

WATFORD LEISURE LIMITED
(FORMERLY WATFORD LEISURE PLC)
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

Company Registration No. 3335610 (England and Wales)

WATFORD LEISURE LIMITED
(FORMERLY WATFORD LEISURE PLC)
COMPANY INFORMATION

Directors

G Taylor
D B Fransen
S R Timperley
L Bassini

Secretary

P J Wastall

Company number

3335610

Registered office

Vicarage Road Stadium
Watford
Hertfordshire
WD18 0ER

Auditors

Charterhouse (Accountants) LLP
88-98 College Road
Harrow
Middlesex
HA1 1RA

Bankers

Barclays Commercial Bank
PO Box 729, Eagle Point
1 Capability Green
Luton
Bedfordshire
LU1 3US

WATFORD LEISURE LIMITED (FORMERLY WATFORD LEISURE PLC) CONTENTS

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WATFORD LEISURE LIMITED

(FORMERLY WATFORD LEISURE PLC)

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2011

The directors present their report and financial statements for the year ended 30 June 2011.

Principal activities and review of the business

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. The principal activity of The Watford Association Football Club Limited is to operate as a professional football league club.

On 20 October 2011 the company re-registered under the Companies Act 2006 as a private company and is now incorporated under the name of Watford Leisure Limited.

The company recorded a loss before taxation for the year of £5,675,000 (2010 - £8,215,000). The loss was largely due to the waiver of £13 million of the intercompany debt due from The Watford Association Football Club Limited as explained in note 10 to the financial statements.

Financial risk management

The company's principal financial instruments are short-term and medium-term borrowings. The main purpose of these financial instruments is to raise finance for the business operations of the football club.

The company's interest rate risk is not considered to be significant as short-term and medium-term borrowings are at a fixed rate of interest.

The company's liquidity risk relates primarily to the management of its availability of funding and ability to repay borrowings. In common with many other football clubs The Watford Association Football Club Limited is likely to continue to make operating losses and the company therefore remains reliant upon its ability to secure financing. The new owners of the company are committed to new investment into the business and the directors are confident that the company will have sufficient funds to meet the ongoing cash flow needs of the company and football club, and the requirements of the existing borrowings.

Results and dividends

The results for the year are set out on page 5.

The directors are unable to recommend the payment of a dividend. Accordingly, the loss for the year has been partially extinguished against the special reserve brought forward with the remainder of the loss being carried forward.

Directors

The following directors have held office since 1 July 2010:

G Taylor

J Winter

(Resigned 8 June 2011)

D B Fransen

S R Timperley

L Bassini

(Appointed 16 August 2011)

Auditors

During the period under review Charterhouse (Accountants) LLP were appointed auditors to the company and are deemed to be re-appointed in accordance with section 487 of the Companies Act 2006.

**WATFORD LEISURE LIMITED
(FORMERLY WATFORD LEISURE PLC)
DIRECTORS' REPORT (CONTINUED)**

FOR THE YEAR ENDED 30 JUNE 2011

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Statement of disclosure to auditors

So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware. Additionally, the directors have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditors are aware of that information.

By order of the board

P J Wastall
Secretary

1 November 2011

WATFORD LEISURE LIMITED (FORMERLY WATFORD LEISURE PLC) INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF WATFORD LEISURE LIMITED

We have audited the financial statements of Watford Leisure Limited for the year ended 30 June 2011 set out on pages 5 to 14. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on pages 1 - 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2011 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter - Going concern

In forming our opinion, we have considered the adequacy of the disclosure made in Note 2 of the financial statements concerning going concern. In view of the significance of this we consider that it should be drawn to your attention, but our opinion is not qualified in this respect.

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.

