and builds on its already impressive reputation and track record to date. In addition, we have an award winning Community Sports and Education Trust that facilitates the Club's well established traditions as a family and community Club and this is also central to our future plans. As Chairman, I will be doing my utmost to ensure that we really embed that sense of community spirit across all aspects of the Club's work and out into the communities we serve. It is a really important for the Board to ensure that local people feel part of our football Club.

The Club's key worker housing development is progressing well with completion due in April 2010. The Club will then vacate its Wolsey Park Offices and return to Vicarage Road in the South Stand. The Board will also be assessing every opportunity to complete the South West Corner changing rooms, media and match day operations facilities so that the East Stand can eventually be demolished. Such capital intensive projects will need to be financed independently and in partnership with both public and private sector organisations - but we as a Board should not take our eye off how important these development projects are to the long term sustainability and infrastructure of the Club.

In conclusion, the Board would like to express its sincerest thanks to all members of staff for their hard work, dedication, expertise and vigilance in the face of real challenge. The Board is proud of the Club, its sense of direction and the people responsible for taking us there day to day. We also thank all shareholders and supporters for your unswerving loyalty - a support that is essential going forward as we seek to progress both on and off the pitch.

The Board feel that we can realistically move forward more positively, but it will require a constant emphasis on managing the balance between developing the football side of the Club and ensuring a sustainable level of costs. We will be doing our utmost to do the very best for the Club and hope you all join us on the journey.

Graham Taylor
Chairman

15 March 2010

WATFORD LEISURE PLC
Consolidated income statement for the half year ended 31 December 2009

	Unaudited half year ended 31 December 2009 £'000	Unaudited half year ended 31 December 2008 £'000	Audited year ended 30 June 2009 £'000
Revenue	5,163	10,990	23,079
Cost of sales	(7,444)	(10,552)	(19,792)
Gross (loss) / profit	(2,281)	438	3,287
Administrative expenses	(1,860)	(3,330)	(5,348)
Other operating income	265	261	1,115
	(3,876)	(2,631)	(946)
Amortisation and impairment of costs of players' registrations	(597)	(2,317)	(4,293)
Profit on disposal of players' registrations	4,484	2,952	3,774
Operating profit / (loss)	11	(1,996)	(1,465)
Financing income	-	23	44
Financing costs	(183)	(306)	(566)
Loss before taxation	(172)	(2,279)	(1,987)
Taxation	-	-	-
Loss for the period	£(172)	£(2,279)	£(1,987)
Attributable to:			
Equity holders of the parent	£(172)	£(2,279)	£(1,987)
Loss per ordinary 1p share (basic and diluted)	(0.4p)	(5.2p)	(4.5p)

WATFORD LEISURE PLC
Consolidated balance sheet as at 31 December 2009

	Unaudited 31 December 2009 £'000	Unaudited 31 December 2008 £'000	Audited 30 June 2009 £'000
Non-current assets			
Property, plant and equipment	12,662	13,830	12,880
Intangible assets	970	4,468	2,218
	<hr/> 13,632 <hr/>	<hr/> 18,298 <hr/>	<hr/> 15,098 <hr/>
Current assets			
Inventories	176	306	120
Trade and other receivables	5,714	2,159	2,480
Cash and cash equivalents	22	78	59
	<hr/> 5,912 <hr/>	<hr/> 2,543 <hr/>	<hr/> 2,659 <hr/>
Total assets	<hr/> 19,544 <hr/>	<hr/> 20,841 <hr/>	<hr/> 17,757 <hr/>
Current liabilities			
Interest bearing loans and other borrowings	6,233	718	3,587
Trade and other payables	2,736	5,353	4,880
Deferred revenue	2,772	5,751	2,234
	<hr/> 11,741 <hr/>	<hr/> 11,822 <hr/>	<hr/> 10,701 <hr/>
Non-current liabilities			
Interest bearing loans and other borrowings	3,563	3,647	2,385
Trade and other payables	330	1,580	589
Deferred revenue	29	31	29
	<hr/> 3,922 <hr/>	<hr/> 5,258 <hr/>	<hr/> 3,003 <hr/>
Total liabilities	<hr/> 15,663 <hr/>	<hr/> 17,080 <hr/>	<hr/> 13,704 <hr/>
Net assets	<hr/> £3,881 <hr/>	<hr/> £3,761 <hr/>	<hr/> £4,053 <hr/>
Equity			
Capital and reserves			
Called up share capital	439	439	439
Special reserve	10,409	10,651	10,409
Retained deficit	(6,967)	(7,329)	(6,795)
	<hr/> £3,881 <hr/>	<hr/> £3,761 <hr/>	<hr/> £4,053 <hr/>
Total equity	<hr/> £3,881 <hr/>	<hr/> £3,761 <hr/>	<hr/> £4,053 <hr/>

WATFORD LEISURE PLC**Consolidated cash flow statement for the half year ended 31 December 2009**

