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Chairman's statement

On behalf of the Board of Directors, I am pleased to present the Annual Report and Financial Statements of Watford Leisure PLC for the year ended 30 June 2009.

There have been many changes over the year involving the Board, the control of finance, the business ethic, the playing staff and administrative function.

As you are aware, Graham Simpson resigned at the EGM in December 2008 followed immediately by Mark Ashton. Andrew Wilson agreed to act as interim Chairman and he appointed Julian Winter as Chief Executive Officer and Director. In January 2009, I and my brother Vince were appointed to the Board as non-executive Directors together with Stuart Timperley, who was no stranger to the Club having previously served as Chairman, and Graham Taylor, who is a legend at Watford and well known to everyone concerned with the Football Club.

In February, Andrew Wilson resigned as interim Chairman and Director of the company. In March, David Fransen and Robin Williams were appointed to the Board as non-executive Directors completing the formation of the new Board. I offered myself as Executive Chairman with my brother as Executive Vice Chairman and the Board approved. We now have a wealth of talent and expertise with which to move forward.

We have faced challenging times, most of which have centred around the financial situation which we inherited. It has been necessary for the company to rely, at times, on the generosity of lenders, including myself and my brother Vince, to provide funds by way of loans to enable us to meet our obligations. Whilst this is a short term solution, we have all accepted the need to identify a longer term solution and at the time of writing this report, discussions are ongoing. The Board expects that approximately £6.5 million of funding will be required to make up the shortfall to 30 June 2010.

It has been necessary to take a long hard look at the manner in which the business was operating and it soon became clear that there were many areas where savings could be made and it is to the credit of all involved that real progress has been achieved and our efforts are ongoing.

It is the Board's aim to achieve an equalised budget by the end of June 2011 as we are firmly of the view that you cannot spend what you do not have. To do so is fraught with problems as has often been proved in the past.

We were delighted with the performance of the team to secure our position in the Championship. It is never easy to change Manager mid-season but the arrival of Brendan Rogers to steer us through to safety proved to be the right decision. His subsequent departure to Reading FC, after such a short period with us, was not anticipated but these things happen and we have to move on. Malky Mackay, who acted as Interim Manager prior to Brendan Rodger's appointment, was a natural choice and one that we are certain will prove to be the right one.

Financial Overview

Whilst we seem to be trading on the same basis as all football clubs, I would prefer that the business should have no debt and should be building up a reserve. With the financial world in turmoil over the last 18 months this has been a big wake up call for all football clubs, who now know that their banks are not as accommodating as they were before the collapse of the financial world. Nevertheless, we are working to a plan which will enable us to trade within our financial means but we also need to be aware that for us to encourage players to join us they will expect to be paid at the right level of remuneration in the Championship. Thus, this will mean that year on year we will have to generate revenue from player sales in order to meet the financial requirements of the business.

Chairman's statement continued

The key financial and performance indicators are as follows:

	2009 £'000	2008 £'000
Revenue	23,079	22,363
Cost of sales	(19,792)	(21,908)
Administrative expenses	(5,348)	(6,180)
Other operating income	1,115	578
Operating loss before interest, player trading, amortisation and exceptional items	(946)	(5,147)
(Loss)/profit before taxation	(1,987)	426
Cash (absorbed by)/generated from operations	(1,994)	(5,701)
Wages to revenue ratio	68%	79%
League position	13th	6th

Financial Review

The financial year saw an increase in revenue of £716,000. The increase includes £1,550,000 of loan fee income and increased cup match income of £275,000 from the previous year. These increases were offset by reduced commercial revenues of £835,000, including reductions in ticketing, retail, corporate sponsorships, hospitality and advertising. Televised match income reduced by £210,000 to £70,000 with only one home and one away televised fixture. The combined income generated by the Premier League parachute and Football League income also dropped from £13,550,000 to £13,475,000 (of which £12,300,000 relates to Premier League parachute income).

Cost of sales and administrative expenses show a reduction of £2,948,000 of which £2,152,000 has been generated by reduced salary costs. Further evidence of cost reduction measures taken will be evident in the financial statements for the current financial year as significant work has been undertaken in this area across both the administrative and playing side of the business. The nature of football contracts makes it difficult to transition this cost very quickly as contracts generally cover a two, three or four year period. The summer transfer window allowed for some movement and with a number of contracts expiring in June 2010 the real evidence of the 'new' player salary model will not be seen until the 2010/2011 financial statements.

Other operating income includes the rent receivables from the stadium leases to Saracens Rugby Club and Kier London. Kier London lease the office space at the Vicarage Road Stadium. They are the construction company involved in the key worker housing development ongoing at the Stadium. Other income in the year includes amounts payable as compensation from Reading FC for the employment of Brendan Rodgers.

Profit on disposal of player registrations includes profit from the sales of D Shittu, D Henderson and L Williamson and profit from the disposal of the registration of D Francis (generated through insurance income). Other profit was generated from appearance, promotion and sell-on clauses from various players sold in previous years and these amounts have been off-set by the losses on the disposal of other players' registrations in the year.

Amortisation costs of £4,293,000 represent the charge in the year and include £1,500,000 of amortisation relating to N Ellington. In the previous year, the player's book value had been impaired to a level relative to the known loan income which was generated. This book value has been fully amortised over the year long loan.

Football Team

It is imperative that we have a group of players that can more than compete in the Championship. However, history has shown us that we have been too generous with players' wages only to find that sometimes these players are no better and in fact on certain occasions of a lower standard, than those that we currently have. The Board is firmly of the belief that the Club can survive in the Championship with a mixture of seasoned professionals and younger players who, at this stage of their careers, command lower salaries.

I am really pleased with the way that Malky Mackay has conducted himself and has won the respect of all of his staff both playing and non playing. He is a true gentleman and a leader amongst men and whilst our expectations would be success year on year, we also have to be realistic as to the challenges that he faces. Indeed, having sold and released some 12 players since Easter he has been somewhat restricted as to the amounts of money made available to him. He fully understands his position and was informed at the time of being appointed. Nevertheless, he chooses to work with a small team of good players and, for this, we are grateful to him for his endeavours.

We are also grateful for the contribution of John Stephenson. His eye for talent has already been shown with the recruitment of such players as Cowie, Graham and Williamson. What is really important is that we are a team and whilst, at times, we may not agree on everything, the winner will always be "what is right for Watford Football Club".

Academy

In the last 12 months we have had a real need to progress young talent with such players as Sordell, Hodson, Bennett, Bryan and Jenkins. Indeed these individuals have great potential and whilst we cannot play a team entirely made up of youngsters it is encouraging that we are in a position to bring forward young footballers who have been dedicated to Watford from a young age. All these young players have not been fazed whilst appearing alongside mature professionals and we must remember that their bodies are still growing. Despite the physical disadvantages, they have performed exceptionally well, which is a real encouragement for the future.

Regarding The Harefield Academy, the school with which we work in partnership to deliver a full educational and football development programme for our young players from the age of eleven, I am delighted with the progress that it is making and we expect to see the fruits of our investment over the next few years. We have had to make some financial adjustments but without reducing the quality of provision at The Harefield Academy. I would like to extend my sincere thanks to everyone at The Harefield Academy for their unstinting belief in the programme that has been established at the school for Watford Football Club's young players. Particular recognition should be made to the Principal – Lynn Gadd and the Director of Sports – Pat Cottis, without whose efforts the programme would never have commenced.

