

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document or as to what action you should take, you are recommended immediately to seek your own personal independent financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser duly authorised under the Financial Services and Markets Act 2000 (as amended).**

If you have sold or otherwise transferred all of your shares in Watford Leisure PLC (“Watford Leisure”), please forward this document, together with the accompanying Form of Proxy, as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee. If you have sold or transferred only part of your holding of shares in Watford Leisure, you should retain these documents and consult the bank, stockbroker or other agent through whom the sale or transfer was effected as soon as possible.

The Directors, whose names appear on page 3 of this document, accept responsibility for the information contained in this document, other than the related party statement required by the AIM Rules for Companies on page 7 and the recommendation on page 13, for which the Directors other than Mr David Fransen (who has a conflict of interest) accept responsibility. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document for which they accept responsibility is in accordance with the facts and does not omit anything likely to affect the import of such information.

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# WATFORD LEISURE PLC



*(Incorporated and registered in England and Wales with registered number 3335610)*

## **PROPOSED INCREASE IN DIRECTORS’ SHARE CAPITAL AUTHORITIES INCLUDING THE DISAPPLICATION OF PRE-EMPTION RIGHTS IN CONNECTION WITH A PROPOSED ISSUE OF SECURED BONDS WITH DETACHABLE WARRANTS**

### **NOTICE OF EXTRAORDINARY GENERAL MEETING**

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This document does not comprise an offer or invitation to subscribe for Secured Bonds, Warrants or any other securities of Watford Leisure.

Strand Hanson, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting exclusively as financial adviser to Watford Leisure and no one else in connection with the Proposed Subscription and will not be responsible to anyone other than Watford Leisure for providing the protections afforded to clients of Strand Hanson or for providing advice in relation to the Proposed Subscription.

**This document should be read in its entirety. Your attention is drawn to the letter from the Non-Executive Chairman of Watford Leisure which is set out on pages 6 to 13 of this document and which contains a recommendation by the Independent Directors that you vote in favour of the Resolution set out in the notice of Extraordinary General Meeting referred to below.**

Notice of an Extraordinary General Meeting of Watford Leisure, to be held at its registered office at Vicarage Road Stadium, Watford, Hertfordshire WD18 0ER, at 6.00 p.m. on Monday 17 May 2010, is set out at the end of this document. To be valid, the accompanying Form of Proxy for use in connection with the Extraordinary General Meeting should be completed, signed and returned as soon as possible and, in any event, so as to reach the Company’s registrars, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, by no later than 6.00 p.m. on 15 May 2010. Completion and return of a Form of Proxy will not preclude a Shareholder from attending and voting in person at the EGM should they so wish.

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## TIMETABLE

Record date for Qualifying Shareholders	close of business on 27 April 2010
Publication of this document	28 April 2010
Latest time and date for receipt of Forms of Proxy	6.00 p.m. on 15 May 2010
Extraordinary General Meeting	6.00 p.m. on 17 May 2010

## DIRECTORS, SECRETARY AND ADVISERS

<b>Directors:</b>	Graham Taylor ( <i>Non-Executive Chairman</i> ) Julian Winter ( <i>Chief Executive Officer</i> ) David Bernard Fransen ( <i>Non-Executive Director</i> ) Stuart Read Timperley ( <i>Non-Executive Director</i> )  <i>all of whose business address is:</i>  <i>Vicarage Road Stadium</i> <i>Watford</i> <i>Hertfordshire WD18 0ER</i>
<b>Registered Office:</b>	Vicarage Road Stadium Watford Hertfordshire WD18 0ER Website: <a href="http://www.watfordleisureplc.com">www.watfordleisureplc.com</a>
<b>Company Secretary:</b>	Peter James Wastall
<b>Financial Adviser, Nominated Adviser and Broker:</b>	Strand Hanson Limited 26 Mount Row London W1K 3SQ
<b>Auditors to the Company:</b>	Chantrey Vellacott DFK LLP Russell Square House 10-12 Russell Square London WC1B 5LF
<b>Solicitors to the Company:</b>	Denton Wilde Sapte LLP One Fleet Place London EC4M 7WS
<b>Registrars:</b>	Capita Registrars Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0GA

## DEFINITIONS

The following definitions apply throughout this document and in the accompanying Form of Proxy, unless the context requires otherwise:

<b>“Act”</b>	the Companies Act 2006;
<b>“AIM”</b>	the market known as AIM operated by the London Stock Exchange;
<b>“AIM Rules for Companies”</b>	the rules applicable to companies whose securities are traded on AIM, as published by the London Stock Exchange from time to time;
<b>“Articles”</b>	the Articles of Association of the Company, as amended from time to time;
<b>“Barclays”</b>	Barclays Bank PLC;
<b>“Circular”</b>	this document;
<b>“City Code”</b>	the City Code on Takeovers and Mergers;
<b>“Club”</b>	The Watford Association Football Club Limited, a 96 per cent. owned subsidiary of the Company;
<b>“Company” or “Watford Leisure”</b>	Watford Leisure PLC;
<b>“Directors” or “Board”</b>	the board of directors of the Company whose names are set out on page 3 of this document, or any duly authorised committee thereof;
<b>“Enlarged Share Capital”</b>	the fully diluted share capital of the Company following completion of the Proposed Subscription assuming full exercise of all the Warrants;
<b>“Existing Ordinary Shares”</b>	the 43,885,693 Ordinary Shares comprising the total issued share capital of the Company at the date of this document;
<b>“Extraordinary General Meeting” or “EGM”</b>	the extraordinary general meeting of the Company convened to be held at Vicarage Road Stadium, Watford, Hertfordshire WD18 0ER, at 6.00 p.m. on Monday 17 May 2010 (and any adjournment thereof), notice of which is set out at the end of this document;
<b>“Fordwat”</b>	Fordwat Limited, a Substantial Shareholder;
<b>“Form of Proxy”</b>	the form of proxy accompanying this document for use by Shareholders in connection with the EGM;
<b>“FSMA”</b>	the Financial Services and Markets Act 2000 (as amended) including any regulations made pursuant thereto;
<b>“Group”</b>	the Company and its subsidiaries;
<b>“Independent Directors”</b>	Graham Taylor, Stuart Timperley and Julian Winter;
<b>“London Stock Exchange”</b>	London Stock Exchange plc;
<b>“Notice of EGM”</b>	the notice of EGM which is set out at the end of this document;
<b>“Ordinary Shares”</b>	ordinary shares of 1p each in the capital of the Company;

<b>“Overseas Shareholder”</b>	a Shareholder, other than any Substantial Shareholder, who is resident in, or a citizen of, a country other than the United Kingdom, unless, in the case of any such Shareholder, the Board in its absolute discretion determines that such Shareholder may participate in the Proposed Subscription;
<b>“Panel”</b>	the Panel on Takeovers and Mergers;
<b>“Proposed Subscription”</b>	the proposed subscription by Fordwat, David Fransen, Graham Simpson and potentially certain other Qualifying Shareholders for £10.142 million in principal amount of Secured Bonds with detachable Warrants, as described in this document;
<b>“Qualifying Shareholder”</b>	a Shareholder (other than an Overseas Shareholder) who owns more than 0.5 per cent., or such other percentage as the Board in its absolute discretion may determine, of the issued Ordinary Shares on the Record Date, provided that the total number of Shareholders (excluding qualified investors as defined in section 86(7) of FSMA) who are invited to participate in the Proposed Subscription shall be fewer than 100 persons;
<b>“Record Date”</b>	the close of business on 27 April 2010 (being the latest practicable business day prior to the posting of the Circular);
<b>“Resolution”</b>	the special resolution as set out in the Notice of EGM;
<b>“Secured Bonds”</b>	the proposed floating rate bonds in a principal amount of £1 each to be secured over the freehold of the Vicarage Road Stadium and all other assets of the Company, proposed to be issued by the Company at 100 per cent. of face value pursuant to the Proposed Subscription as described in this document;
<b>“Shareholders”</b>	holders of Ordinary Shares;
<b>“Strand Hanson”</b>	Strand Hanson Limited, the Company’s financial adviser, nominated adviser and broker for the purposes of the AIM Rules for Companies, a member of the London Stock Exchange and regulated in the UK by the Financial Services Authority;
<b>“Subscription Price”</b>	4 pence per new Ordinary Share (subject to adjustment in certain prescribed circumstances);
<b>“subsidiaries”</b>	the subsidiaries of the Company (as defined in section 1159 of the Act);
<b>“Substantial Shareholder”</b>	a Shareholder who holds (directly or indirectly) 10 per cent. or more of the Existing Ordinary Shares;
<b>“United Kingdom” or “UK”</b>	the United Kingdom of Great Britain and Northern Ireland; and
<b>“Warrants”</b>	the warrants, each to subscribe for one new Ordinary Share at the Subscription Price, proposed to be issued by the Company in connection with the Proposed Subscription, on the basis of 20 warrants for every £1 of Secured Bonds subscribed, as described in this document.

# LETTER FROM THE CHAIRMAN OF WATFORD LEISURE PLC



*(Incorporated and registered in England and Wales with registered number 3335610)*

*Directors:*

Graham Taylor *(Non-Executive Chairman)\**  
Julian Winter *(Chief Executive Officer)\**  
David Bernard Fransen *(Non-Executive Director)*  
Stuart Read Timperley *(Non-Executive Director)\**

