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2007 Report and Accounts of
Watford Leisure PLC

Peter Wastall

P J Wastall
Secretary

WATFORD LEISURE PLC
2007 Report and Accounts

CONTENTS

Highlights

FINANCIAL

Record tumover of £29 9m and profit before tax of £8 0m

	2007	2006	2005
Tumover	**£29 9m**	£8 5m	£8 5m
Profit / (loss) before tax	**£8 0m**	£(5 6)m	£(2 1)m
Eamings / (loss) per share	**17 4p**	(29 9)p	(19 1)p

STADIUM

Successful completion of improvements to the Rous and Rookery Stands and agreement to build 164 key worker housing units behind the Rookery Stand Further development and ground improvements planned

FOOTBALL

Invaluable experience gained from playing in the Premiership

MANAGEMENT

Football management and business management remain focused on delivering success on and off the pitch

Chaiman's Letter
Graham Simpson

In addition to my official and therefore more formal Chairman's Statement covering the year to 30 June 2007, the Board and I wanted to explain in more detail what has happened financially to the Club over the five year period since my appointment as Chairman of Watford Leisure PLC ("the Company") on 25 September 2002 We believe that having a broader understanding of the Company's finances is both necessary and in-keeping with our stated approach of being as communicative as possible

When I moved up from director of the Watford AFC Limited ("the Club") to Chairman of the Company our financial position was without exaggeration parlous In July 2002 we had sold and leased back the stadium at Vicarage Road and the day before my appointment we had announced in an update to the Stock Exchange that we needed to raise at least £9 5 million to avoid administration I and other members of the Club and Company boards had given verbal commitments to take equity in a future fundraising and then on 26 September 2002 the majority of professional players and more highly paid members of staff agreed to a 12 per cent pay deferral

In November 2002 I subscribed along with my fellow directors sufficient funds to allow the fundraising to proceed In December 2002, at the suggestion of our advisers, I was joined on the Board by Andy Wilson who, with his invaluable financial experience, has since contributed significantly to the Club

What became apparent through 2003 was that as a result of ongoing problems, not least the settlement we reached with Gianluca Vialli in July of that year, we needed to raise further funds to maintain the solvency of the Club As a consequence in March 2004 we raised a further £5 25m by way of a placing of equity and convertible loan stock, to which I and Lord Ashcroft subscribed further funds and we welcomed Jimmy and Vince Russo as substantial shareholders and directors of the Company

In June 2004 we were joined by Mark Ashton who became the CEO of the Club As many of you will be aware I have regarded this appointment as significant as that of Aidy Boothroyd for the future success of the Club Mark's appointment was followed in August 2004 by the re-purchase of Vicarage Road for £7 6m

As a Board we set about re-building the Club and the business model from top to bottom in order to achieve the objectives that I set out in my Chairman's report in 2002/3 These objectives were

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

At this point I would like to direct your attention to the table below This sets out the key figures over my five year tenure as Chairman and the results I reported for the year ended June 2002 (a period when I was not Chairman, albeit a director of the Club)

	2001/2 £m	2002/3 £m	2003/4 £m	2004/5 £m	2005/6 £m	2006/7 £m	CUMULATIVE TOTAL £m
Turnover	16 8	8 7	8 5	8 5	8 5	29 9	
Operating (loss)/profit before player trading	(4 6)	(7 6)	(3 9)	(2 5)	(6 6)	3 1	
(Loss)/profit after tax	(7 2)	(10 3)	(4 5)	(2 1)	(5 6)	8 0	**(21 7)**
Net debt	(1 4)	(6 9)	(7 3)	(8 5)	(5 7)	(5 6)	
Equity raised*	5 5	4 8	4 2	1 9	5 2	-	**21 6**

*excluding debt waiver

What is starkly set out in this table is that in the five years of my tenure as Chairman we have operated for four of them on a turnover that is significantly out of line with the cost base and that is insufficient to sustain the Club in the upper reaches of the Championship let alone the Premiership As you can see during the six years covered, cash raised from shareholders effectively funded the losses of the Club In addition the increase in net debt to a peak of £8 5m roughly corresponded to our major capital investment during that period - the re-purchase of Vicarage Road

However we began to turn a corner in 2004 with the operating loss cut to £2 5m Player salaries were pared to the bone and it is of great credit to Ray Lewington that he achieved the success he did in the Cups on such a constrained basis As a Board we kept faith with the players and ensured that the proceeds of the 2004/5 cup run were used to payback in full all of the salary deferrals entered into in 2002

Because we could see our way to eliminating the trading loss the Board felt comfortable investing in players when Aidy Boothroyd arrived Nevertheless both Marlon King and Darius Henderson would not have joined us without further support from me and the Russos in the form of increased shareholder loans

At this stage I would like to re-iterate the gratitude we, as a Club, have to both Jimmy and Vince Russo for their contribution to Watford Our disagreements have been the subject of much media comment but I have no hesitation in placing on record the appreciation I, as Chairman, had for their whole-hearted support for the Club

Hence we arrived at the start of the 2005/6 season in good shape – knowing that we still needed to eliminate the trading loss but also convinced that we knew how to do it and that given the confidence of Aidy Boothroyd we had a shot at the Premiership By mid year it was clear that promotion was a realistic possibility but the Company needed further investment to cover trading losses and to support its effort for promotion and that, if we were to prepare the Club for the Premiership, significant investment was needed on the support side Hence in 2005/6 the Board agreed to fund these areas This was a calculated decision backed up by the equity placement in March of that year of £6 2m to Lord Ashcroft, the Russos and myself which meant that we could 'afford' not to be promoted – if that is the right way of putting things I should also say that the loss for 2005/6 contains a number of bonus payments to the football side that were triggered by our promotion On a like for like basis ignoring exceptional costs our trading loss for the year actually decreased to £2m

Some people would say we were lucky to be promoted but I would disagree with one exception, the luck we had was in finding Aidy, for which Mark Ashton must take a large amount of the credit Given Aidy's abilities, once he was on board we were convinced that we would be promoted within three years So when it came it wasn't lucky – just premature

Promotion meant a considerable amount of money and as both shareholders and supporters I believe you are entitled to hear from me why and where we decided to spend our increased income Firstly we invested in the playing squad both in the summer 2006 transfer window and in January 2007 The cost of the new players together with additional Premiership payroll costs of the existing players, greatly added to the Club's wage bill However the extra TV and broadcast revenue was supplemented by increased ticketing and commercial revenue such that the Company generated an operating cash flow (after interest) of approximately £4 8m The uses to which this money was put were as follows

