

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the contents of this document or the action you should take, you should consult an independent professional adviser authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.

This document, which comprises an admission document for the purposes of the AIM Rules and a prospectus for the purposes of the POS Regulations, has been drawn up in accordance therewith. A copy of this document has been delivered to the Registrar of Companies in England and Wales for registration in accordance with section 83 of the Financial Services and Markets Act 2000. Application will be made to the London Stock Exchange for the New Ordinary Shares to be issued pursuant to the Firm Placing and Public Offer to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings on AIM in such New Ordinary Shares will commence on 18 December 2002.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the UK Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with his or her own independent financial adviser. The rules of AIM are less demanding than those for the Official List. It is emphasised that no application is being made for the admission of these securities to the Official List. The London Stock Exchange plc has not itself examined or approved the contents of this document.

Strand Partners, which is regulated in the United Kingdom by the Financial Services Authority, is acting exclusively for Watford Leisure as financial adviser and nominated adviser in connection with the matters described in this document. Strand Partners is not acting for any recipient of this document and will not be responsible to any such recipient for providing to him the protections afforded to customers of Strand Partners or for advising any such person on the contents of this document or any transaction or arrangement referred to in this document.



WATFORD LEISURE PLC

(Incorporated and registered in England and Wales under the Companies Act 1985, with registered number 3335610)

Firm Placing of 3,966,666,668 New Ordinary Shares at 0.15p per share Public Offer for subscription of up to 2,000,000,000 New Ordinary Shares at 0.15p per share Proposed Capital Reorganisation Reduction of Capital

The Public Offer is not being made, directly or indirectly, in or into the United States, Canada, Australia, Japan or the Republic of Ireland and the accompanying Application Form is not being and should not be posted or otherwise distributed or sent in or into the United States, Canada, Australia, Japan or the Republic of Ireland. The New Ordinary Shares to be allotted pursuant to the Public Offer have not been and will not be registered under the Securities Act or under the relevant securities laws of any state or other jurisdiction of the United States, Canada, Australia, Japan or the Republic of Ireland. Accordingly, the New Ordinary Shares to be allotted pursuant to the Public Offer may not (unless an exemption under the Securities Act or other relevant applicable laws is available) be offered, sold, re-sold or delivered, directly or indirectly, in or into the United States, Canada, Australia, Japan or the Republic of Ireland or any other jurisdiction where this would constitute a violation of the relevant laws of, or require registration thereof in, such a jurisdiction or to, or for the account or benefit of, any US person or a person in, or resident of Canada, Japan, Australia or the Republic of Ireland. Overseas Shareholders and any other persons (including without limitation a nominee or trustee) who has a contractual or legal obligation to forward an application form outside the UK should read paragraph 3 of Section B in Part IV of this document.

The latest time and date for application and payment in full for the New Ordinary Shares under the Public Offer is 3.00 p.m. on 11 December 2002. The procedure for application and payment is set out in Part IV of this document and in the accompanying Application Form. Shareholders and potential investors who wish to apply for New Ordinary Shares under the Public Offer should complete the Application Form in accordance with the instructions printed on it, and return it, together with the appropriate remittance, by post in the reply-paid envelope provided or (during normal business hours only) by hand, so as to be received by the New Issues Department, Capita IRG Plc, P.O. Box No. 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH no later than 3.00 p.m. on 11 December 2002. Applications under the Public Offer may only be made on the enclosed application form which can be obtained from Capita IRG at the aforementioned address.

Notice of an Extraordinary General Meeting to be held at the Watford Grammar School for Girls, Lady's Close, Watford, Hertfordshire WD18 0AE at 6.30 p.m. on 12 December 2002, is set out at the end of this document. Shareholders should note that the Proxy Form for use at this meeting, which accompanies this document, should be completed and returned by Shareholders as soon as possible but, in any event, so as to be received by Capita IRG Plc, the Company's registrars, at Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU no later than 6.30 p.m. on 10 December 2002.

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EXPECTED TIMETABLE OF PRINCIPAL EVENTS

	2002
Latest time and date for receipt of Proxy Forms for use at the Extraordinary General Meeting	6.30 p.m. on 10 December
Latest time and date for receipt of completed Application Forms and payment in full under the Public Offer (unless closed earlier)	3.00 p.m. on 11 December
Extraordinary General Meeting	6.30 p.m. on 12 December
Admission and dealings in New Ordinary Shares to commence on AIM	8.00 a.m. on 18 December
CREST accounts credited for New Ordinary Shares in uncertificated form	18 December
Despatch of definitive share certificates for New Ordinary Shares in certificated form by	24 December
Court hearing to confirm share capital reduction	Mid February 2003
Effective date for share capital reduction	Mid February 2003

*These dates are estimates only and may be subject to change dependent on the Court.

If you have any queries on the procedure for application and payment under the Public Offer you should contact Capita IRG (telephone no. 0870 162 3100 or if calling from outside the UK on +44 (0)20 8639 2157). Please note that Capita IRG cannot offer you any investment advice in relation to the Public Offer.

DEFINITIONS

The following definitions apply throughout this document and in the Application Form, unless the context requires otherwise:

"Act"	the Companies Act 1985 (as amended);
"Admission"	the admission of the New Ordinary Shares, to be issued pursuant to the Firm Placing and Public Offer (other than those New Ordinary Shares to be issued pursuant to the Deferred Subscription, which will be admitted when issued and allotted), to trading on AIM and such admission becoming effective in accordance with the AIM Rules;
"AIM"	the Alternative Investment Market of the London Stock Exchange;
"AIM Rules"	the rules for companies whose securities are traded on AIM, published by the London Stock Exchange and amended from time to time;
"Application Form"	the application form accompanying this document for use in relation to the Public Offer and which forms part of the terms and conditions of the Public Offer;
"Australia"	the Commonwealth of Australia, its states, territories and possessions;
"Board" or "Directors"	the directors of the Company whose names are listed on page 6 of this document;
"Canada"	Canada, its provinces and territories and all areas subject to its jurisdiction and any political sub-division thereof;
"Capita IRG" or "Registrar"	Capita IRG Plc;
"Capital Reorganisation"	the proposed subdivision and redesignation of each of the issued Existing Ordinary Shares into New Ordinary Shares and Deferred Shares and the subdivision of the authorised but unissued share capital of the Company into New Ordinary Shares;
"certificated" or "in certificated form"	the description of a share or other security which is not in uncertificated form (that is, not in CREST);
"Club" or "Watford"	the Company's subsidiary, The Watford Association Football Club Limited;
"Company" or "Watford Leisure"	Watford Leisure PLC;
"Court"	the High Court of England and Wales;
"CREST"	the system for paperless settlement of trades and the holding of uncertificated shares administered by CRESTCo Limited;
"CRESTCo"	CRESTCo, the operator of CREST;
"CREST Regulations"	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755);

“Deferred Shares”	the non-voting deferred shares of 0.1 pence each in the capital of the Company following the Capital Reorganisation;
“Deferred Subscription”	the aggregate £1.85 million to be received by way of subscription for 1,233,333,333 New Ordinary Shares (forming part of the Firm Placing) by certain directors of the Company and Club and other existing Shareholders, £1.075 million of which is to be received by 1 July 2003, £0.475 million by 7 April 2004 and the remaining £0.3 million by 7 July 2004;
“Enlarged Issued Share Capital”	the issued ordinary share capital of the Company following the Firm Placing and the Public Offer (on the basis that the Public Offer is fully subscribed);
“Existing Ordinary Shares”	the 2,050,000,000 ordinary shares of 0.4 pence each in issue at the date of this document;
“Extraordinary General Meeting” or “EGM”	the extraordinary general meeting of the Company to be held at 6.30 p.m. on 12 December 2002, notice of which is set out at the end of this document;
“FA”	the Football Association Limited, the governing body for association football in England;
“Firm Placing”	the firm placing of 3,966,666,668 New Ordinary Shares with certain Directors and other shareholders at a price of 0.15 pence per share and subject to the passing of the Resolutions at the EGM;
“Football League”	The Football League Limited or, as the context requires, the three divisions of the league championship governed by this body;
“FSMA”	the Financial Services and Markets Act 2000;
“Group”	the Company and its subsidiary undertakings;
“Japan”	Japan, its cities, prefectures, territories and possessions;
“London Stock Exchange”	London Stock Exchange plc;
“member account ID”	the identification code or number attached to any member account in CREST;
“New Ordinary Shares”	the new ordinary shares of 0.1 pence each in the capital of the Company following the Capital Reorganisation and including the shares to be issued pursuant to the Firm Placing and the Public Offer;
“Offer Price”	0.15 pence per New Ordinary Share;
“Official List”	the official list of the UK Listing Authority;
“Ordinary Shares”	ordinary shares in the capital of the Company which, at the date of this document, each have a nominal value of 0.4 pence but which, upon the Capital Reorganisation becoming effective, will each have a nominal value of 0.1 pence;
“Overseas Shareholders”	holders of Existing Ordinary Shares with registered addresses outside the UK or who are citizens of, incorporated in, registered in or otherwise resident in, countries outside the UK;

“participant ID”	the identification code or membership number used in CREST to identify a particular CREST member or other CREST participant;
“POS Regulations”	the Public Offers of Securities Regulations 1995, as amended;
“Preliminary Results”	the preliminary results of the Company for the year ended 30 June 2002;
“Proposals”	the Firm Placing, Public Offer, Capital Reorganisation, Reduction and the associated Resolutions;
“Proxy Form”	the form of proxy accompanying this document for use by Shareholders at the EGM;
“Public Offer”	the conditional offer being made by Strand Partners, as agent for the Company, to Shareholders and potential investors to subscribe for the Public Offer Shares at the Offer Price and on the terms and conditions set out in this document and in the Application Form;
“Public Offer Shares”	up to 2,000,000,000 New Ordinary Shares to be issued under the Public Offer;
“Reduction”	the proposed reduction of the share capital of the Company by way of the cancellation of all of the Deferred Shares;
“Resolutions”	the resolutions set out in the notice of EGM at the end of this document;
“Shareholders”	holders of Ordinary Shares;
“Strand Partners”	Strand Partners Limited, which is regulated by the Financial Services Authority;
“uncertificated” or “in uncertificated form”	an Ordinary Share recorded on the Company’s register as being held in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST;
“United Kingdom” or “UK”	the United Kingdom of Great Britain and Northern Ireland;
“UK Listing Authority”	the Financial Services Authority, acting in its capacity as the competent authority for the purposes of Part VI of FSMA;
“United States” or “USA”	the United States of America, its territories or possessions, any state of the United States of America and the District of Columbia and all other areas subject to its jurisdiction;
“U.S. Person(s)”	a citizen or permanent resident of the United States as defined in Regulation S promulgated under the U.S. Securities Act; and
“U.S. Securities Act”	United States Securities Act of 1933 (as amended).

DIRECTORS, SECRETARY AND ADVISERS

Directors: Graham Michael Simpson (*Chairman*)
David Robert Meller (*Vice Chairman*)
Timothy Michael Shaw (*Chief Executive Officer*)
Brian Marvin Anderson (*Non-executive Director*)
David Roger Julian Lester (*Non-executive Director*)
Haig Bertrand Oundjian (*Non-executive Director*)
Michael Sidney Sherwood (*Non-executive Director*)

all of whose business address is at:

Vicarage Road Stadium
Watford
Hertfordshire WD18 0ER

Secretary: Peter James Wastall

Registered Office: Vicarage Road Stadium
Watford
Hertfordshire WD18 0ER

Financial and Nominated Adviser: Strand Partners Limited
110 Park Street
London W1K 6NX

Broker to the Company: Seymour Pierce Ellis Limited
Talisman House, Jubilee Walk
Three Bridges
Crawley
West Sussex RH10 1LQ

Auditors and Reporting Accountants: Chantrey Vellacott DFK
Gresham House
53 Clarendon Road
Watford
Hertfordshire WD17 1LR

Solicitors to the Company: Teacher Stern Selby
37-41 Bedford Row
London WC1R 4JH

Bankers: Barclays Bank PLC
32 Clarendon Road
Watford
Hertfordshire WD1 1LD

Registrars and Receiving Agents: Capita IRG Plc
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU

PART I

Letter from the Chairman of Watford Leisure



WATFORD LEISURE PLC

(Incorporated and registered in England and Wales under the Companies Act 1985, with registered number 3335610)

Directors:

Graham Michael Simpson (*Chairman*)
David Robert Meller (*Vice Chairman*)
Timothy Michael Shaw (*Chief Executive Officer*)
Brian Marvin Anderson (*Non-executive Director*)
David Roger Julian Lester (*Non-executive Director*)
Haig Bertrand Oundjian (*Non-executive Director*)
Michael Sidney Sherwood (*Non-executive Director*)

Registered and Head Office:

Vicarage Road Stadium
Watford
Hertfordshire WD18 0ER

13 November 2002

To Shareholders and to potential investors under the Public Offer

Dear Sir or Madam,

Firm Placing of 3,966,666,668 New Ordinary Shares at 0.15 pence per share
Public Offer for subscription of up to 2,000,000,000 New Ordinary Shares at 0.15 pence per share
Proposed Capital Reorganisation and Reduction of Capital

1. Introduction

The Board of Watford Leisure today announced that it is proposing to raise up to approximately £8.95 million (£8.8 million net of expenses) by way of a firm placing and a public offer of up to 5,966,666,668 New Ordinary Shares to provide additional working capital for the Company. The Firm Placing comprises the issue of 3,966,666,668 New Ordinary Shares to certain Directors and other existing Shareholders at 0.15 pence per share to raise £5.95 million (gross). The Public Offer is an offer of up to 2,000,000,000 New Ordinary Shares at 0.15 pence per Public Offer Share to raise up to £3.0 million (gross) and it is not underwritten.

As part of the Firm Placing, certain directors of the Company and the Club and certain existing Shareholders have committed to subscribe for, in aggregate, 1,233,333,333 New Ordinary Shares in 2003 and 2004 at 0.15 pence per share. The Deferred Subscription will mean that £1.075 million of the funds raised under the Firm Placing will be received not later than 1 July 2003, £0.475 million by 7 April 2004 and the remaining £0.3 million (gross) no later than 7 July 2004.

Additionally I have entered into a loan facility agreement whereby I make available £400,000 to the Company on commercial terms for a period of five years from 12 November 2002. The directors of Watford Leisure, other than myself, having consulted with Strand Partners, consider the terms of this agreement to be fair and reasonable insofar as the Shareholders are concerned. Further details relating to this arrangement are set out in paragraph 10 of Part VI of this document.

The Offer Price is lower than the current nominal value of the Existing Ordinary Shares. In order to effect the Public Offer, the Company therefore proposes, conditional upon Shareholder approval, to undertake a capital reorganisation which, prior to completion of the Public Offer, will involve the subdivision and conversion of each Existing Ordinary Share of 0.4 pence into one New Ordinary Share of 0.1 pence and three Deferred Shares of 0.1 pence and each of the unissued Ordinary Shares of 0.4 pence into four New Ordinary Shares of 0.1 pence.

In order to allow for the earlier payment of dividends than would otherwise be the case, the Company then proposes, subject to the approval of Shareholders and the sanction of the Court, to reduce its share capital by way of the cancellation of all of the Deferred Shares.

The purpose of this document is to provide Shareholders and potential investors with details of the Proposals and to seek Shareholders' approval for them at the Extraordinary General Meeting. This document also explains how Shareholders and potential investors may participate in the Public Offer. Notice of the Extraordinary General Meeting is set out at the end of this document. Additionally, the net assets of the Company are currently less than half of its called-up share capital. The directors are therefore also calling the EGM pursuant to s142 of the Act to consider the steps to be taken to deal with this net asset situation and to recommend the Proposals in this regard.

Details of the Firm Placing and the Public Offer and the Capital Reorganisation and the Reduction are set out in paragraphs 2 and 4 respectively of this Part I.

If Resolutions 1.1 to 1.5 are not passed by Shareholders at the Extraordinary General Meeting and the Firm Placing is not implemented and then the support of the Group's bankers is not forthcoming, the Directors believe that the Group may not have sufficient working capital for its present requirements. In such event, the Directors believe that there is a risk of the Group becoming insolvent and the Directors would need to consider appropriate insolvency procedures which could include proposing the voluntary liquidation of the Group.

2. Details of the Firm Placing and the Public Offer

The Company is proposing to raise up to approximately £8.95 million (£8.8 million net of expenses) by the issue of up to 5,966,666,668 New Ordinary Shares pursuant to the Firm Placing and the Public Offer.

3,966,666,668 of these New Ordinary Shares have been placed firm at the Offer Price with certain of the Directors and other existing shareholders pursuant to the Firm Placing and are not being offered to Shareholders or other potential investors under the Public Offer.