In addition I would like to thank all the dedicated coaching and administrative staff for delivering the Watford FC Academy programme. Their hard work is proving to be the foundation of the Football Club and we look to greater success from developing our own talent year on year. The Academy is core to our future plans and we are all truly excited by its potential.

Stadium Development

A golden opportunity was missed after our promotion to really develop the East Stand so that we would have a four sided stadium fit for purpose. I will guarantee that should promotion occur again, money will be set aside to spend on the rebuild of the East Stand along with making sure that our facilities are of a high standard, especially for the disabled fans that attend our stadium.

The Red Lion is a project that we are committed to should we find the initial funding for us to go ahead with the refurbishment. We see this as a wonderful opportunity to raise revenue and to bring fans who currently use facilities in the town centre prior to matches, closer to the stadium.

Chairman's statement continued

Community Involvement

Community involvement is crucial to a club such as ours. The Watford FC's Community Sports & Education Trust currently employs 18 full time staff along with over 60 part time coaching and administrative staff and it allows us to contribute to all types of activities in the community, such as sports participation, education, health and social inclusion programmes, which raises the awareness of the Football Club to the wider community. Indeed, I believe this was a contributory factor in us selling 10,000 season tickets for the current season.

I am delighted with the work that has been achieved and would take this opportunity to thank Chris Norton who is Chairman of the Trust, and his co-trustees, for their contribution in delivering such a successful model, together with Rob Smith who heads the day to day operations of the Trust.

The Community Sports & Education Trust, along with our Academy, forms a fundamental foundation to our business and moving forward will prove to be more valuable to our Football Club as the club builds upon its traditions as a family and community club – a tradition and wonderful legacy created by our current non executive director and former football manager – Graham Taylor. We look forward with enthusiasm to more great work in our communities as we seek to grow our business foot print in the future and also to benefit local people and families.

People

Regarding people, unfortunately with the need to reshape the Company there had to be a reduction in staff. I would like to use this occasion to thank all those who left the Club due to these reductions. The administrative team was far too excessive for the Club's needs. I believe we now have a strong team in place and that we are correctly staffed to cope with the day to day business needs.

We should never lose sight of the invaluable work undertaken at an executive level and our thanks are extended to Julian Winter, CEO, in particular for his exceptional commitment since taking office and to all of his team who have given their total support. Everyone that works for the Football Club should be truly proud of their contribution in challenging times. As Chairman of the Club and on behalf of the board I would like to thank every single member of staff for their commitment and effort, particularly over the last year, as it is their hard work and expertise that has seen us through a difficult transition as a business and will serve us well in the future.

Finally, my thanks to our sponsors, customers, and our vociferous supporters who never let us down. We genuinely appreciate all as without them there would be no Club.

We look forward to continued progress and success in the year ahead.

Jimmy Russo
Chairman

Profile of Directors

Giacomo ("Jimmy") Russo (Executive Chairman)

Jimmy Russo joined the board as a non-executive director on 22 January 2009 and was subsequently appointed Executive Chairman. He had previously held an appointment on the board during the period from March 2004 to May 2007. He is a co-founder (with Vince Russo) and director of Valley Grown Salads.

Vincenzo ("Vince") Russo (Executive Vice Chairman)

Vince Russo joined the board as a non-executive director on 22 January 2009 and was subsequently appointed as Executive Vice Chairman. He had previously held an appointment on the board during the period from March 2004 to May 2007. He is a co-founder (with Jimmy Russo) and director of Valley Grown Salads.

Julian Winter (Chief Executive Officer)

Julian Winter was appointed on 12 December 2008 as a director and Chief Executive Officer of the Company and Watford Football Club, and leads the Club's senior management team. He is a former professional football player and has been involved with the Club since April 2006 as Community Director and later Deputy CEO of the Company and Watford Football Club.

David Fransen (Non-Executive)

David Fransen joined the board as a non-executive director on 13 March 2009. He was brought up in the Northwood area, and is a long time Watford fan, having first watched a game in the late 60's from the old Shrodell's stand. He is a senior executive of a global energy trading firm.

Graham Taylor (Non-Executive)

Graham Taylor joined the board as a non-executive director on 22 January 2009 and was formerly the manager of the Watford Football Club during the period from 1977 to 1987 and February 1996 to June 2001, together with significant involvement in international football.

Stuart Timperley (Non-Executive)

Professor Stuart Timperley joined the board as a non-executive director on 22 January 2009. He is a founder and director of Stuart Timperley Associates, a company which advises organisations on strategy and capability issues and conducts board and leadership assessments. He is a former director and chairman of Watford Football Club and a number of other companies, and more recently chairman of Arts Council England in the East, a major funder of Watford Palace Theatre.

Robin Williams (Non-Executive)

Robin Williams joined the board as a non-executive director on 13 March 2009. He became interested in the Hornets when living in Hertfordshire from 1986. An ex-banker (retired early after 33 years), he formed his own Business Consultancy and is also director of a company in the horticulture industry locally, and of Kings School, Bruton in Somerset.

Chris Norton (Alternate Director for each of Jimmy Russo, Vince Russo and Robin Williams)

Chris Norton was appointed in March 2009, joining the board as an alternate director for each of Jimmy Russo, Vince Russo and Robin Williams. He is also current Chairman of Watford FC's Community, Sports & Education Trust. Watford-born Chris watches the team, both home and away, around commitments he has with his training and consultancy business, Mentor Group, which is based in Hertfordshire.

Corporate governance report

for the year ended 30 June 2009

General principles

The Board recognises the importance of good corporate practice and is committed to conducting the group's operations in accordance with the best principles of corporate governance. This report sets out how the principles of good governance and code of best practice identified in the Combined Code issued by the London Stock Exchange are applied by the Company.

The Board

The Board consists of three executive and four non-executive directors.

The Board meets regularly and is responsible for group strategy, acquisition, divestment policy and overall financing of the group. It is ultimately responsible for the direction and management of the group, although the Chief Executive is charged with the responsibility of running the group within a defined framework established by the Board.

Accountability and audit

Audit committee and audit

The Audit Committee as established by the Board, currently consists of the four non-executive directors: D B Fransen (who is the Committee's Chairman), G Taylor, S R Timperley and R R Williams. Written terms of reference of the Audit Committee have been drawn up which require it to consider and report to the Board on such issues as the group's annual reports and interim reports, ensuring compliance with accounting policies and satisfying itself as to the adequacy of the group's external audit and internal control procedures. The Committee meets at least once a year with the group's auditors in attendance.

Internal financial control

The Board of Directors has overall responsibility for the group's systems of internal control which are designed to provide reasonable, but not absolute, assurance against material misstatement or loss. The key features of the group's system of internal financial controls are as follows:

- a) detailed budgets and plans which are approved by the Board;
- b) regular consideration by the Board of actual results compared with budgets and forecasts;
- c) compliance by the subsidiaries with the group operating procedures and policies;
- d) annual review of the group's insurance cover;
- e) defined procedures for the appraisal and authorisation of player transfers and capital expenditure; and
- f) regular reporting of borrowing and facilities to the Board.

The Board has reviewed the operation and effectiveness of the group's system of internal financial control for the financial year and the period up to the date of approval of the financial statements.

Risk management

A risk management review has been previously undertaken by the group to identify, evaluate and manage key risks. Projections are made on a realistic basis in order to identify financial pressures in advance. The Company maintains a rolling five year plan in respect of all key components of the group's operations.

