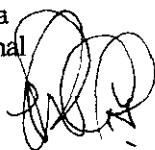


Certified as a
signed original

P.J. Wastall
Secretary
24.01.05



Registered number: 3335610

WATFORD LEISURE PLC

Annual Report

30 June 2004



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WATFORD LEISURE PLC

Report and financial statements for the year ended 30 June 2004

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WATFORD LEISURE PLC

Company information

Directors	G M Simpson - Chairman J Russo - Vice-Chairman (Alternate director C J Norton) V Russo (Alternate director C J Norton) A S Wilson
Chief Executive Officer	M A Ashton
Company Secretary	P J Wastall
Registered Office	Vicarage Road Stadium Watford Herts WD18 0ER
Nominated Adviser	Strand Partners Limited 26 Mount Row London W1K 3SQ
Broker	Seymour Pierce Ellis Limited Talisman House Jubilee Walk Three Bridges Crawley West Sussex RH10 1LQ
Auditors	Chantrey Vellacott DFK 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
Registrar	Capita IRG PLC Bourne House 34 Beckenham Road Beckenham Kent BR3 4TU
Web site address	www.watfordfc.com

WATFORD LEISURE PLC

Chairman's statement

Overview

I am pleased to announce the results for the year ended 30 June 2004, and reflect on another year of progress as Chairman of Watford Leisure PLC.

I have indicated in my previous Statements that trading conditions would continue to be difficult as we adjust to decreased income streams from television revenues, and the subsequent collapse of the player transfer market. Whilst this has proved to be true the underlying financial results have been consistent with expectations, and with the benefit of two lucrative FA Cup ties the full year results were marginally better than projected and showed significant improvements against the previous year.

We continue to strive for increased commercial income and non match day revenues, in order to reduce our dependency on results on the pitch. Similarly our focus on developing our own playing squad through a first class academy and superb training facilities will hopefully enable an exciting future within an affordable playing budget.

Financial Results

The loss on ordinary activities after taxation was £4.5m, (2003: £10.3m) on a turnover of £8.5m, (2003: £8.7m). The improvement reflects actions taken to reduce costs, largely through reduced employment costs, whilst revenues remained relatively consistent with the previous year.

The group maintained league ticket and commercial revenues, and benefited from two attractive FA Cup fixtures against Chelsea. For the first time in many years the group achieved the league ticketing targets in both financial and attendance terms.

Ticketing income totalled £2.0m, (2003: £2.2m), and season ticket income amounted to £1.6m (2003: £1.5m) from the sale of 8,651 season tickets (2003: 8,203). Salary costs totalled £7.7m, (2003: £11.3m), the reduction being facilitated by restructuring during the previous year and some further redundancies during the year.

Football

The season was a difficult one in many respects, and started tragically with the loss of Jimmy Davis on the opening day of the season.

A poor start compounded by several long term injuries to key players led to the Club battling to maintain its divisional status for much of the season. The spirit and professionalism within the Club was exemplified by some memorable performances towards the end of the season and a final league position of 16th, with a points tally of 57, was achieved.

A particular feature, which reflects great credit on the players and team manager and his staff, was the discipline and positive attitude in the dressing room despite the pressure and tension resulting from the poor run of results at the beginning of the season.

The FA Cup presented the Club with a glamorous home tie with Chelsea, where an epic match ended in a deserved draw and subsequent replay at Stamford Bridge.

The support and loyalty of our supporters at critical times during the season was an important and much appreciated factor in consolidating our position following the financial difficulties of recent years.

Football Management

Whilst at times the season was something of a struggle this should serve to demonstrate the tenacity, strength of character and leadership skills displayed by Ray Lewington, team manager, and his staff, which enabled such a strong recovery towards the end of the season. The management and playing staff remained focused and worked as a team throughout difficult circumstances.

We said farewell to Terry Byrne, director of football, who was appointed as Personal Assistant to David Beckham. We are grateful for the contribution Terry made to Watford and wish him every success in what will surely be a fascinating opportunity.

More recently Terry Burton, assistant manager, has left to take up an equivalent position at Cardiff City. I wish him well in his new post and record my appreciation for his efforts whilst at Watford.

WATFORD LEISURE PLC

Chairman's statement (continued)

We are delighted that Nigel Gibbs, who has given many years loyal service as a player and as part of the management team, has been promoted to assistant manager. We also welcome Terry Bullivant as coach, who with Nigel will also work with the reserve team and provide continuity throughout the Club, from academy scholars to first team senior professionals.

People

As always, whilst acknowledging the Watford supporter base, the tradition and the brand and performance on the pitch, I would like to stress the importance of the people that work for the group, the match day stewards, catering staff, as well as the full time administrative, playing, and management staff.

During the year the restructuring was completed with the appointment of a Chief Executive Mark Ashton, a Director of Commerce James McLaughlin, and a Director of Finance Steve Simmons, to complement the sterling work of our Director of Operations, Susan Graham. These appointments should enable the group to progress whilst addressing the challenging agenda described below.

During the year several directors resigned. I would like to thank David Meller, Tim Shaw, David Lester, Charles Lissack, Chris Norton, Haig Oundjian and Mike Sherwood for their contributions to Watford Leisure.

I must also record my thanks to my existing colleagues on the Board, in particular Jimmy and Vince Russo, without whom much of the progress we have made would not have been possible. Together with Andy Wilson, their commitment, both financial and personal, enthusiasm and integrity, has contributed so crucially to the initial phase of recovery for the group.

Other Developments and Future Prospects

I would like to thank Total, our official Club, youth and community sponsor for their continued support. We look forward to continuing the development of our relationship into the future.

In my previous annual report I identified five objectives:

1. Achieve promotion to the Premier League
2. Repay wages owed to players and other staff
3. Return value to our shareholders
4. Buy back the freehold of the Vicarage Road stadium
5. Develop a new East Stand

During the year the group achieved the second objective. I am delighted to report that the Club has cleared all of the deferred pay commitments and associated tax liabilities.