Shareholders and potential investors are being given the opportunity to subscribe for Public Offer Shares under the Public Offer at a price of 0.15 pence per share, payable in full on application.

The Public Offer Shares will be allotted credited as fully paid and will rank *pari passu* in all respects with each of the other New Ordinary Shares to be created pursuant to the Capital Reorganisation, including the right to receive all dividends and other distributions declared or made after the date of their issue. No temporary documents of title will be issued.

The Firm Placing and the Public Offer are conditional, *inter alia*, on the passing of Resolution 1 and Admission becoming effective. It is expected that Admission will take place, and dealings in the New Ordinary Shares to be issued pursuant to the Firm Placing and the Public Offer (other than those issued under the Deferred Subscription) shall commence, on 18 December 2002.

Full details of the Public Offer, including the detailed procedure for application and payment, are set out in Part IV of this document and in the Application Form. To be valid, Application Forms must be received by the New Issues Department, Capita IRG by no later than 3.00 p.m. on 11 December 2002.

As part of the Public Offer, Shareholders and other potential investors are being offered additional benefits to ownership of New Ordinary Shares on the investment of certain minimum sums. Full details of these benefits are set out in Part III of this document.

3. Background to, and reasons for, the Firm Placing and the Public Offer

Watford Leisure PLC is the holding company of The Watford Association Football Club Limited, the principal business of which is the operation of a professional football club and related commercial activities. The Club has four teams. The first team currently plays in the Nationwide First Division. The reserve team plays in the FA Premier Reserve League and the youth teams play in the FA Premier Academy under 19 and under 17 leagues. Watford's on-field and related football activities are regulated by the FA and the Football League. The success of the Club's business is largely dependent upon the Club's first team performance in the First Division.

In July 2001, Watford Leisure raised approximately £5 million (net of expenses) by way of a placing and public offer. The proceeds of this fund raising were to be used, *inter alia*, to secure the freehold of the Vicarage Road Stadium, to strengthen the Club's playing squad and to provide working capital for the Group. Whilst the Group was successful in subsequently securing the stadium's freehold on 22 January 2002 and made a number of significant signings during the course of the 2001/2 First Division season, the Club did not manage to secure promotion to the Premier League. This, and the regrettable demise of ITV Digital, has adversely affected cashflow and materially weakened the Company's financial position.

In June 2002 the Company required an immediate injection of funds. Certain of the Directors therefore loaned funds totalling £600,000. These were unsecured and were interest free. Given the position of the Company's finances the Board decided to sell the Vicarage Road Stadium freehold, which completed on 17 July 2002, for a sum of £6.0 million (gross). In return the Company was granted a thirty-five year lease (at a starting annual rental of £630,000). This transaction was carried out with an unconnected third party and the Club has been granted a right of first refusal upon any future sale of the freehold at any time within thirty-five years. In July and August 2002 £600,000 of the funds raised in the sale of the Vicarage Road Stadium freehold were used to repay the loans from certain Directors referred to above. A further 10 per cent. of the gross proceeds of sale of the Vicarage Road Stadium freehold (less the sum of £50,000) is now due and owing to the previous owner of the freehold pursuant to a deed entered into at the time the freehold was purchased by the Club in January 2002. The previous owner has agreed to payment of this sum in instalments over a period of five years and formal contracts are currently being negotiated.

Additionally, on 24 September 2002, in order to ease cashflow difficulties for the Company, the professional players of the Club and other staff were asked to accept a 12 per cent. pay deferral continuing until 30 June 2004. This was accepted on 26 September 2002 and if continued until 30 June 2004 would save approximately £1.3 million. The salary foregone is effectively an interest free loan repayable on the occurrence of a number of specified events, one of which is a return by Watford to the Premier League.

On 27 March 2002, ITV Digital, a joint venture between Carlton Communications plc ("Carlton") and Granada plc ("Granada"), was placed in administration, having previously attempted to renegotiate its three year contract with the Football League to televise matches involving Football League clubs. The Football League subsequently brought an action against Carlton and Granada to recoup approximately £178.5 million which it believed was owed to it by ITV Digital for the remaining two years of this contract. A hearing at the High Court in London was held over several days, commencing on 25 July 2002, and on 1 August 2002 the court ruled Carlton and Granada not to be liable. The loss of income to the Club as a result of the demise of ITV Digital is approximately £2.8 million per annum. On 5 July 2002, the Football League concluded a new four year contract with BSkyB plc which is reported to be valued at approximately £95 million. The Directors estimate that each first division club is likely to receive under this contract a basic award of £586,625 and the Directors anticipate that the Club will receive at least a further minimum of £195,000 based on payments for home and away games that are currently expected to be televised.

The funds raised pursuant to the Firm Placing will provide essential working capital which, in conjunction with a series of planned cost saving initiatives, will the Directors believe maintain the financial stability of the Company. Any funds raised in the Public Offer will provide additional working capital which will help the Board pursue its longer term development plan which has been designed to, *inter alia*, ensure the continued financial stability of the Club, accelerate the development of a new East Stand and the repurchase of the Vicarage Road Stadium freehold whilst sustaining the Club's playing performance. If Resolutions 1.1 to 1.5 are not approved at the EGM and the Firm Placing is not implemented and then the support of the Group's bankers is not forthcoming, the Directors believe that the Group may not have sufficient working capital for its present requirements. In such event, the Directors believe that there is a risk of the Group becoming insolvent and the Directors would need to consider appropriate insolvency procedures which could include proposing the voluntary liquidation of the Group.

4. Capital Reorganisation and Reduction

Under the Act, a company may not offer shares for subscription at a price which is less than the nominal value of such shares. The Offer Price is less than the nominal value of an Existing Ordinary Share and, accordingly, in order to complete the Firm Placing and the Public Offer, the Company is obliged to reduce the nominal value of its Existing Ordinary Shares to an amount which is less than the Offer Price.

In addition, the Company is currently unable to pay any dividends as a result of the deficit which exists on its profit and loss account reserve. Following the Capital Reorganisation and Reduction, the deficit will be substantially reduced. As long as a deficit remains, the Company will be unable to pay any dividends. However, the Capital Reorganisation and Reduction will allow the possibility of earlier dividend payments than would otherwise be the case.

The proposed Capital Reorganisation and Reduction will reduce the nominal value of the Ordinary Shares as follows:

- (i) each Existing Ordinary Share of 0.4 pence will be sub-divided into four new ordinary shares of 0.1 pence each and then three of such ordinary shares of 0.1 pence will be redesignated into Deferred Shares of 0.1 pence;
- (ii) each authorised but unissued Ordinary Share of 0.4 pence will be sub-divided and converted into four new Ordinary Shares of 0.1 pence each; and
- (iii) subject to the approval by Shareholders of Resolution 3 and subsequent sanction of the Court, the Deferred Shares resulting from the sub-division and conversion referred to in (i) above will be cancelled, thereby reducing the aggregate nominal value of shares then in issue by £6,150,000.

No share certificates will be issued in respect of the New Ordinary Shares or the Deferred Shares arising from the Capital Reorganisation.

The aggregate amount arising from the cancellation of the Deferred Shares will be used to reduce the deficit on the Company's profit and loss account reserve.

A reduction in the capital of the Company requires, first, that the requisite proposal be approved by shareholders as a special resolution. Following the passing of such resolution, the Reduction must be sanctioned by the Court. Only if the sanction of the Court is obtained will the Reduction take effect. The effective date of the Reduction is the date upon which the Court's order sanctioning the reduction is registered by the Company with the Registrar of Companies.

Accordingly, assuming the necessary resolution has been passed, the Company will apply to the Court for an appropriate order to sanction the Reduction. In order to obtain the sanction of the Court, the Company may be required to give certain undertakings to the Court restricting the use to

which it will put distributable reserves in subsidiary companies and any profits arising in the financial year in which the Reduction takes effect, as to the treatment of provisions in the profit and loss account of the Company and possibly other matters. In addition, it is anticipated that the Company will need to undertake to the Court not to treat as distributable any amount realised as a result of the Reduction equal to the amount by which the Reduction exceeds the amount of the deficit on the profit and loss account of the Company. The terms upon which the Court is prepared to sanction the Reduction will be subject to consideration in due course by the Court and discussion between the Company and its advisers. The Directors reserve the right to discontinue the application if they consider it appropriate in the interests of the Company to do so.

The proportionate interests of Shareholders in the Company prior to the Firm Placing and the Public Offer are not affected by the proposed creation of the Deferred Shares. The Reduction will not affect the voting or dividend rights, or rights on a return of capital in respect of the New Ordinary Shares. The Directors have been advised that as a consequence of the Reduction, the existing base cost of Ordinary Shares held will become the base cost of the New Ordinary Shares and that there should be no liability to tax by reason of the cancellation of the Deferred Shares. Accordingly, the Reduction should have no adverse impact on the UK tax position of shareholders resident in the UK.

5. Current trading and prospects

The Company released its Preliminary Results for the year ended 30 June 2002 on 31 October 2002.

Turnover for the year was approximately £16.8 million (2001: £9.98 million) and the Company reported a pre-tax loss of approximately £7.2 million (2001: £5.4 million). These figures have been extracted without adjustment from the Accountants' Report in Part V of this document. These figures should be read in conjunction with the whole of this document and Shareholders should not rely on the summarised information above.

The 68 per cent. increase in turnover from 2001 is due primarily to an increased Premier League parachute payment of £6.1 million and £3.8 million from ITV Digital via the Football League, representing the first year's revenue of the contract between ITV Digital and the Football League and an advance payment received in 2001 but accounted for in 2002. The Club's entitlement to the Premier League parachute payment has now expired. Despite this increase in revenue the Company reported the pre-tax loss of approximately £7.2 million as a result of significantly increased costs over the year and a write off of goodwill. The priority for the Board is to ensure the Company's long term financial stability. An important step in achieving this would be to secure the promotion of the Club to the Premier League. At the time of writing the Club is placed within the play-off positions of the Nationwide League First Division.

As referred to in paragraph 3 above, the Club was due to receive approximately £2.8 million per annum from the Football League in respect of monies due to the Football League from ITV Digital, a joint venture between Carlton Communications plc and Granada plc which is currently in liquidation. Negotiations between the Football League and Carlton and Granada collapsed in June and the Football League subsequently brought an action against Carlton and Granada to recoup approximately £178.5 million, representing what in its view was owed by ITV Digital for the remaining two years of its three year contract with the Football League. A High Court hearing on 1 August 2002 ruled that Carlton and Granada were not liable. The result is that Watford's trading prospects for each of the two financial years ending 30 June 2004 have been adversely affected to a material degree. On 5 July 2002, the Football League concluded a new four year contract with BSkyB plc which is reported to be valued at approximately £95 million. The Directors estimate that each first division club is likely to receive under this contract a basic award of £586,625 and the Directors anticipate that the Club will receive at least a further minimum of £195,000 based on payments for home and away games that are currently expected to be televised.

On 22 January 2002, the Vicarage Road Stadium freehold was purchased by the Club together with the release by the seller of exclusive supply provisions restricting the Club from purchasing alcoholic beverages from any other supplier save for the seller. The total price paid was £750,000. The amount paid in respect of the release has been capitalised by the Group as "pouring rights" and classified as an intangible fixed asset and is amortised on a straight line basis over its economic life, estimated at 10 years. The freehold was subsequently sold on 17 July 2002 for £6.0 million as disclosed in paragraph 3 above. Following the release of the exclusive supply restrictions the Club has concluded terms of a Sponsorship and Trading Agreement with Carlsberg-Tetley Brewing Limited as the official beer supplier to the Club.

The catering contract with the previous caterers Beeton Rumford terminated on 31 May 2002. At that date the catering operation was brought in house under the trading name of Watford Catering Limited which is a wholly owned subsidiary of Watford Leisure PLC. A new supporters bar has now been completed together with an extension to the Club offices for a total investment of £600,000.

On 17 July 2002, a seventeen year lease (deemed to have commenced on 1 July 2000) was signed with Saracens Limited, at a starting annual rental of £390,000.

The Directors are continuing to review ways of reducing overheads. In order to ease cashflow difficulties for the Company, the professional players of the Club and other staff were asked to accept a 12 per cent. pay deferral on 24 September 2002 continuing until 30 June 2004. This was accepted on 26 September 2002 and if continued until 30 June 2004 would save approximately £1.3 million. The salary foregone is effectively an interest free loan, repayable on the occurrence of a number of specified events, one of which is a return by Watford to the Premier League. Additionally, whilst the Directors recognise that there is currently a very depressed transfer market in the Nationwide League, they believe that some transfer revenue can also be generated.

Off-field activities are also under review and the Club's catering, which is now operated by its wholly owned subsidiary Watford Catering Limited, is expected to generate increased revenues. Cost savings are also envisaged as a result of further restructuring of off-field activities.

Over the period 22 October 2002 to 1 November 2002, certain directors of Watford Leisure and one director of the Club transferred to the Company a total of £349,994. These loans are unsecured with zero per cent. interest and are intended, in conjunction with an overdraft facility, to provide the cash required by the Company until implementation of the Firm Placing. It is the intention of the Board that these funds be repaid soon after the receipt of the Firm Placing funds in December 2002.

6. Personnel changes

On 12 June 2002, the Club announced the departure of first team coach Ray Wilkins. On 13 June 2002, the Club confirmed that it was making three further redundancies amongst its football coaching staff. Accordingly, fitness coach Giovanni Vaglini, club doctor Ian Beasley and masseur John Kelly have all now left Watford. In addition, on 14 June 2002, it was announced that the Club had terminated the employment of its first-team manager Gianluca Vialli.

Of the five employees whose contracts were terminated, settlements have now been agreed with four of them. Settlement is still to be reached with Gianluca Vialli and if not reached, litigation is a possibility. On 17 June 2002, Ray Lewington was appointed as caretaker manager and on 11 July 2002 he was formally appointed as first-team manager. On 1 July 2002, Nigel Gibbs was appointed as reserve team manager. A new first-team coach, Terry Burton, was appointed on 2 September 2002.

7. Board changes

Following the retirement of Sir Elton John CBE on 27 May 2002, as Director and Chairman, I was formally appointed as Chairman of the Board on 25 September 2002. On the same date Haig Oundjian retired as Vice Chairman of the Board and David Meller was appointed as his successor. Nigel Wray resigned from the Board on 5 August 2002.

8. Overseas Shareholders

The attention of Shareholders and other potential investors who have registered addresses outside the United Kingdom or who are citizens of countries other than the United Kingdom is drawn to Section B, paragraph 3 of Part IV of this document.

9. Extraordinary General Meeting

There is set out at the end of this document a notice convening an EGM of the Company to be held at the Watford Grammar School for Girls, Lady's Close, Watford, Hertfordshire WD18 0AE at 6.30 p.m. on 12 December 2002. At this meeting, the Resolutions will be proposed as follows:

- (a) Resolution 1 will be proposed to approve the Capital Reorganisation and amend the Company's articles of association, to authorise the allotment of shares and disapply the pre-emption rights which will be necessary to issue, *inter alia*, the New Ordinary Shares to be issued pursuant to the Firm Placing and the Public Offer.
- (b) Resolution 2 will be proposed to approve an amendment to the Company's articles of association to give Graham Simpson, whilst Chairman of the Board, two votes on any board resolution.
- (c) Resolution 3 will be proposed to approve the Reduction.

10. Action to be Taken

In respect of the Extraordinary General Meeting

Shareholders will find enclosed with this document a Proxy Form for use at the Extraordinary General Meeting, at which the Resolutions will be proposed. Whether or not Shareholders intend to be present at the meeting, they are requested to complete the Proxy Form in accordance with the instructions printed thereon and return it to Capita IRG Plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU as soon as possible and, in any event, so that it is received no later than 6.30 p.m. on 10 December 2002. The return of a completed Proxy Form will not prevent Shareholders from attending the Extraordinary General Meeting and voting in person, should they wish to do so.

In respect of the Public Offer

The action to be taken by Shareholders and potential investors who wish to apply for Public Offer Shares is set out in Part IV of this document, and in the enclosed Application Form. The Application Form should be returned along with the appropriate payment in full for the Public Offer Shares applied for to be received by post, or (during normal business hours only) by hand, in the reply-paid envelope provided, to the New Issues Department, Capita IRG Plc, P.O. Box 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH to arrive no later than 3.00 p.m. on 11 December 2002.

11. Settlement

Definitive share certificates for the New Ordinary Shares to be issued pursuant to the Firm Placing (but excluding the Deferred Subscription) and Public Offer in certificated form are expected to be despatched by post by 24 December 2002. It is expected that, where New Ordinary Shares are to be held in a CREST account, the New Ordinary Shares subscribed for under the terms of the Public Offer may be credited to such CREST account on 18 December 2002, subject to the provision of the appropriate information in the Application Form.