*\* Independent Director*

*Registered Office:*

Vicarage Road Stadium  
Watford  
Hertfordshire  
WD18 0ER

28 April 2010

*To Shareholders*

Dear Shareholder

## **Proposed Issue of Secured Bonds with Detachable Warrants and Notice of Extraordinary General Meeting**

### **1. Introduction**

Your Board announced on 26 March 2010 that Fordwat had advanced a further £1 million to the Club under its existing secured loan agreement and this morning announced that it now intends, subject to the passing of the Resolution, to allot and issue Secured Bonds with detachable Warrants to the value, in aggregate principal amount of Secured Bonds, of approximately £10.142 million. The Proposed Subscription will not be made on a pre-emptive basis. Secured Bonds with detachable Warrants are intended to be subscribed by David Fransen (in exchange for the cancellation of £2.05 million of his existing loans to the Group), Graham Simpson (in exchange for the cancellation of £0.592 million of his existing convertible loan notes issued by the Company which fell due for repayment on 31 March 2010), those Qualifying Shareholders who wish to participate and Fordwat (in exchange for the cancellation of up to £5.99 million of its existing secured loan to the Club and up to a further £1.51 million subject to take up by other Qualifying Shareholders).

It is expected that Qualifying Shareholders will, in due course, be invited to participate in the Proposed Subscription and subscribe for Secured Bonds (with detachable Warrants) in proportion to their existing shareholdings as at the Record Date, with such Secured Bonds (with detachable Warrants) not taken up by Qualifying Shareholders taken up by Fordwat. For every £1 of Secured Bonds subscribed, Qualifying Shareholders who participate in the Proposed Subscription will receive 20 detachable Warrants.

In order to enable the Company to issue the Warrants, and to provide flexibility to the Directors to issue up to a further 37,008,854 Ordinary Shares for general working capital purposes, the Board is now seeking authority from Shareholders to allot on a non pre-emptive basis up to, in aggregate, 239,848,854 new Ordinary Shares or rights to subscribe for such new Ordinary Shares. The Proposed Subscription is conditional upon the passing of the Resolution.

**The purpose of this document is to provide you with details of the Proposed Subscription and to explain why the Directors consider the Proposed Subscription to be in the best interests of the Company and its Shareholders as a whole. This document also contains formal notice of the Extraordinary General Meeting required to be held in order to implement the Proposed Subscription and the Independent Directors' recommendation that you vote in favour of the Resolution.**

The precise terms and conditions of the Proposed Subscription are currently being discussed with certain Substantial Shareholders; however the principal commercial terms of the proposed Secured Bonds and Warrants are set out in paragraph 3 below.

David Fransen, a non-executive director of the Company, and certain Substantial Shareholders, being Fordwat and Graham Simpson, have agreed in principle, and subject to the passing of the Resolution, to subscribe for Secured Bonds with detachable Warrants by way of the cancellation of existing debt and, in the case of Fordwat, for cancellation of existing debt and for new cash. Fordwat has also agreed in principle to underwrite those Secured Bonds and Warrants offered to, but not taken up by, Qualifying Shareholders. The Proposed Subscription and debt cancellations are deemed to be related party transactions under the AIM Rules for Companies. Accordingly, the Independent Directors consider, having consulted with Strand Hanson, that the proposed principal commercial terms of the Secured Bonds and Warrants and the proposed debt cancellations in connection with the Proposed Subscription are fair and reasonable insofar as Shareholders are concerned.

## **2. Background to and reasons for the Proposed Subscription – the importance of voting for the Resolution**

David Fransen and certain Substantial Shareholders have agreed in principle, and subject to the passing of the Resolution, to subscribe for £10.142 million in aggregate value of Secured Bonds with detachable Warrants, as set out in paragraph 5 below. The Proposed Subscription will be used to consolidate and replace £8.632 million of the Group's existing indebtedness and raise additional (gross) cash proceeds of approximately £1.51 million.

As Shareholders are aware from, *inter alia*, the Company's announcement of 23 December 2009 and the interim results announcement of 15 March 2010, Watford Leisure has been, and continues to be, dependent on the financial support of certain Substantial Shareholders and Directors until its operating and administrative costs can be brought into line with revenues. The Board has been diligently reviewing and evaluating the Group's funding arrangements and potential financing options for some time, and has determined that the Proposed Subscription is the best capital raising structure currently available to the Company in order to provide essential short term working capital.

The Board has taken the decision to pursue implementation of the Proposed Subscription following extensive discussions and consultation with certain Substantial Shareholders regarding various methods by which its working capital requirements might best be addressed. The key advantages of the Proposed Subscription, relative to a rights issue structure as previously contemplated and discussed with Fordwat, are the much lower implementation costs for Watford Leisure (thereby maximising the proceeds available to the Company) and the reduced timetable to obtain the necessary funds to enable the Company to move forward and implement its current business strategy.

As a result of these discussions, the Board has decided that the Proposed Subscription of the Secured Bonds with detachable Warrants is in the best interests of the Company and its Shareholders as a whole. In the meantime and as noted above, Fordwat has advanced a further £1 million to the Club under its existing secured loan agreement and has agreed to provide up to an additional £1.51 million under this facility to enable the Company to continue to trade whilst the Proposed Subscription is finalised.