	£m
Net operating cash inflows after interest	4 8
Purchase of players	(5 5)
Sale of players	3 7
Capital expenditure	(2 9)
Loan repayments	(2 4)
Net cash outflow	(2 3)

The cost of new players in the financial year 2006/7 was £5 5m but it is worth noting that there are still £4 1m of deferred payments to be made in respect of players' acquisitions during the 2007/08 season (and £0 7m in 2008/09) On the income side the headline figure for the sale of Ashley Young in January 2007 was £9 65m but only £8 0m of this is guaranteed and of this only £3 5m was received in the 2006/07 season (with £3 5m received in August 2007 and £1m receivable in January 2008) The cash generated last year also gave the Board the opportunity to carry out the first phase of the re-development of the stadium at Vicarage Road (new concourse and catering kiosks in the Rookery Stand together with greatly enhanced corporate hospitality suites in the Rous Stand) In addition we have invested in a new point-of-sale catering system, an access control system, the stadium communication network, improved training facilities and in new administrative offices in Tolpits Lane (necessitated by the building work of the key worker housing units at the rear of the Rookery Stand) Lastly the Club took the opportunity to purchase the freehold of the Red Lion pub (opposite the stadium) in September 2006

Whilst much was achieved on the back of the additional Premiership revenues, as a Board we decided that financially we needed to plan on a worst case scenario over a three year period following relegation from the Premiership We didn't want to be relegated, we didn't set out to be relegated and believe me it hurt like hell when it happened but we always intended that if we were then Aidy would have the best chance of getting us back into the Premiership The first parachute payment therefore has enabled us to retain most of the Premiership squad of players and although we lost Hameur Bouazza to Fulham in August 2007, he was replaced in the same month by Nathan Ellington Going forward we intend to use the "Premiership" monies in the judicious investment in players and in continuing to invest where possible in the stadium and Club's infrastructure We also intend to use some of the cash to repay shareholder loans We do not preclude new shareholder loans but the Board feel that such debts were incurred on market terms and that therefore they should be paid back

For shareholders the last five years has been a bumpy ride In September 2002 with the Company days away from administration the recapitalisation effectively valued the Company at approximately £7 5m Since then a further £11 3m has been invested by shareholders in the Company The Company's current market capitalization is approximately £13m I have therefore, not yet achieved my objective of returning value to our shareholders but believe that we are well placed to do so in the near future

We are now a Company with a stable business base from which to challenge for the Premiership based on an expanded revenue basis We own our own ground and have a squad of players with significant value We have the capacity to grow on the Vicarage Road site and in the area surrounding it Moreover we have the people to achieve our ambitions and it is of this I am most proud Watford Leisure PLC and Watford Football Club have changed in the last five years not because of me or the Board but because the hard work and commitment of the people who work here both on and off the pitch and it is on that basis that I feel confident that we can achieve all of our strategic objectives

Chaiman's Statement
Graham Simpson

I am pleased to announce the results of the 2006/07 season, which saw Watford Football Club ("the Club") compete in the top flight of English football for the first time in seven years Despite relegation from the Premier League, the development of the Club has continued as our playing staff gained valuable experience and the Company returned to profit The financial results in 2006/07 includes the benefits of promotion and reflects the growing value of our developing squad

FINANCIAL RESULTS

The profit on ordinary activities before taxation was £8 0 million (2006 loss of £5 6 million) on a turnover of £29 9 million (2006 £8 5 million) The increase in turnover is driven primarily by increased media/TV income from being in the Premiership together with higher income generated from ticket sales and corporate hospitality The operating profit before interest and player trading and amortisation was £3 1 million (2006 loss of £6 6 million) which takes into account substantial investment in the Club's playing and backroom staff, together with people and systems working behind the scenes in the commercial business units The Board has taken the strategic decision to maintain the level of investment in order that the football team has the best possible chance of re-gaining Premiership status in 2007/08 season

DIRECTORS

Directors Giacomo Russo and Vincenzo Russo left the Board in May 2007 I would like to thank them for their contribution to Watford Football Club during their period with the business Also, during this period Mark Ashton was appointed to the Board of Watford Leisure PLC

PERFORMANCE OF THE FOOTBALL TEAM

The 2006/07 season was a challenging one for the team, who were thrust into the top level of English football for the first time under the stewardship of Aidy Boothroyd Despite the side's relative inexperience at this level it was noted with great pride their resilience and development throughout the season Significantly, several of the side went on to earn international honours off the back of their domestic form with Watford The side also enjoyed a run to the semi-finals of the world's oldest cup competition, the FA Cup, where they would eventually lose to the Premier League champions Manchester United

On behalf of the Board of Directors I would like to place on record gratitude for the way Aidy Boothroyd, his staff and players conducted themselves during the season

PLAYER TRADING

During the January transfer window, Watford Football Club was able to report the news of a Club record transfer fee received for Ashley Young, a player developed within the recognised Watford Academy system Ashley's sale was a true reflection of the work that had gone into developing him as a young player, as well as the increasing value of our young, improving squad

VISION 2010+

Understanding its past, present and its future, this Club is committed to developing a strategy for a sustainable business for the short, medium and long term Across the Club we have stretching and achievable targets that culminate in a Vision for 2010 and beyond, which will see this Club striving for top ten Premiership status on and off the field The Vision looks to how we build upon our player talent base for now and for the future, grounds the Club firmly in its locality and community to make sure we stay true to our roots, and also looks to drive a dynamic and sustainable business model and plan

STADIUM REDEVELOPMENT

It is with great pleasure that I can confirm that work commenced in the summer of 2007 on the first phase of the development plan for Vicarage Road Having consistently outlined our vision for the home of Watford FC, it was with much delight that we were granted planning permission for the development of our South stand – The Rookery End – and the construction of a highly innovative key worker housing scheme, which underpins the Company's commitment to the exciting re-redevelopment plans for the Watford Health Campus To this end the Company granted, on 20 September 2007, to the St Pancras & Humanist Housing Association a 125 year lease for a premium of £4,558,000 The cash will be used to fund the Club's working capital requirements over the 2007/08 season