12. Taxation

Information on current United Kingdom taxation with regard to the Public Offer is set out in paragraph 14 of Part VI of this document. This information is intended only as a general guide to the current law and should not be relied upon. **If Shareholders or other potential investors are in any doubt as to their tax position, they should consult their own independent professional advisers without delay.**

13. Further information

Your attention is drawn to the further information set out in the remainder of this document including the Risk Factors in Part II, the benefits to those subscribing for shares under the Public Offer in Part III, the information relating to the Public Offer in Part IV, the Accountants' Report set out in Part V and the Additional information in Part VI.

14. Importance of the Proposals

If the appropriate Resolutions are not passed by Shareholders at the Extraordinary General Meeting and the Firm Placing and the Public Offer are not implemented and the support of the Group's bankers is not forthcoming, the Directors believe that the Group may not have sufficient working capital for its present requirements. In such event, the Directors believe that there is a risk of the Group becoming insolvent and the Directors would need to consider appropriate insolvency procedures, which could include proposing the voluntary liquidation of the Group.

15. Board recommendation and voting intentions

The Board, which has been so advised by Strand Partners, considers that the Proposals are in the best interests of the Company and its Shareholders as a whole. Accordingly, the Board (other than myself in respect of Resolution 2 as I am restricted from doing so) recommends that Shareholders vote in favour of the Resolutions numbered 1 to 3 to be proposed at the Extraordinary General Meeting. In providing its advice to the Board, Strand Partners has taken into account the Directors' commercial assessment of the Proposals.

At the date of this document, the Directors (other than myself in respect of Resolution 2) and certain other existing Shareholders, have given irrevocable commitments to vote in favour of the Resolutions. The Company therefore has irrevocable commitments for Resolutions 1 and 3 and for Resolution 2 representing 71.5 per cent. and 69.9 per cent. of the Existing Ordinary Shares respectively.

Yours faithfully

Graham Simpson
Chairman

PART II

Risk Factors

A prospective investor in Watford Leisure PLC should read this entire document carefully and, in addition, should be aware of the risks associated with an investment in the Company. In particular, the following factors, amongst others, should be considered:

Type of investment

Application will be made for the Public Offer Shares to be listed on AIM. AIM is the market for emerging or smaller growing companies and may not provide the liquidity normally associated with the Official List or other stock exchanges.

An investment in the Company may not be suitable for all recipients of this document. If you are in any doubt about the contents of this document, you are advised to consult an independent professional adviser authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities before making any decision to invest.

Share value

Market fluctuations

The share price of the Company may fluctuate with movements or trends in the market as a whole. For this reason the Company's share price may not always reflect the underlying value of the Company. It is possible that the share price will reflect the performance of the Club on the field. It is also possible that investors may realise less than the original sum invested.

Status of the Club

The Club is currently in the Nationwide League First Division. The Directors regard it as highly desirable for the Club to be in the Premier League in order for the Club to maximise its income. If the Club was relegated to the Nationwide League Second Division, the Club's income is likely to be significantly reduced.

Team performance

The success of the Group's business is largely dependent on the Club's first team performance in the Nationwide First Division. Professional football is dependent on the performance of professional players. In the event of a significant number of injuries, team performance may be adversely affected.

Attraction and retention of key employees

The Club is highly dependent on members of its management team and playing staff. Whilst it has entered into employment arrangements with each of its key personnel with the aim of securing their services, the retention of their services cannot be guaranteed.

Player insurance

It is the Club's current policy to insure its 10 highest value players only for the permanent loss of use of the player in the event that he is unable to continue playing as a result of a playing injury or illness. It is not the Club's policy to insure players for temporary loss of use of the player. This is due to the high level of premiums associated with such insurance cover.

Control of contractual obligations

The financial success of the Company is partly dependant on contracts negotiated between the FA Premier League and the Football League and the relevant broadcasting organisations. The Company is not necessarily a party to those contracts and may not have any direct influence on their outcome.

The transfer market

There have been significant changes in the rules governing the transfer of football players between clubs based in the European Union. The full consequences of these changes may not yet be apparent, and in the light of the above there is no guarantee that the Club will not lose the services of its current staff at the end of, or before the end of, their playing contracts without receiving the level of compensation that would have been received prior to the enforcement of the new transfer regulations.

Furthermore, FIFA has amended its current Regulations for Status and Transfers of Players in respect of new player contracts following a European Commission review of the existing arrangements. Such new regulations may adversely affect the business of the Club.

In addition there can be no doubt that the current financial state of football clubs in the Nationwide League means that the transfer market in general is depressed. There can be no guarantee that the situation will improve.

Requirements for further funds

The Company may need to raise further funds in the future to finance the working capital requirements of the Group. The requirement of such further funding will be dependent, *inter alia*, on the commercial performance of the Club and the playing performance of the Club's first team. There can be no guarantee or assurance that additional funds can be raised when necessary.

PART III

Benefits to those subscribing for shares under the Public Offer

Number and cost of New Ordinary Shares acquired	Details of Benefit
More than 333,333 New Ordinary Shares (£500)	A 5 per cent. discount on the price of a season ticket for ten years, commencing season 2003/2004
More than 666,667 New Ordinary Shares (£1,000)	A 10 per cent. discount on the price of a season ticket for ten years, commencing season 2003/2004
More than 16,666,667 New Ordinary Shares (£25,000)	<p>Life membership of the Senators Club, limited to the first ten subscribers. (The decision as to who constitutes one of the first ten subscribers is at the sole discretion of the Company.) Being a member entitles the holder to:</p> <ul style="list-style-type: none"> — tickets in the directors box (all home matches only) — car parking space at the stadium (all home matches) — meeting with the directors and football management (once per annum) — table at the end of season dinner for the next five years — free season ticket for ten years, commencing season 2003/2004
More than 66,666,667 New Ordinary Shares (£100,000)	<p>Appointment as an Associate Director of the Club, limited to the first five subscribers. (The decision as to who constitutes one of the first five subscribers is at the sole discretion of the Company.) Being an Associate Director entitles the holder to:</p> <ul style="list-style-type: none"> — tickets in the directors box (home & away matches) — car parking space at the stadium (all home matches) — meetings with directors and football management (twice per annum) — visits to the training ground (twice per annum) — table at the end of season dinner for the next five years — name in match programme — free season ticket for life, commencing season 2003/2004
<p>Regardless of the amount subscribed (subject to the minimum investment of £100), all potential investors or existing Shareholders who subscribe for New Ordinary Shares under the Public Offer will receive a voucher providing a ten per cent. discount on the full retail price of any purchase from the Club shop. The voucher will be valid until 31 May 2003. The vouchers shall be despatched between 2 January 2003 and 10 January 2003.</p> <p>NOTE: The benefits outlined above attach to the subscriber and not to the shares themselves, consequently the subscriber benefits are not transferable.</p>	

PART IV

Terms and Conditions of the Public Offer

A: Application Procedure

The Public Offer Shares being made available under the Public Offer are New Ordinary Shares being issued by the Company. Applicants who wish to apply to subscribe for Public Offer Shares should use the Application Form which should be completed in accordance with the instructions set out on the reverse of the form and after reading the terms and conditions of application set out below.

Applications must be for a minimum of 66,666 Public Offer Shares (a minimum subscription price of £100) and thereafter in multiples of 50,000 (subscription price: £75). Applications for any other number of Public Offer Shares may be rejected or treated as applications for the next smaller number of Public Offer Shares that complies with the requirements of this paragraph.

Details of the addresses from which Application Forms may be collected are set out on page 1.

It is expected that the basis of allocation of Public Offer Shares will be announced on the date of Admission and that definitive share certificates will be posted to successful applicants by 24 December 2002. Where New Ordinary Shares are to be held in a CREST account, it is expected that the New Ordinary Shares subscribed for under the terms of the Public Offer may be credited to such CREST account on 18 December 2002, subject to the provision of the appropriate information in the Application Form. It is expected that dealings will commence in the Public Offer Shares on 18 December 2002.

All enquiries in connection with the procedure for application and completion of the Application Form should be referred to Capita IRG, which is acting as Receiving Agent and Paying Agent in respect of the Public Offer. The telephone number of Capita IRG is 0870 162 3100 or, if calling from outside the UK, +44 (0)20 8639 2157.

B: Terms and Conditions of Application

In the case of a joint application, references to you in these terms and conditions of application are to each of you, and your liability is joint and several. Please ensure that you read these terms and conditions in full before completing the Application Form.

1. The contract created by the acceptance of applications under the Public Offer will be conditional upon Admission taking place by not later than 8.00 a.m. on 18 December 2002 (or such later time and/or date as Strand Partners and the Company may agree being not later than 8.00 a.m. on 24 December 2002).
2. Cheques and banker's drafts may be presented for payment by Capita IRG Plc ("Receiving Agents") on receipt and the Company reserves the right to retain the share certificates and surplus allocation monies pending clearance of successful applicants' cheques. The right is also reserved to reject in whole or in part, or to scale down or limit, any application.

If any application is not accepted in whole, or is accepted in part only, or if any contract created by the acceptance of an application does not become unconditional, the application monies or, as the case may be, the balance thereof, will be returned without interest by returning the applicant's cheque or banker's draft or by cheque crossed "A/C payee only" in favour of the first-named applicant, through the post to the first-named applicant at the risk of the person(s) entitled thereto. In the meantime, application monies will be retained by the Receiving Agents in a separate account.

3. The making of the Public Offer to persons not resident in the United Kingdom or who are citizens of countries other than the United Kingdom may be affected by the laws or regulatory requirements of such relevant jurisdiction. No person receiving a copy of this document and/or the Application Form in any territory other than the United Kingdom may treat the same as constituting an invitation or offer to him/her, nor should he/she in any event use such Application Form, unless in the relevant territory such an invitation or offer could lawfully be

made to him/her and such Application Form could lawfully be used without compliance with any registration or other legal or regulatory requirements other than any which have been fulfilled. In such circumstances, the document and/or the Application Form are sent for information only, are confidential and should not be copied or distributed.

It is the responsibility of any person resident outside the United Kingdom or who is a citizen of a country other than the United Kingdom wishing to apply for any Public Offer Shares under the Public Offer to satisfy himself/herself as to the full observance of the laws of the relevant territory in connection therewith, including the obtaining of any governmental or other consents which may be required and compliance with any other formalities needing to be observed in such territory and payment of any issue, transfer or other taxes due in such territory.

Persons (including, without limitation, nominees and trustees) receiving a copy of this document and/or an Application Form in connection with the Public Offer must not distribute or send the Application Form in or into the United States, Canada, Australia, the Republic of Ireland or Japan or their respective territories or possessions or any other jurisdiction where to do so would or might contravene local securities laws or regulations (together the "prohibited territories"). If a copy of this document and/or the Application Form is received by a person in any of the prohibited territories or by his/her agent or nominee of such a person, he/she must not seek to take up the Public Offer Shares under the Public Offer. Any person who does forward a copy of this document and/or the Application Form into any prohibited territory, whether pursuant to a contractual or legal obligation or otherwise, should draw the attention of the recipient to the contents of this paragraph.

The Company reserves the right to accept or reject in its absolute discretion Application Forms received from persons in any prohibited territory or persons it believes are acquiring Public Offer Shares for resale in any such territory. A Shareholder or potential investor who is in any doubt as to his/her position should consult an appropriate professional adviser without delay. All payments in connection with an accepted Application Form must be made in pounds sterling.

In particular, Shareholders and potential investors should note the following:

United States and Canada

As the Public Offer Shares are not being registered under the United States Securities Act 1933, as amended (the "Securities Act") and as the relevant exemptions are not being obtained from the appropriate provincial authorities in Canada, the Public Offer Shares are not being offered in or for purchase by persons resident in the United States or Canada or any territory or possessions thereof ("North America"). Applications from any North American person who appears to be or whom Watford Leisure or Strand Partners have reason to believe to be so resident or the agent of any person so resident may be deemed to be invalid. No Application Form will be sent to any Shareholder or potential investor whose registered address is in North America. If any Application Form is received by any Shareholder or potential investor whose registered address is elsewhere but who is in fact a North American person or the agent of a North American person so resident, he/she should not apply under the Public Offer.

Watford Leisure reserves the right to invite a limited number of Shareholders or potential investors in the United States to apply for New Ordinary Shares who may qualify as an institutional "accredited investor" as defined in Rule 501(a) under the Securities Act, under restrictions designed to preclude a distribution which would require registration of such New Ordinary Shares under the Securities Act and otherwise to ensure compliance with the laws of the United States. Any such New Ordinary Shares acquired by an institutional "accredited

investor" will be deemed "restricted securities" for the purposes of US securities laws and subject to restrictions on re-sale or transfer. In addition, any such investor will be required to make certain representations and warranties to Watford Leisure in connection with any such investment.

For the purposes of this document, "North American person" means a "U.S. Person" as defined in Regulation S of the Securities Act or citizen or resident of North America including the estate of any such person or any corporation, partnership or other entity created or organised under the laws of North America or any state or trust, the income of which is liable to Canadian income tax regardless of its services or any political sub-division thereof.

Australia

No prospectus in relation to the Public Offer Shares has been lodged with, or registered by, the Australian Securities and Investments Commission. A person may not:

- (a) directly or indirectly offer for subscription or purchase, or issue an invitation to subscribe for or buy or sell, the Public Offer Shares; or
- (b) distribute any draft or definitive document in relation to any such offer, invitation or sale;

in the Commonwealth of Australia, its states, territories or possessions ("Australia") or to any resident of Australia (including corporations and other entities organised under the laws of Australia but not including a permanent establishment of such a corporation or entity located outside Australia).

Accordingly, this document and the Application Form will not be issued to Shareholders or potential investors with registered addresses in, or to residents of, Australia.

Republic of Ireland

In order to comply with the laws of the Republic of Ireland, no Application Forms will be sent to Shareholders or potential investors with registered addresses in the Republic of Ireland.

Japan

The Public Offer is not being made in Japan and the Public Offer Shares will not be available for purchase by any resident of Japan, including any corporations organised under the laws of Japan.

Other overseas territories

Shareholders or potential investors resident in other overseas territories should consult appropriate professional advisers as to whether they require any governmental or other consents or need to observe any further formalities to enable them to apply for any Public Offer Shares.