Compliance with the Combined Code

The group is not required to comply with the Combined Code as an AIM listed company, but seeks to comply with those provisions most appropriate to the group. We continue to review our corporate governance procedures to ensure they match the needs of the group.

Remuneration report

The Remuneration Committee is responsible for determining the emoluments of the executive directors, and consists of three non-executive directors: S R Timperley (who is the Committee's Chairman), D B Fransen and G Taylor. The Committee makes recommendations to the Board on the company's framework of executive remuneration and cost.

GIACOMO RUSSO
Chairman

6 November 2009

Report of the Directors

for the year ended 30 June 2009

The directors present their report on the affairs of the group, together with the audited financial statements for the year ended 30 June 2009.

Principal activities and business review

The principal activity of the Company is to hold, as investments, the majority of the issued share capital of The Watford Association Football Club Limited and the whole of the issued share capital of Watford Catering Limited. The principal activity of Watford Association Football Club is a professional football league club.

The group reported a loss before taxation for the year of £1,987,000 (2008 - profit £426,000). The development of the business during the year and the group's position at the year end is considered in the Chairman's statement on pages 3 to 6.

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 the Club's league position. Information about the financial risks and use of financial instruments by the Company and its subsidiaries is given in note 17 to the financial statements.

The directors do not recommend the payment of a dividend. Accordingly, the loss for the year has been added to the accumulated deficit brought forward as shown in note 19 to the financial statements.

Directors and their interests

The directors at 30 June 2009 together with their beneficial interests in the shares of the Company are as follows:

	Ordinary shares of 1p each	
	30 June 2009	30 June 2008*
*or date of appointment if later		
Executive Directors:		
G Russo (Chairman) - appointed 22 January 2009	see note below	
V Russo (Vice Chairman) - appointed 22 January 2009	see note below	
J Winter (Chief Executive Officer) - appointed 12 December 2008	-	-
Non-Executive Directors:		
D B Fransen - appointed 13 March 2009	-	-
G Taylor - appointed 22 January 2009	-	-
S R Timperley - appointed 22 January 2009	-	-
R R Williams - appointed 13 March 2009	2,500	2,500

G Russo and V Russo jointly control Valley Grown Salads which holds 13,156,953 shares in the Company (date of appointment: 13,156,953 shares).

C J Norton is an alternate director for G Russo, V Russo and R R Williams, and was appointed on 13 March 2009. His beneficial interests in the shares of the Company amount to 283,286 shares (date of appointment: 283,286 shares).

G Taylor holds 123 ordinary shares of £1 in The Watford Association Football Club Limited (on appointment: 123 shares).

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

During the year ended 30 June 2009, the following resigned as directors:

G M Simpson - resigned 1 December 2008
M A Ashton - resigned 12 December 2008
A S Wilson - resigned 23 February 2009

There has been no change in directors since the year end.

In accordance with the Company's Articles of Association the following directors are due to retire at the Company's forthcoming Annual General Meeting, and, being eligible, will offer themselves for reappointment: G Russo, V Russo, J Winter, D B Fransen, G Taylor, S R Timperley and R R Williams.

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

Substantial interests

Apart from the present directors, as referred to above, and the shareholdings listed below, the directors are not aware of any party interested in 3% or more of the issued ordinary share capital at 6 November 2009.

Name	Number of shares	Percentage
Fordwat Limited	16,306,437	37.16%
G M Simpson	7,368,796	16.79%

Directors' responsibilities

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

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under the law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRS's) as adopted by the EU and have elected to prepare the parent company financial statements on the same basis.

The group and parent company financial statements are required by law and IFRS's as adopted by the EU to present fairly the financial position of the group and the parent company and the performance of the group each financial year. Under company law in the United Kingdom 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 group and the company and of the profit and loss of the group for that period. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation. In preparing each of the group and parent company financial statements the directors are required to:

- select suitable accounting policies in accordance with "IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors" and apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS's is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the group's financial position and financial performance; and
- state that the group has complied with the IFRS's, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's transactions and disclose with reasonable accuracy at any time the financial position of the group and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Insofar as the directors are aware:

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Report of the Directors continued

for the year ended 30 June 2009

Corporate governance

The Board's report on the group's corporate governance procedures is set out on pages 8 and 9.

Payment of suppliers

The group 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 group 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 group transacts with many small suppliers the group endeavours to meet the Government 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 group by its suppliers (excluding transfer fees payable) and the amount owed to its creditors at 30 June 2009 was 34 days.

Employees

The group places considerable value on the involvement of its employees and has set up processes and procedures to achieve good communication within the workplace. There are also written processes for Training, Development, Appraisal and Induction.

It is the group's policy to give full and fair consideration to all applications from the disabled and it has a written Equal Opportunities Policy and recruitment process in place to achieve this end.

Charitable and political donations

During the year the group made charitable donations amounting to £2,096. No political donations were made during the year.

Going concern

As disclosed in note 1b to the financial statements the directors are currently seeking to raise funds through a refinancing in order to meet the group's working capital requirements. The directors are satisfied that the group will be able to raise adequate resources to continue in operation for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Post balance sheet events

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

Auditors

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

Signed on behalf of the Board

P J WASTALL
Secretary

Approved by the Board on 6 November 2009

Independent auditor's report

to the shareholders of Watford Leisure PLC

We have audited the financial statements of Watford Leisure PLC for the year ended 30 June 2009 which comprise the Group and Parent Company Balance Sheets, the Group Income Statement, the Group and Parent Company Statements of Cash Flow, the Group and Parent Company Statements of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with section 495 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2009 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union.
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Independent auditor's report continued

to the shareholders of Watford Leisure PLC

Emphasis of matter

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in note 1b) to the financial statements concerning the group's ability to continue as a going concern. At 30 June 2009 the group's current liabilities exceeded its current assets by £8,042,000, following a loss for the year of £1,987,000.

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 group's ability to raise sufficient new capital to the extent that may be required.

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

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

CHARLES JAMES (Senior Statutory Auditor)

for and on behalf of **CHANTREY VELLACOTT DFK LLP**

Chartered Accountants and Statutory Auditor

London

6 November 2009

Consolidated income statement

for the year ended 30 June 2009

	Notes	2009 £'000	2008 £'000
Continuing Operations			
Revenue	2	23,079	22,363
Cost of sales		(19,792)	(21,908)
Gross profit		3,287	455
Administrative expenses		(5,348)	(6,180)
Other operating income	3	1,115	578
		(946)	(5,147)
Amortisation and impairment of costs of players' registrations		(4,293)	(5,830)
Profit on disposal of players' registrations		3,774	7,372
Premium received on grant of long lease	1 h) iii)	-	4,558
Operating (loss) / profit		(1,465)	953
Financing income	4	44	99
Financing costs	4	(566)	(626)
(Loss) / profit before taxation	5	(1,987)	426
Taxation	7	-	-
(Loss) / profit for the year	19	£(1,987)	£426
Attributable to:			
Equity holders of the parent		£(1,987)	£426
(Loss) / earnings per 1p share (basic and diluted)	8	(4.5p)	1.0p

The notes on pages 22 to 42 form part of these financial statements.