Documentation of the precise terms and conditions of the Secured Bonds and Warrants is expected to be finalised, and the Proposed Subscription implemented, shortly following (and subject to) the passing of the Resolution at the Extraordinary General Meeting.

As part of the Proposed Subscription, the Company proposes to replace and consolidate the majority of its existing indebtedness to Fordwat, David Fransen and Graham Simpson with Secured Bonds. Although the Proposed Subscription, if successful, will also provide additional working capital of approximately £1.51 million (gross), the Company will still need to trade player registrations, if it is to achieve financial stability, in this summer's transfer window and on an ongoing basis thereafter.

In order for the Proposed Subscription to achieve the level of certainty required by the Company, Fordwat has agreed, in principle, to underwrite the Proposed Subscription for up to £7.5 million, subject to Qualifying Shareholders being invited to participate in the Proposed Subscription *pro rata* to their

existing shareholdings in the Company. To expedite the Proposed Subscription, only Qualifying Shareholders are being afforded an opportunity to participate in the Proposed Subscription. Qualifying Shareholders are those persons (other than any Overseas Shareholders) who held as at 5.00 p.m. on the Record Date in aggregate at least 219,429 Ordinary Shares, representing approximately 0.5 per cent. of the Existing Ordinary Shares (or such other number and percentage as the Board in its absolute discretion may determine). The Secured Bonds and detachable Warrants will be separately transferable, but neither will be tradable on the London Stock Exchange.

The Board has chosen to use this method to implement the issue of the Secured Bonds with detachable Warrants as it provides the best practical opportunity for as many Shareholders as possible to participate in the Proposed Subscription, given the timing constraints, the significant additional costs and protracted timetable associated with implementing a rights issue and the level of funding certainty required to address the Company's immediate working capital requirements. The Board would emphasise that the selected fundraising structure is not a pre-emptive offer and accordingly most Shareholders will regrettably not be able to participate in the Proposed Subscription.

Further information on the Proposed Subscription and the full terms and conditions on which it is to be made, including the procedure for application and payment, will be set out in a further letter from the Company to be sent to Qualifying Shareholders subject to, and following, the passing of the Resolution at the Extraordinary General Meeting and finalisation of the necessary documentation.

**Having considered a number of options, the Board believes that the Proposed Subscription is the most efficient and viable option available and in the Company's best interests, in light of its current financial position, as it achieves the necessary level of essential working capital on the most expedited timetable with the degree of certainty that the Board believes is required for the Company to continue to trade. However, unless the Resolution is passed, the Proposed Subscription will not be able to proceed. Fordwat has advised the Company that its willingness to provide funding is limited solely to the support encompassed within this Circular. Furthermore the Secured Bond, which is a short term loan instrument, has been structured to give the Board time to engineer a longer term solution to the Company's financial predicament, which may involve the identification of a new strategic investor. The Board believes that the proposals set out in this document meet the immediate cash requirements of the Company, although material further funds will still be required early in the Company's new financial year from alternative sources, including media and TV income and player trading, and additional player trading will also be required in future years in order to maintain financial stability.**

**Accordingly, the Board strongly recommends that Shareholders vote in favour of the Resolution at the EGM. The Resolution is to be proposed as a special resolution and, to be passed, therefore requires at least a 75 per cent. majority vote in favour.**

### **3. Key terms of the Secured Bonds and Warrants**

The material commercial terms of the Secured Bonds and Warrants will be as follows:

- The Proposed Subscription will comprise the issue of up to £10,142,000 in aggregate principal amount of Secured Bonds (with detachable Warrants) at 100 per cent. of face value in denominations of Secured Bonds of £1 each, which will be used to consolidate and replace £8.632 million of the Group's existing indebtedness and will raise up to £1.51 million of additional working capital (before expenses). There will be 20 detachable Warrants for every £1 in principal amount of Secured Bonds issued.
- The Secured Bonds will have similar security to the existing Fordwat secured loan to the Club (which is proposed to be cancelled by Fordwat in exchange for Secured Bonds with detachable Warrants in connection with the Proposed Subscription), comprising a debenture over the Vicarage Road Stadium and all other assets of the Company but ranking behind the existing secured creditors.

- The Secured Bonds will be in registered form and freely transferable, but will not be publicly traded. They will have a term of 364 days and accrue interest at the rate of 4.5 per cent. above the base rate from time to time of Barclays, with all interest accrued being paid at the earlier of redemption and maturity.
- The Warrants will be in registered form and freely transferable, but will also not be publicly traded in order to minimise costs. Each Warrant will entitle the holder to subscribe for one new Ordinary Share at a price of 4 pence (subject to adjustment in certain prescribed circumstances) at any time between the date of issue and the fifth anniversary of the date of issue. The Subscription Price represents a 46.67 per cent. discount compared to the closing middle market price of 7.5 pence per Ordinary Share on 27 April 2010, the latest practicable dealing day prior to the date of this document.