4. By completing and delivering an Application Form you, or each of you, (and, if you sign the Application Form on behalf of some other person, that other person) as the case may be:
 - (a) offer to subscribe for the number of Public Offer Shares specified in your Application Form (or such lesser number for which your application is accepted) at the Offer Price and on the terms of, and subject to the conditions set out in, this document (including these terms and conditions) and to receive the New Ordinary Shares subject to the Memorandum and Articles of Association of the Company (as amended from time to time);
 - (b) agree that, in consideration of the Company agreeing that it will consider and process applications for Public Offer Shares under the Public Offer in accordance with the procedures referred to in this document, your application cannot be revoked and that

this paragraph shall constitute a collateral contract between you and the Company which will become binding upon the despatch by post to, or in the case of delivery by hand on receipt by, the Receiving Agents of your Application Form;

- (c) agree and warrant that the remittance accompanying your Application Form may be presented for payment on receipt and will be honoured on first presentation, and agree that you will not be entitled to receive a certificate in respect of the Public Offer Shares applied for or have any Public Offer Shares credited to your stock account in CREST unless and until you make payment in cleared funds for such shares and such payment is accepted by the Company in its absolute discretion (which may be on the basis that it is without prejudice to the Company's rights to require you to indemnify it against all costs, damages, losses, expenses and liabilities arising out of or in connection with the failure of your remittance to be honoured on first presentation) and you agree that, at any time prior to the unconditional acceptance by the Company of such payment, the Company may (without prejudice to any other rights) avoid any agreement to allocate or allot such Public Offer Shares and may allocate and/or allot such Public Offer Shares to some other person in which case you will not be entitled to any refund or payment in respect of such shares (other than the refund of such late payment);
- (d) agree that, in respect of those Public Offer Shares for which your application has been received and is not rejected, acceptance of your application shall be constituted, at the election of the Company, either (i) by notification to the London Stock Exchange on the basis of allocation (in which case acceptance shall be on that basis) or (ii) by notification of acceptance thereof to the Receiving Agents;
- (e) agree that any share certificates and any monies returnable to you may be retained by the Receiving Agents pending clearance of your remittance or pending investigation of any breach or suspected breach of the warranties set out in these terms and conditions and that such monies will not bear interest in your favour;
- (f) where you wish to hold the Public Offer Shares in certificated form, authorise the Receiving Agents to send a fully paid share certificate in respect of the Public Offer Shares allotted and issued to you, and/or a cheque crossed "A/C payee only" for any money returnable, by post at the risk of the person(s) entitled thereto, to the address of the person (or in the case of joint applicants the first-named person) named as an applicant in the Application Form;
- (g) warrant that, if you sign the Application Form on behalf of somebody else or on behalf of a corporation, you have due authority to do so on behalf of that other person and such person will also be bound accordingly and will be deemed also to have given the confirmations, warranties and undertakings contained herein and undertake to enclose your power of attorney or a copy thereof certified by a solicitor or bank manager, where this is required;
- (h) agree that all applications, acceptances of applications and contracts resulting therefrom under the Public Offer shall be governed by and contained in accordance with English Law and that you submit to the jurisdiction of the English courts and agree that nothing shall limit the right of the Company to bring any action, suit or proceeding arising out of or in connection with any such applications, acceptances or applications and contracts in any other manner permitted by law or in any court of competent jurisdiction;
- (i) confirm that in making such application you are not relying on any information or representation in relation to the Company or its securities other than those contained in this Prospectus and any supplementary prospectus that may be published and accordingly you agree that no person responsible solely or jointly for this Prospectus or any supplementary prospectus or any part thereof or involved in the preparation thereof shall have any liability for any such other information or representation;

- (j) irrevocably authorise the Receiving Agent or the Company or any person authorised by either of them, as your agent, to do all things necessary to effect registration of any Public Offer Shares subscribed by or issued to you into your name(s);
- (k) agree that, having had the opportunity to read this document, you shall be deemed to have had notice of all information and representations concerning the Company and the Public Offer Shares contained therein;
- (l) confirm that you have read and complied with paragraph (3) above;
- (m) agree that, without prejudice to any other rights to which you may be entitled, you will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application;
- (n) agree that all documents and cheques sent by post, by or on behalf of the Company or the Receiving Agents, will be sent at the risk of the person(s) entitled thereto;
- (o) confirm that you have reviewed the restrictions contained in paragraph (5) below and represent and warrant as provided therein;
- (p) agree to provide the Company or the Receiving Agents with any information which either of them may reasonably request in connection with your application including (without prejudice to the generality of the foregoing) any information and verification required under paragraph (6) and authorise the Company or the Receiving Agents to disclose such information relating to your application to such persons as it considers appropriate;
- (q) warrant that you are not under the age of 18;
- (r) warrant that you are not, and are not applying as nominee or agent for, a person who is or may be liable to stamp duty or stamp duty reserve tax under any of sections 67, 70, 93 or 96 of the Finance Act 1986 (depository receipts and clearance services);
- (s) warrant that, in connection with your application, you have observed the laws of all requisite territories, obtained any requisite governmental or other consents which may be required, complied with all requisite formalities and paid any issue, transfer or other taxes due in connection with your application in any territory and that you have not taken any action which will or may result in the Company or Strand Partners or the Receiving Agents acting in breach of the regulatory or legal requirements of any territory in connection with the Public Offer for subscription and your application; and
- (t) agree that Strand Partners will not treat you as its customer by reason of your application being accepted or owe you any duties or responsibilities concerning the price of your Public Offer Shares or the suitability for you of the Public Offer Shares or be responsible to you for the protections afforded to its customers.

5. The New Ordinary Shares have not been nor will they be registered under the United States Securities Act of 1933 (as amended) and the relevant exemptions are not being obtained from the securities commission of any province of Canada. Accordingly, and, subject to certain exceptions, the New Ordinary Shares may not be offered, sold, renounced, transferred or delivered directly or indirectly, in the United States or Canada, or to or for the benefit of any US Person or resident in Canada. Persons subscribing for New Ordinary Shares shall be deemed and (unless the Company is satisfied that New Ordinary Shares can be allotted

without breach of United States securities laws) shall be required to represent and warrant to the Company that they are not a US Person or resident of Canada and that they are not subscribing for such New Ordinary Shares for the account of any such person and will not offer, sell, renounce, transfer or deliver, directly or indirectly, such New Ordinary Shares in the United States or Canada or to any such person. As used herein, "US Person" means any person who is a citizen or resident of the United States, a corporation, partnership or other entity created or organised in or under the laws of the United States or on estate or trust which is subject to United States federal income taxation regardless of the source of the income.

6. The verification of identity requirements of the Money Laundering Regulations 1993 will apply and verification of the identity of applicant(s) may be required. Failure to provide the necessary evidence of identity may result in an application being treated as invalid or in delays in accepting the application. In order to avoid this, if the value of the New Ordinary Shares for which application is made exceeds €15,000 payment should be made by means of a cheque drawn by the applicant (or one of the joint applicants). If this is not practicable and a cheque is drawn by a third party or a building society cheque or a banker's draft is used:
 - (i) the name, address and date of birth of the applicant (or each of the joint applicants) should be written on the back of the cheque, building society cheque or banker's draft; and
 - (ii) if a building society cheque or banker's draft is used, the building society or bank should endorse on the cheque or banker's draft the name and account number of the person whose building society or bank account is being debited.

If an application is delivered in person or by hand, evidence of identity bearing the photograph of the applicant (e.g. a passport) will be required.

If any application is made as agent for one or more persons by a person who is not a United Kingdom or European Community regulated person or institution, then irrespective of the value of the application, the Receiving Agents are obliged to take reasonable measures to establish the identity of the person or persons on whose behalf the application is being made. In such circumstances, applicants should indicate whether or not they are a United Kingdom or European Community regulated person or institution (e.g. a bank or broker) and specify their status.

In any event, if it appears to the Receiving Agents that an applicant is acting on behalf of some other person, further verification of the identity of any person on whose behalf the applicant appears to be acting may be required. In relation to any application in respect of which the applicant appears to be acting has not been received on or before the latest time and date for application and payment in full (or such later date as the Company may in its absolute discretion determine), the Company may, in its absolute discretion, elect to treat the relevant application as invalid and/or delay allotting the Public Offer Shares until the necessary verification has been provided.

7. The basis of allocation under the Public Offer for subscription will be determined by Strand Partners (but subject thereto in consultation with the Company). In the event that valid applications exceed the 2,000,000,000 Public Offer Shares available under the Public Offer, applicants will be scaled down on such basis as Strand Partners and the Directors may determine, in their absolute discretion. The right is reserved to treat as valid any application not in all respects completed in accordance with the instructions accompanying the Application Form or not fully complying with these terms and conditions of application. The Company and Strand Partners also reserve the right to make the New Ordinary Shares available to any person notwithstanding any statement contained in this document if they are advised to their satisfaction that any such person can properly make an application without observance by the Company of any requirements which the Company and Strand Partners (in their absolute discretion) regard as unduly burdensome. Equally, the Company and Strand Partners reserve the right to treat an application as invalid if they believe the application may violate applicable legal or regulatory requirements.

8. Save where the context otherwise requires, words and expressions defined in this Prospectus have the same meanings when used herein, in the Application Form and the explanatory notes in relation thereto.
9. Applications must be made using an original Application Form; photocopies will not be accepted.
10. Your cheque or banker's draft must be drawn in sterling on an account at a branch (which must be in the United Kingdom, the Channel Islands or the Isle of Man) of a bank or building society which is either a member of the Cheque and Credit Clearing Company Limited or the CHAPS Clearing Company Limited or a member of the Committees of the Scottish or Belfast Clearing Houses or which has arranged for its cheques or banker's drafts to be cleared through the facilities provided for members of any of those companies or associations and must bear the appropriate sorting code in the top right-hand corner. The Company reserves the right to reject any application in respect of which the applicant's cheque or banker's draft has not cleared on first presentation.
11. The Company reserves the right, but shall not be obliged, to accept applications accompanied by the required remittances which are received after 3.00 p.m. on 11 December 2002 but not later than 9.00 a.m. on 12 December 2002, provided that the cover bears a legible postmark not later than 3.00 p.m. on 11 December 2002. The Company reserves the right, but shall not be obliged, to accept applications in respect of which remittances are received prior to 3.00 p.m. on 11 December 2002 from an authorised person (as that term is defined in FSMA) specifying the number of Public Offer Shares concerned and undertaking to lodge the relevant Application Form in due course.
12. Notwithstanding any other provision of this document or of the Application Form, the Company reserves the right to allot and/or issue any Public Offer Shares in certificated form. In normal circumstances, this right is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or any part of CREST), or on the part of the facilities and/or systems operated by the Company's registrars in connection with CREST. This right may also be exercised if the correct details (such as the Participant ID and Member Account ID details) are not provided as requested on the Application Form.

PART V
Accountants' Report

Chantrey Vellacott DFK



The Directors
Watford Leisure PLC
Vicarage Road Stadium
Watford
Hertfordshire WD18 0ER

The Directors
Strand Partners Limited
110 Park Street
London W1K 6NX

13 November 2002

Dear Sirs

WATFORD LEISURE PLC

Introduction

We report on the financial information set out below which has been prepared for inclusion in the prospectus issued by Watford Leisure PLC (the "Company") and dated 13 November 2002 (the "Prospectus").

The Company's name was Watford Association Football Club (Holdings) Limited at the commencement of the period covered by the financial information. On 10 July 2001, the Company was re-registered as a public limited company and changed its name to Watford Leisure PLC.

Basis of preparation

The consolidated financial information set out below is based on the audited financial statements of the Company for the three years ended 30 June 2000, 2001 and 2002 after making such adjustments as we considered necessary. In particular, the accounting policy in respect of signing on fees has been changed to adopt the guidance from the Committee on Financial Reporting of Football Clubs. 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. These amounts were previously included in salary costs.

Responsibility

The financial statements referred to above are the sole responsibility of the directors of the Company.

The directors of the Company are responsible for the contents of the Prospectus in which this report is included.

It is our responsibility to compile the financial information set out in our report, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

Fundamental uncertainty

In forming our opinion in respect of the year ended 30 June 2002 we have considered the adequacy of the disclosures made in the financial statements concerning the possible outcome of arrangements for additional finance. The financial statements have been prepared on a going concern basis, the validity of which depends upon such further finance becoming available. The financial statements do not include any adjustments that would result from a failure to obtain such finance. Details of the circumstances relating to this fundamental uncertainty are described in note 1 to the financial statements. Our opinion is not qualified in this respect.

Opinion

In our opinion the consolidated financial information gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of the Company and its subsidiary undertakings as at 30 June 2000, 30 June 2001 and 30 June 2002 and of the results and cash flows for the periods then ended.

Consent

We consent to the inclusion in the Prospectus of this report and accept responsibility for this report for the purposes of paragraph 45(1)(b)(iii) of Schedule 1 to the Public Offers of Securities Regulations 1995.

Consolidated profit and loss accounts

	Notes	Year to 30 June		
		2000 £'000	2001 £'000	2002 £'000
Turnover	1(i) & 2	16,801	9,978	16,824
Cost of sales		(10,157)	(11,283)	(17,918)
Amortisation of players' registrations	1(d) & 9	(1,081)	(2,432)	(3,032)
Gross profit/(loss)		<u>5,563</u>	<u>(3,737)</u>	<u>(4,126)</u>
Administrative expenses		(2,067)	(2,487)	(2,666)
		<u>3,496</u>	<u>(6,224)</u>	<u>(6,792)</u>
Write down of goodwill	9	(182)	(188)	(1,503)
Other operating income	3	587	832	684
Operating profit/(loss)		<u>3,901</u>	<u>(5,580)</u>	<u>(7,611)</u>
(Loss)/profit on disposal of players' registrations		(299)	19	318
Interest receivable	4	189	158	149
Interest payable and similar charges	4	(39)	(17)	(28)
Profit/(loss) on ordinary activities before taxation	5	<u>3,752</u>	<u>(5,420)</u>	<u>(7,172)</u>
Tax on profit/(loss) on ordinary activities	7	(8)	—	—
Profit/(loss) on ordinary activities after taxation		<u>3,744</u>	<u>(5,420)</u>	<u>(7,172)</u>
Minority interests		(199)	275	238
Profit/(loss) for the financial year		<u>3,545</u>	<u>(5,145)</u>	<u>(6,934)</u>
Earnings/(loss) per share (basic and diluted)	8	<u>0.4p</u>	<u>(0.3)p</u>	<u>(0.3)p</u>

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

Consolidated balance sheets

	Notes	Year to 30 June		
		2000 £'000	2001 £'000	2002 £'000
Fixed assets				
Intangible assets	1(c),(d),(g) & 9	5,015	6,640	4,156
Tangible assets	1(f) & 10	6,866	6,633	7,179
		<u>11,881</u>	<u>13,273</u>	<u>11,335</u>
Current assets				
Stocks	1(h) & 11	178	71	152
Debtors	12	953	1,373	1,516
Cash at bank and in hand		4,381	925	25
		<u>5,512</u>	<u>2,369</u>	<u>1,693</u>
Creditors: amounts falling due within one year	13	<u>4,338</u>	<u>6,261</u>	<u>6,738</u>
Net current assets/(liabilities)		<u>1,174</u>	<u>(3,892)</u>	<u>(5,045)</u>
Total assets less current liabilities		<u>13,055</u>	<u>9,381</u>	<u>6,290</u>
Creditors: amounts falling due after more than one year	14	(92)	(1,411)	(695)
Deferred income	16	<u>(1,947)</u>	<u>(2,041)</u>	<u>(1,786)</u>
Net assets		<u>11,016</u>	<u>5,929</u>	<u>3,809</u>
Capital and reserves				
Called up share capital	17	3,076	3,136	8,200
Share premium	18	4,539	4,779	4,764
Revaluation reserve	18	1,253	1,253	1,253
Profit and loss account	18	2,088	(3,057)	(9,991)
Equity shareholders' funds	19	<u>10,956</u>	<u>6,111</u>	<u>4,226</u>
Minority interests		<u>60</u>	<u>(182)</u>	<u>(417)</u>
Total capital employed		<u>11,016</u>	<u>5,929</u>	<u>3,809</u>

Consolidated cash flow statements

	Notes	Year to 30 June		
		2000 £'000	2001 £'000	2002 £'000
Operating activities				
Net cash inflow/(outflow) from operating activities	20(a)	<u>4,463</u>	<u>(153)</u>	<u>(4,060)</u>
Returns on investments and servicing of finance				
Interest received		187	160	149
Interest paid		<u>(67)</u>	<u>(17)</u>	<u>(28)</u>
Net cash inflow from returns on investments and servicing of finance		<u>120</u>	<u>143</u>	<u>121</u>
Taxation		<u>—</u>	<u>(8)</u>	<u>—</u>
Investing activities				
Payments to acquire intangible fixed assets		(3,412)	(3,863)	(2,086)
Payments to acquire tangible fixed assets		(862)	(371)	(1,044)
Contributions to capital expenditure		112	13	42
Capital grants received		—	196	—
Receipts from sales of intangible fixed assets		95	323	374
Receipts from sales of tangible fixed assets		<u>10</u>	<u>—</u>	<u>1</u>
Net cash (outflow)/inflow for capital expenditure		<u>(4,057)</u>	<u>(3,702)</u>	<u>(2,713)</u>
Acquisitions and disposals				
Purchase of shares in subsidiary undertaking		<u>—</u>	<u>(9)</u>	<u>(3)</u>
Net cash inflow/(outflow) before financing		<u>526</u>	<u>(3,729)</u>	<u>(6,655)</u>
Financing				
Issue of ordinary share capital	19	7,615	300	5,049
(Repayments)/advances of finance and other loans		(4,958)	(4)	717
Capital element of hire purchase		<u>(40)</u>	<u>(23)</u>	<u>(11)</u>
Net cash inflow from financing		<u>2,617</u>	<u>273</u>	<u>5,755</u>
Increase/(decrease) in cash in the year	20(b)	<u><u>3,143</u></u>	<u><u>(3,456)</u></u>	<u><u>(900)</u></u>

Notes to the financial information

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 £6,933,706 and had net assets at 30 June 2002 of £3,808,568. The Group has raised finance subsequent to the year end by entering into a sale and lease back transaction to raise £5.5 million net as detailed in note 25. The Group has prepared financial projections which indicate that due to current difficult trading conditions additional working capital is required. The Group is currently seeking to raise funds through a share issue, arrangement of loan facilities and deferral of staff and player salaries and in addition is also undertaking cost saving measures which will enable working capital requirements to be met for the foreseeable future. The directors are confident that these actions will be successful and therefore consider it appropriate to prepare the financial statements on a going concern basis.