**WATFORD LEISURE LIMITED
(FORMERLY WATFORD LEISURE PLC)
INDEPENDENT AUDITOR'S REPORT (CONTINUED)
TO THE MEMBERS OF WATFORD LEISURE LIMITED**

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

2 November 2011

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M Ackenson (Senior Statutory Auditor)
for and on behalf of Charterhouse (Accountants) LLP
Statutory Auditor

Charterhouse (Accountants) LLP
Chartered Accountants
88-98 College Road
Harrow
Middlesex
HA1 1RA

WATFORD LEISURE LIMITED
(FORMERLY WATFORD LEISURE PLC)
PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 30 JUNE 2011

	Notes	2011 £'000	2010 £'000
Administrative expenses		(488)	(459)
Operating loss	3	(488)	(459)
Investment income	4	28	825
Waiver of amount due from group undertaking	7	(13,000)	-
Amounts written off investments		8,486	(8,486)
Interest payable and similar charges	5	(701)	(95)
Loss on ordinary activities before taxation		(5,675)	(8,215)
Tax on loss on ordinary activities	6	-	-
Loss for the year	12	(5,675)	(8,215)

The profit and loss account has been prepared on the basis that all operations are continuing operations.

There are no recognised gains and losses other than those passing through the profit and loss account.

WATFORD LEISURE LIMITED
(FORMERLY WATFORD LEISURE PLC)
BALANCE SHEET

AS AT 30 JUNE 2011

	Notes	2011 £'000	2010 £'000
Fixed assets			
Investments	7	7,364	5,692
Current assets			
Debtors	8	-	450
Creditors: amounts falling due within one year	9	<u>(2,644)</u>	<u>(3,509)</u>
Net current liabilities		<u>(2,644)</u>	<u>(3,059)</u>
Total assets less current liabilities		4,720	2,633
Creditors: amounts falling due after more than one year	10	<u>(7,762)</u>	<u>-</u>
		<u>(3,042)</u>	<u>2,633</u>
Capital and reserves			
Called up share capital	11	439	439
Other reserves	12	-	2,194
Profit and loss account	12	<u>(3,481)</u>	<u>-</u>
Shareholders' funds	13	<u>(3,042)</u>	<u>2,633</u>

Approved by the Board and authorised for issue on 1 November 2011

G Taylor
Chairman

L Bassini
Director

Company Registration No. 3335610

WATFORD LEISURE LIMITED (FORMERLY WATFORD LEISURE PLC)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

1 Accounting policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention.

The company has taken advantage of the exemption in Financial Reporting Standard No 1 (Revised 1996) from the requirement to produce a cash flow statement on the grounds that it is a subsidiary undertaking where 90 percent or more of the voting rights are controlled within the group.

1.2 Compliance with accounting standards

The financial statements are prepared in accordance with applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), which have been applied consistently (except as otherwise stated).

1.3 Investments

Fixed asset investments are stated at cost less provision for diminution in value.

1.4 Deferred taxation

Deferred taxation is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. The deferred tax balance has not been discounted.

1.5 Group accounts

The financial statements present information about the company as an individual undertaking and not about its group. The company has not prepared group accounts as it is exempt from the requirement to do so by section 400 of the Companies Act 2006 as it is a subsidiary undertaking of Watford FC Limited, a company incorporated in England and Wales, and is included in the consolidated accounts of that company.

WATFORD LEISURE LIMITED
(FORMERLY WATFORD LEISURE PLC)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2011

2 Going concern

The company made a loss for the year of £5,675,000 and had net liabilities at 30 June 2011 of £3,042,000.

The financial statements have been prepared on a going concern basis which the directors of the company believe to be appropriate for the reasons outlined below.

The directors acknowledge that the football club, similar to many other championship clubs, will be likely to continue making operating losses. Therefore the company remains reliant upon its ability to raise finance through other means.

The support of company's directors and shareholders has been evident in the past and continues to be of significant importance. During the year to 30 June 2011 loans to the company and The Watford Association Football Club Limited from certain directors and a shareholder of the company totalling £10,142,000 were converted into Secured Bonds (see note 10). The directors have been working with, and are grateful to, the existing bondholders for extending the redemption dates of the bonds in order to improve the company's cash flow. The company's new owners are in the process of reviewing current business activity and preparing cash flow forecasts for the next two and five years.

