Chelsea Football Club Limited

Directors' report and financial statements

Registered number 1965149

30 June 2006

Contents

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 30 June 2006

Principal activity

The Company s principal activity during the year continued to be that of a Premier League football club

Results for the year

The net loss for the year, after taxation, was £78,297,000 (*2005 £132,854,000*) The Directors do not recommend the payment of a dividend for the financial year (*2005 £nil*)

Review of the business

Profit and Loss

The loss for the year was £78 3m compared to £132 9m for the previous year

The year saw a record level of turnover increasing to £130 4m from £122 7m, an increase of £7 7m as a result of new sponsorship deals and a strong performance on the pitch The Club were FAPL champions for the second successive season and reached the semi final of the FA Cup and last sixteen of the Champions League Operating expenses at £216 1m were £1 7m down on the previous year, with a reduction of £11 8m in player amortisation being partially offset by increase in staff costs of £5 5m and other operating expenses of £4 6m The exceptional loss on the termination of the Umbro contract last year together with these improvements in turnover and costs resulted in a much improved operating loss position

The Club made a profit on player trading of £7 3m in the year (2005 loss £11 8m) principally due to the sales of Gudjohnsen to Barcelona and Tiago to Lyon

Balance Sheet

Intangible assets have increased to £181 2m from £144 9m as a result of £115 8m of player acquisitions offset by the net book value of disposals of £8 7m and amortisation of £70 8m Acquisitions accounted for in the financial year include Schevchenko, Mikel and Kalou, where the deals were completed prior to the year end as well as Wright Phillips, Essien and Diarra completed as the start of the 2005/06 season

Tangible fixed assets are £125 3m at the year end the bulk of the £6 3m additions have been spent at our new training facilities in Cobham and in improving spectator facilities at Stamford Bridge

Our net current liabilities at £112 8m have increased by £28 8m This is largely as a result players transferred in for the 2006/07 season where the related liability had not been settled at the year end

Creditors falling due after more than one year of £370 3m include £345 6m owed to the Company's parent company, Chelsea FC plc This is the Company's source of finance

Principal risks and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Group's long term performance These risks and uncertainties are monitored by the Board on a regular basis

Income

The Club derives its income from three principal sources, gate receipts, television and commercial relationships

All three sources of income are dependant on the performance of the first team and its appeal to football supporters The performance of the first team is significantly influenced by the quality of the coaching staff and the players that the Club can attract in a highly competitive market both on the domestic and European levels

Directors' Report *(continued)*

Review of business *(continued)*

Expenditure

In order to attract the talent which will continue to win domestic and European trophies and therefore drive increases in our revenue streams the Club continually invests in the playing staff by way of both transfers and wages

Regulatory Environment

The Club is regulated by the rules of the FA, FAPL, UEFA, and FIFA These regulations have a direct impact on the Club as they cover areas such as the division of centrally negotiated television deals and the operation of the transfer market The Club has staff whose role includes ensuring that the Club monitors the evolution of these rules and ensures compliance with them

Funding

The Club is currently cash negative spending around £88m in the last financial year Funds are provided by the Club's parent company Chelsea FC plc who in turn are supported by Chelsea Ltd and the ultimate owner, Mr R Abramovich The Club reviews and updates its forecasts on a regular basis and keeps the owner aware of its financial commitments going forward

Key Performance Indicators

The principal key performance indicators for 2005/06 of both a financial and non-financial nature were as follows -

Non Financial

- FAPL Champions (2005 Champions)
- Average league attendance of x (2005 y)
- Progress in domestic cup competitions with 7 games (2005 8 games)
- UEFA Cup last 16 (2005 semi-final)

Financial (reviewed by the Board on a monthly basis)

- Revenue growth
- Payroll costs
- Operating result before player trading and amortisation
- Gains/losses on player trading
- Player acquisition costs
- Capital expenditure
- Debt owned to group undertakings

Directors

Directors who held office during the year are as follows

B Buck
E Tenenbaum
PF Kenyon

None of the Directors held any beneficial interest in the share capital of the Company

Company Secretary

AL Shaw served as Company Secretary throughout the year

Directors' Report *(continued)*

Fixed assets

The movements in fixed assets during the year are as shown in notes 7 and 8 to the Financial Statements The intangible fixed assets include the unamortised portion of the cost of players' registrations

As at 30 June 2006 the Directors do not consider there to be any significant difference between the book value and the market value of land and buildings

Officers of the Company have independently valued the playing staff The average of their aggregate valuation as at 30 June 2006 was £261,000,000 *(2005 £227,000,000)* This assumes willing buyers for the relevant players' registrations on normal contractual terms and an orderly disposal over a period of time

Going concern basis

The Company has received confirmation from the ultimate controlling party that sufficient funds will be provided to finance the business for the foreseeable future The Directors have therefore adopted the going concern basis in preparing these financial statements

Political and charitable donations

The Company made charitable donations of £1,000 during the year (*2005 £7,000*)

The Company's immediate parent Chelsea FC plc, made charitable donations of £220,000 during the year (*2005 £27,000*)