(b) *Basis of consolidation*

The Group financial information incorporates the financial statements of Watford Leisure PLC and its subsidiary, The Watford Association Football Club Limited for the three years to 30 June 2002 and for the year to 30 June 2002 of its subsidiary Watford Catering Limited.

(c) *Goodwill*

Goodwill arising on consolidation is capitalised as an intangible asset. Following the introduction of FRS 10, goodwill is being amortised on a straight line basis over 10 years from June 2000.

The value of goodwill is reviewed annually for any impairment and provision made against any permanent diminution in value. The directors have considered it appropriate to prudently provide for this in the current year and have accordingly written the value of goodwill down to zero.

(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.

(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 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 Group's freehold over the Group's lease of the ground was acquired in the year to 30 June 2002. The premises and ground improvements continue to be depreciated at a rate of 5 per cent of the written down value per annum. The pitch is depreciated over its expected useful life of seven years. Depreciation of motor vehicles, equipment, fixtures and fittings is calculated at 25 per cent on written down value, a rate calculated to write off the cost less estimated residual value of each asset over its expected useful life.

The Group has adopted the transitional provisions of FRS 15 and has not updated the valuation of its property.

(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 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.

(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 years.

(m) *Deferred taxation*

The accounting policy in respect of deferred tax has been changed to reflect the requirements of FRS19 – Deferred tax. 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. No provision has been made for deferred tax on gains recognised on revaluing property to its market value as no tax charge is expected to arise on disposal.

The above amounts to a change in accounting policy. The previous policy was to provide deferred tax only to the extent that it was probable that liabilities would crystallise in the foreseeable future. The adoption of the standard has not required a prior period adjustment.

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 is net of value added tax.

3. Other operating income

	Year to 30 June		
	2000	2001	2002
	£'000	£'000	£'000
Donations	—	—	9
Rent receivable	295	366	390
Contributions to capital expenditure (<i>note 16</i>)	75	90	134
Release of capital grants (<i>note 16</i>)	117	123	127
Other	100	253	24
	<u>587</u>	<u>832</u>	<u>684</u>

4. Interest

	Year to 30 June		
	2000	2001	2002
	£'000	£'000	£'000
Interest receivable:			
Bank deposit interest	<u>189</u>	<u>158</u>	<u>149</u>
Interest payable and similar charges:			
Bank loans and overdrafts	27	—	6
Hire purchase interest	12	6	2
Other interest	—	11	20
	<u>39</u>	<u>17</u>	<u>28</u>

5. Profit/(loss) on ordinary activities before taxation

	Year to 30 June		
	2000	2001	2002
	£'000	£'000	£'000
This is stated after charging:			
Amortisation of intangible fixed assets	1,263	2,620	4,566
Depreciation of tangible fixed assets	567	604	575
Staff costs (<i>note 6</i>)	8,361	9,746	15,558
Directors' remuneration	12	108	124
Auditors' remuneration			
– audit	19	20	21
– non-audit	14	6	76
Operating leases – vehicles and equipment	70	68	82
Operating leases – other	<u>48</u>	<u>33</u>	<u>209</u>

6. Employee information

	Year to 30 June		
	2000	2001	2002
	£'000	£'000	£'000
Staff costs:			
Wages and salaries	7,258	8,289	13,721
Social security costs	803	921	1,453
Other pension costs	300	536	384
	<u>8,361</u>	<u>9,746</u>	<u>15,558</u>

Other pension costs for the year ended 30 June 2001 includes a provision of £271,105 in respect of the Group's share of a liability to the Football League Pension Fund and Life Assurance Scheme (Note 23).

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

	<i>Year to 30 June</i>		
	2000	2001	2002
	<i>Number</i>	<i>Number</i>	<i>Number</i>
Players	57	57	58
Coaching staff	14	17	20
Commercial staff	16	20	20
Administration	13	16	16
Ground staff	3	4	5
	<u>103</u>	<u>114</u>	<u>119</u>

In addition to the above, the Group employed an average of 155 (2001: 142; 2000: 129) match day staff.

7. Tax on profit/(loss) on ordinary activities

	<i>Year to 30 June</i>		
	2000	2001	2002
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Corporation tax at 20 per cent.	<u>8</u>	<u>—</u>	<u>—</u>

Tax losses of a subsidiary at 30 June 2002 available for offset against future trading profits of that subsidiary, subject to Inland Revenue acceptance, are in excess of £10,000,000. There is neither taxable profit nor loss in the parent company for the two years ended 30 June 2002. Under the accounting policy no provision is required for deferred taxation and there is no potential liability.

8. Earnings per share

Earnings per share have been calculated as follows:

	<i>Year to 30 June</i>		
	2000	2001	2002
	<i>£</i>	<i>£</i>	<i>£</i>
Profit/(loss) for the financial year	<u>3,544,493</u>	<u>(5,144,997)</u>	<u>(6,933,706)</u>
Weighted average number of shares in issue	<u>908,265,257</u>	<u>1,497,608,571</u>	<u>2,000,273,973</u>
Earnings/(loss) per ordinary share	<u>0.4p</u>	<u>(0.3)p</u>	<u>(0.3)p</u>

9. Intangible fixed assets

	<i>Goodwill</i> £'000	<i>Pouring Rights</i> £'000	<i>Players' registrations</i> £'000	<i>Total</i> £'000
Cost:				
At 1 July 1999	1,825	—	1,898	3,723
Additions	—	—	3,793	3,793
Disposals	—	—	(478)	(478)
At 30 June 2000	1,825	—	5,213	7,038
Additions	42	—	4,557	4,599
Disposals	—	—	(793)	(793)
At 30 June 2001	1,867	—	8,977	10,844
Additions	6	752	1,655	2,413
Disposals	—	—	(2,178)	(2,178)
At 30 June 2002	1,873	752	8,454	11,079
Amortisation:				
At 1 July 1999	—	—	995	995
Charge for the year	182	—	1,081	1,263
Disposals	—	—	(235)	(235)
At 30 June 2000	182	—	1,841	2,023
Charge for the year	188	—	2,432	2,620
Disposals	—	—	(439)	(439)
At 30 June 2001	370	—	3,834	4,204
Charge for the year	1,503	31	3,032	4,566
Disposals	—	—	(1,847)	(1,847)
At 30 June 2002	1,873	31	5,019	6,923
Net book value:				
At 30 June 2002	—	721	3,435	4,156
At 30 June 2001	1,497	—	5,143	6,640
At 30 June 2000	1,643	—	3,372	5,015

10. Tangible fixed assets

	<i>Assets under construction</i>	<i>Ground, premises and improvements</i>	<i>Motor vehicles, equipment, fixtures and fittings</i>	<i>Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Cost or valuation:				
At 1 July 1999	—	6,000	560	6,560
Additions	—	376	835	1,211
Disposals	—	—	(18)	(18)
At 30 June 2000	—	6,376	1,377	7,753
Additions	165	122	84	371
At 30 June 2001	165	6,498	1,461	8,124
Additions	303	656	164	1,123
Disposals	—	—	(9)	(9)
At 30 June 2002	468	7,154	1,616	9,238
Depreciation:				
At 1 July 1999	—	1	325	326
Charge for the year	—	375	192	567
Disposals	—	—	(6)	(6)
At 30 June 2000	—	376	511	887
Charge for the year	—	377	227	604
At 30 June 2001	—	753	738	1,491
Charge for the year	—	369	206	575
Disposals	—	—	(7)	(7)
At 30 June 2002	—	1,122	937	2,059
Net book value:				
At 30 June 2002	468	6,032	679	7,179
At 30 June 2001	165	5,745	723	6,633
At 30 June 2000	—	6,000	866	6,866

The leasehold property was revalued as at 30 June 1999 by DTZ Debenham Thorpe, Chartered Surveyors, on the basis of existing use value. It is not practical to provide an analysis of the cost or valuation of the stadium at 30 June 2002 in view of the nature of additions and disposals in recent years. No taxation liability arises in respect of the revaluation.

The Group acquired the freehold interest of the Vicarage Road Stadium during the year to 30 June 2002 and the cost or valuation of the leasehold and freehold interests have been merged in the financial statements.

A motor vehicle was held under hire purchase with net book value at 30 June 2002 of £32,458 and depreciation charge during the year of £5,542.

11. Stocks

	<i>30 June</i>		
	<i>2000</i>	<i>2001</i>	<i>2002</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Goods for resale	178	71	152

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

12. Debtors

	30 June		
	2000	2001	2002
	£'000	£'000	£'000
Trade debtors	341	864	720
Transfer fees receivable	—	50	325
Prepayments and accrued income	612	459	471
	<u>953</u>	<u>1,373</u>	<u>1,516</u>

Prepayments and accrued income 2002 includes £24,226 (2001: £60,167; 2000: £nil) which falls due after more than one year.

13. Creditors: amounts falling due within one year

	30 June		
	2000	2001	2002
	£'000	£'000	£'000
Bank loans (<i>note 15</i>)	—	—	74
Finance loans (<i>note 14</i>)	—	138	100
Other loans	11	11	85
Hire purchase (<i>note 14</i>)	323	2	13
Trade creditors	81	117	258
Transfer fees payable	524	1,002	1,629
Amount owed to ultimate parent company (<i>note 26</i>)	300	300	—
Director's loan	75	75	600
Corporation tax	8	—	—
Other taxes and social security	886	626	990
Accruals and deferred revenue	2,130	3,990	2,989
	<u>4,338</u>	<u>6,261</u>	<u>6,738</u>

Other loans represents amounts loaned to the Group by former directors for which there are no formal terms for repayment.

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

14. Creditors: amounts falling due after more than one year

	30 June		
	2000	2001	2002
	£'000	£'000	£'000
Bank loans	—	—	476
Finance loans	—	158	64
Hire purchase	2	—	16
Transfer fees payable	90	306	—
Accruals and deferred revenue	—	947	139
	<u>92</u>	<u>1,411</u>	<u>695</u>

The maturity of total debt may be analysed as follows:

	30 June		
	2000	2001	2002
	£'000	£'000	£'000
In one year or less	11	149	259
Between one and two years	—	100	143
Between two and five years	—	58	267
More than five years	—	—	130
	<u>11</u>	<u>307</u>	<u>799</u>

The bank loan totalling £550,000, including £74,055 falling due within one year is payable over more than five years. The loan is repayable by instalments of £26,500 per quarter and the loan bears interest at 2 per cent. above Barclays Bank base rate.

Of the finance loans £163,751 (2001: £258,333; 2000: £Nil), including £100,000 (2001: £100,000; 2000: £Nil) due within one year, is secured by a mortgage over the Giant Screen. The hire purchase balances which total £28,328 (2001: £2,222; 2000: £325,391) are secured over the assets to which they relate and are repayable in less than five years.

15. 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:

	2000	2001	2002
	£'000	£'000	£'000
Fixed rate	4,247	921	—
Floating rate	135	102	87
	<u>4,382</u>	<u>1,023</u>	<u>87</u>

The interest rate profile of financial liabilities was as follows:

	2000	2001	2002
	£'000	£'000	£'000
Fixed rate	9	—	28
Floating rate	—	258	708
No interest	166	1,190	201
	<u>175</u>	<u>1,448</u>	<u>937</u>
Fixed rate weighted average interest rate at 30 June	<u>9.23%</u>	<u>—</u>	<u>12.01%</u>

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:

	2000 £'000	2001 £'000	2002 £'000
In one year or less	4,382	964	63
Between one and two years	—	38	24
Between two and five years	—	22	—
	<u>4,382</u>	<u>1,024</u>	<u>87</u>

The maturity profile of financial liabilities was as follows:

	2000 £'000	2001 £'000	2002 £'000
In one year or less	83	777	249
Between one and two years	92	476	187
Between two and five years	—	164	372
Over five years	—	31	130
	<u>175</u>	<u>1,448</u>	<u>938</u>

16. Deferred income

	Capital grants £'000	Contributions to capital expenditure £'000	Total £'000
At 30 June 1999	1,675	352	2,027
Receivable during the year	—	112	112
	<u>1,675</u>	<u>464</u>	<u>2,139</u>
Credited to the profit and loss account	(117)	(75)	(192)
At 30 June 2000	1,558	389	1,947
Receivable during the year	196	111	307
	<u>1,754</u>	<u>500</u>	<u>2,254</u>
Credited to the profit and loss account	(123)	(90)	(213)
At 30 June 2001	1,631	410	2,041
Receivable during the year	—	6	6
	<u>1,631</u>	<u>416</u>	<u>2,047</u>
Credited to the profit and loss account	(127)	(134)	(261)
At 30 June 2002	<u>1,504</u>	<u>282</u>	<u>1,786</u>

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

17. Share capital

	2000	30 June 2001	2002
	£'000	£'000	£'000
Authorised:			
10,000,000 Ordinary shares of £1 each	10,000	10,000	—
4,000,000,000 Ordinary shares of 0.4p each	—	—	16,000
	£'000	£'000	£'000
Allotted, called up and fully paid:			
3,076,100/3,136,100 Ordinary shares of £1 each	3,076	3,136	—
2,050,000,000 Ordinary shares of 0.4p each	—	—	8,200

During the year ended 30 June 2000 the Company allotted 3,076,100 ordinary £1 shares for net cash consideration of £5,189,683 and the conversion of £2,426,000 loan stock 2002.

A further 60,000 ordinary £1 shares were issued during the year to 30 June 2001 for a cash consideration of £300,000.

On 10 July 2001 the authorised share capital of the Company of 10,000,000 ordinary shares of £1.00 each was sub-divided into 2,500,000,000 ordinary shares of 0.4p each and then increased by 1,500,000,000 ordinary shares of 0.4p giving a revised authorised share capital of £16,000,000.

On 10 July 2001, £2,863,800 of the share premium account was applied in issuing 715,950,000 fully paid bonus ordinary shares of 0.4p each. The issued share capital thus became £6,000,000 divided into 1,500,000,000 ordinary shares of 0.4p each.

On 2 August 2001 a placing and public offer was made by which 550,000,000 ordinary shares of 0.4p, with an aggregate nominal value of £2,200,000, were issued for cash at 1.0p and the entire issued share capital of the company was admitted to trading on the Alternative Investment Market.

18. Reserves

	Share Revaluation premium £'000	Profit and reserve loss account £'000	£'000
At 30 June 1999	—	1,253	(1,457)
Premium on shares issued during the year (note 17)	4,539	—	—
Profit for the year	—	—	3,545
At 30 June 2000	4,539	1,253	2,088
Premium on shares issued in the year (note 17)	240	—	—
Loss for the year	—	—	(5,145)
At 30 June 2001	4,779	1,253	(3,057)
Bonus issue (note 17)	(2,864)	—	—
Premium on shares issued in the year (note 17)	2,849	—	—
Loss for the year	—	—	(6,934)
At 30 June 2002	4,764	1,253	(9,991)

19. Reconciliation of movements in shareholders' funds

	Year to 30 June		
	2000	2001	2002
	£'000	£'000	£'000
Profit/(loss) for the financial year	3,545	(5,145)	(6,934)
Proceeds from issue of shares	7,615	300	5,049
Net (depletion in)/addition to shareholders' funds	11,160	(4,845)	(1,885)
Opening shareholders' funds	(204)	10,956	6,111
Closing shareholders' funds	<u>10,956</u>	<u>6,111</u>	<u>4,226</u>

Shareholder's funds are fully attributable to equity interests.