Assuming full exercise of all the Warrants proposed to be issued in connection with the Proposed Subscription, the Enlarged Share Capital would comprise 246,725,693 Ordinary Shares (an increase of approximately 462 per cent. over the Existing Ordinary Shares) and Shareholders who are not Qualifying Shareholders (and Qualifying Shareholders who do not elect to participate) would accordingly suffer a dilution of their interest in the Company's share capital of approximately 82 per cent. as a result of implementation of the Proposed Subscription.

#### **4. Rule 9 of the City Code**

Watford Leisure is subject to the provisions of the City Code which is issued and administered by the Panel pursuant to the Act. There are certain implications under the City Code with respect to any future exercise by Fordwat of Warrants taken up by it in the Proposed Subscription.

Under Rule 9 of the City Code ("Rule 9"), any person who acquires an interest in shares which, taken together with shares in which he is already interested and in which persons acting in concert with him are interested, carry 30 per cent. or more of the voting rights of a company which is subject to the City Code, is normally required to make a general offer to all the remaining shareholders to acquire their shares.

Under Rule 9, when any person or group of persons acting in concert individually or collectively are interested in shares which in aggregate carry not less than 30 per cent. of the voting rights of a company but does not hold shares carrying more than 50 per cent. of the voting rights of a company and such person or any person acting in concert with him acquires an interest in any other shares, which increases the shares carrying voting rights in which he is interested, then that person or group of persons is normally required by the Panel to make a general offer in cash to all shareholders of that company at the highest price paid by them for any interest in shares in that company during the previous twelve months.

Under the City Code, a concert party arises where persons acting together pursuant to an agreement or understanding (whether formal or informal) actively co-operate to obtain or consolidate control of a company or to frustrate the successful outcome of an offer for a company. Control means the holding, or aggregate holdings, of interests in shares carrying 30 per cent. or more of the voting rights of the company, irrespective of whether the holding or holdings give *de facto* control.

In the context of the Proposed Subscription, Fordwat, Strand Associates Limited and Andrew Wilson (a former director and interim Chairman of Watford Leisure) are currently considered to be persons acting in concert for the purposes of the City Code in relation to the Company (the "Fordwat Concert Party"). Fordwat and Strand Associates Limited are companies in which Lord Ashcroft has an interest and accordingly are deemed to be acting in concert. Andrew Wilson is also considered to be acting in concert with both Fordwat and Strand Associates Limited, as Andrew Wilson works with Lord Ashcroft on a regular basis in an advisory capacity and is on the board of Strand Associates Limited. Their combined shareholdings total 17,657,329 Ordinary Shares, representing 40.23 per cent. of the voting rights of the Existing Ordinary Shares. As Fordwat has agreed, in principle, to underwrite the Proposed Subscription for up to £7.5 million, it is possible that Fordwat will be required to take up Bonds with detachable Warrants exercisable into 150,000,000 Ordinary Shares (assuming no take up by Qualifying

Shareholders and that David Fransen and Graham Simpson subscribe for £2.05 million and £0.592 million respectively in accordance with their in principle agreements), giving it up to approximately 67.41 per cent. of the Enlarged Share Capital if all the Warrants were to be exercised. The Fordwat Concert Party could therefore hold, in aggregate, 167,657,329 Ordinary Shares or 67.95 per cent. of the Enlarged Share Capital if all the Warrants were to be exercised.

As set out above, under Rule 9, if the Fordwat Concert Party were to exercise any Warrants it would normally be obliged in such circumstances to make a general offer to all shareholders at not less than the highest price paid by any member of the concert party, or any person acting in concert with it, within the preceding 12 months for shares of that class. However, the Panel has agreed to waive this requirement for the Fordwat Concert Party (or any of them) to make a mandatory offer under Rule 9 that would ordinarily arise as a result of the future exercise of any Warrants received under the Proposed Subscription provided that this waiver is approved by the holders of a majority of the shares not held by the members of the Fordwat Concert Party and Graham Simpson (who is not deemed by the Panel to be an independent shareholder in the context of the Proposed Subscription) in general meeting.

The Panel further has the discretion to waive the requirement for such approval to be obtained in general meeting where the holders of a majority of the shares capable of being voted on such resolution confirm in writing to the Panel that, were such a meeting to be held, they would vote in favour of the relevant resolution. The Panel has exercised its discretion to grant such a waiver because Valley Grown Salads has irrevocably undertaken to the Panel that, amongst other things, were a resolution (known as a "Rule 9 Whitewash" resolution) to be put to the Shareholders (other than members of the Fordwat Concert Party and Graham Simpson) to remove the need for a mandatory offer to be made pursuant to Rule 9 as a result of the potential future exercise of Warrants issued to the Fordwat Concert Party under the Proposed Subscription, they would vote in favour of such resolution. The existing shareholding of Valley Grown Salads in the Company is such that it would represent a majority of the votes held by the independent shareholders in the Company (that is shareholders who are independent of the Fordwat Concert Party and Graham Simpson) were a Rule 9 Whitewash resolution to be put to such shareholders. Therefore, its vote in favour of such a resolution would be sufficient to guarantee that such resolution would be passed.