In early September 2004 the fourth objective was also met, although the plans for the long term financing of the ownership of the freehold of the stadium will be implemented in the coming year. It was imperative to exercise the option to repurchase the stadium to avoid the escalating costs implicit in prolonging the leaseback arrangement. I firmly believe regaining the security of use of our own stadium will prove a pivotal moment in our road to financial stability.

In support of the repurchase we are delighted to be hosting a concert next year by Sir Elton John who has so generously donated his services to contribute to the Buy Back the Vic fund.

The need to redevelop the East Stand has become urgent following the enforced closure of part of the stand for safety reasons. We are currently re-evaluating the plans for the stand and also playing a full part in the master planning process for the area adjacent to the stadium, particularly the hospital redevelopment. Whilst our priority continues to be additional car parking facilities, without which non match day opportunities are limited, our ambition is to become an integral part of the Watford community. In this respect the group is committed to supporting the development of the Watford FC's Community Sports & Education Trust, a registered charitable trust.

Following an approach from a casino operator the Club had an opportunity to develop plans for a lucrative casino development at Vicarage Road. After a great deal of consideration the Board have

Chairman's statement (continued)

rejected this proposal because it was felt to be inconsistent with our desire to be a community club contributing positively to the local populace.

Progress on the playing side has been made with a solid start to the 2004/5 season and the emergence of several promising young players, whilst those recruited have become quickly established, with an excellent spirit apparent. Whilst remaining realistic we have made significant progress in consolidating our position to form a platform from which to aspire to Premier League status, the first objective for the coming years.

I am confident that, in striving to achieve these aims whilst sensibly managing our resources, albeit in a high risk industry, the staff and directors of the group are maximising the opportunity for the third target, to return shareholder value, to be met.

With the continued help of the supporters and partner organisations I am sure the future of our Club can be both secure and exciting.

A handwritten signature in black ink, appearing to read 'Graham Simpson', with a stylized flourish at the end.

Graham Simpson, Chairman

11 November 2004

Chief Executive Officer's report

The year to end June 2004 was a period of stabilisation for Watford Football Club. Considerable efforts were made both on and off the pitch to ensure the Club's stability in challenging times.

Consolidation in the Championship has allowed the Club to build a platform from which it can further develop. We have been careful to protect the long term future of the football Club by strictly controlling costs whilst ensuring that investment has been used wisely. All activities at the Club aim to support success on the pitch. We have a number of core functions which predominantly support the Company. These are:

1. Finance. The Company continues to adhere to the highest standards of accountancy practice including strict reporting and control procedures that assist in the development of a self sustainable business model that provides the necessary resource to achieve success on the pitch.
2. Commercial activities. The Club continues to develop plans that will increase revenue from match and non-match day initiatives. It is vital that these revenue streams are developed further in a continual attempt to reduce dependency on media income. The use of the Club's brand is vital in the development of this area.
3. Event management. The match-day experience is essential to us as the Club endeavours to increase its supporter base. The provision of better quality facilities for our customers will play a major part in the development of the Company and its revenue streams.
4. Community initiatives. The Club values its community involvement extremely highly and through Watford FC's Community Sports & Education Trust, a registered charitable trust, will continue to use the medium of football to engage its local community. This is vital to the long term future of the Club as we aim to develop our next generation of supporters.

Over the past few months we have undertaken a review of our current practices. This has highlighted a number of areas in which we need to further develop in order to build the self-financing business model. Further enhancement of our commercial and corporate activities will prove to be vital along with the growth of our core community based initiatives. Prudence will also be vital as we aim to control costs both on and off the field.

There are a number of challenges which lie ahead. These include the development of a new East Stand and the impact that will have on the existing stadium along with the exciting prospect of the Sir Elton John concert in June 2005. The repurchase and subsequent financing of the Vicarage Road Stadium freehold will be one of the most challenging and important issues the Club has ever had to deal with, but is vital for the long term success of the Club.

It is crucial that we continue to build on the progress that has been made over recent times in our attempts to build a prosperous future for the Club.



Mark Ashton, Chief Executive Officer

11 November 2004

Corporate governance report for the year ended 30 June 2004

General principles

The Board recognises the importance of good corporate practice and is committed to conducting the group's operations in accordance with the best principles of corporate governance. This report sets out how the principles of good governance and code of best practice identified in the Combined Code issued by the London Stock Exchange on 25 June 1998 are applied by the company.

The Board

The Board consists of one executive and three non-executive directors.

The Board meets regularly and is responsible for group strategy, acquisition and divestment policy and overall financing of the group. It is ultimately responsible for the direction and management of the group, although the Chief Executive Officer is charged with the responsibility for running the group within a defined framework established by the Board.

Accountability and audit

Audit committee and audit

The Board has established an Audit Committee which consists of three directors. Written terms of reference of the Audit Committee have been drawn up which require it to consider and report to the Board on such issues as the group's annual reports and interim reports, ensuring compliance with accounting policies and satisfying itself as to the adequacy of the group's external audit and internal control procedures. The Committee will meet at least once a year with the group's auditors in attendance.

Internal financial control

The Board has overall responsibility for the group's systems of internal control which are designed to provide reasonable, but not absolute, assurance against material misstatement or loss. The key features of the group's systems of internal financial control are as follows:-

- (a) detailed budgets and plans which are approved by subsidiary and group boards;
- (b) regular consideration by the Board of actual results compared with budgets and forecasts;
- (c) compliance by the subsidiaries with group operating procedures and policies;
- (d) annual review of the group's insurance cover;
- (e) defined procedures for the appraisal and authorisation of player transfers and capital expenditure; and
- (f) regular reporting of borrowing and facilities to the Board.

The Board has reviewed the operation and effectiveness of the group's systems of internal financial control for the financial year and the period up to the date of approval of the financial statements.

