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To all known creditors

Our ref rdf/jr/mn

Contact Jonathan Parker
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24 July 2007

Dear Sir

Leeds United Association Football Club Limited (The) - in administration ("the Club")

We refer to our letter dated 6 June 2007 confirming that the administrators proposals (pursuant to Paragraph 49 of Schedule B1 of the Insolvency Act 1986) and a Company Voluntary Arrangement ("CVA") (pursuant to Section 1 of the Insolvency Act 1986), were approved by the requisite majority of creditors.

The purpose of this letter is to provide you with a brief update of key events since 6 June 2007. We also attach the following appendices:

Appendix 1 - Estimated outcome statement as at 10 July 2007

Appendix 2 - Notes to the estimated outcome statement

CVA

Her Majesty's Revenue and Customs ("HMRC") lodged a challenge to the CVA in the High Court of Justice, Leeds District Registry on Tuesday, 3 July 2007 being the last day on which a creditor could seek to challenge the CVA. HMRC had voted against the CVA in accordance with its policy to vote against CVA's that provide for "football creditors" to be treated differently from the general body of unsecured creditors.

The basis of HMRC's challenge on 3 July 2007 was stated as the Chairman's decision as to the amount allowed to vote at the creditors meeting on 1 June 2007 on three specific proxies being Astor Investment Holdings Limited ("Astor"), Mark Taylor & Company and Yorkshire Radio Limited. Prior to the creditors meeting, the administrators, acting as nominee, engaged the services of two specialist insolvency barristers to advise on the amounts that specific proxies should be allowed to vote for at the meeting in order to ensure that the vote was conducted fairly.

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A directions hearing took place in the Leeds District Registry on Friday, 6 July 2007 to set a date for the full hearing of HMRC's challenge. The judge set the matter for a five day trial commencing on 3 September 2007, being the earliest available date. This was three weeks after the 2007/08 football season commences and our expectation was that the judgement might not be handed down until late September/early October 2007 and could be subject to appeal.

The challenge by HMRC meant the Club could not complete the existing CVA given the constraints of time and funding. In essence, the administrators were not confident that sufficient funding could be generated from the sale of players to trade the Club through to a conclusion of the Court process. Therefore the administrators concluded that embarking on such a process, which would put realisations available for creditors at risk, was not appropriate.

Accordingly, on 16 July 2007, the joint supervisors of the CVA issued an abort certificate bringing the CVA to an end.

Background to the unconditional sale

Creditors will be aware that the Football League ("the League") and the Football Association ("the FA") require the administrators to deal with the Club pursuant to their regulations and insolvency policy, and in particular the requirement for football creditors to be satisfied in full as a condition of the League and the FA agreeing to transfer the League share and the FA share ("the football shares") to a new entity ("the football creditor rule"). It is the football shares that give a club the ability to compete in the Football League and the various "cup" competitions.

The League's policy makes it clear that the football shares can only be transferred via a CVA or scheme of arrangement other than in "exceptional circumstances". The administrators were informed that a transfer under the "exceptional circumstances" provision had not taken place in any of the previous 45 football club insolvencies and that such circumstances were not defined. Subsequent to HMRC's challenge, the administrators gained further clarification from the League such that in order for the League to consider the "exceptional circumstances" provision, the specific facts of any situation would have to be submitted to the League who would then give the matter further consideration. The administrators believed that the preference of the League would be for the CVA to be modified or a new CVA put forward and be rejected prior to exceptional circumstances being considered.

The positions of HMRC, Astor and the League are relevant in this regard:

- As stated above HMRC, as a matter of policy are likely to vote against any CVA incorporating the "football creditor" rule because this is in direct conflict with one of the guidance notes detailed in their voluntary arrangement service worksheet, namely that the class of "football creditors" are treated differently from the general body of unsecured creditors, as part of, or outside of a CVA;

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- the League's policy is not to allow a transfer of the football share in circumstances that do not satisfy the football creditor rule; and
- Astor has consistently stated it would vote against any CVA other than that put forward in respect of the conditional sale to Leeds United Football Club Ltd ("LUFCL"). Astor account for in excess of 25% of all creditor claims and as such have a potential blocking position in any CVA.

The net result of these factors is that a CVA proposing a sale to a third party, other than LUFCL, could not be approved.

The administrators could not, as a consequence of normal professional ethics and the legal case *Sisu Capital Fund Ltd v Tucker*, propose another CVA which had no prospect of success, accordingly, this route was no longer available to them.

Sale of the business and assets

Following the directions hearing on Friday, 6 July 2007, the administrators concluded that a sale conditional on the approval of a CVA was unachievable for the reasons outlined above. Accordingly, that same day we re-offered the Club for sale, inviting offers on an unconditional basis with an initial deadline of 5.00pm on Monday, 9 July 2007. The primary reasons for the short timescale were as follows:

- a number of interested parties had performed due diligence over a three week period in May;
- LUFCL had submitted a substantial unconditional offer which set a deadline for acceptance of 5.00pm on Monday, 9 July 2007;
- the majority of players had not been paid for June; and
- the lack of appropriate non recourse funding available to the administrators.