As a result, no approval of the waiver of the obligation that would otherwise arise under Rule 9 for the members of the Fordwat Concert Party to make a general offer as a result of Fordwat exercising any of the Warrants received as a result of its underwriting of the Proposed Subscription is being sought in this case. **Shareholders should be aware that following implementation of the Proposed Subscription, if all the Warrants were to be exercised, the members of the Fordwat Concert Party may, depending on the take-up by Qualifying Shareholders, between them be interested in excess of 50 per cent. of the voting rights attaching to the Enlarged Share Capital and, for so long as they continue to be treated as acting in concert, would be entitled to increase their aggregate interest in the voting rights of the Company without incurring an obligation under Rule 9 to make a general offer to all Shareholders to acquire their Ordinary Shares, although individual members of the Fordwat Concert Party will not be able to increase their percentage holdings through 30 per cent. or between 30 per cent. and 50 per cent. without Panel consent.**

In addition, Valley Grown Salads has undertaken to the Company that in the event that the Resolution is passed and the Proposed Subscription proceeds, it will not subscribe for Secured Bonds with detachable Warrants under the Proposed Subscription if, and to the extent that, the Warrants so subscribed by it would, if exercised, result in it or any persons acting in concert with it holding 30 per cent. or more of the voting rights of the Company. Consequently, no Rule 9 Whitewash resolution is needed in relation to Valley Grown Salads and the Proposed Subscription.

## 5. Irrevocable undertakings and commitments in principle to subscribe

The Company has received irrevocable undertakings from the following Shareholders that they will exercise or procure the exercise of, in person or by proxy, all of the voting rights attached to their holdings of Ordinary Shares in favour of the Resolution:

<i>Name of Shareholder</i>	<i>No. of Existing Ordinary Shares</i>	<i>Percentage of Existing Ordinary Shares</i>
Fordwat Limited	16,306,437	37.16
Valley Grown Salads	13,156,953	29.98
BNY Mellon Nominees Limited	1,294,228	2.95
Graham and Yianna Simpson	7,368,796	16.79
Total:	<u>38,126,414</u>	<u>86.88</u>

The following Director and Substantial Shareholders have agreed in principle with the Company, on a non-legally binding basis, that, subject to the passing of the Resolution and finalisation of the precise terms and conditions of the Secured Bonds and Warrants, they will subscribe for Secured Bonds (with detachable Warrants) in connection with the Proposed Subscription in the amounts set out below:

<i>Director/Substantial Shareholder</i>	<i>Amount of Secured Bonds to be subscribed</i> £
Fordwat*~	7,500,000
David Fransen**	2,050,000
Graham Simpson***~	592,000
Total:	<u>10,142,000</u>

### Notes:

- \* this assumes no take up by Qualifying Shareholders and would result in approximately £5.99 million plus accrued interest being satisfied by way of cancellation in full of its existing secured loan to the Club.
- \*\* to be satisfied by way of cancellation of £2.05 million of Mr Fransen's outstanding loans of £2.55 million to the Group.
- \*\*\* to be satisfied by way of cancellation in full of Mr Simpson's existing unsecured convertible loan notes 2010 issued by the Company.
- ~ subject to clawback/reduction in the event of subscriptions being made by Qualifying Shareholders.

## 6. Action to be taken

Shareholders will find enclosed with this document a reply-paid Form of Proxy for use in connection with the Extraordinary General Meeting.

### (i) *Extraordinary General Meeting*

Shareholders, whether or not they propose to attend the Extraordinary General Meeting in person, are requested to complete, sign and return the Form of Proxy, in accordance with the instructions printed thereon, so as to be received by the Company's registrar, Capita Registrars, Proxy Department, the Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU as soon as possible and, in any event, by not later than 6.00 p.m. on 15 May 2010. Alternatively, Shareholders may complete an online proxy form which is available on Capita Registrars' website at [www.capitashareportal.com](http://www.capitashareportal.com), by following the instructions provided on the website. To be valid an online proxy form must be completed no later than 6.00 p.m. on 15 May 2010. Shareholders who hold their shares in CREST may vote using the CREST voting service in accordance with the procedure set out in the CREST Manual via CREST (please also refer to the notes accompanying the Notice of EGM).

Completion and return of the Form of Proxy or an online proxy form, or the completion and transmission of a CREST proxy instruction, will not preclude Shareholders from attending and voting at the Extraordinary General Meeting in person if they subsequently wish to do so.

(ii) ***Proposed Subscription***

No action is required from Shareholders at this stage. Qualifying Shareholders will receive a letter from the Company in due course inviting them to participate in the Proposed Subscription, subject to and following the passing of the Resolution to be put before Shareholders at the Extraordinary General Meeting and finalisation of the detailed terms and conditions of, and the documentation and other arrangements required to constitute, the Secured Bonds and Warrants.