Risk management

A risk management review has been previously undertaken by the group to identify, evaluate and manage key risks. Projections are made on a realistic basis in order to identify financial pressures in advance. A four year planning process is due to be completed in respect of all key components of the group's operation.

Compliance with the Combined Code

The group is not required to comply with the Combined Code as an AIM company, but seeks to comply with those provisions most appropriate to the group. We continue to review our corporate governance procedures to ensure that they match the needs of the group.

WATFORD LEISURE PLC

Corporate governance report for the year ended 30 June 2004

Remuneration report

The Remuneration Committee is responsible for determining the emoluments of executive directors, and consists of three non-executive directors. The Committee makes recommendations to the Board on the company's framework of executive remuneration and its cost.

A handwritten signature in black ink, appearing to read 'Graham Simpson', with a long horizontal stroke extending to the right.

Graham Simpson

Chairman

11 November 2004

WATFORD LEISURE PLC

Profiles of directors

Graham Simpson, Chairman

Lifelong fan Graham saw his first Watford match in 1959. Following a 12-year acting career, he formed Simply Travel in 1978, a holiday company that grew rapidly to carry over 50,000 clients, which he sold in 1999. He has now formed a new travel company Simpson Travel. Apart from his executive role at Watford, Graham is chairman of The Ukwama Children's Foundation, a charity he personally set up to support and sponsor an orphanage in Tangier.

Jimmy Russo, Non-executive Director and Vice-Chairman

Jimmy is a director of Valley Grown Salads along with other business interests in Spain and Israel, mainly in fresh produce, supplying the multiples with salad lines. The company was formed in 1982 and is based in Essex. Other interests include property development and a directorship in an electronics company. Jimmy joined the Board in March 2004.

Vince Russo, Non-executive Director

Vince, like his brother Jimmy, shares the same business interests and is a fellow director at Valley Grown Salads. Vince also specialises in packaging and is the driving force behind Valley Grown Nursery, a ten acre nursery in Essex which was recently awarded the prestigious prize "Salad Grower of the Year 2004" award, growing peppers for Waitrose and Sainsbury's.

Andrew Wilson, Non-executive Director

Andrew joined the Board as a non-executive director in December 2002. He is currently Senior Vice President of Capio AB, a Swedish healthcare operator and a director of the Corporate Services Group plc. Andrew is also a non-executive director of London Town plc. Previously he was an investment banker with UBS Warburg specialising in mergers and acquisitions.

WATFORD LEISURE PLC

Report of the directors for the year ended 30 June 2004

The directors present their report on the affairs of the group, together with the audited financial statements for the year ended 30 June 2004.

Principal activities and business review

The principal activity of the company is to hold, as investments, the majority of the issued share capital of The Watford Association Football Club Limited, the "Club", and the whole of the issued share capital of Watford Catering Limited. Shortly after the end of the financial year the Club repurchased the Vicarage Road stadium from Watford Stadium Limited, an unconnected company.

The group reported a loss before taxation for the year of £4,499,328 (2003 - loss £10,276,655). The group continues to benefit from a ground share agreement with Saracens and looks forward to a continuing relationship with the rugby club.

The chairman has considered the development of the business during the year and the group's position at the year end in his statement on pages 3 to 5.

The directors do not recommend the payment of a dividend. Accordingly, the loss for the year has been added to the accumulated deficit brought forward as shown in note 19 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 were as follows:

	Ordinary shares of 10p each	Ordinary shares of 0.1p each
	30 June 2004	30 June 2003 *
G M Simpson (Chairman)	2,868,796	1,031,704,290
J Russo (Vice-Chairman - appointed 10 March 2004)	1,879,699	-
V Russo (appointed 10 March 2004)	1,879,699	-
A S Wilson	16,666	16,666,667

* or date of appointment, if later

The ordinary 0.1p shares of the company were consolidated into ordinary 10p shares in the year (see note 18).

J Russo and V Russo are jointly beneficially interested in a single shareholding of 1,879,699 Ordinary 10p shares in the company registered in the name of Valley Grown Salads which business is jointly controlled by them.

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

M S Sherwood resigned as a director on 10 January 2004. D R J Lester, C D Lissack, D R Meller, C J Norton, H B Oundjian and T M Shaw resigned as directors on 20 January 2004.

C J Norton was appointed as alternate director to J Russo and to V Russo on 7 July 2004.

In accordance with the company's Articles of Association, J Russo and V Russo are due to retire at the company's forthcoming Annual General Meeting and, being eligible, will offer themselves for reappointment.

WATFORD LEISURE PLC

Report of the directors for the year ended 30 June 2004

Substantial interests

Apart from the directors above and the shareholdings listed below, the directors are not aware of any party interested in 3% or more of the issued ordinary share capital at 11 November 2004.

Name	Number of shares	Percentage
Fordwat Limited	846,144	7.78%
Penguin Overseas Associates Limited	806,560	7.42%
Strand Associates Limited	796,143	7.32%
T M Shaw	693,086	6.38%
D R J Lester	489,013	4.50%
C J Norton	383,531	3.53%
D R Meller	331,206	3.05%

Penguin Overseas Associates Limited is controlled by the Sawyer Trust of which members of Haig Oundjian's family are discretionary beneficiaries.

Statement of 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 group at the end of its financial year and of the profit or loss of the group for the year then ended. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and 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 group 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 group 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 group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Corporate governance

The Board's report on the group's corporate governance procedures is set out on pages 7 and 8.

Payment of suppliers

The group seeks the best possible terms from suppliers appropriate to its business and, in placing orders, gives consideration to quality, price and terms of payment which will be agreed with each supplier when details of each transaction are settled. The group will continue to honour its contractual and legal obligations and to pay contractors and suppliers on the dates agreed in contracts and purchase orders.