Plans are currently being drawn up for the second phase of redevelopment of Vicarage Road, which will see the Club present its vision for the East Stand In tandem with this Watford FC were also pleased to secure the purchase of the freehold to the Red Lion Public House situated adjacent to Vicarage Road Stadium

Furthermore, in line with the wider redevelopment of West Watford, and the recent submission of plans for the adjoining Watford Health Campus (see model representation above), Watford Football Club continues to work closely with its key partners to help deliver a community-based plan to reinvigorate our local community

(Photograph not included in this document)

Chaiman's Statement

FOOTBALL MANAGEMENT TEAM

In the summer of 2007, Aidy Boothroyd further enhanced his football management team with the appointment of first team coach Martin Hunter to his backroom staff Martin arrived from Norwich City and joined Malky Mackay, who was switched from the playing side to the coaching team in January of 2007 We were also pleased to announce the addition of John Stephenson as Head of Recruitment to the football staff, as we look to increase our activities in the scouting of players both at home and abroad Iain Moody, formerly Media Relations Officer, was also appointed to the position of Head of Football Operations

WATFORD STAFF

During what was a testing 2006/07 Premier League season I was pleased to note that all staff of Watford Football Club contributed greatly to the continued development of the business I would like to thank Mark Ashton, our Chief Executive, and all of his staff for their ongoing efforts over this period

Finally, I would like to thank everyone who has been involved with Watford Football Club during this period, in particular the fans who have remained as loyal as ever to the Club, and have continued to show their passionate support.

Graham Simpson
Chairman

Chief Executive's Report
Mark Ashton

OVERVIEW OF THE SEASON

The 2006/07 season was a hugely challenging one, as Watford Football Club came to terms with and delivered Premiership football for the first time since 1999

The operation to prepare both the football and commercial teams was a huge undertaking and brought with it several previously unseen and welcome challenges for the Club and its staff On the field Aidy and his team began readying themselves and recruiting for life in one of the world's greatest football leagues, whilst off the field the infrastructure of Vicarage Road was tested and pushed to capacity as it presented top-flight football

Despite eventual relegation from the Premier League, the Club took huge strides in advancing itself in all areas, taking advantage of increased revenue streams from broadcast deals and the opportunity to recruit and retain a higher calibre of personnel, as well as invest in systems and structures

Under the leadership of Aidy Boothroyd the team performed with great effort and despite adverse results showed great character throughout the season, and can be proud of their efforts and the positive way in which they reflected the Club's values

In all Vicarage Road Stadium delivered 45 events, being a combination of football and rugby matches And beginning that season Vicarage Road was again noted as being amongst the safest venues in England for football, with official government figures proving as much My thanks go to the operations, maintenance, ticketing and catering staff for their hard work and support

The challenge for the Club to return to the Premier League is possibly one of the toughest we have known, with competition within the Championship looking as strong as ever However, the whole Club has been able to refocus on the task ahead of us and with renewed energy the team on and off the field are working as hard as ever to return Watford to the top flight of English football

BUSINESS REVIEW

The key financial and performance indicators are as follows

	2007	2006
Revenue	**£29 9m**	£8 5m
Operating expenses	**£26 8m**	£15 1m
Profit / (loss) from operations before interest, player amortisation and trading	**£3 1m**	£(6 6)m
Profit / (loss) before taxation	**£8 0m**	£(5 6)m
Wages to revenue ratio	**58%**	117%
League position (Premier/Championship)	**20th**	3rd
Cash generated / (absorbed) from operations	**£5 1m**	£(3 2)m

Chief Executive's Report

FINANCIAL REVIEW

Total revenue increased by £21 4million to £29 9million on the back of the Club's Premiership status TV & media revenues increased by £18 1million driven by the share of Premiership broadcast revenues The fact that Premiership football was being played at Vicarage Road also helped drive other matchday revenues

Average attendance at Vicarage Road for league matches increased in the year by 22% to 18,892 As a result ticketing revenues increased by £1 6million year-on-year, an increase of 43% An extended run in the FA Cup, culminating in semi-final defeat to Manchester United generated £1 6million in revenues (an increase of £0 7million from the 2005/06 season)

Other commercial revenues including retail, catering, corporate sponsorship and matchday packages increased by £1 0million reflecting the greater interest generated by Premiership football The shop situated in the Rookery Stand performed well in 2006/07 generating £1 0million in revenues In July 2007 a new shop ("the Buzz") was opened in the centre of Watford which will provide the wider fan base an additional location to purchase the Club's branded merchandise together with a wide range of other products

The substantial increase in operating expenses of £11 7million is driven primarily by the increased investment in the playing and coaching staff During the course of 2006/07 season the Club signed a number of players to strengthen the squad in an effort to stay in the Premiership, namely Mart Poom, Dan Shittu, Damien Francis, Jobi McAnuff, Lee Williamson, Steve Kabba, Tamas Priskin, Tommy Smith, Will Hoskins, Moses Ashikodi, Douglas Rinaldi and Cedric Avinel Since the year end the Club announced the purchase of Nathan Ellington for a record fee of £3 25m (rising to £4 25m) In addition the Club has invested in its commercial operations both in terms of people and also the systems and infrastructure required to run a top-flight football Club

The amortisation of player registrations has increased to £2 8million (2006 £0 4million) as a result of the aforementioned player purchases The profit on disposal of players is accounted for by the sale of Ashley Young to Aston Villa in January 2007

COMMUNITY

The last year has been a particularly successful one for the Club's Community Sports & Education Trust who received two national Sportsmatch awards for its Safer Neighbourhoods Project in Harrow The Trust was awarded "Best Community Sports Project" and "Best Overall Grass Roots Scheme" for 2006 in November at the annual Sportsmatch Awards dinner, awards that the whole Club is proud to be a part of The Trust's main sponsor, Total UK Ltd, provided sponsorship monies that were matched pound for pound by Sportsmatch, enabling the Trust to access additional match funding from The Football Foundation and other partners to develop a four year programme of work in Harrow engaging hard to reach young people in positive activities This project demonstrates the power of utilising football and WFC in a partnership project to make a real difference in our communities

Additionally the Community Sports & Education Trust and Learning Centre continued to deliver high quality sports and learning opportunities for children and young people in Hertfordshire communities, reaching over 100,000 participants in 2006, an achievement for which the whole team should be highly commended The work of the Trust and Learning Centre is highly regarded and this growing reputation reinforces the commitment of WFC to build on its family and community traditions by developing WFC into a true community partner placing its community work at the heart of the Football Club

