

Registered number: 104194

**THE WATFORD
ASSOCIATION FOOTBALL CLUB LIMITED**

**94th Annual Report
and
Financial Statements
30 June 2003**

Chantrey Vellacott DFK



THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

Report and financial statements for the year ended 30 June 2003

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THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

Company information

Directors

G M Simpson - Chairman
D R Meller - Vice-Chairman
T M Shaw - Chief Executive
D R J Lester
C D Lissack
C J Norton
H B Oundjian
M S Sherwood
A S Wilson

Honorary Life Presidents

Sir Elton John CBE
Graham Taylor

Company Secretary

P J Wastall

Football Secretary

C Alexander

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

94th report of the directors for the year ended 30 June 2003

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 2003.

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 loss before taxation for the year of £299,292 (2002 - loss £5,784,609).

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 a significant improvement to the financial 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 loss 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 2003 together with their beneficial interests in the shares of the company and parent company, Watford Leisure PLC, at 30 June were as follows:

	Parent company		Company	
	Ordinary shares	Ordinary shares	Ordinary shares of £1 each	
	0.1p shares	0.4p shares		
	2003	2002*	2003	2002*
G M Simpson	1,031,704,290	31,704,290	-	-
D R Meller	164,539,064	64,539,064	-	-
T M Shaw	693,086,909	26,420,242	100	100
D R J Lester	489,014,303	155,680,970	-	-
C D Lissack	34,663,358	34,663,358	200	200
C J Norton	116,865,127	50,198,460	-	-
H B Oundjian	8,350,000	-	-	-
M S Sherwood	248,697,149	48,697,149	-	-
A S Wilson	16,666,667	-	-	-

* or date of appointment, if later

The ordinary 0.4p shares of the parent company were subdivided into ordinary 0.1p shares in the year. None of the directors has any interest in the share capital of any other group company.

Graham Simpson was appointed as Chairman, and David Meller as Vice-chairman, on 25 September 2002. Andrew Wilson was appointed a director on 17 December 2002.

Nigel Wray and Brian Anderson resigned as a directors on 5 August 2002 and 29 May 2003 respectively.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

94th report of the directors for the year ended 30 June 2003

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.

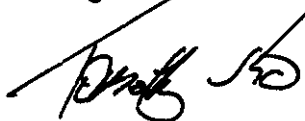
Post balance sheet events

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



T M Shaw
Director

Approved by the Board on 28 November 2003

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 2003 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. These financial statements have been prepared under the historical cost convention as modified by the revaluation of the company's property 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 possible outcome of arrangements for additional finance. The financial statements have been prepared on a going concern basis, the validity of which depends upon such further finance becoming available. The financial statements do not include any adjustments that would result from a failure to obtain such finance. 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 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



CHANTREY VELLACOTT DFK
Chartered Accountants and Registered Auditors
WATFORD
2 December 2003

Chantrey Vellacott DFK

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

Profit and loss account for the year ended 30 June 2003

	Notes	Operations excluding player trading £	Player trading (note 8) £	2003 £	2002 £
Turnover	2	7,789,241	-	7,789,241	16,816,506
Cost of sales		13,734,333	2,072,166	15,806,499	20,943,877
Gross loss		(5,945,092)	(2,072,166)	(8,017,258)	(4,127,371)
Administrative expenses		2,651,895	-	2,651,895	2,548,858
		(8,596,987)	(2,072,166)	(10,669,153)	(6,676,229)
Other operating income	3	655,189	-	655,189	683,382
Operating loss		(7,941,798)	(2,072,166)	(10,013,964)	(5,992,847)
(Loss) / profit on disposal of players' registrations		-	(879,694)	(879,694)	317,740
Profit on disposal of stadium		1,037,265	-	1,037,265	-
Parent company loan written back		9,704,840	-	9,704,840	-
Interest receivable	4	48,146	-	48,146	82,670
Interest payable and similar charges	4	(195,885)	-	(195,885)	(192,172)
Loss on ordinary activities before taxation	5	2,652,568	(2,951,860)	(299,292)	(5,784,609)
Tax on loss on ordinary activities	7			-	-
Loss for the financial year	16			£(299,292)	£(5,784,609)