20. Notes to the consolidated cash flow statements

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

	Year to 30 June		
	2000	2001	2002
	£'000	£'000	£'000
Operating profit/(loss)	3,901	(5,580)	(7,611)
Amortisation of intangible fixed assets	1,263	2,620	4,566
Depreciation of tangible fixed assets	567	604	575
Capital contributions released	(75)	(90)	(134)
Capital grants released	(117)	(123)	(127)
Net loss on disposal of fixed assets	2	—	1
(Increase)/decrease in stocks	(52)	107	(81)
(Increase)/decrease in debtors	(670)	(274)	96
(Decrease)/increase in creditors	(356)	2,583	(1,345)
Net cash inflow/(outflow) from operating activities	<u>4,463</u>	<u>(153)</u>	<u>(4,060)</u>

(b) Reconciliation of net cash flows to movements in net debt:

	Year to 30 June		
	2000	2001	2002
	£'000	£'000	£'000
Increase/(decrease) in cash in the year	3,143	(3,456)	(900)
Cash (inflow)/outflow from (increase)/decrease in debt	<u>4,998</u>	<u>27</u>	<u>(706)</u>
Movement in net debt in the year resulting from cash flows	8,141	(3,429)	(1,606)
New hire purchase/finance lease	(350)	—	(38)
Movement in net debt in the year	7,791	(3,429)	(1,644)
Net (debt)/funds at 1 July 1999, 2000, 2001	<u>(4,121)</u>	<u>3,670</u>	<u>241</u>
Net (debt)/funds at 30 June 2000, 2001, 2002	<u>3,670</u>	<u>241</u>	<u>(1,403)</u>

(c) *Analysis of changes in net debt:*

	At 1 July 1999 £'000	Cash flow £'000	Other changes £'000	At 30 June 2000 £'000
Cash at bank and in hand	1,238	3,143	—	4,381
Bank loans due within 1 year	(6)	6	—	—
Other loans due within 1 year	(2,530)	2,519	—	(11)
Ultimate parent company	(300)	—	—	(300)
Director's loan	(75)	—	—	(75)
Loan stock 2002	(2,426)	2,426	—	—
Finance loans due after 1 year	(7)	7	—	—
Hire purchase balances	(15)	40	(350)	(325)
	<u>(5,359)</u>	<u>4,998</u>	<u>(350)</u>	<u>(711)</u>
	<u>(4,121)</u>	<u>8,141</u>	<u>(350)</u>	<u>3,670</u>
	At 1 July 2000 £'000	Cash flow £'000	Other changes £'000	At 30 June 2001 £'000
Cash at bank and in hand	4,381	(3,456)	—	925
Bank loans due within 1 year	—	(38)	(100)	(138)
Other loans due within 1 year	(11)	—	—	(11)
Ultimate parent company	(300)	—	—	(300)
Director's loan	(75)	—	—	(75)
Finance loans due after 1 year	—	42	(200)	(158)
Hire purchase balances	(325)	23	300	(2)
	<u>(711)</u>	<u>27</u>	<u>—</u>	<u>(684)</u>
	<u>3,670</u>	<u>(3,429)</u>	<u>—</u>	<u>241</u>
	At 1 July 2001 £'000	Cash flow £'000	Other changes £'000	At 30 June 2002 £'000
Cash at bank and in hand	925	(900)	—	25
Bank loans due within 1 year	—	(74)	—	(74)
Finance loans due within 1 year	(138)	38	—	(100)
Other loans due within 1 year	(11)	1	(75)	(85)
Ultimate parent company	(300)	300	—	—
Director's loan	(75)	(600)	75	(600)
Bank loans due after 1 year	—	(476)	—	(476)
Finance loans due after 1 year	(158)	94	—	(64)
Hire purchase balances	(2)	11	(38)	(29)
	<u>(684)</u>	<u>(706)</u>	<u>(38)</u>	<u>(1,428)</u>
	<u>241</u>	<u>(1,606)</u>	<u>(38)</u>	<u>(1,403)</u>

(d) *Major non-cash transactions:*

During the year ended 30 June 2000, £2,426,000 unsecured loan stock 2002 was converted into 2,009,900 ordinary shares of £1 each.

On 10 July 2001, £2,863,800 of the share premium account was applied in issuing 715,950,000 fully paid bonus ordinary shares of 0.4p each.

21. Financial commitments

The annual amount of payments due in respect of loyalty bonuses and deferred signing on fees for playing staff under contract as at 30 June 2002, which have not been provided for, are as follows:

	£'000
On contracts expiring:	
Within one year	822
Within two to five years	445
	<u>1,267</u>

The Group's commitments for rental payments under operating leases payable during the year to 30 June 2002 are as follows:

	<i>Land & buildings</i> £'000	<i>Other</i> £'000
On contracts expiring:		
Within one year	—	8
Within two to five years	210	4
	<u>210</u>	<u>12</u>

22. 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' registrations cost capitalised (*note 9*).

23. Pension costs

The latest actuarial valuation of the Football League Limited Pension and Life Assurance Scheme revealed that there was a deficit in the scheme of £13,054,000 which has subsequently increased to approximately £16 million in respect of the final salary section of the scheme. The pension cost charge for the period ended 30 June 2001 includes a provision of £271,105 in respect of the Company's share of the deficit. The contribution is being paid by instalments of £5,843 per month from August 2001 to April 2003 and £3,092 per month from May 2003 until April 2007.

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

24. Post balance sheet events

The Club disposed of the freehold interest in Vicarage Road Stadium in August 2002 for £6 million under a sale and leaseback transaction. Pursuant to arrangements entered into when the freehold was purchased by the Club, £550,000 will be paid to the former freeholder in equal instalments over the next five years. The leasehold interest, for a period of 35 years, was re-acquired by the company for use by the Club.

The Club has not purchased or sold any players since the year end.

25. Ultimate parent company and control

The parent company during the period 1 July 1999 to 2 August 2001 which is covered by this report was Penguin Overseas Associates Limited, which is incorporated in the Isle of Man. The ultimate controlling party was Sawyer Trust.

As a result of the placement and public offer on 2 August 2001 the interest of Penguin Overseas Associates Limited in the issued share capital of the Company was reduced to 39 per cent.

26. Related party transactions

Four of the directors of the subsidiary have executive boxes that are paid for on a commercial basis. Mr H B Oundjian, a director, is also a director and major shareholder of Corporate Couture Limited, which company has a contract, which commenced in July 2000, with the Group for the development, design, manufacture and supply of certain products to the Group including playing and replica kit. Supplies totalling £558,184 (2001: £97,004) were made to the Group in the year ended 30 June 2002.

Mr N Wray, was a director during the period covered by this report and the majority shareholder of Saracens Limited, who share the use of Vicarage Road Stadium and certain other facilities with the Company. During the year to 30 June 2002 the net amount charged by the Company to Saracens Limited excluding VAT was £5,610 relating to fixed assets and £481,339 other charges (2001: £110,802 fixed assets and £509,771 other; 2000: £112,395 fixed assets and £411,331 other). At 30 June 2002 the amount owed by Saracens Limited to the Group was £206,759 (2001: £306,522; 2000: £121,805).

Yours faithfully

CHANTREY VELLACOTT DFK
Chartered Accountants
Registered Auditors

PART VI

Additional information

1. Responsibility

The Directors of the Company, whose names appear on page 6 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. The Company

- (a) The Company was incorporated as a private limited company in England and Wales under the Companies Act 1985 on 19 March 1997 under number 3335610. On 10 July 2001 the Company changed its name from Watford Association Football Club (Holdings) Limited to Watford Leisure Limited, re-registered as a public limited company and accordingly became Watford Leisure PLC.
- (b) The Company's registered office and principal place of business is at Vicarage Road Stadium, Vicarage Road, Watford, Hertfordshire WD18 0ER.
- (c) The principal object of the Company, which is set out in full in clause 4 of its Memorandum of Association, is the carrying on of business as a general commercial company and without prejudice to the generality of the foregoing to do all such things as are indicated or conducive to the carrying on of any trade or business by it.
- (d) The liability of the members of the Company is limited.

3. Share capital

- (a) The authorised and issued ordinary share capital of the Company as at the date of this document is as follows:

	£	<i>Number of Ordinary Shares of 0.4 pence</i>
Authorised:	16,000,000	4,000,000,000
Issued and fully paid:	8,200,000	2,050,000,000

- (b) The Resolutions numbered 1.1 to 1.3 inclusive to be proposed at the Extraordinary General Meeting seek to: (i) sub-divide and redesignate each of the Existing Ordinary Shares of 0.4 pence each in the capital of the Company into one New Ordinary Share of 0.1 pence each and three Deferred Shares of 0.1 pence each; and (ii) sub-divide each of the authorised but unissued Ordinary Shares of 0.4 pence each in the Company into four New Ordinary Shares of 0.1 pence each. The Resolution numbered 1.6 to be proposed at the Extraordinary General Meeting seeks to amend the articles of association of the Company to reflect the aforementioned proposals if passed.
- (c) Further to ordinary and special resolutions passed on 10 July 2001, the Directors are currently authorised pursuant to section 80 of the Act to allot relevant securities (as defined in section 80(2) of the Act) up to an aggregate nominal amount of £16,000,000 for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) five years after the date of passing of the resolution (unless previously renewed, varied or revoked by the Company in general meeting), but the Company may make an offer or agreement which would or might require relevant securities to be allotted after expiry of such authority and the Directors may allot relevant securities pursuant to any such offer or agreement as if the authority to allot had not expired.

- (d) The Resolution numbered 1.4 to be proposed at the Extraordinary General Meeting seeks to authorise the Directors to allot 5,966,666,668 New Ordinary Shares (£5,966,667 in nominal value) in connection with the Firm Placing and Public Offer and otherwise to allot Ordinary Shares up to £1.8 million in nominal value, at any time during the period up to the date of the Company's annual general meeting to be held in 2007 (unless previously renewed, varied or revoked by the Company).
- (e) The provisions of section 89(1) of the Act which, to the extent not disapplied pursuant to section 95 of the Act, confer on Shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash, apply to the authorised but unissued share capital of the Company, except to the extent that they were disapplied by a special resolution passed on 10 July 2001. Pursuant to such special resolution, the Directors were generally empowered to issue equity securities for the purposes of the placing and public offer, any rights issue or other pre-emptive offer to shareholders and otherwise up to a maximum nominal value of £2,000,000. This power expires 15 months after the date of the passing of this resolution or at the annual general meeting of the Company to be held in 2002 (if earlier) (unless previously renewed, varied or revoked by the Company in general meeting), but the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to any such offer or agreement as if the authority to allot had not expired.
- (f) The Resolution numbered 1.5 to be proposed at the Extraordinary General Meeting also seeks to empower the Directors pursuant to section 95 of the Act to allot securities (as defined in section 94 of the Act) as if section 89 of the Act did not apply to such allotment for a period expiring on the date of the annual general meeting of the Company to be held in 2007 (unless previously renewed, varied or revoked by the Company) provided that the power is limited to the allotment of equity securities pursuant to the Firm Placing and Public Offer up to an aggregate nominal value of £5,966,667 and otherwise up to an aggregate nominal amount of £1.8 million.
- (g) The Resolution numbered 3.1 to be proposed at the Extraordinary General Meeting seeks (following the Capital Reorganisation and an order of the court authorising the reduction of the share capital of the Company) to reduce the issued share capital of the Company by £6,150,000 by cancelling all of the Deferred Shares. The reduction is being made in order to reduce share capital lost or unrepresented by available assets.
- (h) The authorised and issued share capital of the Company as it is expected to be following the Capital Reorganisation and the Firm Placing and the Public Offer (on the basis that the Public Offer is fully subscribed and the Reduction has taken place, but excluding the shares to be issued in the Deferred Subscription) is as follows:
- | | £ | Number of New
Ordinary Shares of
0.1 pence |
|------------------------|-----------|--|
| Authorised: | 9,850,000 | 9,850,000,000 |
| Issued and fully paid: | 8,016,667 | 8,016,666,668 |
- (i) Save for the issue and allotment of New Ordinary Shares pursuant to the Firm Placing and the Public Offer, the Directors have no present intention of exercising the authority described in sub-paragraph (d) above.
- (j) The New Ordinary Shares pursuant to the Firm Placing and the Public Offer will be allotted credited as fully paid and will rank *pari passu* in all respects with the other New Ordinary Shares to be created pursuant to the Capital Reorganisation, including the right to receive all dividends and other distributions hereafter declared.

- (k) The New Ordinary Shares will, when fully paid and issued, be in registered form and will be capable of being held in uncertificated form. Application will be made to the London Stock Exchange for the New Ordinary Shares to be issued pursuant to the Firm Placing and the Public Offer to be admitted to trading on AIM (and no other stock exchange) and it is expected that dealings in such shares (save for the New Ordinary Shares to be issued pursuant to the Deferred Subscription) will commence at 8.00 a.m. on 18 December 2002. None of the New Ordinary Shares have been marketed, or are available in whole or in part to the public, in conjunction with the application for such New Ordinary Shares to be admitted to trading on AIM other than under the Firm Placing and the Public Offer.
- (l) No shares of the Company are currently in issue with a fixed date on which entitlement of dividend arises and there are no arrangements in place whereby future dividends are waived or agreed to be waived.
- (m) The Company does not have in issue any securities not representing share capital and there are no outstanding convertible securities issued by the Company.

4. Summary of rights attaching to the New Ordinary Shares

The following is a summary of the rights under the articles of association of the Company ("the Articles") (and in particular relating to voting entitlement, to share in the profits and, in the event of liquidation, in any surplus) which attach to the Existing Ordinary Shares and which following the passing of Resolution 1 of the EGM will attach to the New Ordinary Shares and with which the New Ordinary Shares will rank *pari passu* in all respects when unconditionally issued and fully paid.

(a) *Votes of Members*

Subject to any special terms as to voting upon which any shares may be issued, or may for the time being be held, on a show of hands every member who is present in person at a general meeting of the Company shall have one vote and on a poll every member who is present in person or by proxy shall have one vote for every share of which he is the holder.

(b) *Dividends*

Subject to the provisions of the Companies Acts the Company may, by ordinary resolution from time to time declare dividends to be paid to the members according to their rights and interests in the profits available for distribution. No dividend shall be declared in excess of the amount recommended by the Board.

(c) *Return of capital on a winding up*

If the Company shall be wound up (whether the liquidation is voluntary, under supervision, or by the Court) the liquidator may, with the authority of an extraordinary resolution and subject to any provision sanctioned in accordance with the provisions of the Companies Acts, divide among the Members in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such values as he deems fair upon any assets to be divided as aforesaid and may determine how such division shall be carried out as between the Members or different classes of Members.

(d) *Variation of Rights*

Subject to the provisions of the Companies Acts all or any of the rights for the time being attached to any class of shares for the time being issued may from time to time (whether or not the Company is being wound up) be varied or abrogated with the consent in writing of the holders of not less than three-quarters in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of the class.

<i>Name</i>	<i>Current directorships/ partnerships</i>	<i>Past directorships/ partnerships</i>
David Meller (aged: 42)	CML Holdings Limited CML plc JMT Holdings Limited Julius A Meller Contract Services Limited Julius A Meller Enterprises Limited Julius A Meller Holdings plc Julius A Meller (Lighting) Limited Julius A Meller Management Services Holdings Limited Julius A Meller Management Services Limited Julius A Meller Properties Limited Julius A Meller (Toiletries) Limited Meller Designs Limited Sutton Promotions Limited The British Friends of the Jaffa Institute	Faith Group Limited Mountlea 1992 Limited Showglade Limited
Timothy Shaw (aged: 38)	Containerlift Services Limited Central & Metropolitan Estates Limited	None
Brian Anderson (aged: 45)	Kensington Estates Limited	Airborne Accessories Limited Graduate Shoes Limited Liverpool Shoe Company Limited Matchstick Sports Limited Pentland Shoes Company Limited
David Lester (aged: 36)	Business Community Connections Limited Crimson Publishing Limited Portfolio Books Limited	CD Live Limited
Haig Oundjian (aged: 53)	Aardvark Properties Limited China Carpets Limited Corporate Couture Limited Ice Skating Promotions Limited National Ice Skating Association of the United Kingdom Limited	None
Michael Sherwood (aged: 37)	Goldman Sachs International The European Power Source Company (U.K.) Limited Banecorp Limited	GS Global Funding (UK) Limited Hechshire Limited J. Aron & Company (U.K.) Limited

- (f) None of the Directors has any unspent convictions in relation to indictable offences.
- (g) None of the Directors has been the subject of any public criticism by any statutory or regulatory authority (including designated professional bodies).

- (h) Save as provided below, none of the directors has been the director of a company at the time of or within the preceding twelve months of such company being the subject of a receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or where it has made any composition or arrangement with its creditors generally or any class of its creditors.

Graham Simpson was a director of Focal Point (Media) Plc from 13 September 1999 to the date of his resignation on 10 November 2000. Focal Point (Media) Plc was the subject of a creditors' voluntary liquidation with liquidators being appointed on 5 April 2001.

- (i) None of the Directors has been a partner of a partnership at the time of or within the preceding twelve months of such partnership being the subject of a compulsory liquidation, administration, partnership voluntary arrangement nor in such time have the assets of such a partnership been the subject of a receivership.
- (j) No asset of any Director or of any partnership of which he was a partner has at any time been the subject of a receivership.
- (k) None of the Directors is or has ever been declared bankrupt nor been the subject at any time of an individual voluntary arrangement.
- (l) None of the Directors is or has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.
- (m) There are no outstanding loans granted by any member of the Group to any of the Directors nor has any guarantee been provided by any member of the Group for their benefit.