During this year the Community Sports & Education Trust has recruited a Community Director, Julian Winter, to head up the Trust and also embed the Club's community work into all aspects of the Club's operations This has been an exciting year for the Trust as it develops new partnerships and projects, a year of real progress, progress that we intend to build upon in the coming year to lead the way as the best community sports and education provider in the country

OUTLOOK

Although the Club was relegated from the Premiership in May 2007, the experience gained by Aidy, his team and players, will stand them in good stead for the 2007/08 season as they pursue success in the Championship On the wider front, the Club as a whole, is well-placed to take advantage of and consolidate its unique position in north-west London and as a strong family and community club backed by loyal and motivated staff

Mark Ashton
Chief Executive Officer

Board of directors

GRAHAM SIMPSON **Chairman**

Graham Simpson, as Chairman of both the Company and Watford Football Club, leads the board of directors, being involved in consultation for, and active on, all policy matters relating both to the Company and Club

Graham is a lifelong Watford supporter, having seen his first match at Vicarage Road in 1959 Having taken over in September 2002, Graham has since celebrated five years as Chairman

Following a 12-year acting career, in 1978 Graham formed Simply Travel, a holiday company that grew rapidly to carry over 50,000 clients He sold the business in 1999 and has since formed Simpson Travel, a travel company that he runs when his duties at Vicarage Road permit

ANDREW WILSON **Non-executive Director**

Andrew Wilson is a non-executive director of the Company and the Club and is involved in all policy decisions relating to financial, administrative and strategic matters He is also the Chairman of the Company's Audit and Remuneration Committees

Andrew joined the board as a non-executive Director in 2002 He is currently Chairman of London Town Plc and a non-executive Director of Corporate Services Group Plc, Shellshock Plc, Retail Merchant Group, Pluto Developments Limited, Artefact Partners LLP, Digital Marketing Group Plc, Global Health Partner Plc, Strand Associates Limited, Bruce Oldfield Studio Limited and an Industrial Partner of Lyceum Capital Limited

MARK ASHTON **Chief Executive Officer**

Mark Ashton, as Chief Executive Officer of both the Company and the Club, is responsible for the day to day activities of the Company and the Club, and implementation for all policy decisions of the board, and leads the Club's senior management team. He consults on a day to day basis with both the Chairman and Andrew Wilson, and is a member of the Company's Audit and Remuneration Committees

After playing as a professional footballer Mark left to establish his own engineering business, before returning to football as a member of West Bromwich Albion's coaching staff By 2004 Mark had been appointed to director with responsibility for new projects, stadium redevelopment and youth and community operations

In 2004, Mark was invited to join Watford Football Club as Chief Executive Officer, to lead the Club's senior management team

Corporate governance report for the year ended 30 June 2007

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 are applied by the company

THE BOARD

The Board consists of two executive and one 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 Audit Committee as established by the Board, currently consists of one non-executive director (who is the Commitee's Chairman) and the Chief Executive Officer 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 meets at least once a year with the group's auditors in attendance

Internal financial control

The Board of Directors 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 system 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 system of internal financial control for the financial year and the period up to the date of approval of the financial statements

Corporate governance report for the year ended 30 June 2007

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 The company has recently completed a three year planning process 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 they match the needs of the group

REMUNERATION REPORT

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

GRAHAM SIMPSON

Chairman
9 November 2007

Report of the directors for the year ended 30 June 2007

The directors present their report on the affairs of the group, together with the audited financial statements for the year ended 30 June 2007

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, and the whole of the issued share capital of Watford Catering Limited

The group reported a profit before taxation for the year of £7,963,476 (2006 - loss £5,591,742) The development of the business during the year and the group's position at the year end is considered in the Chairman's statement on pages 6 to 9 and in the Chief Executive's report on pages 10 to 13

The Board have considered the risks and uncertainties that face the business which are principally related to the costs and revenues involved in maintaining a playing squad and trading in players, and of maintaining its league position

The directors do not recommend the payment of a dividend Accordingly, the profit 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 2007 together with their beneficial interests in the shares of the company were as follows

	ORDINARY SHARES OF 1P EACH	
	30 JUNE 2007	30 JUNE 2006*
G M Simpson (Chairman)	**7,368,796**	7,368,796
M A Ashton (appointed 29 March 2007)	-	-
A S Wilson	**56,664**	56,664

* or date of appointment if later

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

The directorships of G Russo and V Russo were terminated on 1 May 2007

In accordance with the company's Articles of Association, G M Simpson and M A Ashton are due to retire at the company's forthcoming Annual General Meeting and, both being eligible, will offer themselves for reappointment

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 9 November 2007

NAME	NUMBER OF SHARES	PERCENTAGE
Fordwat Limited	16,306,437	37 16%
Valley Grown Salads	12,781,953	29 13%

Report of the directors for the year ended 30 June 2007

DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law)

The financial statements are required by law to give a true and fair view of the state of affairs of the group and parent company and of the profit or loss of the group for that period

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 UK 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

In so far as the directors are aware

- there is no relevant audit information of which the company's auditor is unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

CORPORATE GOVERNANCE

The Board's report on the group's corporate governance procedures is set out on pages 15 and 16

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 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

Overall, 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 2007 was 63 days

EMPLOYEES

The group places considerable value on the involvement of its employees and 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 has a written Equal Opportunities Policy and Recruitment Process in place to achieve this end

CHARITABLE AND POLITICAL DONATIONS

During the year the group made charitable donations amounting to £10,647 No political donations were made during the year

GOING CONCERN

As disclosed in note 1a to the financial statements the directors are confident that the company has sufficient funds to meet its financial obligations 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 27 to the financial statements

AUDITORS

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

Signed on behalf of the Board

P J WASTALL Peter Wastall

Secretary
Approved by the Board on 9 November 2007

Independent auditors' report to the shareholders of Watford Leisure PLC

We have audited the group and parent company financial statements (the "financial statements") of Watford Leisure PLC for the year ended 30 June 2007 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Cash Flow Statement and the related notes These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the parent 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

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

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 whether in our opinion the information given in the directors' report is consistent with the financial statements The information in the directors' report includes that specific information presented in the Chairman's statement and the Chief Executive's report that is cross referred from the Business Review section of the directors' report

