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Company House

Registered number: 104194

**THE WATFORD
ASSOCIATION FOOTBALL CLUB LIMITED**

**Revised
95th Annual Report
and
Financial Statements
30 June 2004**

Chantrey Vellacott DFK



THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

Report and financial statements for the year ended 30 June 2004

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THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

Company information

Directors	G M Simpson - Chairman D R Meller - Vice-Chairman D R J Lester C D Lissack C J Norton H B Oundjian J Russo (Appointed 10 March 2004) V Russo (Appointed 10 March 2004) T M Shaw A S Wilson
Honorary Life Presidents	Sir Elton John CBE Graham Taylor
Chief Executive Officer	M A Ashton
Company Secretary	P J Wastall
Football Secretary	M Ives
Registered Office	Vicarage Road Stadium Watford Herts WD18 0ER
Football Manager	Ray Lewington
Incorporation details	Incorporated in the United Kingdom on 22 July 1909 under Certificate of Incorporation number 104194
Auditors	Chantrey Vellacott DFK Chartered Accountants Gresham House 53 Clarendon Road Watford Herts WD17 1LR
Bankers	Barclays Bank plc 32 Clarendon Road Watford Herts WD17 1BZ
Solicitors	Matthew Arnold & Baldwin 21 Station Road Watford Herts WD17 1HT

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

95th report of the directors for the year ended 30 June 2004

The directors present their report on the affairs of the company, together with the financial statements and auditors' report for the year ended 30 June 2004.

Principal activities and business review

The principal activity of the company continues to be that of a professional football league club.

The company reported a profit before taxation for the year of £1,639,357 (2003 - loss £299,292) after write back of parent company loan amounting to £6,002,470 (2003 - £9,704,840).

Whilst the directors are disappointed with the results for the year, they recognise that they are broadly in line with expectation. Despite difficult market conditions, the directors expect an improvement to the trading results in the following year. The company continues to benefit from a ground share agreement with Saracens and looks forward to a continuing relationship with the rugby club.

The directors are unable to recommend the payment of a dividend. Accordingly, the profit for the year has been combined with the accumulated deficit brought forward as shown in note 16 to the financial statements.

Directors and their interests

The directors at 30 June 2004 together with their beneficial interests in the shares of the company and parent company, Watford Leisure PLC, at 30 June were as follows:

	10p shares 2004	Parent company Ordinary shares 0.1p shares 2003*	Company Ordinary shares of £1 each 2004	2003*
G M Simpson	2,868,796	1,031,704,290	-	-
D R Meller	331,206	164,539,064	-	-
D R J Lester	489,013	489,014,303	-	-
C D Lissack	263,829	34,663,358	200	200
C J Norton	183,531	116,865,127	-	-
H B Oundjian	8,350	8,350,000	-	-
J Russo	1,879,699	-	-	-
V Russo	1,879,699	-	-	-
T M Shaw	693,086	693,086,909	100	100
A S Wilson	16,666	16,666,667	-	-

* or date of appointment, if later

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

J Russo and V Russo were appointed as directors on 10 March 2004. They are both jointly beneficially interested in a single shareholding of 1,879,699 Ordinary 10p shares of the parent company registered in the name of Valley Grown Salads which business is jointly controlled by them.

M S Sherwood resigned as a director on 10 January 2004.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

95th report of the directors for the year ended 30 June 2004

Directors' responsibilities

Company law requires the directors to prepare financial statements which give a true and fair view of the state of affairs of the company at the end of its financial year and of the profit or loss of the company for the year then ended. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. 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.

Post balance sheet events

Details of post balance sheet events are given in note 23 to the financial statements.

Auditors

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

Signed on behalf of the Board



P J Wastall
Company Secretary

Approved by the Board on 11 November 2004

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

Independent auditors' report to the shareholders of The Watford Association Football Club Limited

We have audited the financial statements of The Watford Association Football Club Limited for the year ended 30 June 2004 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes set out on pages 7 to 23. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board of the Accountancy Foundation. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

Independent auditors' report to the shareholders of The Watford Association Football Club Limited

Fundamental uncertainty

In forming our opinion we have considered the adequacy of the disclosures made in the financial statements concerning the financial projections prepared by the directors for the two years to June 2006 and the assumptions on which they are based. The financial statements have been prepared on a going concern basis, the validity of which depends upon such assumptions being accurate. The financial statements do not include any adjustments that would result should this not be the case. Details of the circumstances relating to this fundamental uncertainty are described in note 1a) to the financial statements. Our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 June 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

chantrey vellacott DFK

CHANTREY VELLACOTT DFK
Chartered Accountants and Registered Auditors
WATFORD
11 November 2004