	Unaudited half year ended 31 December 2009 £'000	Unaudited half year ended 31 December 2008 £'000	Audited year ended 30 June 2009 £'000
Operating activities			
Loss before taxation	(172)	(2,279)	(1,987)
Amortisation of intangible fixed assets	597	2,317	4,293
Depreciation of property, plant and equipment	376	514	1,340
Net profit on disposal of sundry fixed assets	-	-	1
Profit on disposal of players' registrations	(4,484)	(2,952)	(3,774)
Financing income	-	(23)	(44)
Financing costs	183	306	566
(Increase) / decrease in inventories	(56)	(169)	17
Decrease in receivables	519	755	77
(Decrease) / increase in payables and deferred income	(792)	1,241	(2,483)
	<hr/>	<hr/>	<hr/>
Cash absorbed by operations	(3,829)	(290)	(1,994)
Cash flows from investing activities			
Purchase of intangible fixed assets	(1,507)	(1,816)	(3,424)
Purchase of property, plant and equipment	(158)	(478)	(424)
Proceeds from sale of intangible fixed assets	1,767	6,641	8,538
Proceeds from sale of property, plant and equipment	-	-	1
	<hr/>	<hr/>	<hr/>
Net cash generated by investing activities	102	4,347	4,691
	<hr/>	<hr/>	<hr/>
Cash flows from financing activities			
Advances of debt	3,466	2,604	4,373
Repayments of debt	(85)	(8,618)	(9,133)
Interest received	-	23	44
Interest paid	(134)	(289)	(576)
	<hr/>	<hr/>	<hr/>
Net cash generated by / (used in) financing activities	3,247	(6,280)	(5,292)
	<hr/>	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(480)	(2,223)	(2,595)
Cash and cash equivalents at start of period	(556)	2,039	2,039
	<hr/>	<hr/>	<hr/>
Cash and cash equivalents at end of period	£(1,036)	£(184)	£(556)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Cash and cash equivalents comprise:			
Cash and cash equivalents	22	78	59
Bank overdraft	(1,058)	(262)	(615)
	<hr/>	<hr/>	<hr/>
Total	£(1,036)	£(184)	£(556)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

WATFORD LEISURE PLC**Consolidated statement of changes in equity for the half year ended 31 December 2009**

	Share capital £'000	Special reserve £'000	Retained earnings £'000	Total £'000
Equity shareholders funds at 1 July 2008	439	10,651	(5,050)	6,040
Loss for the period	-	-	(2,279)	(2,279)
Equity shareholders funds at 31 December 2008	439	10,651	(7,329)	3,761
Profit for the period	-	-	292	292
Losses extinguished	-	(242)	242	-
Equity shareholders funds at 30 June 2009	439	10,409	(6,795)	4,053
Loss for the period	-	-	(172)	(172)
Equity shareholders funds at 31 December 2009	439	10,409	(6,967)	3,881

**Notes to the unaudited interim financial information
for the six month period ended 31 December 2009****1. Basis of preparation**

These interim financial statements for the six month period ended 31 December 2009, comprising the Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Cash Flow Statement and Consolidated Statement of Changes in Equity and accompanying notes, have been prepared using the historical cost convention and in accordance with the recognition and measurement criteria of International Financial Reporting Standards ("IFRS") as adopted by the European Union and the AIM Rules for Companies, save that the Group has elected not to adopt IAS34 'Interim Financial Reporting'. These IFRS interim financial statements do not include all the information required for full IFRS annual financial statements.

These interim results do not constitute statutory accounts within the meaning of s435 of the Companies Act 2006. The financial information in this report for the six months to 31 December 2009 and 31 December 2008 has not been audited. The comparative figures for the year ended 30 June 2009 are extracted from the Group's audited financial statements for that period as delivered to the Registrar of Companies and filed at Companies House and prepared in accordance with the Companies Act 2006. They do not constitute the financial statements for that period.

Those financial statements received an unqualified audit report which did not contain any statement under sections 498 (2) or (3) of the Companies Act 2006 but did include an emphasis of matter paragraph in the auditor's report relating to going concern. In this context the Group has prepared cash flow forecasts for the period to 30 June 2014. These show that additional shareholder funding will be required in the period to 30 June 2010. The Directors remain confident that shareholder funding will be forthcoming in the period required and therefore, also consider it appropriate to prepare the interim results on a going concern basis. The interim results do not include any adjustments that would result should this not be the case.

The interim financial statements have also been prepared on a basis consistent with the accounting policies expected to be applied for the year ending 30 June 2010, and which are also consistent with the accounting policies applied for the year ended 30 June 2009 except for the adoption of new standards and interpretations.

The comparative information for the period to 31 December 2008 previously disclosed losses attributable to minority interests as separate items. These losses are now treated as wholly attributable to the parent company.

2. Revenue analysis

	Unaudited half year ended 31 December 2009 £'000	Unaudited half year ended 31 December 2008 £'000	Audited year ended 30 June 2009 £'000
Matchday	2,043	2,647	4,986
Media	2,249	7,190	14,504
Commercial	871	1,153	2,039
Other	-	-	1,550
	£5,163	£10,990	£23,079

Revenue streams comprise:

Matchday - season and matchday tickets and corporate hospitality 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

Other - player loan fees receivable

3. Taxation

After taking into account the projected performance for the next six months and unutilised tax losses, no provision for taxation is required.

4. (Loss)/earnings per share

Loss per ordinary share has been calculated as follows:

	Unaudited half year ended 31 December 2009 £'000	Unaudited half year ended 31 December 2008 £'000	Audited year ended 30 June 2009 £'000
Loss for the period	£(172)	£(2,279)	£(1,987)
Weighted average number of shares in issue	43,885,693	43,885,693	43,885,693
Loss per ordinary share	(0.4p)	(5.2p)	(4.5p)

5. Availability of Interim Report

A copy of these interim results will be made available for inspection at the Company's registered office during normal business hours on any weekday. The registered office is at Vicarage Road Stadium, Watford, Hertfordshire WD18 0ER. A copy can also be downloaded from the Company's website at www.watfordleisureplc.com. Watford Leisure PLC is registered in England and Wales with registered number 03335610.

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