Suppliers

The Company agrees terms and conditions for its goods and services with suppliers and seeks to abide by these payment terms subject to the agreed terms and conditions being met by the supplier Suppliers are paid via the Company's immediate parent undertaking, Chelsea FC plc, further disclosure is provided in their financial statements

Employees

The Group recognises the importance of good employee relations and communications and involves employees as appropriate to the Company's circumstances Employees are regularly kept informed of an express their view on activities which are of concern to them or are likely to affect their interests

Disables persons are given full and fair consideration in all applications for employment Equal consideration is also given for training, career development and opportunities for promotion If an existing employee becomes disabled, such steps that are practical are taken, in respect of adjustments to premises or employment arrangements, to retain him/her in employment Where appropriate, rehabilitation and suitable training are given

Auditor

The Directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditor of the Company is to be proposed at the forthcoming Annual General Meeting

By order of the Board

A L Shaw
Secretary

Stamford Bridge
Fulham Road
LONDON
SW6 1HS

14/12/ 2006

Statement of directors' responsibilities in respect of the Directors' Report and the Financial Statements

The Directors are responsible for preparing the Directors' Report and the Financial Statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year Under that law they have elected to prepare the Financial Statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The Financial Statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period

In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements, and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 1985 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities

KPMG LLP

St James Square
Manchester
M2 6DS

Independent auditor's report to the members of Chelsea Football Club Limited

We have audited the Financial Statements of Chelsea Football Club Limited for the year ended 30 June 2006 which comprise the Profit and Loss Account, the Balance Sheet and the related notes These Financial Statements have been prepared under the accounting policies set out therein

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Financial Statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 4

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

We report to you our opinion as to whether the Financial Statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Financial Statements

In addition we report to you if, in our opinion, the Company has kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Financial Statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Financial Statements

Independent auditor's report to the members of Chelsea Football Club Limited *(continued)*

Opinion

In our opinion

- the Financial Statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 June 2006 and of its loss for the year then ended,
- the Financial Statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the Financial Statements

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

21 December 2006

Profit and loss account
for the year ended 30 June 2006

	Note	**Operations excluding player trading**	**Player trading**	**Total**	
		2006	**2006**	**2006**	2005
		£000	**£000**	**£000**	£000
Turnover	*1*	130,410	-	**130,410**	122,657
Operating expenses		(145,250)	(70,800)	**(216,050)**	(217,746)
Exceptional items	*2*	-	-	-	(25,500)
Operating loss		(14,840)	(70,800)	**(85,640)**	(120 589)
Profit/(loss) on disposal of player registrations		-	7,345	**7,345**	(11,806)
Loss on ordinary activities before interest and taxation		(14,840)	(63,455)	**(78,295)**	(132,395)
Interest payable and similar charges	*5*	(2)	-	**(2)**	(459)
Loss on ordinary activities before taxation	*2*	(14,842)	(63,455)	**(78,297)**	(132,854)
Tax on loss on ordinary activities	*6*	-	-	-	-
Loss for the financial year		(14,842)	(63,455)	**(78,297)**	(132,854)

The results for the period relate to continuing operations

The Company had no recognised gains or losses during the current or proceeding periods, other than the losses reported in the profit and loss account

Note of historical costs profits and losses
for the year ended 30 June 2006

	2006	2005
	£000	£000
Reported loss on ordinary activities before taxation	**(78,297)**	(132,854)
Difference between a historical cost depreciation charge and the depreciation charge calculated on the revalued amount	**1,216**	1,216
Historical cost loss on ordinary activities before taxation	**(77,081)**	(131,638)
Historical cost loss for the financial year	**(77,081)**	(131,638)

Balance sheet
As at 30 June 2006

	Note	2006		2005 restated	
		£000	**£000**	£000	£000
Fixed assets					
Intangible assets	*7*		**181,159**		144,938
Tangible assets	*8*		**125,284**		122,595
			306,443		267,533
Current assets					
Debtors	*9*	**7,673**		3 223	
Cash at bank and in hand		**8**		45	
		7,681		3,268	
Creditors amounts falling due within one year	*10*	**(120,435)**		(87,239)	
Net current liabilities			**(112,754)**		(83,971)
Total assets less current liabilities			**193,689**		183,562
Creditors amounts falling due after more than one year	*11*		**(370,332)**		(281,908)
Net Assets			**(176,643)**		(98,346)
Capital and reserves					
Called up share capital	*13*		**10**		10
Share premium account	*14*		**99,990**		99,990
Revaluation reserve	*14*		**25,165**		26,381
Profit and loss account	*14*		**(301,808)**		(224,727)
Equity shareholders' funds	*15*		**(176,643)**		(98,346)

These financial statements were approved by the Board of Directors on 14 DECEMBER 2006 and were signed on its behalf by

Bruce M Buck

Mr B Buck
Director

Notes
(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company s financial statements except as stated below

In these financial statements the following new accounting standards have been adopted for the first time

- FRS 21 'Events after the balance sheet date'
- the presentation requirement of FRS 25 'Financial instruments presentation and disclosure'
- FRS 28 'Corresponding amounts'