Chantrey Vellacott DFK

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

Profit and loss account for the year ended 30 June 2004

	Notes	Operations excluding player trading £	Player trading (note 8) £	2004 £	2003 £
Turnover	2	7,459,550	-	7,459,550	7,789,241
Cost of sales		9,687,533	549,951	10,237,484	15,806,499
Gross loss		(2,227,983)	(549,951)	(2,777,934)	(8,017,258)
Administrative expenses		2,810,539	-	2,810,539	2,651,895
		(5,038,522)	(549,951)	(5,588,473)	(10,669,153)
Other operating income	3	570,658	-	570,658	655,189
Operating loss		(4,467,864)	(549,951)	(5,017,815)	(10,013,964)
Profit / (loss) on disposal of players registrations		-	861,170	861,170	(879,694)
Profit on disposal of stadium		-	-	-	1,037,265
Parent company loan written back		6,002,470	-	6,002,470	9,704,840
Interest receivable	4	6,085	-	6,085	48,146
Interest payable and similar charges	4	(212,553)	-	(212,553)	(195,885)
Profit / (loss) on ordinary activities before taxation	5	1,328,138	311,219	1,639,357	(299,292)
Tax on profit / (loss) on ordinary activities	7			-	-
Profit / (loss) for the financial year	16			£1,639,357	£(299,292)

None of the company's activities was acquired or discontinued during the above two financial years.

The company has no recognised gains or losses other than those included in the results above and therefore no separate statement of total recognised gains and losses has been presented.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

Profit and loss account for the year ended 30 June 2004

Note of historical cost profits and losses

	2004 £	2003 £
Profit / (loss) on ordinary activities before taxation	1,639,357	(299,292)
Realisation of property revaluation gains of previous years	-	1,319,219
Historical cost profit on ordinary activities before taxation	<u>£1,639,357</u>	<u>£1,019,927</u>
Historical cost profit for the year	<u>£1,639,357</u>	<u>£1,019,927</u>

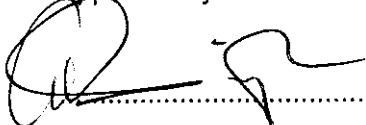
The notes on pages 11 to 23 form part of these financial statements.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

Balance sheet at 30 June 2004

	Notes	£	2004 £	2003 £
Fixed assets				
Intangible assets	1 (b) (e) & 8		1,222,193	1,287,558
Tangible assets	1 (d) & 9		398,887	1,061,353
			<u>1,621,080</u>	<u>2,348,911</u>
Current assets				
Stocks	1 (f) & 10	98,475		73,509
Debtors	11	909,075		1,203,089
Cash at bank and in hand		596,878		785,698
		<u>1,604,428</u>		<u>2,062,296</u>
Creditors: amounts falling due within one year	12	3,396,711		4,817,095
Net current liabilities			<u>(1,792,283)</u>	<u>(2,754,799)</u>
Total assets less current liabilities			<u>(171,203)</u>	<u>(405,888)</u>
Creditors: amounts falling due after more than one year	13		(8,555,049)	(9,928,624)
Deferred capital grants and contributions	14		(51,423)	(82,520)
			<u>£(8,777,675)</u>	<u>£(10,417,032)</u>
Capital and reserves				
Called up share capital	15		1,072,722	1,072,722
Profit and loss account - accumulated deficit	16		(9,850,397)	(11,489,754)
Shareholders' funds	17		<u>£(8,777,675)</u>	<u>£(10,417,032)</u>

Approved by the Board of Directors on 11 November 2004 and signed on its behalf.