Qualifying Shareholders will then be invited to apply for any number of Secured Bonds with detachable Warrants, in integral multiples of £1 of Secured Bonds, up to their maximum *pro rata* entitlement (which will be rounded down to the nearest whole number with any fractional entitlements disregarded). Qualifying Shareholders who participate in the Proposed Subscription will receive 20 Warrants for every £1 in principal amount of Secured Bonds subscribed.

**7. Extraordinary General Meeting**

Set out at the end of this Circular is a notice convening an Extraordinary General Meeting of the Company to be held at the Company's registered office at Vicarage Road Stadium, Watford, Hertfordshire WD18 0ER at 6.00 p.m. on Monday 17 May 2010.

At the EGM, the Resolution will be proposed. The component parts of the Resolution all relate to substantially the same matter, that is, the granting of authority to the Directors to allot shares or other relevant securities, and are as follows:

(a) ***Removal of the authorised share capital restrictions in the Articles***

The Act abolished the requirement for a company to have an authorised share capital. Paragraph (i) of the Resolution will delete the provisions of the Company's memorandum of association relating to the Company's authorised share capital which, from 1 October 2009, have been deemed to form part of the Articles and act as a limit on the maximum amount of shares that may be allotted by the Company. The Directors will still be limited as to the number of shares they can at any time allot because allotment authority continues to be required under the Act, save in respect of employee share schemes.

The Company's authorised share capital is also expressly stated in the Articles. Paragraph (ii) of the Resolution will accordingly delete this.

(b) ***Grant the Directors authority to allot relevant securities and to disapply pre-emption rights in respect of such allotment***

The directors of a company may only allot shares or grant rights to subscribe for or to convert any security into shares in the company (together "relevant securities") if they have been authorised to do so by shareholders in general meeting (or by the company's articles of association). Paragraph (iii) of the Resolution will authorise the Directors to allot relevant securities in respect of Ordinary Shares with up to an aggregate nominal amount of £2,398,488.54 (of which the allotment of Warrants under the Proposed Subscription will account for £2,028,400 if the Proposed Subscription is successful). Paragraph (iv) of the Resolution will enable the Directors to allot those relevant securities without having first to offer them to Shareholders in proportion to their existing holdings, which would otherwise be required by the Act and the Articles.

The Directors will not require any further authority to allot Ordinary Shares upon exercise of the Warrants.

Accordingly, in addition to permitting the Directors to allot Warrants in connection with the Proposed Subscription, the Resolution, if passed, will permit the Directors to allot shares, or other relevant securities, up to an aggregate nominal amount of £370,088.54 (or more if the Proposed Subscription is not successful and less than 202,840,000 Warrants are allotted) without having first to offer them to Shareholders in proportion to their existing holdings. This additional authority is intended to provide the Directors with the flexibility, should they require it, to issue shares in the Company, and/or rights to subscribe for shares, to raise additional working capital, without having to incur the time and cost of convening a further extraordinary general meeting.

If approved by Shareholders, the authorities conferred by the Resolution will expire on the earlier of the date falling twelve months after the date the Resolution is passed and the conclusion of the Company's next annual general meeting.

## **8. Recommendation**

Your Board (excluding David Fransen who is intending to participate in the Proposed Subscription as described in this Circular and is considered to have a conflict of interest) would like to take this opportunity to recommend that all Shareholders vote in favour of the Resolution, whether or not they are a Qualifying Shareholder and wish to take up the proposed invitation to participate in the Proposed Subscription.

Your Board believes that this funding proposal is the best proposal available to the Company to secure essential working capital in a manner acceptable to the Company.

Should Shareholders not pass the Resolution at the EGM to allow the Proposed Subscription to proceed, the Board believes that there is a high probability that the Company would then be unable to meet its financial obligations and, absent an alternative source of financing, would have to consider placing the Company into administration or some other insolvency process.

**The Independent Directors consider the Proposed Subscription to be fair and reasonable and in the best interests of the Company and its Shareholders as a whole. Accordingly, the Independent Directors unanimously recommend that Shareholders vote in favour of the Resolution.**

Certain Shareholders have provided irrevocable undertakings to vote in favour of the Resolution representing, in aggregate, 38,126,414 Existing Ordinary Shares being approximately 86.88 per cent. of the Company's issued share capital.