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 2003

Note of historical cost profits and losses

	Notes	2003 £	2002 £
Loss on ordinary activities before taxation		(299,292)	(5,784,609)
Realisation of property revaluation gains of previous years	16	1,319,219	-
Historical cost profit / (loss) on ordinary activities before taxation		<u>£1,019,927</u>	<u>£(5,784,609)</u>
Historical cost profit / (loss) for the year		<u>£1,019,927</u>	<u>£(5,784,609)</u>

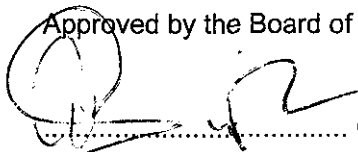
The notes on pages 11 to 22 form part of these financial statements.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

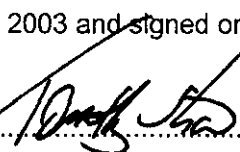
Balance sheet at 30 June 2003

	Notes	£	2003 £	2002 £
Fixed assets				
Intangible assets	1 (b) (e) & 8		1,287,558	4,155,565
Tangible assets	1 (d) & 9		1,061,353	7,179,466
			<u>2,348,911</u>	<u>11,335,031</u>
Current assets				
Stocks	1 (f) & 10	73,509		152,270
Debtors	11	1,203,089		1,518,133
Cash at bank and in hand		785,698		19,678
		<u>2,062,296</u>		<u>1,690,081</u>
Creditors: amounts falling due within one year	12	4,817,095		20,662,035
			<u>(2,754,799)</u>	<u>(18,971,954)</u>
Net current liabilities				
			<u>(405,888)</u>	<u>(7,636,923)</u>
Total assets less current liabilities				
Creditors: amounts falling due after more than one year	13		(9,928,624)	(694,558)
Deferred capital grants and contributions	14		(82,520)	(1,786,259)
			<u>£(10,417,032)</u>	<u>£(10,117,740)</u>
Capital and reserves				
Called up share capital	15		1,072,722	1,072,722
Revaluation reserve	16		-	1,319,219
Profit and loss account - accumulated deficit	16		(11,489,754)	(12,509,681)
			<u>£(10,417,032)</u>	<u>£(10,117,740)</u>
Shareholders' funds	17		<u>£(10,417,032)</u>	<u>£(10,117,740)</u>

Approved by the Board of Directors on 28 November 2003 and signed on its behalf.



G M SIMPSON - Director



T M SHAW - Director

The notes on pages 11 to 22 form part of these financial statements.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

Cash flow statement for the year ended 30 June 2003

	Notes	2003 £	2002 £
Operating activities			
Net cash outflow from operating activities	18 (a)	(7,153,975)	(3,956,884)
Returns on investments and servicing of finance			
Interest received		48,146	82,670
Interest paid		(195,885)	(395,855)
Net cash outflow from returns on investments and servicing of finance		(147,739)	(313,185)
Capital expenditure			
Payments to acquire intangible fixed assets		(1,606,292)	(2,086,381)
Payments to acquire tangible fixed assets		(170,111)	(1,045,382)
Capital contributions received		40,302	41,551
Capital grants received		-	-
Receipts from sales of intangible fixed assets		168,550	373,904
Receipts from sales of tangible fixed assets		5,394,778	1,500
		3,827,227	(2,714,808)
Net cash outflow before financing		(3,474,487)	(6,984,877)
Financing	18 (b)		
Receipts from group companies		4,954,789	5,078,730
(Repayments) / advances of bank and other loans		(701,615)	1,016,464
Capital element of finance lease and hire purchase		(12,667)	(11,894)
Net cash inflow from financing		4,240,507	6,083,300
Increase / (decrease) in cash in the year	18 (c)	£766,020	£(901,577)

The notes on pages 11 to 22 form part of these financial statements.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

Notes to the financial statements for the year ended 30 June 2003

1 Accounting policies

The principal accounting policies are as follows :

a) Basis of accounting

The financial statements are prepared under the historical cost convention, modified by the revaluation of the company's property and in accordance with applicable accounting standards.