Consolidated balance sheet

at 30 June 2009

	Notes	2009 £'000	2008 £'000
Non-current assets			
Property, plant and equipment	1 h) & 9	12,880	13,981
Intangible assets	1 g) & 10	2,218	8,148
		<u>15,098</u>	<u>22,129</u>
Current assets			
Inventories	1 i) & 12	120	137
Trade and other receivables	13	2,480	5,051
Cash and cash equivalents		59	2,039
		<u>2,659</u>	<u>7,227</u>
Total assets		<u><u>17,757</u></u>	<u><u>29,356</u></u>
Current liabilities			
Interest bearing loans and other borrowings	14	3,587	8,856
Trade and other payables	15	4,880	6,745
Deferred revenue	16	2,234	4,751
		<u>10,701</u>	<u>20,352</u>
Non-current liabilities			
Interest bearing loans and other borrowings	14	2,385	1,261
Trade and other payables	15	589	1,670
Deferred revenue	16	29	33
		<u>3,003</u>	<u>2,964</u>
Total liabilities		<u><u>13,704</u></u>	<u><u>23,316</u></u>
Net assets		<u><u>£4,053</u></u>	<u><u>£6,040</u></u>
Equity			
Capital and reserves			
Called up share capital	18	439	439
Special reserve	19	10,409	10,651
Profit and loss account	19	(6,795)	(5,050)
Equity attributable to equity holders of the parent		<u><u>£4,053</u></u>	<u><u>£6,040</u></u>

Approved by the Board of Directors and authorised for issue on 6 November 2009 and signed on its behalf.

G RUSSO - Director

J WINTER - Director

The notes on pages 22 to 42 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 30 June 2009

	Attributable to equity holders of the parent			Total £'000
	Share capital £'000	Special reserve £'000	Retained earnings £'000	
Equity shareholders funds at 1 July 2007	439	10,651	(5,476)	5,614
Profit for the year	-	-	426	426
Equity shareholders funds at 30 June 2008	439	10,651	(5,050)	6,040
Loss for the year	-	-	(1,987)	(1,987)
Losses extinguished	-	(242)	242	-
Equity shareholders funds at 30 June 2009	439	10,409	(6,795)	£4,053

Consolidated statement of cash flows

for the year ended 30 June 2009

	2009 £'000	2008 £'000
Operating activities		
(Loss) / profit before taxation	(1,987)	426
Amortisation of intangible fixed assets	4,293	5,830
Depreciation of property, plant and equipment	1,340	893
Net profit on disposal of sundry fixed assets	1	2
Profit on disposal of players' registrations	(3,774)	(7,372)
Premium received on grant of long lease	-	(4,558)
Financing income	(44)	(99)
Financing costs	566	626
Decrease in inventories	17	20
Decrease / (increase) in receivables	77	(1,193)
Decrease in payables and deferred income	(2,483)	(276)
Net cash used in operations	(1,994)	(5,701)
Cash flows from investing activities		
Purchase of intangible fixed assets	(3,424)	(6,259)
Purchase of property, plant and equipment	(424)	(4,028)
Proceeds from sale of intangible fixed assets	8,538	9,479
Proceeds from sale of tangible fixed assets	1	4,558
Net cash generated by investing activities	4,691	3,750
Net cash generated by / (used in) financing activities	2,697	(1,951)
Financing activities		
Advances of debt	4,373	8,500
Repayments of debt	(9,133)	(2,081)
Interest received	44	99
Interest paid	(576)	(637)
Net cash (used in) / generated by financing activities	(5,292)	5,881
Net (decrease) / increase in cash and cash equivalents	(2,595)	3,930
Cash and cash equivalents at start of year	2,039	(1,891)
Cash and cash equivalents at end of year	£(556)	£2,039
Cash and cash equivalents consist :		
Cash and cash equivalents	59	2,039
Bank overdraft	(615)	-
Total	£(556)	£2,039

The notes on pages 22 to 42 form part of these financial statements.

Company balance sheet

for the year ended 30 June 2009

	Notes	2009 £'000	2008 £'000
Non-current assets			
Investments	11	13,667	11,771
Current assets			
Trade and other receivables	13	5	9
Total assets		13,672	11,780
Current liabilities			
Interest bearing loans and other borrowings	14	592	-
Trade and other payables	15	182	18
		774	18
Non-current liabilities			
Interest bearing loans and other borrowings	14	2,050	592
		2,050	592
Total liabilities		2,824	610
Net assets		£10,848	£11,170
Equity			
Capital and reserves			
Called up share capital	18	439	439
Special reserve	19	10,409	10,651
Profit and loss account	19	-	80
Total equity		£10,848	£11,170

Approved by the Board of Directors and authorised for issue on 6 November 2009 and signed on its behalf.

G RUSSO - Director

J WINTER - Director

Company registration number - 3335610

The notes on pages 22 to 42 form part of these financial statements.

Company statement of changes in equity

for the year ended 30 June 2009

	Attributable to equity holders of the parent			
	Share capital £'000	Special reserve £'000	Retained earnings £'000	Total £'000
Equity shareholders funds at 1 July 2007	439	10,651	64	11,154
Profit for the year	-	-	16	16
Equity shareholders funds at 30 June 2008	439	10,651	80	11,170
Loss for the year	-	-	(322)	(322)
Losses extinguished	-	(242)	242	-
Equity shareholders funds at 30 June 2009	439	10,409	-	£10,848

Company statement of cash flows

for the year ended 30 June 2009

	2009 £'000	2008 £'000
Operating activities		
(Loss)/profit before tax	(322)	16
Financing income	(214)	(239)
Financing costs	97	44
Increase in receivables	(5)	-
Increase / (decrease) in payables and deferred income	173	(12)
	<hr/>	<hr/>
Net cash used in operations	(271)	(191)
Cash flows from investing activities		
Advances to subsidiary	(1,896)	(16)
Interest received	223	242
	<hr/>	<hr/>
Net cash (used in) / generated by investing activities	(1,673)	226
Financing activities		
Advances of debt	2,050	-
Interest paid	(106)	(35)
	<hr/>	<hr/>
Net cash generated by / (used in) financing activities	1,944	(35)
	<hr/>	<hr/>
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at start of year	-	-
	<hr/>	<hr/>
Cash and cash equivalents at end of year	£Nil	£Nil
	<hr/> <hr/>	<hr/> <hr/>

The notes on pages 22 to 42 form part of these financial statements.

Notes to the financial statements

for the year ended 30 June 2009

1 Accounting policies

Watford Leisure PLC is a company incorporated in the United Kingdom.

The group financial statements consolidate those of the company and its subsidiaries (together referred to as 'the group'). The parent company financial statements present information about the company as a separate entity and not about its group.

Both the parent company and the group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRS's) as adopted by the European Union (Adopted IFRS's). On publishing the parent company financial statements here together with the group financial statements, the company is taking advantage of the exemption in section S408(1b) of the Companies Act 2006 not to present its individual income statement and related notes that form part of these approved financial statements. The Company's loss for the year was £242,000 (2008 profit - £16,000).

The accounting policies set out below have, unless otherwise stated, been applied consistently for both the group and the company to all periods presented in these consolidated and Company financial statements. The financial statements have been prepared under the historical cost convention.

Judgements made by the Directors, in the application of these accounting policies, that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 25.

a) Basis of Consolidation

Subsidiaries are entities controlled by the group. Control exists where the group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the group financial statements from the date that control commences until the date that control ceases. No minority interests are shown as the group has no obligation to fund subsidiary company deficits. Transactions between group companies are eliminated on consolidation.

b) Going Concern

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 group and company remain reliant upon their ability to raise finance through other means.