The six interested parties who had submitted proof of funds and/or made offers, disclosed prior to the creditors meeting, were contacted and provided with further information regarding the key matters the administrators were aware of since the creditors meeting. The interested parties had previously been provided with a 90 page information memorandum and full access to an e-data room including all available information and documentation in respect of player contracts, employees, property information and other available financial information. The e-data room was re-opened and the administrators and their staff were engaged in numerous telephone calls/conference calls with respective bidders over the course of the next three days. One new interested party, who was able to provide proof of funding, was also provided with access to the available data.

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All interested parties were made aware that the successful purchaser would have to negotiate separately with the League and the FA with respect to the transfer of the football shares.

Four offers, all of which were subject to confidentiality clauses, were received by the deadline of 5.00pm on 9 July 2007. In view of the public interest in this matter, we have sought and obtained permission to release the financial details of these offers and to identify the winning offer and hence the party making that offer; the other offers remain subject to confidentiality as to the identity of the bidders. The offers and the relevant financial details are summarised and referred to as Offers LUFCL, B, C and D in the estimated outcome statement at Appendix 1. Offer B was substantially increased on Tuesday, 10 July 2007 both in terms of the unconditional consideration and the introduction of conditional consideration payable on the club's return to the Premiership and it is the increased offer that is reflected in Appendix 1.

On the evening of Tuesday, 10 July 2007 the administrators considered the four final offers received as a result of the business being offered for resale. The administrators' duty is to maximise the return to creditors in accordance with Paragraph 3 of Schedule B1 of the Insolvency Act 1986. In the absence of any certainty as to whether the League would agree to the transfer of the football share without a CVA, the administrators accepted the offer from LUFCL as this offer results in the highest return to creditors on an unconditional basis. Contracts were exchanged with LUFCL early morning on Wednesday, 11 July 2007 and completion took place later that day. The main elements of the transaction are as follows:

Unconditional consideration	
Sales consideration received in full	£1.8m
Waiver of all debts held by or acquired by Astor (reduces level of creditor claims by £17.6)	
Estimated dividend from unconditional consideration	11.2p/£
Conditional consideration	
On promotion to the Premiership within 10 seasons	£5.0m
Estimated potential dividend from conditional consideration	41.7p/£
Total potential dividend after costs	52.9p/£

Other matters

We understand LUFCL have been liaising directly with the League and the FA regarding the transfer of the football shares. LUFCL will have to satisfy the League and FA's requirements relating to a range of operational and funding criteria which include, inter alia, the processing of season tickets. The administrators have been in regular dialogue with the League in order to provide information to assist the League in its decision making process.



KPMG LLP
Leeds United Association Football Club Limited (The) - in administration ("the Club")

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The administrators will write again to creditors in the event there are any material developments that may affect the estimated outcome for creditors.

Yours faithfully
for Leeds United Association Football Club Ltd (The)

RD Fleming
Joint Administrator

The joint administrators contract without personal liability

Richard Dixon Fleming is authorised to act as an insolvency practitioner by the Insolvency Practitioners Association
Howard Smith is authorised to act as an insolvency practitioner by the Insolvency Practitioners Association
Mark Granville Firmin is authorised to act as an insolvency practitioner by the Institute of Chartered Accountants in England & Wales

Appendix 1 – Estimated outcome statement as at 10 July 2007

£	Notes	LUFCL	Offer B	Offer C	Offer D
Assets previously realised by the Administrator	1	499,350	499,350	499,350	499,350
Unconditional element of sale of business and assets	2	1,800,000	3,500,000	1	nil
		2,299,350	3,999,350	499,350	499,350
Less costs of realisation:					
- Professional fees and expenses	3	(885,000)	(885,000)	(885,000)	(885,000)
- Trading costs	4	nil	unknown	unknown	unknown
- Litigation costs	5	nil	unknown	unknown	unknown
- Settlement of Leeds United 2007 Ltd's liabilities	6	nil	unknown	unknown	unknown
Unconditional estimated amount available for dividend		1,414,350	3,114,350	nil	nil
Estimate of creditors proving for dividend	7	12,611,321	30,249,770	30,249,770	30,249,770
Estimated dividend from unconditional element (p in £)		11.2	10.3	nil	nil
Conditional element of sale of business and assets	8				
- On transfer of football shares	8.1	nil	nil	7,000,000	5,000,000
- On sale of four named players	8.2	unknown	nil	nil	nil
- Anti-embarrassment (sold by 30 June 2008)	8.3	unknown	nil	nil	nil
- On promotion to Premiership	8.4	5,000,000	5,000,000	2,000,000	nil
- On promotion to Championship	8.5	nil	nil	1,000,000	nil
Less costs of realisation	9	(250,000)	(250,000)	(250,000)	(250,000)
Conditional estimated amount available for dividend		4,750,000	4,750,000	9,364,351	4,364,350
Estimate of creditors proving for dividend	7/7.1	11,404,038	29,402,487	29,402,487	29,402,487
Estimated dividend from conditional element (p in £)		41.7	16.4	32.2	15.0
Total potential dividend (p in £)		52.9	26.7	32.2	15.0

General notes

For the purposes of illustration, we have not taken into account the unquantified financial implications of the matters at Notes 4, 5, 6, 8.2 and 8.3.