 G M SIMPSON - Director

The notes on pages 11 to 23 form part of these financial statements.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

Cash flow statement for the year ended 30 June 2004

	Notes	2004 £	2003 £
Operating activities			
Net cash outflow from operating activities	18 (a)	(4,685,950)	(7,153,975)
Returns on investments and servicing of finance			
Interest received		6,085	48,146
Interest paid		(204,868)	(195,885)
Net cash outflow from returns on investments and servicing of finance		(198,783)	(147,739)
Capital expenditure			
Payments to acquire intangible fixed assets		(263,704)	(1,606,292)
Payments to acquire tangible fixed assets		(112,343)	(170,111)
Capital contributions received		21,924	40,302
Receipts from sales of intangible fixed assets		761,170	168,550
Receipts from sales of tangible fixed assets		3,050	5,394,778
		410,097	3,827,227
Net cash outflow before financing		(4,474,636)	(3,474,487)
Financing	18 (b)		
Receipts from group companies		3,609,243	4,954,789
Advances / (repayments) of bank and other loans		689,240	(701,615)
Capital element of finance lease and hire purchase		(12,667)	(12,667)
Net cash inflow from financing		4,285,816	4,240,507
(Decrease) / increase in cash in the year	18 (c)	£(188,820)	£766,020

The notes on pages 11 to 23 form part of these financial statements.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

Notes to the financial statements for the year ended 30 June 2004

1 Accounting policies

The principal accounting policies are as follows :

a) Basis of accounting

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

The company achieved a profit for the year of £1,639,357 after the write back of £6,002,470 of intercompany debt but had net liabilities at 30 June 2004 of £8,777,675.

The company's parent, Watford Leisure PLC, has prepared financial projections for the two years to June 2006 which indicate continued progress towards breakeven albeit with risk elements to some income streams.

A review of commercial operations is revealing significant opportunities for increased revenues and this should enable further improvements to the financial position in the year to June 2006 and onwards.

Cost reductions continue to be made and in respect of staff remuneration the directors are fully aware that costs in excess of budget would generate a possible need for additional capital injections.

The directors are confident that these actions will be successful and will enable the group to return to profitability, and therefore consider it appropriate to prepare the financial statements on a going concern basis.

b) Players' registrations

Costs of acquiring players' registrations are capitalised as intangible fixed assets. Costs include all amounts payable under the purchase agreement, where payment is probable, and any associated costs of the transfer of registration.

Players' registrations are amortised over the period of their initial contract, and any subsequent extensions, on a straight line basis. Player's registrations are written down for impairment when the carrying amount exceeds the estimated amount recoverable through use or sale.

c) Signing on fees

Signing on fees are charged in the year of payment.

Where a player's registration is transferred any amounts paid in respect of the balance of signing on fees due are included in the profit on disposal of players' registrations in the period in which the disposal is recognised.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

Notes to the financial statements for the year ended 30 June 2004

1 Accounting policies (continued)

d) Tangible fixed assets, capital grants and depreciation

Tangible fixed assets are stated at their gross cost or valuation less accumulated depreciation.

Capital grants and contributions to capital expenditure are credited to deferred income and are released to the profit and loss account over the expected useful lives of the assets to which they relate.

Depreciation is not charged on freehold land nor on expenditure on assets under construction which have not been brought into use before the relevant accounting date. Depreciation of ground improvements, motor vehicles, equipment, fixtures and fittings is calculated at 25% on written down value, a rate calculated to write off cost less estimated residual value of each asset over its expected useful life.

e) Pouring rights

Payments made to release the company from exclusive supply provisions relating to alcoholic beverages have been recognised under the description of "pouring rights." Pouring rights are capitalised as an intangible fixed asset and are amortised on a straight line basis over their economic life, estimated at 10 years.

f) Stocks

Stocks are stated at the lower of the cost and net realisable value.

g) Deferred revenue

Deferred revenue arises principally on the advance sale of season tickets and executive boxes and is recognised as income in the period to which it relates.

h) Donations received

Donations are accounted for on a cash receipts basis.

i) Leasing

The costs of operating leases are expensed as incurred.

Assets acquired under hire purchase agreements and finance leases are capitalised in the balance sheet and are depreciated in accordance with the company's normal policy. The outstanding liabilities under such agreements less interest not yet due are included in creditors. Interest on such agreements is charged to profit and loss account over the term of each agreement and represents a constant proportion of the balance of capital repayments outstanding.

j) Pensions

The company 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 company in independently administered funds. The pension cost charges represents contributions payable by the company during the year.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

Notes to the financial statements for the year ended 30 June 2004

1 Accounting policies (continued)

k) Deferred taxation

Deferred tax is provided in full, where appropriate, in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax balances are not discounted.

2 Turnover

Turnover represents match receipts and all other income associated with the principal activity of running a professional football club, excluding profits arising on the sale of players' registrations, and excludes value added tax.