Yours faithfully

Graham Taylor  
*Chairman*

## NOTICE OF EXTRAORDINARY GENERAL MEETING

### WATFORD LEISURE PLC

*(Incorporated and registered in England and Wales with registered number 3335610)*

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting (the “**Meeting**”) of the members of Watford Leisure PLC (the “**Company**”) will be held at Vicarage Road Stadium, Watford, Hertfordshire WD18 0ER at 6.00 p.m. on Monday 17 May 2010, for the purpose of considering and, if thought fit, passing the following resolution, which shall be proposed as a special resolution:

### SPECIAL RESOLUTION

**THAT:**

- (i) any limit on the maximum amount of shares that may be allotted by the Company which is imposed by the amount of the Company’s authorised share capital that was in force immediately before 1 October 2009 be revoked;
- (ii) the Articles of Association of the Company be amended by deleting the current Article 3 (and the associated footnote);
- (iii) in substitution for all such subsisting authorities to the extent unused, the directors be and are generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 (the “**Act**”) and Article 8 of the Articles of Association of the Company to exercise all powers of the Company to allot shares and grant such subscription and conversion rights as are contemplated by sections 551(1)(a) and (b) of the Act (“**relevant securities**”) up to an aggregate nominal amount of £2,398,488.54, provided that, unless previously renewed, revoked, varied or extended, this authority shall expire on the earlier of the date which is 12 months after the date of the passing of this resolution and the conclusion of the next annual general meeting of the Company, except that the Company may at any time before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such an offer or agreement as if this authority had not expired; and
- (iv) the directors be and are empowered pursuant to section 570(1) of the Act and Article 8 of the Articles of Association of the Company to allot equity securities (as defined in section 560 of the Act) up to an aggregate nominal amount of £2,398,488.54 pursuant to the authority conferred on the directors by paragraph (iii) above as if section 561(1) of the Act did not apply to any such allotment, provided that, unless previously renewed, revoked, varied or extended, this power shall expire on the earlier of the date which is 12 months after the date of the passing of this resolution and the conclusion of the next annual general meeting of the Company, except that the Company may at any time before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such an offer or agreement as if this power had not expired.

By order of the Board

Peter Wastall  
*Company Secretary*

Dated: 28 April 2010

*Registered office:*  
Vicarage Road Stadium  
Watford  
Hertfordshire  
WD18 0ER

## NOTES TO THE NOTICE OF EXTRAORDINARY GENERAL MEETING:

1. Members of the Company entitled to attend and vote at the Meeting are entitled to appoint a proxy or proxies to exercise all or any of their rights to attend, speak and vote at the Meeting and should have received a proxy form (either with this Notice of Extraordinary General Meeting or, for members who have opted only to receive notification of the availability of new documents on the Company website, with that notification). Members can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
2. A proxy does not need to be a member of the Company but must attend the Meeting to represent you. All members are entitled to appoint the Chairman as their proxy. Details of how to appoint the Chairman of the Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the Meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.
3. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, please sign and date the form of proxy and attach a schedule listing the names and addresses (in block letters) of all of your proxies, the number of shares in respect of which each proxy is appointed (which, in aggregate, should not exceed the number of shares held by you) and indicating how you wish each proxy to vote or abstain from voting. If you wish to appoint the Chairman as one of your multiple proxies, simply write 'the Chairman of the meeting'. Members should note that when appointing multiple proxies, a failure to specify the number of shares each proxy may exercise or specifying a number of shares in excess of those held by the member will invalidate all proxy appointments for that member.
4. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy may vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.
5. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).
6. A member that is a company or other organisation not having a physical presence cannot attend in person but can appoint someone to represent it. This can be done in one of two ways: either by the appointment of a proxy (described in note 1 above) or of a corporate representative. Members considering the appointment of a corporate representative should check their own legal position, the Company's articles of association and the relevant provision of the Companies Act 2006.
7. Appointment of a proxy does not preclude members from attending the Meeting and voting in person. If members have appointed a proxy and attend the Meeting in person, their proxy appointment will automatically be terminated.
8. The notes to the proxy form explain how to direct a member's proxy to vote on the resolution or withhold their vote. To appoint a proxy using the hard copy proxy form, the form must be completed and signed and sent or delivered to Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU to arrive no later than 48 hours before the time set for the Meeting. In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.
9. As an alternative to completing the hard copy proxy form, you can complete an online proxy form which is available on the Registrars' website at [www.capitashareportal.com](http://www.capitashareportal.com), by following the instructions provided on the website. To be valid an online proxy form must be completed no later than 48 hours before the time set for the Meeting.
10. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 (as amended), only those members registered on the Company's register of members at 6.00 p.m. on 15 May 2010 or, in the event of an adjournment, 48 hours prior to the adjourned meeting shall be entitled to attend and vote at the Meeting in respect of the number of shares registered in their name at that time. In each case, changes to the register of members after such time shall be disregarded in determining the rights of any person to attend or vote at the Meeting.
11. Members who have general queries about their shareholding should write to Capita Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield, HD8 0GA. Alternatively they can call the Shareholder Helpline on 0871 664 0300 (calls cost 10p per minute plus network extras; lines are open 8.30 a.m. – 5.30 p.m. Monday to Friday) or email [shareholder.services@capitaregistrars.com](mailto:shareholder.services@capitaregistrars.com). Members may not use any electronic address provided either in this notice of Meeting or any related documents (including the proxy form) to communicate with the Company for any purposes other than those expressly relating to the Meeting.