The support of the group's directors and shareholders has been evident in the past and continues to be of significant importance. During the year to 30 June 2009 loans totalling £3,355,000 were made available by directors of the group, and since the year end a further £2,415,000 has been made available from the same source. The loans are repayable within the next two years, however directors have indicated that they may be extended thereafter, if necessary. In addition, the bank overdraft facility of £1m continues to be made available by the bank. The group's bankers have indicated that, so long as the group continues to operate within its financial plan, regular renewal of the facility will be available.

The group has prepared detailed cash flow forecasts for the period to 30 June 2014. Those forecasts show that the group and company do not currently have facilities in place to fund all of the projected cash requirements over the next twelve month period. The projected shortfall to 30 June 2010 is £6,500,000.

However, the directors are confident that sufficient additional funds will be sourced as and when they are required and given the significant variable of player trading and the high cost of securing borrowings which may not be required, the group has not sought to secure guaranteed finance to fund its cash flow projections in full for the forthcoming twelve months.

The directors consider that additional shareholder funding will be necessary and discussions are ongoing to secure this. The directors will continue to manage the group's resources and seek to increase income and control costs at all times. The summer transfer window saw significant income generated through player sales and the group acknowledges that player trading will continue to be a key strategy year on year. The group has also invested significantly in its Academy and Recruitment departments.

The directors are confident that the going concern basis is appropriate, and believe that shareholder funding will be forthcoming in the period required.

c) Revenue

Revenue represents income arising from sales to third parties and excludes transfer fees receivable (which are dealt with in the profit on disposal of players' registrations) and value added tax.

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

d) Expenses

Operating lease expenses

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

Net financing costs

Net financing costs comprise interest payable and interest receivable on funds invested. Interest income and interest payable is recognised in the income statement as it accrues, using the effective interest method.

e) Rent receivable

Rental receipts are recognised in the income statement on a straight-line basis over the term of the lease.

f) Taxation

Tax on the result for the period comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax in respect of the previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill, the initial recognition of assets and liabilities that affect neither accounting nor taxable profit other than in a business combination and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amounts of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profit will be available against which the asset can be utilised.

Notes to the financial statements continued

for the year ended 30 June 2009

g) Intangible assets

i) Acquired players' registrations

The costs associated with the acquisition of players' registrations are initially recorded at their fair value at the date of acquisition as intangible fixed assets. These costs are fully amortised over the period of the relevant player's contract.

Intangible assets are tested for impairment at each balance sheet date. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. The directors' valuation of a player's registration is arrived at by reference to market conditions and comparative data of recent transactions. Impairment losses are recognised in the income statement.

Acquired players' registrations are classified as 'Assets held for sale' on the balance sheet if, at any time, it is considered that the carrying amount of a registration will be recovered principally through a sale. The measurement of the registration is the lower of (a) fair value (less costs to sell) and (b) carrying value. Amortisation of the asset is suspended at the time of reclassification, although impairment charges still need to be made if applicable.

ii) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the length of each respective player's contract.

h) Property, plant and equipment

i) Owned assets

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

ii) Depreciation

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

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

iii) Capital receipt

The income of £4,558,000 received in the year ended 30 June 2008 related to the lease premium in connection with the 125 year lease granted to a housing association for the space occupied by key worker housing units at the back of the south stand and in the northwest corner of the stadium. Given the length of the lease, the transaction is being treated as an outright disposal and proceeds recognised in full in the income statement in the year ended 30 June 2008.

i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is based on the estimated selling price in the ordinary course of business. Provision is made for obsolete, slow-moving or defective items where appropriate.

j) Signing on fees

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

k) Deferred income

Deferred income comprises amounts received from capital grants, sponsorship and season ticket income. Capital grants are released to the income statement on a straight-line basis over the estimated useful lives of the assets to which they relate. Other deferred income is released to the income statement on a straight-line basis over the period to which it relates.

l) Classification of financial instruments issued by the group

Financial instruments issued by the group are treated as equity (i.e. forming part of the shareholders' funds) only to the extent that they meet the following two conditions:

- i) they include no contractual obligations upon the Company (or group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or group), and
- ii) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a valuable number of the company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called-up share capital and share premium account excludes amounts in relation to those shares.

Where a financial instrument that contains both equity and financial liability components exists, these components are separated and accounted for individually under the above policy. The finance cost on the financial liability component is correspondingly higher over the life of the instrument.

Finance payments associated with financial liabilities are dealt with as part of finance expenses. Finance payments associated with financial instruments that are classified in equity are dividends and are recorded directly in equity.

m) Financial assets

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

Trade and other receivables

Trade and other receivables are initially recorded at fair value and thereafter carried at fair value amount less any required allowances for uncollectable amounts.

Notes to the financial statements continued

for the year ended 30 June 2009

n) Financial liabilities

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Trade and other payables

Trade payables are recognised initially at fair value and thereafter they are measured at amortised cost using the effective interest method.

o) Segment reporting

A segment is a distinguishable component of the group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment) which is subject to risks and rewards that are different from those of other segments.

p) Provisions

A provision is recognised in the balance sheet when the group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefit will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

q) Investments

Interest in subsidiary undertakings is valued at cost less impairment in the Company's balance sheet.

r) Pensions

The group 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 group in independently administered funds. Both schemes are accounted for as defined contribution schemes. The pension cost charges represent contributions payable by the group during the year.

s) Minority Interests

As the losses applicable to the minority shareholders in The Watford Association Football Club Limited exceed the minority's interest in that subsidiary's equity and there is no binding obligation on the minority to make an additional investment to cover the excess losses, the excess losses are taken against equity attributable to equity holders of the parent company.

t) Standards in issue but not yet effective

Standards that have been issued in the period which are not yet effective for the financial year ended 30 June 2009 includes:

IFRS 2 - "Share-based payment" effective for the year ending 30 June 2010

IAS 17 - "Leases" (amendment) effective for the year ending 30 June 2011

IAS 18 - "Revenue" (amendment) effective for the year ending 30 June 2010

IAS 36 - "Impairment of Assets" (amendment) effective for the year ending 30 June 2011

IAS 38 - "Intangible Assets" (two amendments) effective for the year ending 30 June 2010

IAS 39 - "Financial Instruments: Recognition and Measurement" (two amendments and related amendment to IFRIC 14: IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction) effective 30 June 2011

IAS 1 (Revised 2007) - "Presentation of Financial Statement" (amendment) effective for the year ending 30 June 2011

IAS 7 - "Statement of Cashflows" (amendment) effective for the year ending 30 June 2010

IFRS 8 - "Operating Segments" (amendment) effective from the year ending 30 June 2011

IFRS 3 - "Business Combinations" (Revised 2008) effective for the year ending 30 June 2010

IAS 36 - "Impairment of Assets" (amendment) effective for the year ending 30 June 2011

The changes are not expected to have any significant impact on the recognition or measurement of items included in the financial statements.

Notes to the financial statements continued

for the year ended 30 June 2009

2 Revenue

The group 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.