Being mindful that the group transacts with many small suppliers the group endeavours to meet the Government's best practice guidelines and pay suppliers within thirty days from receipt of invoice whenever the invoice can be matched to an order and can be duly authorised with no queries arising thereon. The ratio expressed in days between the amounts invoiced to the Group by its suppliers and the amount owed to its trade creditors at 30 June 2004 was 27 days.

WATFORD LEISURE PLC

Report of the directors for the year ended 30 June 2004

Employees

The group places considerable value on the involvement of its employees and it has set up processes and procedures to achieve good communication within the workplace. There are also written processes for training, development, appraisal and induction.

It is the group's policy to give full and fair consideration to all applications from the disabled and the group has a written Equal Opportunities Policy and Recruitment Process in place to achieve this end.

Charitable and political donations

The charitable activity previously undertaken within the Club has been transferred to the independent Watford FC's Community Sports & Education Trust, a registered charitable trust.

Going concern

As disclosed in note 1a to the financial statements the directors have 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 these should enable further improvements to the financial position in the period to June 2006 and onwards. The directors are confident that these actions will be successful and will enable the group to return to profitability in the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Post balance sheet events

Details of post balance sheet events are given in note 25 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

Secretary

Approved by the Board on 11 November 2004

Independent auditors' report to the shareholders of Watford Leisure PLC

We have audited the financial statements of Watford Leisure PLC for the year ended 30 June 2004 which comprise the Profit and Loss Account, the consolidated and company Balance Sheets, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes set out on pages 15 to 37. These financial statements have been prepared under the historical cost convention, as modified by the revaluation of the group'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 auditors' 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 group 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 and other members of the group is not disclosed.

We read the Chairman's statement, Chief Executive Officer's report, Corporate governance report and Report of the directors' 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 group'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.

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 projections being accurate. 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.

WATFORD LEISURE PLC

Independent auditors' report to the shareholders of Watford Leisure PLC

Opinion

In our opinion the financial statements give a true and fair view of the state of the group's and the company's affairs as at 30 June 2004 and of the group's loss 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

WATFORD LEISURE PLC

Consolidated profit and loss account for the year ended 30 June 2004

	Notes	Operations excluding player trading £	Player trading (note 9) £	2004 £	2003 £
Turnover	2	8,522,686 ✓	-	8,522,686	8,667,391
Cost of sales		9,756,834	549,951	10,306,785	15,865,456
Gross loss		(1,234,148)	(549,951)	(1,784,099)	(7,198,065)
Administrative expenses		3,247,292	-	3,247,292	3,090,582
		(4,481,440)	(549,951)	(5,031,391)	(10,288,647)
Other operating income	3	495,451	-	495,451	579,982
Operating loss		(3,985,989)	(549,951)	(4,535,940)	(9,708,665)
Profit / (loss) on disposal of players' registrations		-	861,170	861,170	(879,694)
Profit on disposal of stadium		-	-	-	1,037,265
Interest receivable	4	12,398	-	12,398	50,555
Interest payable and similar charges	4	(836,956)	-	(836,956)	(776,116)
(Loss) / profit on ordinary activities before taxation	5	(4,810,547)	311,219	(4,499,328)	(10,276,655)
Tax on loss on ordinary activities	7			-	-
Loss on ordinary activities after taxation				(4,499,328)	(10,276,655)
Minority interests				(67,541)	12,330
Loss for the financial year	19			£(4,566,869)	£(10,264,325)
Earnings per share (basic and diluted)	8			(62.6p)	(272.4p)

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

The notes on pages 20 to 37 form part of these financial statements.

WATFORD LEISURE PLC

Note of historical cost profits and losses

	Notes	2004 £	2003 £
Loss on ordinary activities before taxation		(4,499,328)	(10,276,655)
Realisation of property revaluation gains of previous years	19	-	1,252,688
Historical cost loss on ordinary activities before taxation		<u>(4,499,328)</u>	<u>(9,023,967)</u>
Historical cost retained loss for the year		<u>(4,566,869)</u>	<u>(9,011,637)</u>

Statement of total recognised gains and losses

	Notes	2004 £	2003 £
Loss for the financial year		(4,566,869)	(10,264,325)
Transfer from special reserve	19	9,012,694	-
Total recognised gains and losses since last report		<u>4,445,825</u>	<u>(10,264,325)</u>

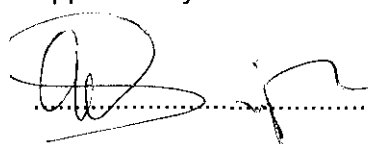
The notes on pages 20 to 37 form part of these financial statements

WATFORD LEISURE PLC

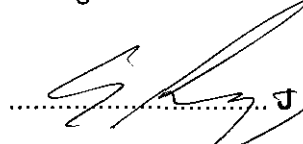
Consolidated balance sheet at 30 June 2004

	Notes	£	2004 £	2003 £
Fixed assets				
Intangible assets	1 c)d)g) & 9		1,222,193	1,287,558
Tangible assets	1 f) & 10		6,080,851	6,913,437
			7,303,044	8,200,995
Current assets				
Stocks	1 h) & 12	117,968		88,864
Debtors	13	1,509,341		1,798,115
Cash at bank and in hand		614,398		864,669
		2,241,707		2,751,648
Creditors: amounts falling due within one year	14	3,648,995		5,883,016
Net current liabilities			(1,407,288)	(3,131,368)
Total assets less current liabilities			5,895,756	5,069,627
Creditors: amounts falling due after more than one year	15		(8,238,808)	(6,854,826)
Deferred capital grants and contributions	1 f) & 17		(51,423)	(82,520)
			£(2,394,475)	£(1,867,719)
Capital and reserves				
Called up share capital	18		1,062,369	5,283,083
Share premium	19		244,547	6,131,254
Special reserve	19		5,067,299	-
Profit and loss account	19		(8,407,051)	(12,852,876)
Shareholders' funds	20		(2,032,836)	(1,438,539)
Minority interests			(361,639)	(429,180)
			£(2,394,475)	£(1,867,719)

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



G M SIMPSON - Director



J RUSSO - Director

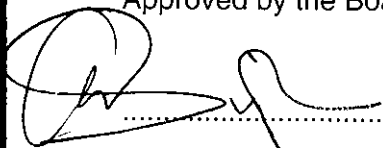
The notes on pages 20 to 37 form part of these financial statements.