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

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

3 Operating loss	2011	2010
	£'000	£'000
Operating loss is stated after charging:		
Auditors' remuneration		
Fees payable to the company's auditor for the audit of the company's annual accounts	8	7
Other non-audit fees	4	13
	<u>12</u>	<u>20</u>
4 Investment income	2011	2010
	£'000	£'000
Income from investments in group undertakings	<u>28</u>	<u>825</u>

WATFORD LEISURE LIMITED
(FORMERLY WATFORD LEISURE PLC)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2011

5 Interest payable	2011	2010
	£'000	£'000
Other interest	701	95
	<u>701</u>	<u>95</u>
6 Taxation		
The tax position is reconciled as follows:		
	2011	2010
	£'000	£'000
Loss on ordinary activities before taxation	(5,675)	(8,215)
	<u>(5,675)</u>	<u>(8,215)</u>
Loss on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 28.00% (2010 - 28.00%)	(1,589)	(2,300)
	<u>(1,589)</u>	<u>(2,300)</u>
Effects of:		
Waiver of amount due from group undertaking and provisions	1,264	2,376
Dividends and distributions received	-	(186)
Other temporary differences	-	(48)
Unused tax losses carried forward	325	158
	<u>1,589</u>	<u>2,300</u>
Current tax charge for the year	<u>-</u>	<u>-</u>

WATFORD LEISURE LIMITED
(FORMERLY WATFORD LEISURE PLC)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2011

7 Fixed asset investments

	Shares in group undertakings £'000	Loans to group undertakings £'000	Total £'000
Cost			
At 1 July 2010	11	14,167	14,178
Waiver of loan	-	(13,000)	(13,000)
Other movements	-	6,186	6,186
	<hr/>	<hr/>	<hr/>
At 30 June 2011	11	7,353	7,364
	<hr/>	<hr/>	<hr/>
Provisions for diminution in value			
At 1 July 2010	-	8,486	8,486
Reversal of provision	-	(8,486)	(8,486)
	<hr/>	<hr/>	<hr/>
At 30 June 2011	-	-	-
	<hr/>	<hr/>	<hr/>
Net book value			
At 30 June 2011	11	7,353	7,364
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 30 June 2010	11	5,681	5,692
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Holdings of more than 20%

The company holds more than 20% of the share capital of the following companies:

Company	Country of registration or incorporation	Shares held Class	%
Subsidiary undertakings			
The Watford Association Football Club Limited	England & Wales	Ordinary	96.00
Watford FC Regeneration Limited	England & Wales	Ordinary	100.00

WATFORD LEISURE LIMITED
(FORMERLY WATFORD LEISURE PLC)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2011

7 Fixed asset investments **(continued)**

The aggregate amount of capital and reserves and the results of these undertakings for the last relevant financial year were as follows:

		Capital and reserves 2011 £'000	Profit/(loss) for the year 2011 £'000
	Principal activity		
The Watford Association Football Club Limited	Football Club	(1,309)	9,649
Watford FC Regeneration Limited	Property investment company	-	-
		<u> </u>	<u> </u>

In order to satisfy the terms of the Secured Bonds (note 10) £13,000,000 of the intercompany debt between The Watford Association Football Club Limited and Watford Leisure Limited was waived.

8 Debtors	2011 £'000	2010 £'000
Other debtors	-	110
Prepayments and accrued income	-	340
	<u> </u>	<u> </u>
	-	450
	<u> </u>	<u> </u>

9 Creditors: amounts falling due within one year	2011 £'000	2010 £'000
Secured Bonds	1,500	-
Trade creditors	-	764
Amounts owed to parent undertaking	1,000	-
Other creditors	-	2,642
Accruals and deferred income	144	103
	<u> </u>	<u> </u>
	2,644	3,509
	<u> </u>	<u> </u>

Other creditors at 30 June 2010 includes a director's loan from D B Fransen of £2,050,000 and Convertible loan notes which were issued to a previous chairman, G Simpson, of £592,000. These loans were converted into Secured Bonds on 13 July 2010 (note 10).