Further, Party B sought to submit another offer after contracts had been exchanged with LUFCL. This offer, which was not capable of acceptance, included additional unconditional consideration of £10,000 and an additional conditional element of £8million on transfer of the football shares, subject to the requirement that the additional £8 million was to be used to settle "football creditors". The statement of affairs includes football creditors with a total value of £8.09 million. It is a condition of the League that such football creditors are paid in full in the event of agreement to transfer the football share. Therefore, all the offers must satisfy this requirement and make such funds available. Accordingly, even if the above offer had been capable of acceptance, it would not have changed the administrators' decision to sell to LUFCL.

Appendix 2 – Notes to the estimated outcome statement

(1) Assets previously realised by the administrator

These sums relate to assets not sold as part of the sale of business and have been realised by the joint administrators.

(2) Unconditional element of the sale of business and assets

These sums relate to the unconditional element of the offers received for the business and assets of the Club.

(3) Professional fees and expenses

These sums relate to our estimate of professional fees and expenses including administrators, solicitors and agents. We have included the same estimate in respect of each offer, however, as a result of those matters detailed in notes 4, 5 and 6 below the professional fees incurred in completing a sale to parties B, C or D were likely to be materially higher.

(4) Trading costs

The mechanism to effect a sale to interested parties B, C or D is likely to have required the administrators to exercise the option to reacquire the share in Leeds United 2007 Limited, place that company in administration and sell on the business and assets under a standard administrators sale contract. This may have required a period of administrators trading that would have required funding.

For the purposes of the estimated outcome statement we have shown these costs as unknown, however, any prolonged period of trading may have resulted in these costs being substantial.

(5) Litigation costs

LUFCL had stated that in the event of a sale to other parties, they may institute legal proceedings. Whilst the administrators are confident that any legal proceedings issued against them would have been successfully defended, such action could have delayed a completion and inevitably incurred additional costs.

(6) Settlement of Leeds United 2007 Limited liabilities

The administrators were informed that LUFCL have funded Leeds United 2007 Limited via an inter company loan in the amount of £1.3 million. In the event that the administrators reacquired the share in Leeds United 2007 Limited any proceeds from the sale of that

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company's assets would be used to settle that company's creditors with the balance ultimately being available to the creditors of the Club.

For the purposes of the estimated outcome statement we have shown the costs of this process as unknown, however, they could have been substantial.

(7) Estimate of creditors proving for dividend

In order to assess the quantum of creditors ranking for dividend purposes, the administrators have used those figures detailed in the directors' statement of affairs. Following the sale of business certain of these liabilities transfer across to the purchaser. In addition, Astor has waived its right to claim for dividend in respect of the offer from LUFCL.

- (7.1) The quantum of creditors ranking for dividend purposes reduces in this scenario as certain liabilities would transfer across to the purchaser in the event they are able to secure a transfer of the football shares.

(8) Conditional element of sale of business and assets

These sums relate to the conditional elements of the offers received for the business and assets of the Club.

(8.1) Transfer of football shares

On transfer of the football shares, being the share in the Football League and the share in the Football Association, these amounts will become payable.

These amounts were only offered by interested parties C and D.

(8.2) Sale of four named players

Potential additional consideration in respect of the sale of four players, Jermaine Beckford, Kevin Nicholls, David Healy and Jonathan Douglas if sold prior to 31 August 2007 as follows:

	Additional consideration payable %
Net sale proceeds up to £1.667m	nil
Net sale proceeds between £1.667m and £3m	15%
Net sale proceeds above £3m	40%

Net sale proceeds are after deduction of agents' fees and any amounts outstanding to the League in respect of these players.



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This amount is only offered by LUFCL. For the purposes of the estimated outcome statement we have shown these realisations as unknown as they are entirely dependant on player sales and associated values achieved.

(8.3) Anti-embarrassment if business is sold before 30 June 2008

Leeds United 2007 Limited entered into an anti-embarrassment clause as disclosed at the creditors meeting held on 1 June 2007. The period of this clause within the offer from LUFCL was extended to 30 June 2008.

For the purposes of the estimated outcome statement we have shown these realisations as unknown.

(8.4) Promotion to Premiership

In the event that the club is promoted to the Premiership within 10 seasons then a further amount becomes payable in respect of offers A and B. There is no restriction on time period in respect of offer C.

(8.5) Promotion to Championship

In the event that the club is promoted to the Championship then a further amount becomes payable.

(9) Costs of realisation

These sums relate to our estimate of professional fees and expenses including administrators, solicitors and agents charges to take into account the time periods involved with receiving conditional consideration.