WATFORD LEISURE PLC

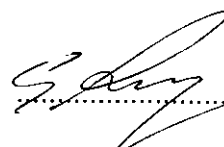
Company balance sheet at 30 June 2004

	Notes	£	2004 £	2003 £
Fixed assets				
Tangible assets	10		5,657,143	5,828,571
Investments	11		6,809,210	9,202,437
			<u>12,466,353</u>	<u>15,031,008</u>
Current assets				
Debtors	13	587,893		642,257
Cash at bank and in hand		-		50,000
		<u>587,893</u>		<u>692,257</u>
Creditors: amounts falling due within one year	14	<u>197,736</u>		<u>997,764</u>
Net current assets / (liabilities)			<u>390,157</u>	<u>(305,507)</u>
Total assets less current liabilities			<u>12,856,510</u>	<u>14,725,501</u>
Creditors: amounts falling due after more than one year	15		<u>(6,482,295)</u>	<u>(6,117,965)</u>
			<u>£6,374,215</u>	<u>£8,607,536</u>
Capital and reserves				
Called up share capital	18		1,062,369	5,283,083
Share premium	19		244,547	6,131,254
Revaluation reserve	19		-	236,974
Special reserve	19		5,067,299	-
Profit and loss account	19		-	(3,043,775)
Shareholders' funds	20		<u>£6,374,215</u>	<u>£8,607,536</u>

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



G M SIMPSON - Director



J RUSSO - Director

The notes on pages 20 to 37 form part of these financial statements.

WATFORD LEISURE PLC

Consolidated cash flow statement for the year ended 30 June 2004

	Notes	2004 £	2003 £
Operating activities			
Net cash outflow from operating activities	21 (a)	(3,856,180)	(7,217,004)
Returns on investments and servicing of finance			
Interest received		12,398	50,555
Interest paid		(829,271)	(760,148)
Net cash outflow from returns on investments and servicing of finance		(816,873)	(709,593)
Taxation		-	-
Capital expenditure			
Payments to acquire intangible fixed assets		(263,704)	(1,606,292)
Payments to acquire tangible fixed assets		(138,133)	(97,124)
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
Net cash inflow for capital expenditure		384,307	3,900,214
Net cash outflow before financing		(4,288,746)	(4,026,383)
Financing			
Issue of ordinary share capital		3,972,572	4,600,368
Advances of finance and other loans		114,240	273,385
Capital element of finance lease and hire purchase payments		(48,337)	(7,302)
Net cash inflow from financing		4,038,475	4,866,451
(Decrease) / increase in cash in the year	21 (c)	£(250,271)	£840,068

The notes on pages 20 to 37 form part of these financial statements.

WATFORD LEISURE PLC

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, modified by the revaluation of property and in accordance with applicable accounting standards.

The group incurred a loss for the year of £4,499,328 and had net liabilities at 30 June 2004 of £2,394,475.

The directors have 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 these should enable further improvements to the financial position in the two years 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. The financial statements do not include any adjustments that would result should this not be the case.

b) Basis of consolidation

The group financial statements incorporate the financial statements to 30 June 2004 of Watford Leisure PLC and its subsidiaries, The Watford Association Football Club Limited (the "Club") and Watford Catering Limited.

c) Goodwill

Goodwill arising on consolidation is capitalised as an intangible asset and is amortised on a straight line basis over 10 years. The value of goodwill is reviewed annually for any impairment and provision made against any permanent diminution in value. At 30 June 2004 goodwill was fully provided.

d) 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. Players' registrations are written down for impairment when the carrying amount exceeds the amount recoverable through use or sale.

e) Signing on fees

Signing on fees are charged to the profit and loss account 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.

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

1 Accounting policies (continued)

f) 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. The stadium, held under a finance lease, is depreciated on a straight line basis over the length of the lease, being 35 years. Depreciation of leasehold 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.

g) Pouring rights

Payments made to release the group 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.

h) Stocks

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

i) 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.

j) Donations received

Donations are accounted for on a cash receipts basis.

k) 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.

l) Pensions

The group 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 group in independently administered funds. The pension cost charge represents contributions payable by the group during the year.

m) 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.

WATFORD LEISURE PLC

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

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	74,354	26,745
	<u>£495,451</u>	<u>£579,982</u>

4 Interest

	2004 £	2003 £
Interest receivable :		
Bank deposit interest	<u>£12,398</u>	<u>£50,555</u>
Interest payable and similar charges :		
Bank loans and overdrafts	30,155	33,943
Finance lease and hire purchase interest	778,720	736,226
Other interest	28,081	5,947
	<u>£836,956</u>	<u>£776,116</u>

5 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	347,602	337,296
Directors' remuneration	166,029	189,172
Auditors' remuneration		
audit	27,000	29,000
non - audit	61,410	79,396
Operating leases - vehicles and equipment	76,927	75,450
Operating leases - other	<u>259,740</u>	<u>206,293</u>

WATFORD LEISURE PLC

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

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 group was as follows :		
	2004 Number	2003 Number
Players	52	58
Coaching staff	26	20
Commercial staff	30	24
Part-time catering staff	71	60
Administration	15	16
Ground staff	5	5
	199	183

In addition to the above the group employed an average of 201 (2003 - 171) part-time match day staff during the year.

7 Tax on loss on ordinary activities

In view of the loss for the year there is no liability to corporation tax.