WATFORD LEISURE LIMITED
(FORMERLY WATFORD LEISURE PLC)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2011

10 Creditors: amounts falling due after more than one year	2011	2010
	£'000	£'000
Secured Bonds	7,762	-
Analysis of loans		
Wholly repayable within five years	9,262	2,642
	9,262	2,642
Included in current liabilities	(1,500)	(2,642)
	7,762	-
Loan maturity analysis		
In more than one year but not more than two years	2,500	-
In more than two years but not more than five years	5,262	-

On 13 July 2010 364 day Secured Bonds were issued for a total of £10,142,000. The Bonds are secured by a second charge over the Vicarage Road Stadium and up until 10 March 2011 attracted interest at a rate of 4.5% above the Barclays Bank base rate. Each £1 of the bonds has 20 detachable warrants (each to subscribe for one new Ordinary Share at a subscription price of 4 pence) these warrants are considered not to have any material value. Costs relating to the Secured Bonds totalled £447,000 and have been released as an interest charge. In order to satisfy the terms of the Secured Bonds £13,000,000 of the intercompany debt between The Watford Association Football Club Limited and Watford Leisure Limited was waived.

On the acquisition of the company by Watford FC Limited, under a supplemental deed of covenant and guarantee, new terms of the bonds became effective from 10 March 2011. The company repaid a total of £1,000,000 to the Bondholders and, save £120,000 of accrued interest which was then capitalised, all interest accruing to the Bondholders as at 10 March 2011 was waived. Following the part repayment and the capitalisation of accrued interest the adjusted principal amount of the Secured Bonds is £9,262,000. The final redemption date was extended to 10 March 2016 with the Secured Bonds being redeemed in annual instalments. With effect from 10 March 2011 and up to 9 March 2012 the Secured Bonds attract interest at a rate of 5% per annum, and thereafter at a rate of 3% per annum.

11 Share capital	2011	2010
	£'000	£'000
Allotted, called up and fully paid		
43,885,693 Ordinary shares of 1p each	439	439

WATFORD LEISURE LIMITED
(FORMERLY WATFORD LEISURE PLC)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2011

12 Statement of movements on profit and loss account

	Other reserves (see below) £'000	Profit and loss account £'000
Balance at 1 July 2010	2,194	-
Loss for the year	-	(5,675)
Losses extinguished	(2,194)	2,194
	<hr/>	<hr/>
Balance at 30 June 2011	-	(3,481)
	<hr/> <hr/>	<hr/> <hr/>
Special reserve		
Balance at 1 July 2010	2,194	
Losses extinguished	(2,194)	
	<hr/>	
Balance at 30 June 2011	-	
	<hr/> <hr/>	

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

The current year loss of the company has been partially extinguished against the Special Reserve.

13 Reconciliation of movements in shareholders' funds

	2011 £'000	2010 £'000
Loss for the financial year	(5,675)	(8,215)
Opening shareholders' funds	2,633	10,848
	<hr/>	<hr/>
Closing shareholders' funds	(3,042)	2,633
	<hr/> <hr/>	<hr/> <hr/>

14 Directors' remuneration

	2011 £'000	2010 £'000
Remuneration for qualifying services	-	323
	<hr/> <hr/>	<hr/> <hr/>

WATFORD LEISURE LIMITED
(FORMERLY WATFORD LEISURE PLC)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2011

15 Employees

Number of employees

There were no employees during the year apart from the directors.

Employment costs

	2011	2010
	£'000	£'000
Wages and salaries	-	323

16 Control

The immediate and ultimate parent company is Watford FC Limited, a company registered in England & Wales. The ultimate controlling party is L Bassini who owns 100% of the issued share capital of Watford FC Limited.

Watford FC Limited prepares group financial statements and copies can be obtained from its registered office.

17 Related party relationships and transactions

The company has taken advantage of the exemption in Financial Reporting Standard Number 8 from the requirement to disclose transactions with group companies on the grounds that consolidated financial statements are prepared by the ultimate parent company.

A loan of £2,050,000 from D Fransen, a director, was converted into Secured Bonds on 13 July 2010. At 30 June 2011 D Fransen held Secured Bonds of £2,080,000. Interest payable on these Secured Bonds in the year amounted to £45,557.