In addition we report to you if, in our opinion, 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 other transactions is not disclosed

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements This other information comprises only the Directors' Report, the Chairman's statement and the Chief Executive's report We 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 International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board 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 and 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

OPINION

In our opinion

the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 30 June 2007 and of the group's profit for the year then ended,
and
the financial statements have been properly prepared in accordance with the Companies Act 1985,
and
the information given in the directors' report is consistent with the financial statements

EMPHASIS OF MATTER - GOING CONCERN

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosures made in the financial statements concerning financial projections prepared by the directors for the period to June 2009 and the assumptions on which they are based The financial statements have been prepared on a going concern basis, the validity of which depends upon such assumptions being accurate Details of the circumstances are described in note 1a to the financial statements Our opinion is not qualified in this respect The financial statements do not include any adjustments that would result should this not be the case

Chantrey Vellacott DFK LLP

CHANTREY VELLACOTT DFK LLP

Chartered Accountants
Registered Auditors
Watford
9 November 2007

Consolidated profit and loss account for the year ended 30 June 2007

	NOTES	OPERATIONS EXCLUDING PLAYER TRADING £	PLAYER TRADING (NOTE 5) £	2007 £	2006 £
Turnover	2	29,911,673	-	29,911,673	8,526,054
Cost of sales		20,482,863	2,819,910	23,302,773	12,182,270
Gross profit / (loss)		9,428,810	(2,819,910)	6,608,900	(3,656,216)
Administrative expenses		6,773,307	-	6,773,307	3,768,442
		2,655,503	(2,819,910)	(164,407)	(7,424,658)
Other operating income	3	426,138	-	426,138	439,991
Operating profit / (loss)		3,081,641	(2,819,910)	261,731	(6,984,667)
Profit on disposal of players' registrations		-	7,956,784	7,956,784	2,019,144
Interest receivable	4	92,975	-	92,975	2,116
Interest payable and similar charges	4	(348,014)	-	(348,014)	(628,335)
Profit / (loss) on ordinary activities before taxation	5	2,826,602	5,136,874	7,963,476	(5,591,742)
Tax on profit / (loss) on ordinary activities	7			-	-
Profit / (loss) on ordinary activities after taxation				7,963,476	(5,591,742)
Minority interests				(328,830)	233,900
Profit / (loss) for the financial year	19			£7,634,646	£(5,357,842)
Earnings / (loss) per share (basic and diluted)	8			17 4p	(29 9p)

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

There is no difference between the results shown above and their historical cost equivalents

The notes on pages 26 to 44 form part of these financial statements

Consolidated balance sheet as at 30 June 2007

	NOTES	2007 £	2006 £
FIXED ASSETS			
Intangible assets	1 c)d)g) & 9	8,522,521	1,989,700
Tangible assets	1 f) & 10	11,853,766	8,029,930
		20,376,287	10,019,630
CURRENT ASSETS			
Stocks	1 h) & 12	157,420	131,122
Debtors	13	5,719,927	2,490,985
Cash at bank and in hand		569,550	450,751
		6,446,897	3,072,858
Creditors amounts falling due within one year	14	18,468,772	9,712,985
Net current liabilities		(12,021,875)	(6,640,127)
Total assets less current liabilities		8,354,412	3,379,503
Creditors amounts falling due after more than one year	15	(2,703,347)	(5,687,545)
Deferred capital grants and contributions	1 f) & 17	(37,372)	(41,741)
		£5,613,693	£(2,349,783)
CAPITAL AND RESERVES			
Called up share capital	18	438,857	438,857
Special reserve	19	10,650,875	10,650,875
Profit and loss account	19	(5,237,995)	(12,872,641)
Shareholders' funds	20	5,851,737	(1,782,909)
Minority interests		(238,044)	(566,874)
		£5,613,693	£(2,349,783)

Approved by the Board of Directors on 9 November 2007 and signed on its behalf

G M SIMPSON - Director
M A ASHTON - Director

The notes on pages 26 to 44 form part of these financial statements

Company balance sheet as at 30 June 2007

	NOTES	2007 £	2006 £
FIXED ASSETS			
Investments	11	11,754,832	12,164,829
Current assets			
Debtors	13	12,492	20
Creditors amounts falling due within one year	14	21,566	9,094
Net current liabilities		(9,074)	(9,074)
Total assets less current liabilities		11,745,758	12,155,755
Creditors amounts falling due after more than one year	15	(592,000)	(1,000,000)
		£11,153,758	£11,155,755
CAPITAL AND RESERVES			
Called up share capital	18	438,857	438,857
Special reserve	19	10,650,875	10,650,875
Profit and loss account - accumulated surplus	19	64,026	66,023
Shareholders' funds	20	£11,153,758	£11,155,755

Approved by the Board of Directors on 9 November 2007 and signed on its behalf

G M SIMPSON - Director
M A ASHTON - Director

The notes on pages 26 to 44 form part of these financial statements

Consolidated cash flow statement for the year ended 30 June 2007

	NOTES	2007 £	2007 £	2006 £	2006 £
OPERATING ACTIVITIES					
Net cash inflow / (outflow) from operating activities	21 (a)		5,079,941		(3,248,748)
Returns on investments and servicing of finance					
Interest received		92,975		2,116	
Interest paid		(373,098)		(643,394)	
Net cash outflow from returns on investments and servicing of finance			(280,123)		(641,278)
Taxation			-		-
CAPITAL EXPENDITURE					
Payments to acquire intangible fixed assets		(5,457,191)		(1,733,443)	
Payments to acquire tangible fixed assets		(2,915,957)		(142,499)	
Receipts from sales of intangible fixed assets		3,668,000		1,682,749	
Receipts from sales of tangible fixed assets		5,131		-	
Net cash outflow for capital expenditure			(4,700,017)		(193,193)
Net cash inflow / (outflow) before financing			99,801		(4,083,219)
Financing	21 (b)				
Issue of ordinary share capital		-		5,176,709	
Repayments of finance and other loans		(2,441,737)		(157,672)	
Net cash (outflow) / inflow from financing			(2,441,737)		5,019,037
(Decrease) / increase in cash in the year	21 (c)		(2,341,936)		935,818