	2009 £'000	2008 £'000
Matchday	4,986	5,269
Media	14,504	15,081
Commercial	2,039	2,013
Other	1,550	-
	£23,079	£22,363

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 revenue

Other - player loan fees receivable

3 Other operating income

	2009 £'000	2008 £'000
Rent receivable (note 20)	529	489
Contributions to capital expenditure	-	1
Release of capital grants	4	3
Compensation receivable	550	-
Other	32	85
	£1,115	£578

4 Financing

	2009 £'000	2008 £'000
Financing income:		
Bank deposit interest	£44	£99
Financing costs:		
Bank loan and overdraft	71	306
Other interest	495	320
	£566	£626

5 (Loss) / profit before taxation

	2009	2008
	£'000	£'000
This is stated after charging:		
Amortisation of intangible assets	4,260	4,395
Impairment of intangible assets	33	1,435
Depreciation of property, plant and equipment	905	893
Impairment of property, plant and equipment	435	-
Loss on disposal of property, plant and equipment	1	2
Inventories consumed	891	1,213
Auditors' remuneration		
audit of parent company and consolidated financial statements	9	9
audit of subsidiary companies	27	26
other services supplied pursuant to legislation	9	3
taxation	3	11
other non - audit fees	7	8
Operating leases - vehicles and equipment	51	32
Operating leases - other	538	247

The impairment of intangible assets made in the year ended 30 June 2008 of £1,435,000 related to a player's registration. The impairment was made to reduce the carrying value of the player's registration to fair value less cost of sale. The fair value was determined by the directors on the basis of known income.

The impairment of property, plant and equipment made to 30 June 2009 relates to the Red Lion public house. The impairment was made to reduce the carrying value of the asset to fair value. The fair value was determined by the directors by reference to market data available in 2009.

6 Employee information

	2009	2008
	£'000	£'000
Staff costs:		
Wages and salaries	13,835	15,730
Social security costs	1,565	1,865
Other pension costs	191	148
	£15,591	£17,743

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

	2009	2008
	Number	Number
Players	48	50
Coaching staff	32	34
Part-time coaching staff	9	10
Commercial staff	33	30
Part-time commercial staff	14	17
Part-time catering staff	54	53
Administration	16	11
Ground staff	10	7
	216	212

In addition to the above the group employed an average of 203 (2008 - 212) part-time match day staff during the year.

A group staff restructuring was completed towards the end of the financial year and therefore the results are not evident in the numbers above.

Notes to the financial statements continued

for the year ended 30 June 2009

Directors' remuneration

	2009 £'000	2008 £'000
Directors' remuneration	£348	£908
Highest paid director	£233	£494

The directors' remuneration and highest paid director includes remuneration relating to directors who resigned during the financial year.

7 Taxation

No provision has been made for deferred taxation. The group has approximately £29.2 million (2008 - £28.3 million) of trading losses carried forward. The total amount of deferred tax asset that is unprovided for is approximately £8.2 million (2008 - £7.9 million). At present it is not envisaged that future taxable profits will be sufficient for these timing differences to reverse.

The tax position is reconciled as follows:

	2009 £'000	2008 £'000
(Loss) / profit before taxation	(1,987)	426
(Loss) / profit before taxation multiplied by the effective standard UK corporation tax rate of 28.0% (2008 - 29.5%)	(556)	126
Expenses not deducted for tax purposes	50	17
Deductions allowable for tax purposes	-	(901)
Depreciation in excess of capital allowances	237	63
Other temporary differences	(34)	-
Utilisation of tax losses	-	(150)
Unused tax losses carried forward	303	845
	£Nil	£Nil

8 (Loss) / earnings per share

(Loss) / earnings per ordinary share have been calculated as follows:

	2009 £'000	2008 £'000
(Loss) / profit for the financial year	£(1,987)	£426
Weighted average number of shares in issue	43,885,693	43,885,693
(Loss)/earnings per ordinary share	(4.5p)	1.0p

9 Property, plant and equipment - group

	Assets under construction £'000	Freehold ground, premises and improvements £'000	Leasehold property and improvements £'000	Motor vehicles, equipment, fixtures and fittings £'000	Total £'000
At 1 July 2007	1,600	8,797	751	1,958	13,106
Additions	-	2,289	262	471	3,022
Transfer	(1,600)	1,600	-	-	-
Disposals	-	-	-	(29)	(29)
At 30 June 2008	-	12,686	1,013	2,400	16,099
Additions	-	215	(25)	51	241
Transfer	-	(242)	(46)	288	-
Disposals	-	-	(63)	(39)	(102)
At 30 June 2009	-	12,659	879	2,700	16,238
Depreciation :					
At 1 July 2007	-	213	2	1,037	1,252
Charge for the year	-	328	232	333	893
Disposals	-	-	-	(27)	(27)
At 30 June 2008	-	541	234	1,343	2,118
Charge for the year	-	197	402	306	905
Impairment	-	435	-	-	435
Transfer	-	(68)	(46)	114	-
Disposals	-	-	(63)	(37)	(100)
At 30 June 2009	-	1,105	527	1,726	3,358
Net book value :					
At 30 June 2009	£Nil	£11,554	£352	£974	£12,880
At 30 June 2008	£Nil	£12,145	£779	£1,057	£13,981
At 30 June 2007	£1,600	£8,584	£749	£921	£11,854

Notes to the financial statements continued

for the year ended 30 June 2009

10 Intangible assets - group

	Pouring rights £'000	Players' registrations £'000	Total £'000
Cost :			
At 1 July 2007	752	11,979	12,731
Additions	-	5,700	5,700
Disposals	-	(887)	(887)
	<hr/>	<hr/>	<hr/>
At 30 June 2008	752	16,792	17,544
Additions	-	633	633
Disposals	-	(7,669)	(7,669)
	<hr/>	<hr/>	<hr/>
At 30 June 2009	752	9,756	10,508
Amortisation :			
At 1 July 2007	752	3,456	4,208
Charge for the year	-	4,395	4,395
Impairment	-	1,435	1,435
Disposals	-	(642)	(642)
	<hr/>	<hr/>	<hr/>
At 30 June 2008	752	8,644	9,396
Charge for the year	-	4,260	4,260
Impairment	-	33	33
Disposals	-	(5,399)	(5,399)
	<hr/>	<hr/>	<hr/>
At 30 June 2009	752	7,538	8,290
Net book value :			
At 30 June 2009	£Nil	£2,218	£2,218
	<hr/>	<hr/>	<hr/>
At 30 June 2008	£Nil	£8,148	£8,148
	<hr/>	<hr/>	<hr/>
At 30 June 2007	£Nil	£8,523	£8,523
	<hr/>	<hr/>	<hr/>

11 Investments - company

	Shares in subsidiary undertakings £'000	Loan to subsidiary undertaking £'000	Total £'000
Cost :			
At 1 July 2008	11	11,760	11,771
Movement	-	1,896	1,896
	£11	£13,656	£13,667
Subsidiaries	Nature of business	Ordinary shares	
The Watford Association Football Club Limited	Football club	96%	
Watford Catering Limited	Catering company	100%	
Watford FC Regeneration Limited	Property investment company	100%	

All companies are incorporated in England & Wales.

12 Inventories - group

	2009 £'000	2008 £'000
Goods for resale	£120	£137

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

13 Trade and other receivables

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Trade receivables	1,325	862	-	-
Less: Provision for impairment	(70)	(33)	-	-
Trade receivables - net	1,255	829	-	-
Transfer fees receivable	156	2,650	-	-
Other receivables	204	424	-	-
Prepayments and accrued income	865	1,148	5	9
	£2,480	£5,051	£5	£9

Other receivables includes £10,183 (2008 - £111,009) which falls due after more than one year.