Tax losses of the Club at 30 June 2004 available for offset against future trading profits of that subsidiary, subject to Inland Revenue acceptance, are in excess of £19,000,000. There is neither taxable profit nor loss in the parent company for the current year.

Under the accounting policy no provision is required for deferred taxation and there is no potential liability. No deferred tax asset has been recognised in these financial statements as the conditions for recognition have not been satisfied.

WATFORD LEISURE PLC

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

8 Loss per share

Loss per ordinary share has been calculated as follows:

	2004	2003
Loss for the financial year	<u>£(4,566,869)</u>	<u>£(10,264,325)</u>
Weighted average number of shares in issue	<u>7,297,215</u>	<u>3,768,406</u>
Loss per ordinary share	<u>(62.6p)</u>	<u>(272.4p)</u>

The weighted number of shares in issue for 2003 and 2004 has been adjusted to take into account the share consolidation which occurred on 09 March 2004 and details of which are set out in note 18.

9 Intangible fixed assets - group

	Goodwill £	Pouring rights £	Players' registrations £	Total £
Cost :				
At 1 July 2003	1,872,703	752,067	4,327,320	6,952,090
Additions	-	-	559,793	559,793
Disposals	-	-	(928,275)	(928,275)
At 30 June 2004	<u>1,872,703</u>	<u>752,067</u>	<u>3,958,838</u>	<u>6,583,608</u>
Amortisation :				
At 1 July 2003	1,872,703	106,543	3,685,286	5,664,532
Charge for the year	-	75,207	549,951	625,158
Disposals	-	-	(928,275)	(928,275)
At 30 June 2004	<u>1,872,703</u>	<u>181,750</u>	<u>3,306,962</u>	<u>5,361,415</u>
Net book value :				
At 30 June 2004	<u>£Nil</u>	<u>£570,317</u>	<u>£651,876</u>	<u>£1,222,193</u>
At 30 June 2003	<u>£Nil</u>	<u>£645,524</u>	<u>£642,034</u>	<u>£1,287,558</u>

WATFORD LEISURE PLC

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

10 Tangible fixed assets - group

	Assets under construction £	Ground, premises and improvements £	Motor vehicles, equipment, fixtures and fittings £	Total £
Cost or valuation :				
At 1 July 2003	540,552	6,000,000	1,342,306	7,882,858
Additions	-	82,834	49,949	132,783
Transfer	(2,048)	2,048	-	-
Disposals	(538,504)	-	(342,690)	(881,194)
At 30 June 2004	-	6,084,882	1,049,565	7,134,447
Depreciation :				
At 1 July 2003	-	171,429	797,992	969,421
Charge for the year	-	188,457	159,145	347,602
Disposals	-	-	(263,427)	(263,427)
At 30 June 2004	-	359,886	693,710	1,053,596
Net book value :				
At 30 June 2004	£Nil	£5,724,996	£355,855	£6,080,851
At 30 June 2003	£540,552	£5,828,571	£544,314	£6,913,437

Subsequent to the year end, in September 2004 the Club completed the repurchase of the freehold interest in the Vicarage Road stadium for £7,000,000, having exercised its option to do so in July 2004.

Included above are assets held under finance leases or hire purchase contracts as follows:

	Ground, premises and improvements £	Equipment £	Total £
Net book value	5,657,143	18,258	5,675,401
Depreciation charge	171,428	6,086	177,514

WATFORD LEISURE PLC

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

10 Tangible fixed assets - company

	Leasehold stadium interest £
Cost or valuation :	
At 1 July 2003	6,000,000
Additions	-
	<hr/>
At 30 June 2004	6,000,000
	<hr/>
Depreciation :	
At 1 July 2003	171,429
Charge for the year	171,428
	<hr/>
At 30 June 2004	342,857
	<hr/>
Net book value :	
At 30 June 2004	£5,657,143
	<hr/>
At 30 June 2003	£5,828,571
	<hr/>

The stadium is held under a finance lease. Subsequent to the year end, in September 2004 the Club completed the repurchase of the freehold interest in the Vicarage Road stadium for £7,000,000 having exercised its option to do so in July 2004.

WATFORD LEISURE PLC

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

11 Investments - company

	Shares in subsidiary undertakings £	Loan to subsidiary undertaking £	Total £
Cost or valuation :			
At 1 July 2003	10,674	9,191,763	9,202,437
Additions	-	3,609,243	3,609,243
Amounts written off	-	(5,765,496)	(5,765,496)
Revaluation	-	(236,974)	(236,974)
At 30 June 2004	£10,674	£6,798,536	£6,809,210

Subsidiaries

	Nature of business	Ordinary shares
The Watford Association Football Club Limited	Football club	96%
Watford Catering Limited	Catering company	100%

Both companies are incorporated in England & Wales.

12 Stocks - group

	2004	2003
Goods for resale	£117,968	£88,864

13 Debtors

	Group		Company	
	2004 £	2003 £	2004 £	2003 £
Trade debtors	446,048	802,525	-	-
Transfer fees receivable	100,000	-	-	-
Called up share capital not paid	-	25,000	-	25,000
Other debtors	555,188	555,188	555,188	555,188
Prepayments and accrued income	408,105	415,402	32,705	62,069
	£1,509,341	£1,798,115	£587,893	£642,257

Other debtors includes £555,128 which previously fell due after more than one year, but which has been received since the year-end as part of the transaction to repurchase the Vicarage Road stadium.

Trade debtors includes £6,675 due from a director, C Norton, of a subsidiary company,.