7. Irrevocable undertakings

- (a) Pursuant to irrevocable undertakings dated on or around 11 November 2002, certain of the existing Directors have irrevocably undertaken to subscribe for shares at the Offer Price in respect of the following numbers of New Ordinary Shares:

<i>Name</i>	<i>Number of New Ordinary Shares</i>
Graham Simpson	1,333,333,333 ¹
Timothy Shaw	666,666,667
David Lester	333,333,333
David Meller	333,333,333 ²
Michael Sherwood	200,000,000
Brian Anderson	33,333,334 ³

Notes:

- 333,333,333 of these New Ordinary Shares are to be subscribed for by no later than 1 July 2003.
- 100,000,000 of these New Ordinary Shares are to be subscribed for by no later than 1 July 2003 and 133,333,333 by no later than 7 April 2004. All of these shares are to be subscribed for in the name of the Julius A Meller Management Services Limited Retirement Benefit Scheme.
- These shares will be subscribed for no later than 1 July 2003.

- (b) In addition to the irrevocable undertakings referred to in sub-paragraph (a) above, irrevocable undertakings have been delivered to the Company by certain other existing Shareholders undertaking to subscribe for the following numbers of New Ordinary Shares at the Offer Price:

<i>Name</i>	<i>Number of New Ordinary Shares</i>
Fordwat Limited	200,000,000
Strand Associates Limited	66,666,667
Christopher Norton	333,333,334 ¹
Charles Lissack	366,666,666 ²
Jonathan Green	66,666,667
Steven Duncker	16,666,667
James O'Neill	16,666,667

Notes:

1. 66,666,667 of these New Ordinary Shares are to be subscribed for by no later than 1 July 2003 and 200,000,000 by no later than 7 July 2004.
2. 183,333,333 of these New Ordinary Shares are to be subscribed for by no later than 1 July 2003 and 183,333,333 by no later than 7 April 2004. All of these shares are to be subscribed in the name of Wardcove Limited.

8. Directors' remuneration and service agreements

- The aggregate remuneration, consultancy fees and benefits in kind paid by the Group to the Directors in respect of the financial year ended 30 June 2002 was £132,500. The aggregate remuneration, consultancy fees and benefits in kind of the Directors in respect of the financial period ending 30 June 2003 under the arrangements in force at the date hereof are expected to be £195,000.
- Timothy Shaw entered into a service agreement with the Company on 12 June 2000 for the position of Managing Director. The basic annual salary is £123,600 of which 12 per cent. has currently been deferred as outlined in section 3 of the letter from the Chairman of Watford Leisure in Part I of this prospectus. The term is for three years and can be terminated on 6 months notice by the Company or Timothy Shaw. Benefits include the reimbursement of business travel expenses. There is opportunity for year end bonus and the opportunity to participate in the executive share option scheme.
- Graham Simpson is due to enter into a service agreement with the Company for the position of executive Chairman. The annual salary will be £75,000. The term will be for a fixed period of two years and thereafter until terminated by either the Company or Graham Simpson on six months written notice. Benefits will include the reimbursement of business expenses.
- Save as disclosed above, there are no existing or proposed agreements for or of services between any Director and any member of the Group which do not expire or cannot expire or cannot be terminated without payment of compensation (other than statutory compensation) within one year and no such contracts are proposed.

9. The Company and its subsidiaries

- The Company is the holding company of the Group and has the following subsidiaries:

	<i>Principal activity</i>	<i>Issued share capital Number</i>	<i>£</i>
The Watford Association Football Club Limited	Football	1,072,722	1,072,722
Watford Catering Limited	Catering	1	1

- The Watford Association Football Club limited is owned by the Company as to ninety-six per cent. of the issued share capital and has its registered office at Vicarage Road Stadium, Vicarage Road, Watford, Hertfordshire WD18 0ER. The Company is registered in England and Wales and operates principally in the United Kingdom.

- (c) Watford Catering Limited is wholly owned by the Company and has its registered office at Vicarage Road Stadium, Vicarage Road, Watford, Hertfordshire WD18 0ER. The Company is registered in England and Wales and operates principally in the United Kingdom.

10. Material contracts

- (a) The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Group within the two years immediately preceding the date of this document and are, or may be material:
- (i) A sale and leaseback agreement, dated 5 July 2002 between the Club (1), Watford Football Stadium Limited (2) and the Company (3). Pursuant to the agreement, the freehold of the Club's Vicarage Road Stadium was sold for a sum of £6.0 million and in return the Company has been granted a thirty five year lease details of which are set out in paragraph 10(ii) below;
 - (ii) Lease of Vicarage Road Stadium dated 17 July 2002 between Watford Football Stadium Limited (1), the Company (2) and the Club (3). The term of the lease is for thirty five years (35) at an annual rent starting in year 1 of the lease of £630,000 and increasing year on year to an annual rent in year 35 of the lease of £1,272,600. The Club has guaranteed the obligations of the Company under this agreement and indemnified the landlord against any default by the Company. The Company has granted an underlease to the Club (details of which are described at paragraph 10(v));
 - (iii) Rent Deposit Deed dated 17 July 2002 between Watford Football Stadium Limited (1), the Company (2), and the Club (3) relating to the lease described at paragraph 10(ii) for a sum of £555,187.50. The Club has guaranteed the obligations of the Company under this agreement;
 - (iv) Option Agreement relating to the freehold property at Vicarage Road Stadium dated 17 July 2002 between Watford Football Stadium Limited (1) and the Club (2). Pursuant to this agreement the Club has been granted a right of first refusal to purchase the freehold property at Vicarage Road Stadium in the event that the current owner Watford Football Stadium Limited wishes to sell. The right expires thirty five years following the date of the agreement. The purchase price shall be determined at the time of sale on a pre-determined formula set out in the agreement;
 - (v) A lease relating to Vicarage Road Stadium dated 17 July 2002 between the Company (1) and the Club (2) pursuant to which the Company has underlet the Vicarage Road Stadium to the Club for a term of thirty five years less three days from the date of the agreement at an annual rent starting in year 1 of £630,000 increasing year on year to £1,272,600 in year 35.
 - (vi) A Nominated Adviser Agreement dated 28 May 2002 between the Company (1), the Directors (2) and Strand Partners (3) pursuant to which the Company has appointed Strand Partners to act as Nominated Adviser to the Company for the purposes of AIM. The agreement contains certain undertakings by the Company and the Directors and indemnities given by the Company in respect of, *inter alia*, compliance with all applicable laws and regulations. The agreement may be terminated by either the Company or Strand Partners upon the giving of written notice at any time after the first anniversary of the agreement. The Company has agreed to pay Strand Partners a fee of £25,000 per annum for its services as Nominated Adviser. The first three years' fees are payable in New Ordinary Shares on completion of the Firm Placing and the Public Offer. If the Firm Placing and Public Offer are not completed the yearly fee becomes payable in cash.

- (vii) A financial adviser agreement dated 16 October 2002 between the Company (1), the Directors (2) and Strand Partners (3) pursuant to which the Company has appointed Strand Partners to act as its financial adviser with regard to the Proposals.

In consideration of its services under this agreement Strand Partners will be paid a corporate finance fee of £75,000, payable in New Ordinary Shares on completion of the Firm Placing and the Public Offer. The agreement contains certain undertakings by the Company and the Directors and indemnities given by the Company.

- (viii) An underwriting agreement dated 11 July 2001 between the Company (1), the Directors (2), Seymour Pierce Ellis (3) and Seymour Pierce (4) pursuant to which conditional upon, *inter alia*, admission taking place on or before 8.00 a.m. on 2 August 2001 Seymour Pierce Ellis agreed to underwrite the public offer in July 2001.

The underwriting agreement contained indemnities and warranties from the Company and warranties from the Directors in favour of Seymour Pierce Ellis and Seymour Pierce together with provisions which enabled Seymour Pierce Ellis and Seymour Pierce to terminate the underwriting agreement in certain circumstances prior to admission including circumstances where any warranties were found to be not true or accurate in any material respect. The liability of the Directors for breach of warranty is limited.

Under the underwriting agreement the Company agreed to pay Seymour Pierce a corporate finance fee of £25,000 and Seymour Pierce Ellis a fee of £25,000 together with a commission of 3 per cent. on the aggregate value of the public offer shares at the issue price together with VAT thereon where appropriate.

The Directors gave undertakings that they would not dispose of Ordinary Shares, save in certain specified circumstances, for a period of two years from the date of admission to trading on AIM;

- (ix) A Nominated Adviser agreement dated 11 July 2001 between the Company (1), the Directors (2) and Seymour Pierce (3) pursuant to which the Company appointed Seymour Pierce to act as Nominated Adviser to the Company for the purposes of AIM. The Company agreed to pay Seymour Pierce a fee of £20,000 per annum for its services as Nominated Adviser. The agreement contained certain undertakings by the Company and the Directors and indemnities given by the Company in respect of, *inter alia*, compliance with all applicable laws and regulations. This agreement was originally for a fixed period of one year from the date of the agreement and thereafter was to be subject to termination on the giving of three months' notice, however the agreement was in fact terminated with effect from 28 May 2002;

- (x) A Broker agreement dated 11 July 2001 between the Company (1), Sir Elton John and others (being the directors of the Company at 11 July 2001) (2) and Seymour Pierce Ellis (3) pursuant to which the Company has appointed Seymour Pierce Ellis to act as Broker (as defined in the AIM Rules) to the Company for the purposes of AIM.

The Company has agreed to pay Seymour Pierce Ellis a fee of £20,000 per annum for its services as Broker. The agreement contains certain undertakings by the Company in respect of, *inter alia*, compliance with all applicable laws and regulations. The agreement continues for a fixed period of one year from the date of the agreement and thereafter is subject to termination on the giving of three months' notice;

- (xi) Agreements dated 11 July 2001 between the Company (1), Seymour Pierce Limited (2) and certain of the existing Shareholders ("the Standstill Agreements"). Under the Standstill Agreements certain of the existing Shareholders agreed not to dispose of any interest in the Ordinary Shares at admission for a period of 12 months from the date of admission to trading on AIM except in certain specified circumstances;

- (xii) An agreement between the Club (amongst others), the Football League and De Facto 898 Limited (a joint venture between Premium TV Limited and the Football League, now named FLPTV Limited ("FLPTV")) under which the Club has granted FLPTV an exclusive licence to the exploitation of the content of, and the marketing and sale of goods through, the Club's website. The Club received a sign on fee of £300,000 and FLPTV is required to pay a variable rights fee to the Club over the life of the agreement;
- (xiii) A loan from Lombard North Central Plc dated 26 December 2000 for the purchase of the Skywall Video Screen from ADI Rentals Limited. The principal amount of the loan is £300,000 repayable in 36 monthly instalments;
- (xiv) An underlease dated 6 November 1997 between the Club and Saracens Limited under which Saracens is entitled to use the Vicarage Road stadium for the rugby union matches of Saracens RUFC. The term expired on 21 July 2002 and the stated rent was £220,000 per annum.

A new underlease between the parties was signed on 17 July 2002 for a term of 17 years commencing on and including 1 July 2000 at a rent of £390,000 per annum (to be reviewed 1 July 2004 and thereafter every three years). Saracens Limited have been paying this rent for 24 months whilst the new underlease was being negotiated;

- (xv) A licence granted by University College London dated 9 August 2000 for the Club to use land and facilities at Shenley Athletic Grounds, Bell Lane, London as training grounds. The current annual licence fee is £210,000, increased in line with the retail price index. The licence runs until 30 June 2005;
- (xvi) Agreement for the sale subject to tenancy of the freehold property known as Vicarage Road Stadium dated 15 January 2002 between Punch Group (Retail Properties) Limited and the Club, for a purchase price of £1,000;
- (xvii) Agreement for the release of the supply provisions under a lease relating to Vicarage Road Stadium, dated 15 January 2002 between Punch Group (Retail Properties) Limited and the Club, in consideration for the sum of £749,000;
- (xviii) Deed relating to the Watford Football Club ground, Vicarage Road, Watford dated 22 January 2002 between Punch Group (Retail Properties) Limited ("Punch") and the Club. Pursuant to this agreement, the Club has agreed to pay Punch the sum of £500,000 in the event that the Club should be promoted to the FA Premier League before the end of the 2004/2005 football season. In addition, the Club has agreed to pay to Punch 10 per cent. of the gross proceeds of sale of the Vicarage Road Stadium freehold (less the sum of £50,000) in the event that the Club exchanges contracts for the sale of the freehold at any time prior to the end of the 2004/2005 football season. As mentioned above, the freehold has since been resold and this payment has become due to Punch who have agreed to payment in instalments over a period of five years. Formal contracts to reflect this are currently being finalised; and
- (xix) A loan agreement dated 12 November 2002 between the Company (1) and Graham Simpson (2) for working capital purposes. The principal amount of the loan facility is £400,000, to be drawn in whole or in part at any time between 12 November 2002 and 12 November 2007, repayable together with any outstanding interest by 12 November 2007. The principal outstanding, from time to time, will attract interest at the rate of 3.5 per cent. per annum above LIBOR, accruing daily and payable yearly in arrears at the end of December in each year. The loan facility is unsecured.

- (b) Save as set out in paragraph 10(a), no member of the Group has, within the two years immediately preceding the date of this document, entered into any contract which is or may be material otherwise than in the ordinary course of business or has entered into contracts not being contracts entered in the ordinary course of business containing any provision under which any member of the Group has any obligation or entitlement which is material to the Group at the date of this document.

11. Working Capital

The Directors are of the opinion that, after having made due and careful enquiry and taking into account available bank and other loan facilities and the expected net proceeds of the Firm Placing, the Group has sufficient working capital for its present requirements, that is, for at least twelve months from the date of Admission.

12. Litigation

- (a) Correspondence has been received from the Football League relating to underfunding of the Football League administered pension scheme. The correspondence suggests that the Club's share of the shortfall in the underfunding amounts to £187,274. The Club has not agreed this figure or accepted that it is required to pay towards the shortfall.
- (b) Other than as set out above, no member of the Group is, or has been, involved in any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) which may have or have had during the twelve months preceding the date of this document a significant effect on the Group's financial position.

13. Market quotations

The following table sets out the closing middle market quotations of the Existing Ordinary Shares as derived from the Daily Official List of the London Stock Exchange on the first dealing day of each month from 5 June 2002 until 1 November 2002 and on 12 November 2002 (being the latest practicable dealing date prior to the publication of this document):

<i>Date</i>	<i>Middle market quotation for an Ordinary Share (p)</i>
5 June 2002	0.75
1 July 2002	0.75
1 August 2002	0.75
2 September 2002	0.75
1 October 2002	0.35
1 November 2002	0.1875
12 November 2002	0.225

14. United Kingdom taxation

The following comments are intended only as a general guide to certain aspects of current United Kingdom ("UK") tax law and Inland Revenue practice and apply only to certain Shareholders. The summary does not purport to be a complete analysis or listing of all the potential tax consequences of holding Ordinary Shares. Prospective purchasers of Ordinary Shares are advised to consult their own tax advisers concerning the consequences under UK tax law of the acquisition, ownership and disposition of Ordinary Shares. This summary is based on UK law and Inland Revenue practice which may be subject to change perhaps with retrospective effect.

The statements are not applicable to all categories of Shareholders, and in particular are not addressed to (i) Shareholders who do not hold their Ordinary Shares as capital assets, (ii) Shareholders who own (or are deemed to own) ten per cent. or more of the voting power of the

Company, (iii) special classes of Shareholders such as dealers in securities, broker-dealers, insurance companies and investment companies, (iv) Shareholders who hold Ordinary Shares as part of hedging or commercial transactions, (v) Shareholders who hold Ordinary Shares in connection with a trade, profession or vocation carried on in the UK (whether through a branch or agency or otherwise) or (vi) Shareholders who are not resident or ordinarily resident in the UK for tax purposes (unless express reference is made to non-UK resident Shareholders).

(a) *Dividends – UK resident Shareholders*

The Company will not be required to withhold tax at source when paying a dividend.

An individual Shareholder who is resident in the UK (for tax purposes) and who receives a dividend from the Company will generally be entitled to a tax credit which such Shareholder may set off against his total income tax liability on the dividend. The tax credit will be equal to ten per cent. of the aggregate of the dividend and the tax credit (the "gross dividend"), which is also equal to one-ninth of the cash dividend received. A UK resident individual Shareholder who is liable to income tax at the starting or basic rate will be subject to tax on the dividend at the rate of ten per cent. of the gross dividend, so that the tax credit will satisfy in full such Shareholder's liability to income tax on the dividend. A UK resident individual Shareholder who is liable to income tax at the higher rate will be liable to tax on the gross dividend at the rate of 32.5 per cent. After taking into account the 10 per cent. tax credit, such an individual will have to account for additional tax equal to 22.5 per cent. of the gross dividend (which is also equal to 25 per cent. of the cash dividend received).

UK resident taxpayers who are not liable to UK tax on dividends, including pension funds and charities, generally will not be entitled to claim repayment of the tax credit attaching to dividends paid by the Company, although charities will be entitled to limited compensation in lieu of repayable tax credits until 5 April 2004.