3 Other operating income	2004 £	2003 £
Donations	-	120,164
Rent receivable	390,000	390,000
Contributions to capital expenditure	27,577	39,553
Release of capital grants	3,520	3,520
Other	149,561	101,952
	<u>£570,658</u>	<u>£655,189</u>
4 Interest	2004 £	2003 £
Interest receivable :		
Bank deposit interest	£6,085	£48,146
Interest payable and similar charges :		
Group interest	170,735	153,928
Bank loan interest	30,155	33,943
Hire purchase interest	2,067	2,067
Other interest	9,596	5,947
	<u>£212,553</u>	<u>£195,885</u>

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

Notes to the financial statements for the year ended 30 June 2004

5 Profit / (loss) on ordinary activities before taxation	2004	2003
	£	£

This is stated after charging :

Amortisation of intangible fixed assets	625,158	2,147,373
Depreciation of tangible fixed assets	151,692	149,767
Loss on disposal of tangible fixed assets	614,717	84,567
Staff costs (note 6)	7,101,248	11,335,286
Directors' remuneration	166,029	189,172
Auditors' remuneration		
audit fees	20,000	22,000
non audit fees	1,455	19,441
Operating leases - vehicles and equipment	76,927	75,450
Operating leases - other	897,998	818,568

6 Employee information	2004	2003
	£	£

Staff costs:

Wages and salaries	6,174,808	9,919,695
Social security costs	727,790	1,078,840
Other pension costs	198,650	336,751
	£7,101,248	£11,335,286

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

	2004	2003
	Number	Number
Players	52	58
Coaching staff	26	20
Commercial staff	26	20
Administration	15	16
Ground staff	5	5
	124	119

In addition to the above the company employed an average of 130 (2003 - 130) match day staff during the year.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

Notes to the financial statements for the year ended 30 June 2004

7 Tax on profit on ordinary activities

No liability to corporation tax arises in view of the tax loss suffered in the year.

Tax losses at 30 June 2004 available for offset against future trading profits or transfer as group relief are in excess of £19,000,000.

Under the accounting policy no provision is required for deferred taxation and there is no potential liability.

8 Intangible fixed assets

	Pouring rights £	Players' registrations £	Total £
Cost :			
At 1 July 2003	752,067	4,327,320	5,079,387
Additions	-	559,793	559,793
Disposals	-	(928,275)	(928,275)
At 30 June 2004	<u>752,067</u>	<u>3,958,838</u>	<u>4,710,905</u>
Amortisation :			
At 1 July 2003	106,543	3,685,286	3,791,829
Charge for the year	75,207	549,951	625,158
Disposals	-	(928,275)	(928,275)
At 30 June 2004	<u>181,750</u>	<u>3,306,962</u>	<u>3,488,712</u>
Net book value :			
At 30 June 2004	<u>£570,317</u>	<u>£651,876</u>	<u>£1,222,193</u>
At 30 June 2003	<u>£645,524</u>	<u>£642,034</u>	<u>£1,287,558</u>

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

Notes to the financial statements for the year ended 30 June 2004

9 Tangible fixed assets

	Assets under construction £	Ground, premises and improvements £	Motor vehicles, equipment, fixtures and fittings £	Total £
Cost or valuation :				
At 1 July 2003	540,552	-	1,302,693	1,843,245
Additions	-	82,834	24,159	106,993
Transfer	(2,048)	2,048	-	-
Disposals	(538,504)	-	(342,690)	(881,194)
At 30 June 2004	-	84,882	984,162	1,069,044
Depreciation :				
At 1 July 2003	-	-	781,892	781,892
Charge for the year	-	17,029	134,663	151,692
Disposals	-	-	(263,427)	(263,427)
At 30 June 2004	-	17,029	653,128	670,157
Net book value :				
At 30 June 2004	£Nil	£67,853	£331,034	£398,887
At 30 June 2003	£540,552	£Nil	£520,801	£1,061,353

Subsequent to the year end in September 2004 the company completed the repurchase of the freehold interest in Vicarage Road stadium for £7m, having exercised its option to do so in July 2004.

Equipment was held under finance leases with net book value at 30 June 2004 of £18,258 and depreciation charge during the year of £6,086.