The company incurred a loss for the year of £299,292 and had net liabilities at 30 June 2003 of £10,417,032.

The company's parent, Watford Leisure PLC, has prepared financial projections which indicate that due to current difficult trading conditions additional working capital is required. The parent company is currently seeking to raise funds through a share issue and arrangement of loan and bank overdraft facilities. This, taken together with cost saving measures undertaken by the company, will enable working capital requirements to be met for the foreseeable future. The directors are confident that these actions will be successful and will enable the Club 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 2003

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 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 2003

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	2003 £	2002 £
Donations	120,164	8,780
Rent receivable	390,000	390,000
Contributions to capital expenditure	39,553	134,068
Release of capital grants	3,520	126,714
Other	101,952	23,820
	<u>£655,189</u>	<u>£683,382</u>
4 Interest	2003 £	2002 £
Interest receivable :		
Bank deposit interest	<u>£48,146</u>	<u>£82,670</u>
Interest payable and similar charges :		
Group interest	153,928	164,915
Bank loan interest	33,943	6,020
Hire purchase interest	2,067	1,695
Other interest	5,947	19,542
	<u>£195,885</u>	<u>£192,172</u>

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

Notes to the financial statements for the year ended 30 June 2003

5 Loss on ordinary activities before taxation	2003	2002
	£	£
This is stated after charging :		
Amortisation of intangible fixed assets	2,147,373	3,064,076
Depreciation of tangible fixed assets	149,767	576,260
Loss on disposal of tangible fixed assets	84,567	694
Staff costs (note 6)	11,335,286	15,558,144
Directors' remuneration	189,172	123,600
Auditors' remuneration		
audit fees	22,000	18,450
non audit fees	19,441	11,369
Operating leases - vehicles and equipment	75,450	82,451
Operating leases - other	818,568	209,103

6 Employee information	2003	2002
	£	£
Staff costs:		
Wages and salaries	9,919,695	13,721,111
Social security costs	1,078,840	1,452,688
Other pension costs	336,751	384,345
	£11,335,286	£15,558,144

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

	2003	2002
	Number	Number
Players	58	58
Coaching staff	20	20
Commercial staff	20	20
Administration	16	16
Ground staff	5	5
	119	119

In addition to the above the group employed an average of 130 (2002 - 155) match day staff during the year.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

Notes to the financial statements for the year ended 30 June 2003

7 Tax on loss on ordinary activities

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

Tax losses at 30 June 2003 available for offset against future trading profits or transfer as group relief are in excess of £15,000,000.

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 2002	752,067	8,453,923	9,205,990
Additions	-	2,610	2,610
Disposals	-	(4,129,213)	(4,129,213)
At 30 June 2003	752,067	4,327,320	5,079,387
Amortisation :			
At 1 July 2002	31,336	5,019,089	5,050,425
Charge for the year	75,207	2,072,166	2,147,373
Disposals	-	(3,405,969)	(3,405,969)
At 30 June 2003	106,543	3,685,286	3,791,829
Net book value :			
At 30 June 2003	£645,524	£642,034	£1,287,558
At 30 June 2002	£720,731	£3,434,834	£4,155,565

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

Notes to the financial statements for the year ended 30 June 2003

9 Tangible fixed assets

	Assets under construction £	Ground, premises and improvements £	Motor vehicles, equipment, fixtures and fittings £	Total £
Cost or valuation :				
At 1 July 2002	498,531	7,123,128	1,616,898	9,238,557
Additions	42,021	7,878	84,501	134,400
Disposals	-	(7,131,006)	(398,706)	(7,529,712)
At 30 June 2003	540,552	-	1,302,693	1,843,245
Depreciation :				
At 1 July 2002	-	1,122,052	937,039	2,059,091
Charge for the year	-	-	149,767	149,767
Disposals	-	(1,122,052)	(304,914)	(1,426,966)
At 30 June 2003	-	-	781,892	781,892
Net book value :				
At 30 June 2003	£540,552	£Nil	£520,801	£1,061,353
At 30 June 2002	£498,531	£6,001,076	£679,859	£7,179,466

The Club disposed of the freehold interest in Vicarage Road Stadium in August 2002 for £6m under a sale and leaseback transaction. The leasehold interest was acquired by the company's parent for use by the Club.