Notes to the financial statements continued

for the year ended 30 June 2009

Certain of the unimpaired receivables are past due as at the reporting date. The age of trade receivables past due but not impaired is as follows:

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Not more than one month	294	145	-	-
More than one month but not more than two months	29	38	-	-
More than two months	37	68	-	-
	£360	£251	£Nil	£Nil

14 Interest bearing loans and other borrowings

Current liabilities	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Convertible Loan Notes 2009	592	-	592	-
Bank loans	-	7,118	-	-
Bank overdraft	615	-	-	-
Directors' loans	1,468	-	-	-
Other loans	912	1,738	-	-
	£3,587	£8,856	£592	£Nil

Non-current liabilities	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Convertible Loan Notes 2009	-	592	-	592
Director's loan	2,050	-	2,050	-
Other loans	335	669	-	-
	£2,385	£1,261	£2,050	£592

The maturity of total debt may be analysed as follows:

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
In one year or less	3,587	8,856	592	-
Between one and two years	2,217	1,261	2,050	592
Between two and five years	168	-	-	-
	£5,972	£10,117	£2,642	£592

The Convertible Loan Notes are issued to the previous Chairman, G Simpson. The notes are unsecured and are convertible into Ordinary 1p shares at a price of 66.5p per share. The repayment date has been deferred until March 2010. Interest of £28,521 (2008 - £43,727) was payable during the year.

A bank loan of £7,000,000 was repaid on 8 August 2008. This had been secured on Premier League Monies due in August 2008. Other loans at 30 June 2008 included a loan of £1,500,000 which was repaid on 15 August 2008 following receipt of £1,500,000 due from the sale of a player's registration.

Current directors' loans include £1,468,000 owing to Valley Grown Salads, a company controlled by two of the directors, G and V Russo (see note 26).

Other current loans include a loan of £75,000 from a former director and a loan to the Club by Watford FC's Community Sports and Education Trust of £669,000 which is secured by a legal charge over the Club's stadium and is guaranteed by Watford Leisure PLC. £26,925 (2008 - £46,683) interest was payable during the year. In October 2009 the Trustees agreed to postpone repayment of the loan until 30 June 2013. (see also note 26).

Other non-current directors' loans comprise a loan of £2,050,000 from a director which is repayable in October 2011 and carries an interest rate of Barclays Bank base rate plus 3.5%. Interest payable for the period to 30 June 2009 was £68,618.

In November 2008 an interest-free loan of £503,000 was drawn down from The Football League being an advance payment of TV monies. The loan is repayable in six half-yearly instalments commencing from October 2009. At 30 June 2009 £168,000 is shown in current other loans and £335,000 in non-current other loans.

15 Trade and other payables

Current liabilities	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Trade payables	886	1,566	-	-
Players' registration costs	1,473	3,014	-	-
Other taxes and social security	1,018	1,236	-	-
Accruals	1,503	929	182	18
	£4,880	£6,745	£182	£18
Non-current liabilities				
	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Players' registration costs	-	1,250	-	-
Accruals	589	420	-	-
	£589	£1,670	£Nil	£Nil

Notes to the financial statements continued

for the year ended 30 June 2009

16 Deferred revenue

Current liabilities	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Deferred revenue	2,234	4,751	-	-
Non-current liabilities	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Capital grants	26	30	-	-
Contributions to capital expenditure	3	3	-	-
	£29	£33	£Nil	£Nil

Deferred revenue includes income, mainly from season ticket sales, received in advance in respect of the 2009/10 season.

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

	Capital grants £'000	Contributions to capital expenditure £'000	Total £'000
At 1 July 2008	30	3	33
Credited to the profit and loss account	(4)	-	(4)
At 30 June 2009	£26	£3	£29

17 Financial instruments

The group's financial instruments comprise borrowings, cash and various items such as trade debtors and trade creditors that arise directly from the group's operations. The main purpose of these financial instruments is to raise finance for the group's operations.

Credit Risk

Trade and other receivables comprise amounts due from player trading and other commercial activities. At 30 June 2009 £156,000 or 6% of total trade and other receivables (2008: £2,650,000 or 52%) was due from other football clubs in respect of player trading. The Football League and the Premier League monitor all player transfers and ensure prompt payment of debts. The directors therefore consider these receivables to be of very low credit risk. The Board considers that the principal credit risk arises from the group's commercial activities. This credit risk is managed through strong credit control, a good quality customer base and the review and approval by the Board of significant contracts.

The group deposits surplus funds in approved high quality UK banks in order to restrict the credit risk on financial assets in the form of monetary deposits.

Interest rate risk

Surplus cash is placed on deposit for periods from overnight to monthly depending on the forecast cash flow requirements and earn interest at rates prevailing in the money market.

The interest rate risk profile of financial assets was as follows:

	2009 £'000	2008 £'000
No interest	1,604	4,164
Fixed rate	93	313
Floating rate	170	2,140
	<u>£1,867</u>	<u>£6,617</u>

The group's interest rate risk arises from short-term and medium-term borrowings. The group's borrowings are primarily at a variable rate of interest based on a margin above the Bank of England base rate.

An increase of 1% in market interest rates applied to the debt outstanding at 30 June 2009 would increase financing charges by approximately £50,000.

The interest rate profile of interest bearing loans and other borrowings was as follows:

	2009 £'000	2008 £'000
No interest	578	75
Fixed rate	1,468	1,663
Floating rate	5,823	9,619
	<u>£7,869</u>	<u>£11,357</u>
Fixed rate weighted average interest rate at 30 June	<u>9.23%</u>	<u>14.79%</u>

Notes to the financial statements continued

for the year ended 30 June 2009

Liquidity risk

The group's liquidity risk relates primarily to the management of its availability of funding and ability to repay borrowings and trade and other payables.

The group's policy is to maintain a balance of continuity of funding and flexibility through the use of overdrafts and loans.

In common with many other football clubs, and in view of the fact that the Premier League parachute payments came to an end in the Summer of 2009, the group is likely to continue to make operating losses and therefore remains reliant upon its ability to secure financing.

New directors' loans have been agreed (note 26) and the directors are confident that through a combination of new loans, player trading and if necessary additional shareholder funding, the group will have sufficient funds to meet the forecast cash requirements.

The maturity profile of financial liabilities was as follows:

	2009 £'000	2008 £'000
In one year or less	8,466	15,601
Between one and two years	608	2,189
Between two and five years	2,281	711
Over five years	86	31
	<u>£11,441</u>	<u>£18,532</u>

Fair values

The group is not exposed to foreign currency risks and therefore financial instruments are valued at cost as this is not deemed to be materially different from fair value.

18 Share capital

	2009 £'000	2008 £'000
Authorised :		
60,000,000 Ordinary shares of 1p each	<u>£600</u>	<u>£600</u>
Allotted, called up and fully paid :		
43,885,693 Ordinary shares of 1p each	<u>£439</u>	<u>£439</u>

19 Reserves

Group	Special reserve £'000	Profit and loss account £'000
At 1 July 2008	10,651	(5,050)
Losses extinguished	(242)	242
Loss for the year	-	(1,987)
	<hr/>	<hr/>
At 30 June 2009	£10,409	£(6,795)
	<hr/> <hr/>	<hr/> <hr/>
Company		
At 1 July 2008	10,651	80
Losses extinguished	(242)	242
Loss for the year	-	(322)
	<hr/>	<hr/>
At 30 June 2009	£10,409	£Nil
	<hr/> <hr/>	<hr/> <hr/>

The Special Reserve arose in a previous year in respect of a share consolidation and reorganisation. Future losses of the company may be extinguished against the Special Reserve in accordance with the provisions of High Court orders obtained on 5 May 2004 and 14 June 2006.