The notes on pages 26 to 44 form part of these financial statements

Notes to the financial statements for the year ended 30 June 2007

1 ACCOUNTING POLICIES

The pnncipal accounting policies are as follows

a) Basis of accounting
The financial statements are prepared under the historical cost convention and in accordance with applicable UK accounting standards

The group generated a profit for the year of £7,634,646 and had net assets at 30 June 2007 of £5,613,693

The group has prepared financial projections for the period to June 2009 which show that it can through a combination of its operational cashflows, borrowing facilities and capital raising abilities meet all of its financial obligations

The directors 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 2007 of Watford Leisure PLC and its subsidiaries, The Watford Association Football Club Limited, Watford Catering Limited and Comerdune 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 2007 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 registrations

Players' registrations, which are amortised over the period of their initial contract, and any subsequent extensions, on a straight line basis, 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 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

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 is now categorised as freehold property and is depreciated on a straight line basis over 25 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 were amortised on a straight line basis over their economic life, estimated at 10 years The group's supply agreement was renegotiated in the year As a result the asset has been written off

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 received basis

k) Hire purchase and 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 charges 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

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

	2007 £	2006 £
Donations	-	905
Rent receivable	**413,335**	411,750
Contributions to capital expenditure	**849**	1,132
Release of capital grants	**3,520**	3,520
Other	**8,434**	22,684
	426,138	439,991

4 INTEREST

	2007 £	2006 £
INTEREST RECEIVABLE		
Bank deposit interest	**92,975**	2,116
INTEREST PAYABLE AND SIMILAR CHARGES		
Bank loan and overdraft	**36,671**	194,395
Other interest	**311,343**	433,940
	348,014	628,335

5 PROFIT / (LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION

	2007 £	2006 £
THIS IS STATED AFTER CHARGING		
Amortisation of intangible fixed assets	**3,239,813**	495,401
Depreciation of tangible fixed assets	**267,513**	170,540
Loss on disposal of tangible fixed assets	**8,927**	-
Staff costs (note 6)	**17,636,383**	10,001,961
Directors' remuneration (note 6)	**1,691,108**	451,423
Auditors' remuneration		
audit	**37,000**	31,000
in connection with share issue	**-**	50,150
taxation	**14,000**	-
remuneration	**9,586**	-
other non-audit fees	**21,437**	26,550
Operating leases - vehicles and equipment	**51,234**	56,786
Operating leases - other	**326,086**	282,489

6 EMPLOYEE INFORMATION

	2007 £	2006 £
STAFF COSTS		
Wages and salaries	**15,405,974**	8,437,232
Social security costs	**2,139,925**	943,852
Other pension costs	**90,484**	620,877
	£17,636,383	£10,001,961

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

	2007 NUMBER	2006 NUMBER
Players	**47**	42
Coaching staff	**23**	24
Commercial staff	**40**	22
Part-time catering staff	**73**	102
Administration	**7**	15
Ground staff	**7**	6
	197	211

In addition to the above the group employed an average of 215 (2006 - 208) part-time match day staff during the year

DIRECTORS' REMUNERATION

	2007 £	2006 £
Directors' remuneration	**1,258,257**	451,423
Pension costs	**127,500**	-
Loss of office	**305,351**	-
	1,691,108	451,423
Chairman and highest paid director	**590,708**	301,423

	2007 NUMBER	2006 NUMBER
Number of directors accruing benefits under money purchase pension schemes	**2**	-

7 TAX ON PROFIT / (LOSS) ON ORDINARY ACTIVITIES

In view of the losses brought forward there is no liability to corporation tax

Tax losses of the Club at 30 June 2007 available for offset against future trading profits of that subsidiary, subject to Inland Revenue acceptance, are in excess of £25,000,000 No charge to corporation tax arises in the parent company due to the availability of group losses

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

8 EARNINGS / (LOSS) PER SHARE

Earnings per ordinary share have been calculated as follows

	2007 £	2006 £
Profit / (loss) for the financial year	**£7,634,646**	£(5,357,842)
Weighted average number of shares in issue	**43,885,693**	17,914,982
Earnings / (loss) per ordinary share	**17.4p**	(29 9p)

9 INTANGIBLE FIXED ASSETS - GROUP

	GOODWILL £	POURING RIGHTS £	PLAYERS' REGISTRATIONS £	TOTAL £
COST				
At 1 July 2006	1,872,703	752,067	2,293,001	**4,917,771**
Additions	-	-	9,868,350	**9,868,350**
Disposals	-	-	(182,612)	**(182,612)**
At 30 June 2007	**1,872,703**	**752,067**	**11,978,739**	**14,603,509**
AMORTISATION				
At 1 July 2006	1,872,703	332,164	723,204	**2,928,071**
Charge for the year	-	419,903	2,819,910	**3,239,813**
Disposals	-	-	(86,896)	**(86,896)**
At 30 June 2007	**1,872,703**	**752,067**	**3,456,218**	**6,080,988**
NET BOOK VALUE				
At 30 June 2007	**£Nil**	**£Nil**	**£8,522,521**	**£8,522,521**
At 30 June 2006	£Nil	£419,903	£1,569,797	**£1,989,700**

Notes to the financial statements for the year ended 30 June 2007

10 TANGIBLE FIXED ASSETS - GROUP

	ASSETS UNDER CONSTRUCTION £	FREEHOLD GROUND, PREMISES AND IMPROVEMENTS £	LEASEHOLD PROPERTY AND IMPROVEMENTS £	MOTOR VEHICLES, EQUIPMENT, FIXTURES AND FITTINGS £	TOTAL £
COST					
At 1 July 2006	-	7,826,380	-	1,225,508	**9,051,888**
Additions	1,599,622	970,410	750,811	784,564	**4,105,407**
Disposals	-	-	-	(51,713)	**(51,713)**
At 30 June 2007	**1,599,622**	**8,796,790**	**750,811**	**1,958,359**	**13,105,582**
DEPRECIATION					
At 1 July 2006	-	136,339	-	885,619	**1,021,958**
Charge for the year	-	76,271	2,049	189,193	**267,513**
Disposals	-	-	-	(37,655)	**(37,655)**
At 30 June 2007	-	**212,610**	**2,049**	**1,037,157**	**1,251,816**
NET BOOK VALUE					
At 30 June 2007	**£1,599,622**	**£8,584,180**	**£748,762**	**£921,202**	**£11,853,766**
At 30 June 2006	£Nil	£7,690,041	£Nil	£339,889	**£8,029,930**