Equipment was held under finance leases with net book value at 30 June 2003 of £24,344 and depreciation charge during the year of £8,115.

10 Stocks

	2003	2002
Goods for resale	£73,509	£152,270

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 2003

11 Debtors	2003 £	2002 £
Trade debtors	722,282	714,655
Amount due from fellow subsidiary	127,474	8,044
Transfer fees receivable	-	325,000
Prepayments and accrued income	353,333	470,434
	£1,203,089	£1,518,133

Trade debtors includes £6,675 due from a director, C J Norton.

Prepayments and accrued income includes £Nil (2002 - £24,226) which falls due after more than one year.

12 Creditors: amounts falling due within one year	2003 £	2002 £
Bank loan (note 13)	75,522	74,055
Finance loan (note 13)	57,693	100,000
Other loans (note 13)	85,000	85,000
Hire purchase and finance leases (note 13)	12,590	12,590
Trade creditors	266,950	250,340
Transfer fees payable	25,411	1,629,093
Amount owed to parent company (note 24)	-	13,941,814
Directors' loans	-	600,000
Other taxes and social security	763,762	990,304
Accruals and deferred revenue	3,530,167	2,978,839
	£4,817,095	£20,662,035

The directors' loans represent amounts loaned to the company by 3 of the directors.

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

13 Creditors: amounts falling due after more than one year	2003 £	2002 £
Bank loan	478,921	475,945
Finance loan	-	63,751
Hire purchase and finance leases	3,071	15,738
Amount owed to parent company (note 24)	9,191,763	-
Accruals and deferred revenue	254,869	139,124
	£9,928,624	£694,558

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

Notes to the financial statements for the year ended 30 June 2003

13 Creditors: amounts falling due after more than one year (continued)

The maturity of total debt may be analysed as follows:	2003	2002
	£	£
In one year or less	218,215	259,055
Between one and two years	80,067	142,439
Between two and five years	270,295	266,840
After five years	128,559	130,417
	£697,136	£798,751

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 £554,443, including £75,522 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.

The finance loan of £57,693 is wholly due within one year and is secured by a mortgage over the "Giant Screen".

The finance leases and hire purchase balances, which total £15,661 (2002 - £28,328) are secured over the assets to which they relate and are repayable in less than five years.

14 Deferred capital grants and contributions

	Capital grants	Contributions to capital	Total
	£	£	£
At 1 July 2002	1,504,550	281,709	1,786,259
Written off on disposal during the year	(1,453,680)	(206,986)	(1,660,666)
	50,870	74,723	125,593
Credited to the profit and loss account	(3,520)	(39,553)	(43,073)
At 30 June 2003	£47,350	£35,170	£82,520

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

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

Notes to the financial statements for the year ended 30 June 2003

15 Share capital

	2003	2002
Authorised :		
Ordinary shares of £1 each	<u>£1,250,000</u>	<u>£1,250,000</u>
Allotted, called up and fully paid :		
Ordinary shares of £1 each	<u>£1,072,722</u>	<u>£1,072,722</u>

16 Reserves

	Revaluation reserve £	Profit and loss account £
At 1 July 2002	1,319,219	(12,509,681)
Transfer	(1,319,219)	1,319,219
Loss for the year	-	(299,292)
At 30 June 2003	£Nil	£(11,489,754)