The current year losses of the parent company have been extinguished against the Special Reserve.

Notes to the financial statements continued

for the year ended 30 June 2009

20 Operating lease arrangements

a) Expenses

The minimum lease payments under non-cancellable operating leases fall due as follows

	2009 £'000	2008 £'000
Within one year	638	279
Within two to five years	1,089	614
	<u>£1,727</u>	<u>£893</u>

Operating lease payments include the rentals payable by the group for its administrative offices, training ground (including gymnasium) and retail warehouse. The office lease is for a term of five years with a break clause at the end of the third year. The training ground and gym lease expires in June 2013, with the training ground element subject to RPI related increases each year, and the retail warehouse lease is for a period of ten years with a break clause at the end of the fifth year.

b) Income

The group enjoys rental income from leasing Vicarage Road Stadium to Saracens Rugby Club for a designated number of matches per season. The contract expires in 2017 and includes a break clause in 2011. The current non-contingent annual rent receivable is £489,000 (note 3). The rent is reviewed every three years with the last review being carried out on 1 July 2007.

The group also receives rental income from leasing their office space at the Vicarage Road Stadium to Kier London who are the construction company involved in the key working housing development ongoing at the Stadium. The lease commenced in April 2008 and expires in April 2010. The current non-contingent annual rent receivable is £40,000 (note 3).

The minimum non-cancellable future lease payments under these agreements fall due as follows:

	2009 £'000	2008 £'000
Within one year	522	529
Within two to five years	448	971
	<u>£970</u>	<u>£1,500</u>

21 Contingent liabilities and assets

a) Players transfer costs payable

Under the terms of certain contracts with other football clubs in respect of player transfers, additional amounts would become payable if certain specific performance conditions are met. The maximum that would be payable in respect of transfers to 30 June 2009 is £937,400 (2008 - £1,215,000). Since the year end and to the date of approval of these financial statements £75,000 of this has become payable.

b) Signing-on-fees

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 £253,000 (2008 - £364,000).

c) Player transfer costs receivable

At 30 June 2009 Watford Association Football Club has sums receivable from other clubs in respect of players under contract, dependent upon the number of first team appearances. Due to the uncertainty of receipt of these contingent assets it is not practical to disclose the amount likely to be received.

22 Pension costs

Certain of the group's ex-employees are members of the Football League Limited Pension and Life Assurance Scheme ("FLLPLAS"), a defined benefit scheme. The group is one of a number of participating employers in FLLPLAS. The assets of the scheme are held separately from those of the group, being invested with insurance companies. Under the provisions of IAS 19 the scheme is accounted for as a defined contribution scheme. Following an actuarial valuation of the scheme as at 31 August 2008, the group has been advised by the trustees that its share of actuarial deficit is £194,825 (of which £21,797 is payable in less than one year), included in accruals, and that it is required to pay £2,510 per month for the next ten years.

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

23 Capital commitments

The group has contracted for, but not provided for in the financial statements, capital expenditure totalling £886,809, which included the cost of the foundations to the South West corner of the Vicarage Road Stadium.

24 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 £4,200,000 will be reflected in the financial statements for the current financial year.

Player registrations have been acquired at a net cost of £280,000, these costs will be reflected in the financial statements for the current financial year.

The business, assets and liabilities of Watford Catering Ltd, a wholly owned subsidiary of the company were transferred to Watford Association Football Club Ltd on 1 July 2009 at a consideration of £644,000.

Notes to the financial statements continued

for the year ended 30 June 2009

25 Accounting estimates and judgements

Acquired players' registrations

The costs associated with the acquisition of players' registrations are initially recognised at their fair value at the date of acquisition. 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.

In addition, in assessing whether the registration of any individual player requires reclassification to "Assets held for sale" and, if so, whether any impairment charge is required, the directors will apply the accounting policy as detailed in note 1 g) i).

Investments

The interest in subsidiary undertakings in the Company balance sheet is valued at cost less impairment. In assessing whether or not an impairment charge is required, the directors consider whether the carrying value of the investment is permanently impaired. If in their opinion the reduction is of a temporary nature then no impairment charge is recognised.

Capital receipt

As explained in note 1 h) iii), the directors judged that the lease premium of £4,558,000 received in the year end 30 June 2009 in respect of the 125 year lease of the space at the rear of the south stand be treated as a capital receipt.

26 Related party transactions

J Winter and C Norton are directors of Watford FC's Community Sports & Education Trust, a charitable company. At 30 June 2009 in addition to the loan shown in note 14, £79,943 was owed to the Trust (2008 - £35,580). The movement in the year includes interest of £26,925 and an amount unpaid against a sponsorship agreement. Since the year end this amount has been paid, but the interest remains outstanding.

In January 2009 Valley Grown Salads ("VGS"), a company controlled by G and V Russo lent the Group £1,820,000 (the "January loan") and in September 2009 VGS agreed to delay repayment. The loan was originally due to be repaid in four equal instalments from monies due from The Football Association Premier League Limited ("the FAPL") the last instalment being due on 31 July 2009. These instalments were made available to the Club with the agreement of VGS when received from the FAPL. Further short term funding of £650,000 was provided by G Russo at the end of July 2009 (the "July loan") and a further £1,250,000 was provided in August 2009 by G Russo (the "August loan").

On 29 September 2009 it was agreed that the January loan, the July loan plus a previously loaned amount of £163,000, totalling approximately £2,633,000, would be consolidated into a single loan from VGS. The loan will be due for repayment upon demand and will accrue interest at an interest rate of Barclays Bank base rate plus 3.5% per annum, payable monthly. VGS has been granted security over the Vicarage Road Stadium, by way of debenture ranking behind the existing secured creditors, in respect of this consolidated loan. The August loan of £1,250,000 from G Russo is repayable in three instalments over the next twelve months on receipt of the proceeds of player transfers agreed in August and will accrue interest at a rate of 7% per annum.

In October 2009, the Company agreed to reimburse VGS, the company controlled by G and V Russo, the sum of £172,500 relating to expenses incurred by VGS in preparing for the Extraordinary General Meeting held on 1 December 2008. The amount payable is outstanding as at 30 June 2009 and is included within accruals.

Interest receivable amounting to £214,000, was charged by the company to the Club during the year (2008 - £239,000).

Company information

Directors	G Russo - Executive Chairman V Russo - Executive Vice Chairman J Winter - Chief Executive Officer D B Fransen - Non Executive Director G Taylor - Non Executive Director S R Timperley - Non Executive Director R R Williams - Non Executive Director
Chief Executive Officer	J Winter
Company Secretary	P J Wastall
Registered office	Vicarage Road Stadium Watford Herts WD18 0ER
Registered number	3335610
Nominated adviser and broker	Strand Hanson Limited 26 Mount Row London W1K 3SQ
Auditor	Chantrey Vellacott DFK LLP Russell Square House 10-12 Russell Square London WC1B 5LF
Bankers	Barclays Bank plc 32 Clarendon Road Watford Herts WD17 1BZ
Registrar	Capita Registrars Northern House Woodsome Park Fenay Bridge Huddersfield West Yorkshire HD8 0GA
Web site addresses	www.watfordfc.com (Football Club) www.watfordleisureplc.com (Company)