10 Stocks	2004	2003
Goods for resale	£98,475	£73,509

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

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

Notes to the financial statements for the year ended 30 June 2004

11 Debtors	2004	2003
	£	£
Trade debtors	378,826	722,282
Amount due from fellow subsidiary	47,523	127,474
Transfer fees receivable	100,000	-
Prepayments and accrued income	382,726	353,333
	<u>£909,075</u>	<u>£1,203,089</u>

12 Creditors: amounts falling due within one year	2004	2003
	£	£
Bank loan (note 13)	78,569	75,522
Finance loan (note 13)	-	57,693
Trade creditors	428,952	266,950
Transfer fees payable	101,500	25,411
Other taxes and social security	678,115	763,762
Hire purchase and finance leases (note 13)	2,994	12,590
Other loans (note 13)	111,856	85,000
Accruals and deferred revenue	1,994,725	3,530,167
	<u>£3,396,711</u>	<u>£4,817,095</u>

Accruals and deferred revenue includes income, mainly from season ticket sales, received in advance in respect of the 2003/04 season.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

Notes to the financial statements for the year ended 30 June 2004

13 Creditors: amounts falling due after more than one year	2004 £	2003 £
Bank loan	399,260	478,921
Transfer fees payable	220,000	-
Amount owed to parent company (note 24)	6,798,536	9,191,763
Hire purchase and finance leases	-	3,071
Directors' loans	218,691	-
Other loans	578,000	-
Accruals and deferred revenue	340,562	254,869
	£8,555,049	£9,928,624

The maturity of total debt may be analysed as follows:

	2004 £	2003 £
In one year or less	190,425	218,215
Between one and two years	661,484	80,067
Between two and five years	283,105	270,295
After five years	32,671	128,559
	£1,167,685	£697,136

The company's parent, Watford Leisure PLC, has given representations that it will not seek repayment of amounts loaned to the company in the next 12 months.

The bank loan totalling £477,829, including £78,569 falling due within one year is payable over more than five years. The loan is repayable by instalments of £26,500 per quarter and the loan bears interest at 2% above Barclays Bank base rate. The loan is held under an unlimited guarantee from Watford Leisure PLC.

Directors loans and other loans represent amounts advanced to the company to fund the acquisition and salary costs of certain players. The amounts are repayable from the proceeds received on disposal of the respective player's registrations.

The finance leases and hire purchase balances, which total £2,994 (2003 - £15,661) are secured over the assets to which they relate and are repayable in less than five years.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

Notes to the financial statements for the year ended 30 June 2004

14 Deferred capital grants and contributions

	Capital grants £	Contributions to capital expenditure £	Total £
At 1 July 2003	47,350	35,170	82,520
Credited to the profit and loss account	(3,520)	(27,577)	(31,097)
At 30 June 2004	£43,830	£7,593	£51,423

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

15 Share capital

	2004	2003
Authorised :		
Ordinary shares of £1 each	£1,250,000	£1,250,000
Allotted, called up and fully paid :		
Ordinary shares of £1 each	£1,072,722	£1,072,722

16 Reserves

	Profit and loss account £
At 1 July 2003	(11,489,754)
Profit for the year	1,639,357
At 30 June 2004	£(9,850,397)

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

Notes to the financial statements for the year ended 30 June 2004

17 Reconciliation of movements on shareholders' funds

	2004 £	2003 £
Profit / (loss) for the financial year	1,639,357	(299,292)
Opening shareholders' funds	(10,417,032)	(10,117,740)
Closing shareholders' funds	<u>£(8,777,675)</u>	<u>£(10,417,032)</u>

Shareholders' funds are fully attributable to equity interests.

18 Notes to the cash flow statement

a) Reconciliation of operating loss to net cash outflow from operating activities:	2004 £	2003 £
Operating loss	(5,017,815)	(10,013,964)
Amortisation of intangible fixed assets	625,158	2,147,373
Depreciation of tangible fixed assets	151,692	149,767
Capital contribution released	(27,577)	(39,553)
Capital grant released	(3,520)	(3,520)
Net loss on disposal of sundry fixed assets	614,717	84,567
(Increase) / decrease in stocks	(24,966)	78,761
Decrease / (increase) in debtors	372,090	(50,258)
(Decrease) / increase in creditors	(1,375,729)	492,852
Net cash outflow from operating activities	<u>£(4,685,950)</u>	<u>£(7,153,975)</u>