17 Reconciliation of movements on shareholders' funds

	2003 £	2002 £
Loss for the financial year	(299,292)	(5,784,609)
Opening shareholders' funds	(10,117,740)	(4,333,131)
Closing shareholders' funds	<u>£(10,417,032)</u>	<u>£(10,117,740)</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:	2003 £	2002 £
Operating loss	(10,013,964)	(5,992,847)
Amortisation of intangible fixed assets	2,147,373	3,064,076
Depreciation of tangible fixed assets	149,767	576,260
Capital contribution released	(39,553)	(134,068)
Capital grant released	(3,520)	(126,714)
Net loss on disposal of sundry fixed assets	84,567	694
Decrease / (increase) in stocks	78,761	(81,389)
(Increase) / decrease in debtors	(50,258)	93,360
Increase / (decrease) in creditors	492,852	(1,356,256)
Net cash outflow from operating activities	£(7,153,975)	£(3,956,884)

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

Notes to the financial statements for the year ended 30 June 2003

18 Notes to the cash flow statement (continued)

b) Analysis of changes in net debt

	At 1 July 2002 £	Cash flows £	Other changes £	At 30 June 2003 £
Cash at bank and in hand	19,678	766,020	-	785,698
Intergroup balance	(13,941,814)	(4,954,789)	9,704,840	(9,191,763)
Bank loans due within 1 year	(74,055)	(1,467)	-	(75,522)
Finance loans due within 1 year	(100,000)	42,307	-	(57,693)
Other loans due within 1 year	(85,000)	-	-	(85,000)
Directors' loans	(600,000)	600,000	-	-
Bank loans due after 1 year	(475,945)	(2,976)	-	(478,921)
Finance loans due after 1 year	(63,751)	63,751	-	-
Finance lease and hire purchase balances	(28,328)	12,667	-	(15,661)
	(15,368,893)	(4,240,507)	9,704,840	(9,904,560)
	£(15,349,215)	£(3,474,487)	£9,704,840	£(9,118,862)

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

	2003 £	2002 £
Increase / (decrease) in cash in the year	766,020	(901,577)
Cash inflow from increase in debt and hire purchase	(4,240,507)	(6,083,300)
Change in net debt resulting from cash flows	(3,474,487)	(6,984,877)
New finance lease	-	(38,000)
Parent company debt written back	9,704,840	-
Movement in net debt in the year	6,230,353	(7,022,877)
Net debt at 1 July 2002	(15,349,215)	(8,326,338)
Net debt at 30 June 2003	£(9,118,862)	£(15,349,215)

c) Major non-cash transactions

At 30 June 2003 the company's parent, Watford Leisure PLC, agreed to write off amounts advanced to the company totalling £9,704,840.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

Notes to the financial statements for the year ended 30 June 2003

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 2003, which have not been provided for in the financial statements, are as follows :

	£
On contracts expiring :	
Within one year	296,714
Within two to five years	73,714
	<hr/>
	£370,428
	<hr/>

The company's commitments for rental payments under operating leases payable during the year to 30 June 2004 are as follows:

	Land and buildings £	Other £
On contracts expiring :		
Within one year	-	2,100
Within two to five years	829,513	20,815
	<hr/>	<hr/>
	£829,513	£22,915
	<hr/>	<hr/>

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 2003 includes a charge of £66,168 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 2003

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 £300,000 and purchased players with registration costs amounting to £452,500. These amounts will be capitalised in the financial statements for the next financial year.

24 Parent company and control

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

At 30 June 2003 the company owed £9,191,763 (2002 - £13,941,814) 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 £153,928 (2002 - £164,915) has been charged to the loan balance in the year to 30 June 2003.

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

25 Directors interests in transactions

Two of the directors, B Anderson and C Norton, had executive boxes that were paid for on a commercial basis.

Mr N Wray, formerly a director, is also a director and the majority shareholder of Saracens Limited, who share the use of Vicarage Road Stadium and certain other facilities with the company. During the year to 30 June 2003 the net amount charged by the company to Saracens Limited excluding VAT was £Nil relating to fixed assets and £464,299 other charges (2002 - £5,610 fixed assets and £481,339 other). At 30 June 2003 the amount owed by Saracens Limited to the company was £51,993 (2002 - £206,759).

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 £211,589 (2002 - £558,184) were made to the company in the year ended 30 June 2003.

B M Anderson, formerly a director, provided services to the value of £12,500 to the group during the year ended 30 June 2002. There was no balance owing at 30 June 2002.