Subject to certain exceptions for traders in securities, a shareholder which is a company resident for tax purposes in the UK and which receives a dividend paid by another company resident for tax purposes in the UK will not generally have to pay corporation tax in respect of it. Such shareholders will not be able to claim repayment of tax credits attaching to dividends.

(b) *Dividends – Non-UK resident Shareholders*

Shareholders will not be able to claim repayment from the Inland Revenue of any part of the tax credit attaching to dividends paid by the Company. A Shareholder resident outside the UK may also be subject to foreign taxation on dividend income under local law. A Shareholder who is not resident in the UK (for tax purposes) should consult his own tax adviser concerning his tax liabilities on dividends received from the Company.

(c) *Taxation of capital gains*

A disposal of Ordinary Shares by a Shareholder who is either resident or, in the case of individuals, ordinarily resident for tax purposes in the UK may, depending on the shareholder's circumstances and subject to any available exemption or relief, give rise to a chargeable gain or allowable loss for the purposes of the taxation of chargeable gains. Broadly, Shareholders who are neither resident nor ordinarily resident for tax purposes in the UK will not be liable for UK tax on capital gains realized on the disposal of their Ordinary Shares unless such Ordinary Shares are used, held or acquired for the purposes of a trade, profession or vocation carried on in the UK through a branch or agency or for the purpose of such branch or agency. Such Shareholders may be subject to foreign taxation on any gain under local law. A Shareholder who is an individual and who has, on or after 17 March 1998, ceased to be resident and ordinarily resident for tax purposes in the UK for a period of less than five years and who disposes of the Ordinary Shares during that period may also be liable to UK taxation of chargeable gains (subject to any available exemption or relief) as if, broadly, the disposal was made in such Shareholder's year of return to the UK.

(d) *Inheritance and gift taxes*

The Ordinary Shares will be assets situated in the UK for the purposes of UK inheritance tax. A gift of such assets by, or on the death of, an individual holder of such assets may (subject to certain exemptions and reliefs) be a transfer of value chargeable to UK inheritance tax even if the holder is neither domiciled in the UK nor deemed to be domiciled there under certain rules relating to long residence or previous domicile. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a chargeable transfer of value. Special rules apply to gifts where the donor reserves or retains some benefit which, in general, could give rise to a liability to UK inheritance tax on the death of the donor. Special rules also apply to close companies (and companies which would be close if they were resident in the UK), to partnerships and to trustees of certain settlements who hold Ordinary Shares under which the individual shareholder, partner or trustee (as the case may be) may be brought within the charge to inheritance tax in respect of Ordinary Shares. Shareholders should consult an appropriate professional adviser if they make a gift of any kind or intend to hold any Ordinary Shares through trust arrangements. Gifts to individuals or to certain settlements where such gifts are made more than seven years before the death of the donor are generally exempt from inheritance tax.

(e) *UK stamp duty and stamp duty reserve tax ("SDRT")*

Any subsequent transfer of Ordinary Shares not held through CREST will generally be liable to stamp duty at the rate of 0.5 per cent. of the amount or value of the consideration given (rounded up to the nearest £5). An unconditional agreement to transfer Ordinary Shares (including an agreement to transfer Ordinary Shares held through CREST) will generally be subject to SDRT at 0.5 per cent. of the amount or value of the agreed consideration. However, if within the period of six years of the date of the agreement an instrument of transfer is executed pursuant to the agreement and the instrument transfers all the chargeable securities to which the agreement relates and stamp duty is paid on that instrument, any SDRT already paid will be repaid and any liability to SDRT will be cancelled. The liability to stamp duty or SDRT ordinarily falls to the purchaser whether or not they are the transferee.

No stamp duty or SDRT will arise on a transfer of Ordinary Shares into CREST, unless such transfer is made for a consideration in money or money's worth, in which case a liability to SDRT will arise, usually at the rate of 0.5 per cent. of the amount or value of the consideration.

A transfer of Ordinary Shares effected on a paperless basis within CREST will generally be subject to SDRT at the rate of 0.5 per cent. of the amount or value of the consideration.

Where Ordinary Shares are transferred (i), to, or to a nominee for, a person whose business is or includes the provision of clearance services or (ii) to, or to a nominee or agent for, a person whose business is or includes issuing depositary receipts, stamp duty or SDRT may be payable at a rate of 1.5 per cent. of the amount or value of the consideration payable or, in certain circumstances, the amount or value of the Ordinary Shares.

The above statements are intended only as a general guide to the current tax position under UK taxation law and practice.

A Shareholder or potential investor who is in any doubt as to his or her tax position, or who is subject to tax in any jurisdiction other than the United Kingdom should consult his or her professional adviser without delay.

15. General

- (a) Chantrey Vellacott DFK has given and not withdrawn its written consent to the inclusion in Part V of this document of its report and the references to such report and to its name in the form and context in which they appear.

- (b) Strand Partners has given and not withdrawn its written consent to the issue of this document with the inclusion of the references to its name in the form and context in which they appear.
- (c) The total expenses of or incidental to the Firm Placing, the Public Offer and Admission which are payable by the Company are estimated to amount to approximately £150,000 (excluding VAT). The net cash proceeds of the Firm Placing are expected to be £5,950,000. No commissions are being paid in connection with the Firm Placing.
- (d) In the opinion of the Directors, the proceeds of the Firm Placing in conjunction with a bank loan and other facilities, (together being approximately £0.8 million), will provide the sums required for any preliminary expenses payable by the Company and will provide sufficient working capital for its present requirements.
- (e) Save as disclosed in this document there are no patents or other intellectual property rights, licences or particular contracts that are of fundamental importance to the Group's business.
- (f) There are no investments by the Group in progress which are significant.
- (g) CREST is a computerised settlement system operated by CRESTCo which facilitates the transfer of title to shares in uncertificated form. The Articles of Association permit the holding of the New Ordinary Shares under the CREST system. Accordingly, it is intended that settlement of transactions in the New Ordinary Shares following Admission may take place within the CREST system if the relevant Shareholders or potential investors so wish. CREST is a voluntary system and Shareholders or potential investors who wish to receive and retain share certificates will be able to do so.
- (h) The New Ordinary Shares have not been made available to the public in conjunction with the application for their admission to trading on AIM other than pursuant to the Firm Placing and the Public Offer. No temporary documents of title will be issued. It is expected that definitive share certificates will be despatched by hand or first class post by 24 December 2002. In respect of uncertificated shares it is expected that Shareholders CREST accounts will be credited on 18 December 2002. The New Ordinary Shares will be in registered form.
- (i) No persons (other than the Company's professional advisers otherwise disclosed in this document and trade suppliers) has received, directly or indirectly, from the Company within the 12 months preceding the date of this document, or entered into contractual arrangements (not otherwise disclosed in this document) to receive directly or indirectly, from the Company on or after Admission any of the following: (i) fees totalling £10,000 or more; (ii) securities in the Company with a value of £10,000 or more; or (iii) any other benefit with a value of £10,000 or more at the date of this document.
- (j) The Offer Price of 0.15 pence per New Ordinary Share represents a premium of 0.05 pence over the nominal value (following the Capital Reorganisation) of each New Ordinary Share of 0.1 pence.
- (k) Save as disclosed in this document, the Directors are not aware of any exceptional factors which have influenced the Company's activities.

16. Documents available for inspection

Copies of the following documents may be inspected at the offices of Teacher Stern Selby, 37-41 Bedford Row, London WC1R 4JH and at the registered office of the Company during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for a period of not less than one month from the date of Admission:

- (a) the Memorandum and Articles of Association of the Company;
- (b) the consolidated audited accounts of the Company for the financial periods ended 30 June 2000, 30 June 2001 and 30 June 2002;

- (c) the service agreements referred to in paragraph 8 of this Part VI;
- (d) the letters of consent referred to in paragraphs 15(a) and (b) of this Part VI;
- (e) the irrevocable undertakings referred to in paragraph 7 of this Part VI and the irrevocable undertakings of the Directors to vote in favour of the Resolutions; and
- (f) this document and the Application Form.

Dated: 13 November 2002

WATFORD LEISURE PLC

(Registered in England and Wales No 3335610)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an EXTRAORDINARY GENERAL MEETING of Watford Leisure PLC ("the Company") will be held at 6.30 p.m. on 12 December 2002 at the Watford Grammar School for Girls, Lady's Close, Watford, Hertfordshire, WD18 0AE for the purposes of considering pursuant to s.142 of the Companies Act 1985 the steps to be taken to deal with the situation that the Company's net assets are less than half of its called up share capital and, if thought fit, passing the following Resolutions, which will be proposed as ordinary and special resolutions as specified:

1. CAPITAL REORGANISATION

1.1 Ordinary Resolution

THAT each ordinary share of 0.4 pence in the capital of the Company in issue at the date of passing of this resolution be and is hereby subdivided into four ordinary shares of 0.1 pence each, each such ordinary share of 0.1 pence having the rights and being subject to the restrictions set out in the articles of association of the Company (as amended by this resolution);

1.2 Special Resolution

THAT of the four ordinary shares of 0.1 pence each in issue which arise on the subdivision of each ordinary share of 0.4 pence in issue, three ordinary shares of 0.1 pence each be and are hereby redesignated as three deferred shares of 0.1 pence each having the rights and being subject to the restrictions as set out in the articles of association of the Company (as amended by this resolution);

1.3 Ordinary Resolution

THAT each ordinary share of 0.4 pence in the capital of the Company which is not in issue at the date of passing of this resolution be and is hereby subdivided into four ordinary shares of 0.1 pence each, each such ordinary share of 0.1 pence having the rights and being subject to the restrictions as set out in the articles of association of the Company (as amended by this resolution);

1.4 Ordinary Resolution

THAT the directors of the Company (the "Directors") be and they are hereby generally and unconditionally authorised for the purposes of Section 80 of the Companies Act 1985, (the "Act"), to exercise all powers of the Company to allot relevant securities (within the meaning of the said Section 80) of the Company up to a maximum aggregate nominal value of £5,966,667 in connection with the Firm Placing and the Public Offer (as each is defined in the prospectus to shareholders accompanying the Notice of this meeting) and otherwise up to a maximum aggregate nominal value of £1.8 million provided that this authority shall expire on the date of the Company's annual general meeting to be held in 2007 unless previously renewed, varied or revoked by the Company in general meeting, and provided that the Company may before such expiry make an offer, agreement or other arrangement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities pursuant to any such offer, agreement or other arrangement as if the authority hereby conferred had not so expired, this authority to replace any existing like authority given prior to the date hereof which is hereby revoked with immediate effect;

1.5 Special Resolution

THAT the Directors be and they are hereby generally empowered pursuant to Section 95 of the Act, in substitution for all existing powers under that section, to allot equity securities (as defined in Section 94(2) of the Act), wholly for cash, pursuant to the authority conferred by Resolution 1.4 as if Section 89(1) of the Act did not apply to such allotment, provided that this power shall be limited to:

- (i) the allotment of equity securities up to a maximum aggregate nominal amount of £5,966,667 in connection with the Firm Placing and the Public Offer (as each is defined in the prospectus to shareholders accompanying the notice of this meeting);

- (ii) the allotment of equity securities in connection with an offer of such securities (whether by open offer, rights issue or otherwise) to the holders of ordinary shares in the capital of the Company in proportion (as nearly as may be) to the respective number of ordinary shares held or deemed to be held by them, subject only to such exclusions or other arrangements as the Directors deem necessary or expedient to deal with fractional entitlements, legal or practical problems arising in any overseas territory or the requirements of any regulatory body or stock exchange; and
- (iii) the allotment (otherwise than pursuant to sub-paragraphs (i) and (ii) above) of equity securities for cash up to an aggregate nominal amount of £1.8 million;

and this power shall expire, unless previously renewed, varied or revoked by the Company in general meeting, on the date of the Company's Annual General Meeting to be held in 2007 and save that the Company may make an offer, agreement or other arrangement which would or might require relevant securities to be allotted for cash under this authority after such expiry and the Directors may allot equity securities for cash pursuant to any such offer, agreement or other arrangement as if the authority hereby conferred had not so expired;

1.6 Special Resolution

THAT subject to the Resolutions numbered 1.1 to 1.3 being passed with the requisite majority, the articles of association of the Company be and are hereby amended by the deletion of the existing Article 3 and by the substitution in its place of the following new Article 3:

- "3. The authorised share capital of the Company is £16 million divided into 9,850,000,000 ordinary shares of 0.1 pence each ("Ordinary Shares") and 6,150,000,000 non-voting deferred shares of 0.1 pence each ("Deferred Shares").

The rights attached to the Deferred Shares are as follows:

- (a) no dividend or other distribution shall be paid or made in respect of the Deferred Shares;
- (b) the holders of Deferred Shares shall not be entitled to receive notice of, or to attend or vote at, any general meeting of the Company;
- (c) on a return of capital whether on a winding-up or otherwise the holders of the Deferred Shares shall be entitled to receive only the amount credited as paid up on each share but only after the holder of each Ordinary Share shall have received the amount paid up or credited as paid up on such share together with a payment of £10,000 per share but the holder of the Deferred Shares shall not be entitled to participate further; and
- (d) the creation of the Deferred Shares shall be deemed to confer irrevocable authority on the Company at any time thereafter to appoint any person to execute on behalf of the holders of such shares a transfer and/or an agreement to transfer the same, without making any payment to the holders thereof, to such persons as the Company may determine and to acquire the same in accordance with the provisions of the Companies Acts at a price of 0.1 pence for each separate holding of Deferred Shares and pending such transfer and/or cancellation to retain the certificates (if any) thereof.

In the event of any inconsistency between any other of these Articles of Association and this Article 3, the provisions of this Article 3 shall prevail and the other Articles with which this Article 3 would appear to conflict shall be construed accordingly."

1.7 Special Resolution

THAT subject to the Resolutions numbered 1.1 to 1.3 being passed with the requisite majority, the appropriate clauses of the Memorandum of Association of the Company be amended to reflect the new capital structure of the Company as amended by Resolutions 1.1 to 1.3.

2. CHAIRMAN'S VOTE

Special Resolution

THAT the articles of association of the Company be and are hereby amended by inserting a new Article 44.13 as follows:

"44.13 Without prejudice to any other Article, Mr Graham Simpson shall, at all times whilst he holds the position of Chairman of the Company, be entitled in any Board meeting to cast two votes in respect of any matter upon which he is entitled to vote. For the avoidance of doubt, such votes are in addition to any casting vote Mr. Graham Simpson may be entitled to cast as Chairman of the meeting."

3. REDUCTION OF CAPITAL

3.1 Special Resolution

THAT subject to and conditionally upon the Resolutions numbered 1.1 to 1.5 set out in the Notice of Extraordinary General Meeting of which this Resolution forms part being passed with the requisite majority and subject to obtaining an order of the court authorising the same, the share capital of the Company be reduced by £6,150,000 and that such reduction be effected by canceling paid up capital that has been lost or is unrepresented by available assets by extinguishing each of the issued non-voting deferred shares of 0.1 pence each in the capital of the Company for no consideration.

3.2 Special Resolution

THAT conditional upon an order of the court authorising the reduction of the share capital of the Company (referred to in paragraphs of this Resolution 3) being registered by the Registrar of Companies for England and Wales the articles of association of the Company be amended by deleting the existing Article 3 and by substituting therefor the new Article 3 in the form set out below:

"3. The authorised share capital of the Company is £9,850,000 divided into 9,850,000,000 ordinary shares of 0.1 pence each."

By Order of the Board
Peter James Wastall
Secretary

Registered Office:

Vicarage Road Stadium
Watford
Hertfordshire
WD18 0ER

Dated: 13 November 2002

Notes:

- (1) A member entitled to attend and vote at the meeting convened by this notice is entitled to appoint one or more proxies to attend and, on a poll, to vote on his behalf. A proxy need not be a member of the Company.
- (2) A prepaid form of proxy is enclosed. To be valid, the form of proxy (together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such authority) must be returned so as to be received by the Company's registrars, Capita IRG Plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU not later than 48 hours before the time appointed for holding the above meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude a member from attending and voting in person.
- (3) The Company, pursuant to regulation 41(1) of the Uncertificated Securities Regulations 2001, specifies that, only those shareholders registered in the register of members of the Company as at 6.30 p.m. on 10 December 2002 shall be entitled to attend the extraordinary general meeting and to vote in respect of the number of ordinary shares registered in their names at that time. Changes to entries on the share register after 6.30 p.m. on 10 December 2002 shall be disregarded in determining the rights of any person to attend and/or vote at the extraordinary general meeting.