11 INVESTMENTS

	SHARES IN SUBSIDIARY UNDERTAKINGS £	LOAN TO SUBSIDIARY UNDERTAKING £	TOTAL £
COST			
At 1 July 2006	10,674	12,154,155	**12,164,829**
Repayments	-	(409,997)	**(409,997)**
At 30 June 2007	**£10,674**	**£11,744,158**	**£11,754,832**

SUBSIDIARIES	NATURE OF BUSINESS	ORDINARY SHARES
The Watford Association Football Club Limited	Football club	96%
Watford Catering Limited	Catering company	100%
Cornerdune Limited	Property investment company	100%

All companies are incorporated in England and Wales

12 STOCKS - GROUP

	2007	2006
Goods for resale	**£157,420**	£131,122

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

13 DEBTORS

	GROUP		COMPANY	
	2007 £	2006 £	2007 £	2006 £
Trade debtors	**370,597**	1,588,881	-	-
Transfer fees receivable	**4,511,750**	127 250	-	-
Other debtors	**100,826**	-	-	-
Prepayments and accrued income	**736,754**	774,854	**12,492**	20
	£5,719,927	£2,490,985	**£12,492**	£20

Other debtors includes £100,826 which falls due after more than one year

14 CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR

	GROUP		COMPANY	
	2007	2006	2007	2006
	£	£	£	£
Bank overdraft (note 15)	**2,460,735**	-	-	-
Bank loan (note 15)	**110,084**	89,865	-	-
Trade creditors	**2,802,932**	841,859	-	-
Players' registration costs	**4,090,492**	403,417	-	-
Other taxes and social security	**694,181**	1,667,361	-	-
Directors' loans	-	500,000	-	-
Other loans (note 15)	**2,047,500**	340,000	-	-
Accruals and deferred revenue	**6,262,848**	5,870,483	**21,566**	9,094
	£18,468,772	£9,712,985	**£21,566**	£9,094

Accruals and deferred revenue includes income, mainly from season ticket sales, received in advance in respect of the 2007/08 season

15 CREDITORS AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	GROUP		COMPANY	
	2007	2006	2007	2006
	£	£	£	£
Convertible Loan Notes 2009	**592,000**	1,000,000	**£592,000**	1,000,000
Bank loan	**116,964**	228,420	-	-
Directors' loans	-	3,312,821	-	-
Other loans	**831,782**	668,961	-	-
Players' registration costs	**732,500**	8,416	-	-
Accruals and deferred revenue	**430,101**	468,927	-	-
	£2,703,347	£5,687,545	**£592,000**	£1,000,000

15 CREDITORS AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (CONTINUED)

The matunty of total debt may be analysed as follows

	GROUP		COMPANY	
	2007	2006	2007	2006
	£	£	£	£
In one year or less	**2,157,584**	929,865	**-**	-
Between one and two years	**708,964**	3,244,168	**592,000**	-
Between two and five years	**831,782**	1,966,034	**-**	1,000,000
	£3,698,330	£6,140,067	**£592,000**	£1,000,000

The Convertible Loan Notes 2009 are issued to the Chairman, Mr G M Simpson The notes are unsecured and are convertible into Ordinary 1p shares at a price of 66 5p per share Interest of £51,438 (2006 - £70,233) was payable dunng the year

The bank loan and overdraft totalling £2,687,783, including £2,570,819 falling due within one year is secured by a charge over the Club's freehold stadium

There were directors loans of £3,812,821 at 30 June 2006, including £500,000 due within one year, representing amounts advanced to the company by G Russo and V Russo £1,677,500 of the loans were repaid dunng the year The balance of the loans has been reclassified as other loans with £1,972,500 repayable on 31 October 2007 and £162,821 repayable on 5 March 2009 These loans are unsecured £216,135 (2006 - £305,408) of interest and charges were payable dunng the year

Other loans also include a loan to the Club by Watford FC's Community Sports & Education Trust of £668,961 which is secured by a legal charge over the Club's stadium and is guaranteed by Watford Leisure PLC £43,768 (2006 - £40,451) interest was payable dunng the year

Notes to the financial statements for the year ended 30 June 2007

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 earn interest at rates prevailing in the money market

The interest rate risk profile of financial assets was as follows

	2007 £	2006 £
Floating rate	**670,376**	450,751

The interest rate profile of financial liabilities was as follows

	2007 £	2006 £
Fixed rate	-	3,650,000
Floating rate	**4,066,940**	2,081,731
No interest	**1,387,821**	492,821
	£5,454,761	£6,224,552
Fixed rate weighted average interest rate at 30 June	-	7 41%

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

The maturity profile of financial assets was as follows

	2007 £	2006 £
In one year or less	**569,550**	450,751
Between two and five years	**100,826**	-
	£670,376	£450,751

The maturity profile of financial liabilities was as follows

	2007 £	2006 £
In one year or less	**2,751,414**	101,506
Between one and two years	**1,950,976**	4,085,319
Between two and five years	**711,665**	2,017,195
Over five years	**40,706**	20,532
	£5,454,761	£6,224,552

The group has an undrawn bank overdraft facility of £1 2 million which is subject to annual review

17 DEFERRED CAPITAL GRANTS AND CONTRIBUTIONS - GROUP

	CAPITAL GRANTS £	CONTRIBUTIONS TO CAPITAL EXPENDITURE £	TOTAL £
At 1 July 2006	36,790	4,951	**41,741**
Credited to the profit and loss account	(3,520)	(849)	**(4,369)**
At 30 June 2007	**£33,270**	**£4,102**	**£37,372**

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

Notes to the financial statements for the year ended 30 June 2007

18 SHARE CAPITAL

	2007 £	2006 £
AUTHORISED		
60,000,000 Ordinary shares of 1p each	**600,000**	600,000
ALLOTTED, CALLED UP AND FULLY PAID		
43,885,693 Ordinary shares of 1p each	**438,857**	438,857

19 RESERVES

GROUP	SPECIAL RESERVE £	PROFIT AND LOSS ACCOUNT £
At 1 July 2006	10,650,875	(12,872,641)
Profit for the year	-	7,634,646
At 30 June 2007	**£10,650,875**	**£(5,237,995)**

COMPANY

At 1 July 2006	10,650,875	66,023
Loss for the year	-	(1,997)
At 30 June 2007	**£10,650,875**	**£64,026**

