

Watford Leisure PLC
17 November 2004

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Watford Leisure Plc

Preliminary results for the year ended 30 June 2004

Chairman's Statement

Overview

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

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

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

Financial Results

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

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

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

Football

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

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

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

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

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

Football Management

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

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

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

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

People

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

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

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

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

to the initial phase of recovery for the group.

Other Developments and Future Prospects

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

In my previous annual report I identified five objectives:

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

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

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

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

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

Following an approach from a casino operator the Club had an opportunity to develop plans for a lucrative casino development at Vicarage Road. After a great deal of consideration the Board have rejected this proposal because it was felt to be inconsistent with our desire to be a community club contributing positively to the local populace.

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

I am confident that, in striving to achieve these aims whilst sensibly managing our resources, albeit in a high risk industry, the staff and directors of the

group are maximising the opportunity for the third target, to return shareholder value, to be met.

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

Graham Simpson, Chairman

Chief Executive Officer's report

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

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

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

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

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

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

Mark Ashton, Chief Executive Officer

Consolidated profit and loss account for the year 30 June 2004

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

Loss per share
 (basic and diluted) 4 (62.6p)
 (272.4p)

=====

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

Note of historical cost profits and losses

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

Statement of total recognised gains and losses

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

Consolidated balance sheet at 30 June 2004

Notes	2004 £	2003 £
Fixed assets		
Intangible assets	1,222,193	1,287,558
Tangible assets	6,080,851	6,913,437
	-----	-----
-	7,303,044	8,200,995

-		

Current assets			
Stocks		117,968	88,864
Debtors		1,509,341	1,798,115
Cash at bank and in hand		614,398	864,669
		-----	-----
-			
		2,241,707	2,751,648
Creditors: amounts falling due within one year		3,648,995	5,883,016
		-----	-----
-			
Net current liabilities		(1,407,288)	(3,131,368)
		-----	-----
-			
Total assets less current liabilities		5,895,756	5,069,627
Creditors: amounts falling due after more than one year		(8,238,808)	(6,854,826)
Deferred capital grants and contributions		(51,423)	(82,520)
		-----	-----
-			
		£(2,394,475)	£(1,867,719)
		=====	
Capital and reserves			
Called up share capital		1,062,369	5,283,083
Share premium		244,547	6,131,254
Special reserve		5,067,299	-
Profit and loss account		(8,407,051)	(12,852,876)
		-----	-----
-			
Shareholders' funds	5	(2,032,836)	(1,438,539)
Minority interests		(361,639)	(429,180)
		-----	-----
-			
		£(2,394,475)	£(1,867,719)
		=====	

Consolidated cash flow statement for the year ended 30 June 2004

	Notes	2004	
2003			
£		£	£
Operating activities			
Net cash outflow from			

operating activities	6 (a)	(3,856,180)	
(7,217,004)			
Returns on investments and servicing of finance			
Interest received		12,398	50,555
Interest paid		(829,271)	(760,148)
		-----	-----
Net cash (outflow) / inflow from returns on investments and servicing of finance		(816,873)	
(709,593)			
Taxation		-	
-			
Capital expenditure			
Payments to acquire intangible fixed assets		(263,704)	(1,606,292)
Payments to acquire tangible fixed assets		(138,133)	(97,124)
Capital contributions received		21,924	40,302
Receipts from sales of intangible fixed assets		761,170	168,550
Receipts from sales of tangible fixed assets		3,050	5,394,778
		-----	-----
Net cash inflow for capital expenditure		384,307	
3,900,214		-----	--

Net cash outflow before financing		(4,288,746)	
(4,026,383)			
Financing			
Issue of ordinary share capital		3,972,572	4,600,368
Advances of finance and other loans		114,240	273,385
Capital element of finance lease and hire purchase payments	6 (b)	(48,337)	(7,302)
		-----	-----
Net cash inflow from financing		4,038,475	
4,866,451		-----	--

(Decrease)/increase in cash in the year		£(250,271)	
£840,068		=====	
=====			

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

1. Accounting policies

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

The principal accounting policies of the company have remained unchanged from the previous year.

2. Loss on ordinary activities before taxation

	2004	2003
	£	£
This is stated after charging :		
Amortisation of intangible fixed assets	625,158	2,147,373
Depreciation of tangible fixed assets	347,602	337,296
Directors' remuneration	166,029	189,172
Auditors' remuneration		
audit	27,000	29,000
non - audit	61,410	79,396
Operating leases - vehicles and equipment	76,927	75,450
Operating leases - other	259,740	206,293
	-----	-----

3. Tax on loss on ordinary activities

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

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

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

4. Loss per share

Loss per ordinary share have been calculated as follows:

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

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

5. Reconciliation of movements on shareholders' funds

Group	2004 £	2003 £
Loss for the financial year	(4,566,869)	(10,264,325)
Proceeds from issue of shares	3,972,572	4,600,368
	-----	-----
Net depletion in shareholders' funds	(594,297)	(5,663,957)
Opening shareholders' funds	(1,438,539)	4,225,418
	-----	-----
Closing shareholders' funds	£(2,032,836)	£(1,438,539)
	=====	=====

Shareholders' funds are fully attributable to equity interests.

6. Notes to the consolidated cash flow statement

a) Reconciliation of operating loss to net cash outflow from operating activities:

	2004 £	2003 £
Operating loss	(4,535,940)	(9,708,665)
Amortisation of intangible fixed assets	625,158	2,147,373
Depreciation of tangible fixed assets	347,602	337,296
Capital contribution released	(27,577)	(39,553)
Capital grant released	(3,520)	(3,520)
Net loss on disposal of sundry fixed assets	614,717	84,567
(Increase) / decrease in stocks	(29,104)	63,406
Decrease / (increase) in debtors	366,850	(647,688)
(Decrease) / increase in creditors	(1,214,366)	549,780
	-----	-----
-		
Net cash outflow from operating activities	£(3,856,180)	£(7,217,004)
	-----	-----
-		

b) Analysis of changes in net debt

	At 1 July 2003 £	Cash flows £	At 30 June 2004 £
Cash at bank and in hand	864,669	(250,271)	614,398
	-----	-----	-----
Bank loans due within 1 year	(75,522)	(3,047)	(78,569)
Finance loans due within 1 year	(57,693)	57,693	-
Other loans due within 1 year	(85,000)	(26,856)	(111,856)
Directors' loans due within 1 year	(975,000)	975,000	-
Bank loans due after 1 year	(478,921)	79,661	(399,260)
Directors' loans due after 1 year	-	(501,691)	(501,691)
Other loans due after 1 year	-	(695,000)	(695,000)
Finance lease and hire purchase balances	(6,133,626)	48,337	(6,085,289)
	-----	-----	-----
	(7,805,762)	(65,903)	(7,871,665)

-----	-----	-----
£ (6,941,093)	£ (316,174)	£ (7,257,267)
=====	=====	=====

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

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

7. Post balance sheet events

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

Subsequent to the year end the Club has sold players for £257,000 and purchased players with registration costs amounting to £75,000. These amounts will be capitalised in the financial statements for the next financial year.

8. Status of Financial Information

The above audited financial information does not constitute Watford Leisure's full financial statements within the meaning of section 240 of the Companies Act

1985. It is an extract from the 2004 group financial statements, approved by the board of directors, but not yet delivered to the Registrar of Companies. Full audited financial statements for the year ended 30 June 2004 will be filed at Companies House in due course.

9. Copies of the Annual Report 2004

The Annual Report for 2004 is expected to be posted to shareholders by 30

November 2004 .

This information is provided by RNS
The company news service from the London Stock Exchange