WATFORD LEISURE PLC

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

14 Creditors: amounts falling due within one year

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Bank loans (note 15)	78,569	75,522	-	-
Finance loans (note 15)	-	57,693	-	-
Trade creditors	441,362	274,666	-	-
Players' registration costs	101,500	25,411	-	-
Other taxes and social security	710,105	812,783	-	-
Hire purchase and finance leases (note 15)	2,994	12,590	-	-
Directors' loans	-	975,000	-	975,000
Other loans (note 15)	111,856	85,000	-	-
Accruals and deferred revenue	2,202,609	3,564,351	197,736	22,764
	£3,648,995	£5,883,016	£197,736	£997,764

The directors' loans in 2003 represented share subscription monies received from 3 of the directors and B Anderson, a former director, in advance of the share issue on 3 July 2003 (see note 18).

Accruals and deferred revenue includes income, mainly from season ticket sales, received in advance in respect of the 2004/05 season.

15 Creditors: amounts falling due after more than one year

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Bank loans	399,260	478,921	-	-
Hire purchase and finance leases	6,082,295	6,121,036	6,082,295	6,117,965
Directors' loans	501,691	-	400,000	-
Other loans	695,000	-	-	-
Transfer fees payable	220,000	-	-	-
Accruals and deferred revenue	340,562	254,869	-	-
	£8,238,808	£6,854,826	£6,482,295	£6,117,965

WATFORD LEISURE PLC

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

15 Creditors: amounts falling due after more than one year

The maturity of total debt may be analysed as follows:

	Group	
	2004	2003
	£	£
In one year or less	1,446,386	2,318,665
Between one and two years	83,484	80,067
Between two and five years	283,105	270,295
Over five years	32,671	128,559
	£1,845,646	£2,797,586

The bank loan totalling £477,829, including £78,569 falling due within one year is repayable 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 bank loan is secured by a fixed and floating charge over the present or future assets of the company.

Included in directors' loans is £400,000 advanced to the company by the Chairman, G M Simpson. The loan is unsecured and bears interest at 3.5% above LIBOR. £18,584 interest was payable under the loan in the year. The balance of directors' loans and the other loans represent amounts advanced to the group to fund the acquisition and salary costs of certain players. The amounts are repayable from the proceeds received on disposal of the respective players' registrations.

The maturity of hire purchase and finance lease balances may be analysed as follows:

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
In one year or less	2,994	12,590	-	-
Between two and five years	-	3,071	-	-
Over five years	6,082,295	6,117,965	6,082,295	6,117,965
	£6,085,289	£6,133,626	£6,082,295	£6,117,965

The finance lease and hire purchase balances are secured over the assets to which they relate.

WATFORD LEISURE PLC

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

16 Financial instruments

The group's financial instruments comprise borrowings, cash and various items such as trade debtors and trade creditors that arise directly from the group's operations. The main purpose of these financial instruments is to raise finance for the group's operations.

Short term debtors and creditors have been excluded from the disclosures in this note.

Interest rate risk

Surplus cash is placed on deposit for periods from overnight to monthly depending on the forecast cash flow requirements and earns interest at rates prevailing in the money market.

The interest rate risk profile of financial assets was as follows:

	2004 £	2003 £
Floating rate	1,169,586	1,419,857

The interest rate profile of financial liabilities was as follows:

	2004 £	2003 £
Fixed rate	6,085,289	6,233,626
Floating rate	645,744	756,662
No interest	1,416,691	-
	£8,147,724	£6,990,288
Fixed rate weighted average interest rate at 30 June	13.60%	13.51%

WATFORD LEISURE PLC

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

16 Financial instruments (continued)

Liquidity risk

The group's policy to ensure the continuity of funding has been to spread the cash outflow from player purchases through contract negotiation and capital purchases through the utilisation of loan and lease purchase funding.

The maturity profile of financial assets was as follows:

	2004 £	2003 £
In one year or less	614,398	864,669
Over five years	555,188	555,188
	<u>£1,169,586</u>	<u>£1,419,857</u>

The maturity profile of financial liabilities was as follows:

	2004 £	2003 £
In one year or less	308,916	135,462
Between one and two years	1,145,622	226,812
Between two and five years	537,507	318,752
Over five years	6,155,679	6,309,262
	<u>£8,147,724</u>	<u>£6,990,288</u>

There are no undrawn committed facilities.

WATFORD LEISURE PLC

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

17 Deferred capital grants and contributions - group

	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.

18 Share capital

	2004 £	2003 £
Authorised :		
44,502,250 Ordinary shares of 10p each	4,450,225	-
9,850,000,000 Ordinary shares of 0.1p each	-	9,850,000
Allotted and called up :		
10,623,692 Ordinary shares of 10p each	1,062,369	-
5,283,083,148 Ordinary shares of 0.1p each	-	5,283,083
	£1,062,369	£5,283,083

On 1 July 2003, as part of a placing, three directors of the company and one former director subscribed for 650,000,000 ordinary shares of 0.1p shares for a total cash consideration of £975,000.

On 4 August 2003, as part of a placing, a director of the company subscribed for 66,666,667 ordinary 0.1p shares for a cash consideration of £100,000.

On 13 February 2004, 185 ordinary 0.1p shares were issued for a cash consideration of £0.28.

On 9 March 2004, following approval at an EGM, every 1,000 ordinary issued 0.1p shares were consolidated into one ordinary share of 100p. Each such consolidated share was then subdivided and converted into one ordinary share of 10.0p and one non-voting deferred share of 90.0p. Every 100 unissued ordinary shares of 0.1p were consolidated into one ordinary share of 10.0p.

On 10 March 2004, 4,511,442 new ordinary shares of 10.0p were issued for cash at 66.5p each as a result of a placing and open offer for a total cash consideration of £3,000,109.

On 20 April 2004, as part of a placing, one director of a subsidiary company and a former director subscribed for 112,500 ordinary 10.0p shares for a cash consideration of £168,750.

On 5 May 2004, the company obtained a High Court order allowing the company to cancel the 5,999,750 deferred 90.0p shares and an amount of £5,399,775 was transferred to a special reserve in respect thereof (note 19).