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

Notes to the financial statements for the year ended 30 June 2004

18 Notes to the cash flow statement (continued)

b) Analysis of changes in net debt

	At 1 July 2003 £	Cash flows £	Other changes £	At 30 June 2004 £
Cash at bank and in hand	785,698	(188,820)	-	596,878
Intergroup balance	(9,191,763)	(3,609,243)	6,002,470	(6,798,536)
Bank loans due within 1 year	(75,522)	(3,047)	-	(78,569)
Finance loans due within 1 year	(57,693)	57,693	-	-
Other loans due within 1 year	(85,000)	(26,856)	-	(111,856)
Bank loans due after 1 year	(478,921)	79,661	-	(399,260)
Directors' loans due after 1 year	-	(218,691)	-	(218,691)
Other loans due after 1 year	-	(578,000)	-	(578,000)
Finance lease and hire purchase balances	(15,661)	12,667	-	(2,994)
	(9,904,560)	(4,285,816)	6,002,470	(8,187,906)
	£(9,118,862)	£(4,474,636)	£6,002,470	£(7,591,028)

c) Reconciliation of net cash flows to movement in net debt.

	2004 £	2003 £
(Decrease) / increase in cash in the year	(188,820)	766,020
Cash (inflow) / outflow from (increase) / decrease in debt and hire purchase balances	(4,285,816)	5,464,333
Change in net debt resulting from cash flows	(4,474,636)	6,230,353
Parent company debt written back	6,002,470	9,704,840
Movement in net debt in the year	1,527,834	15,935,193
Net debt at 1 July 2003	(9,118,862)	(25,054,055)
Net debt at 30 June 2004	£(7,591,028)	£(9,118,862)

d) Major non-cash transactions

At 30 June 2004 the company's parent, Watford Leisure PLC, agreed to write off amounts advanced to the company totalling £6,002,470.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

Notes to the financial statements for the year ended 30 June 2004

19 Financial commitments

The annual amount of payments due in respect of loyalty bonuses and deferred signing on fees for playing staff under contract with the company as at 30 June 2004, which have not been provided for in the financial statements, are as follows :

	£
On contracts expiring :	
Within one year	49,714

The company's commitments for rental payments under operating leases payable during the year to 30 June 2005 are as follows:

	Land and buildings £	Other £
On contracts expiring :		
Within one year	180,613	-
Within two to five years	47,000	16,887
Over five years	667,800	-
	<u>£895,413</u>	<u>£16,887</u>

20 Contingent liabilities

The company has liabilities under transfer agreements to pay additional sums dependent on players' attainment and subsequent transfer value. Provision has been made for such liabilities to the extent that it is probable that the amounts will become payable and they are included within players' registration costs capitalised (note 8).

21 Pension costs

The latest actuarial valuation of the Football League Limited Pension and Life Assurance Scheme at 1 April 2003 revealed that the Club's share of the deficit in respect of the final salary section of the scheme was £201,421. The pension cost for the period ended 30 June 2004 includes a charge of £15,088 in respect of the increase in the Club's liability. The contribution is being paid by instalments of £4,116 per month from May 2003 to April 2006 and £1,573 per month from May 2006 until April 2013.

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

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

Notes to the financial statements for the year ended 30 June 2004

22 Capital commitments

The company has contracted for, but not provided for in the financial statements, capital expenditure totalling £49,806.

23 Post balance sheet events

Subsequent to the year end the company has sold players for £257,000 and purchased players with registration costs amounting to £75,000. These amounts will be capitalised in the financial statements for the next financial year. Additionally subsequently to the year end in September 2004 the company completed the repurchase of the freehold interest in Vicarage Road Stadium for £7m. having exercised its option to do so in July 2004.

24 Parent company and control

The parent company, and ultimate parent, is Watford Leisure PLC.

At 30 June 2004 the company owed £6,798,536 (2003 - £9,191,763) to the parent company. Part of the amount owed to the parent company bears interest at 2% over HSBC Bank plc base rate. The balance is secured by a floating charge over all the undertakings and assets of the company.

Interest amounting to £170,735 (2003 - £153,928) has been charged to the loan balance in the year to 30 June 2004.

The company has taken advantage of the exemption from FRS 8 regarding disclosure of transactions with other group companies.

25 Directors' interests in transactions

A director, C Norton, hired an executive box which was paid for on a commercial basis.

Mr H Oundjian, a director, is also a director and major shareholder of Corporate Couture Limited, which company has a contract with the company for the development, design, manufacture and supply of certain products to the company including playing and replica kit. Supplies totalling £469,805 (2003 - £211,589) were made to the company in the year ended 30 June 2004.