Future losses of the company may be extinguished against the Special Reserve in accordance with the provisions of High Court orders obtained on 5 May 2004 and 14 June 2006

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

Notes to the financial statements for the year ended 30 June 2007

20 RECONCILIATION OF MOVEMENTS ON SHAREHOLDERS' FUNDS

GROUP	2007 £	2006 £
Profit / (loss) for the financial year	**7,634,646**	(5,357,842)
Proceeds from issue of shares	-	5,926,709
Net addition to shareholders' funds	**7,634,646**	568,867
Opening shareholders' funds	**(1,782,909)**	(2,351,776)
Closing shareholders' funds	**£5,851,737**	£(1,782,909)
COMPANY		
(Loss) / profit for the financial year	**(1,997)**	66,023
Proceeds from issue of shares	-	5,926,709
Net (depletion in) / addition to shareholders' funds	**(1,997)**	5,992,732
Opening shareholders' funds	**11,155,755**	5,163,023
Closing shareholders' funds	**£11,153,758**	£11,155,755

Shareholders' funds are fully attributable to equity interests

21 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

a) Reconciliation of operating profit / (loss) to net cash inflow / (outflow) from operating activities

	2007 £	2006 £
Operating profit / (loss)	**261,731**	(6,984,667)
Amortisation of intangible fixed assets	**3,239,813**	495,401
Depreciation of tangible fixed assets	**267,513**	170,540
Capital contribution released	**(849)**	(1,132)
Capital grant released	**(3,520)**	(3,520)
Net loss on disposal of sundry fixed assets	**8,927**	-
(Increase) in stocks	**(26,298)**	(50,052)
Decrease / (increase) in debtors	**1,155,558**	(1,609,943)
Increase in creditors	**177,066**	4,734,625
Net cash inflow / (outflow) from operating activities	**£5,079,941**	£(3,248,748)

b) Analysis of changes in net debt

	AT 1 JULY 2006 £	CASH FLOWS £	OTHER CHANGES £	AT 30 JUNE 2007 £
Cash at bank and in hand	450,751	118,799	-	**569,550**
Bank overdraft	-	(2,460,735)	-	**(2,460,735)**
Net cash at bank and in hand	450,751	(2,341,936)	-	**(1,891,185)**
Bank loans due within 1 year	(89,865)	(20,219)	-	**(110,084)**
Other loans due within 1 year	(340,000)	265,000	(1,972,500)	**(2,047,500)**
Directors' loans due within 1 year	(500,000)	500,000	-	-
Loan notes 2009	(1 000,000)	408,000	-	**(592,000)**
Bank loans due after 1 year	(228,420)	111,456	-	**(116,964)**
Directors' loans due after 1 year	(3,312,821)	1,177,500	2,135,321	-
Other loans due after 1 year	(668,961)	-	(162,821)	**(831,782)**
	(6,140,067)	2,441,737	-	**(3,698,330)**
	£(5,689,316)	£99,801	-	**£(5,589,515)**

Notes to the financial statements for the year ended 30 June 2007

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

	2007 £	2006 £
(Decrease) / increase in cash in the year	**(2,341,936)**	935,818
Cash outflow from decrease in debt	**2,441,737**	157,672
Movement in net debt in the year resulting from cashflows	**99,801**	1,093,490
Directors' loans converted to shares	-	750,000
Other loan written off	-	1,009,619
Movement in net debt in the year	**99,801**	2,853,109
Net debt at 1 July 2006	**(5,689,316)**	(8,542 425)
Net debt at 30 June 2007	**£(5,589,515)**	£(5,689,316)

d) Major non-cash transactions

During the year ended 30 June 2006 the repayment of a loan of £1,009,619, representing amounts advanced to the company to fund the acquisition and salary costs of a player, was waived by the lender

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 2007, which has not been provided for in the financial statements, is as follows

	£
On contracts expiring	
Within two to five years	311,623

The group's commitments for rental payments under operating leases payable during the year to 30 June 2008 are as follows

	LAND AND BUILDINGS £	OTHER £
On contracts expiring		
Within one year	-	1,855
Within two to five years	246,653	18,330
	£246,653	£20,185

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 EMPLOYEE BENEFIT TRUST

During the year the company set up an employee benefit trust for the benefit of employees The group is deemed to have control of the assets and liabilities, income and costs of the Trust which have therefore been included in the financial statements

The Trust held two futures contracts at 30 June 2007 and bank balances at 30 June 2007 include a deposit of £500,000 which was made as security for possible settlement obligations

Notes to the financial statements for the year ended 30 June 2007

25 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 2007 includes a charge of £38,208 in respect of the increase in the company's liability The contribution is being paid by instalments of £1,573 per month until April 2016

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

26 CAPITAL COMMITMENTS

The company has contracted for, but not provided for in the financial statements, capital expenditure totalling £1,280,632

27 POST BALANCE SHEET EVENTS

Subsequent to the year end the club has sold players for £3,250,000 and purchased players with registration costs amounting to £3,406,000 These amounts will be capitalised in the financial statements for the next financial year

On 20 September 2007 the company granted the St Pancras & Humanist Housing Association a 125 year lease for a premium of £4,558,000 The St Pancras & Humanist Housing Association will build and operate 165 key worker housing units at the rear of the south (Rookery) stand and northwest corner of the stadium

Other loans to the Club totalling £1,972,500 have been repaid since the year-end

28 RELATED PARTY TRANSACTIONS

G M Simpson and M A Ashton are directors of Watford FC's Community Sports & Education Trust, a charitable company During the year the company agreed to fund bonuses to Trust staff with a total cost of £9,000 (2006 - £28,764) At 30 June 2007 £20,911 was owed to the company (2006 - £737 owing to the Trust)

Company information

DIRECTORS	G M Simpson - Chairman M A Ashton - Chief Executive Officer A S Wilson
COMPANY SECRETARY	P J Wastall
REGISTERED OFFICE	Vicarage Road Stadium Watford Herts WD18 0ER
REGISTERED NUMBER	3335610
NOMINATED ADVISER	Strand Partners Limited 26 Mount Row London W1K 3SQ
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BANKERS	Barclays Bank plc 32 Clarendon Road Watford Herts WD17 1BZ
SOLICITORS	Matthew Arnold & Baldwin 21 Station Road Watford Herts WD17 1HT
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