WATFORD LEISURE PLC

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

Subsequent to the year end, as part of a placing, a director of a subsidiary company has subscribed for 200,000 ordinary shares of 10.0p for a cash consideration of £300,000. Another director of a subsidiary company has subscribed for 45,833 ordinary shares of 10.0p for a cash consideration of £68,750.

Additionally since the year end, as part of a placing, a director has subscribed for £1,000,000 of Convertible Loan Notes 2009 for a cash consideration of £1,000,000. Such notes are convertible into ordinary shares at an issue price of 120.0p per 10.0p ordinary share. Conversion may be in respect of all or integral multiples of £100,000 in nominal amount of the Loan Notes held. Unless repaid or converted at an earlier date the loan notes are repayable on 31 July 2009. Interest is payable on any outstanding balance of the loan notes at a rate equivalent to LIBOR plus 2.5%, but not to fall below 4% or exceed 8%, payable quarterly in arrears.

19 Reserves

Group	Share premium £	Revaluation reserve £	Special reserve £	Profit and loss account £
At 1 July 2003	6,131,254	-	-	(12,852,876)
Deferred shares cancelled (note18)	-	-	5,399,775	-
Share premium cancelled	(8,680,218)	-	8,680,218	-
Losses extinguished	-	-	(9,012,694)	9,012,694
Premium on shares issued in the year (note18)	2,793,511	-	-	-
Loss for the year	-	-	-	(4,566,869)
At 30 June 2004	£244,547	£Nil	£5,067,299	£(8,407,051)

Company

At 1 July 2003	6,131,254	236,974	-	(3,043,775)
Deferred shares cancelled (note18)	-	-	5,399,775	-
Share premium cancelled	(8,680,218)	-	8,680,218	-
Losses extinguished	-	-	(9,012,694)	9,012,694
Premium on shares issued in the year (note18)	2,793,511	-	-	-
Revaluation of investment	-	(236,974)	-	-
Loss for the year	-	-	-	(5,968,919)
At 30 June 2004	£244,547	£Nil	£5,067,299	£Nil

In accordance with the provisions of a High Court order obtained on 5 May 2004 the total of the share premium account then existing and the nominal value of the deferred shares created as a result of the share consolidation and reorganisation detailed above, less the amount of the profit and loss deficit then existing was transferred to a Special reserve. As permitted by the High Court order losses arising subsequently have been set against the Special Reserve. The residual balance of the Special reserve may be utilised to extinguish future losses.

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the company is not presented as part of these financial statements.

WATFORD LEISURE PLC

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

20 Reconciliation of movements on shareholders' funds

Group	2004 £	2003 £
Loss for the financial year	(4,566,869)	(10,264,325)
Proceeds from issue of shares	3,972,572	4,600,368
Net depletion in shareholders' funds	(594,297)	(5,663,957)
Opening shareholders' funds	(1,438,539)	4,225,418
Closing shareholders' funds	£(2,032,836)	£(1,438,539)
Company		
Loss for the financial year	(5,968,919)	(233,700)
Revaluation of investment in subsidiary	(236,974)	-
Proceeds from issue of shares	3,972,572	4,600,368
Net (depletion) / addition to shareholders' funds	(2,233,321)	4,366,668
Opening shareholders' funds	8,607,536	4,240,868
Closing shareholders' funds	£6,374,215	£8,607,536

Shareholders' funds are fully attributable to equity interests.

21 Notes to the consolidated cash flow statement

a) Reconciliation of operating loss to net cash outflow from operating activities:	2004	2003
	£	£
Operating loss	(4,535,940)	(9,708,665)
Amortisation of intangible fixed assets	625,158	2,147,373
Depreciation of tangible fixed assets	347,602	337,296
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	(29,104)	63,406
Decrease / (increase) in debtors	366,850	(647,688)
(Decrease) / increase in creditors	(1,214,366)	549,780
Net cash outflow from operating activities	£(3,856,180)	£(7,217,004)

WATFORD LEISURE PLC

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

21 Notes to the consolidated cash flow statement (continued)

b) Analysis of changes in net debt

	At 1 July 2003 £	Cash flows £	At 30 June 2004 £
Cash at bank and in hand	864,669	(250,271)	614,398
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)
Directors' loans due within 1 year	(975,000)	975,000	-
Bank loans due after 1 year	(478,921)	79,661	(399,260)
Directors' loans due after 1 year	-	(501,691)	(501,691)
Other loans due after 1 year	-	(695,000)	(695,000)
Finance lease and hire purchase balances	(6,133,626)	48,337	(6,085,289)
	(7,805,762)	(65,903)	(7,871,665)
	£(6,941,093)	£(316,174)	£(7,257,267)

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

	2004 £	2003 £
(Decrease) / increase in cash in the year	(250,271)	840,068
Cash inflow from increase in debt	(65,903)	(266,083)
Movement in net debt in the year resulting from cashflows	(316,174)	573,985
New finance lease	-	(6,112,600)
Movement in net debt in the year	(316,174)	(5,538,615)
Net debt at 1 July 2003	(6,941,093)	(1,402,478)
Net debt at 30 June 2004	£(7,257,267)	£(6,941,093)

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

22 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 Club 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 group'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
	<u>£227,613</u>	<u>£16,887</u>

23 Contingent liabilities

The group 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 9).

24 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 company'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.

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

25 Post balance sheet events

Subsequent to the year end the freehold of the Vicarage Road stadium was repurchased for a sum of £7,000,000 together with associated legal fees and stamp duty. In addition reclaimable VAT was chargeable on the transaction.

Subsequent to the year end the Club 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.

26 Related party transactions

Two of the directors of a subsidiary company had executive boxes during the year that are paid for on a commercial basis, one of which has been renewed for the next season.

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

Mr T Shaw, also a director of a subsidiary and a former director of the group, provided services to the value of £8,300 to the group following his resignation as Chief Executive, in addition to his remuneration earlier in the year.