The accounting policies under the new standards are set out below together with an indication of the effects of their adoption FRS 28 'Corresponding amounts' has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985

The corresponding amounts in these financial statements are restated in accordance with the new policies

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention, modified to include the revaluation of freehold land and buildings

Under Financial Reporting Standard ('FRS') Number 1, the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company on its own consolidated financial statements

The financial statements have been prepared on a going concern basis which the Directors believe to be appropriate The Company is reliant on its ultimate parent undertaking, Chelsea Limited, for its continued financial support Chelsea Limited has indicated its continued support for the foreseeable future provided that the Company remains in the Group

Related party transactions

As the Company is a wholly owned subsidiary of Chelsea Limited the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the Group (or investees of the Group qualifying as related parties) The consolidated financial statements of Chelsea Limited, within which this Company is included, can be obtained from the address given in note 19

Turnover

Turnover is stated net of value added tax and amounts due to the Football Association and visiting clubs, and includes gate receipts, sponsorships, advertising, television fees, donations and sundry net related income

Players' registrations

All costs associated with the acquisition of players' registrations are capitalised as intangible fixed assets and are amortised evenly over the period of the players' initial contract of employment with the Company In the event that the initial contract is renegotiated prior to completion, the written down value at the date of renegotiation is amortised over the extended period Fees receivable are set off against the players' net book value at the date of sale, plus any payments made in settlement of the contracts and the difference is treated as a profit or loss on disposal

Notes *(continued)*

1 Accounting policies *(continued)*

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost or valuation less depreciation Depreciation is provided at rates calculated to write off the cost or valuation less estimated residual value of each asset over its expected useful life, as follows

Freehold land	Not depreciated
Long leasehold land	Not depreciated
Long leasehold buildings	
Structures	50 to 100 years on a straight line basis
Computers	4 years on a straight line basis
Fixtures, fittings & equipment	2 to 10 years on a straight line basis

Leasing and hire purchase commitments

Assets held under hire purchase contracts and finance leases and the related obligations are recorded in the balance sheet at the fair value of the assets at the inception of each contract or lease The amounts by which the payments exceed the recorded obligations are amortised over each contract or lease term to give a constant rate of charge on the remaining balance of the obligation

Classification of financial instruments issued by the Company

Following the adoption of FRS 25, financial instruments issued by the Company are treated as equity (i e forming part of shareholders' funds) only to the extent that they meet the following two conditions

a) They include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial liabilities with another party under conditions that are potentially unfavourable to the Company, and

b) Where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges Finance payments associated with financial instruments that are classified as part of shareholders' funds (see dividend policy) are dealt with as appropriations in the reconciliation of movements in shareholders' funds

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability to the extent that they are appropriately authorised and are no longer at the discretion of the Company Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements

Pensions

The Company is one of a number of employers in a shared defined benefit scheme for playing staff and defined contribution scheme for certain other members of staff The defined benefit scheme is a multi-employer scheme and in accordance with FRS17 has been treated as a defined contribution scheme The Company also operates other defined contribution schemes

Taxation

The charge for taxation is based on the loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes Full provision without discounting is made for deferred taxation in accordance with FRS 19

Notes *(continued)*

1 Accounting policies *(continued)*

Players' signing on fees

Players' contracts of employment may include a signing on fee payable in instalments over the period of the contract The Company's policy is to charge such fees to the profit and loss account as they fall due under the terms of the contract

Deferred income

Deferred income comprises amounts received on sales of millennium suites relating to future seasons, in addition to advance sales of season tickets and sponsorship income These amounts will be released over the periods for which the income relates

Stadium development

The Company capitalises all expenditure incurred for the development of Stamford Bridge Stadium

Foreign Currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account

2 Loss on ordinary activities before taxation

		2006	2005
		£000	£000
This is stated after charging			
Depreciation of tangible fixed assets		**3,625**	3,574
Amortisation of intangible assets		**70,800**	82,550
(Profit)/loss on disposal of player registrations		**(7,345)**	11,806
Auditor's remuneration	- in respect of audit services	**19**	19
	- in respect of other services	**69**	69
Operating lease rentals			
Land and buildings		**-**	1,332
Exceptional items		**-**	25,500

Exceptional items

During the prior year, it was agreed that the sponsorship agreement with Umbro plc for the supply of playing and training kit and the sale and distribution of replica products would terminate by mutual agreement in June 2006, ahead of the contract end date of June 2011 The Company paid Umbro £25,500,000 in June 2006 in respect of the early termination and this amount was charged to the profit and loss account in the prior period

Profit/loss on disposal of player registrations

The net loss on disposal of player registrations in the prior year of £11,806,000 included a write off of a registration value of £13,814,000 following the termination of Mr A Mutu s employment contract

Notes *(continued)*

3 Remuneration of directors

	2006 £000	2005 £000
Emoluments for qualifying services	1,775	1,683
Company pension contributions to money purchase schemes	53	51
	1,828	1,734

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounts to 1 *(2005 1)*

Emoluments disclosed above include the following amounts paid to the highest paid director

	2006 £000	2005 £000
Emoluments for qualifying services	1,775	1,683
Company pension contributions to money purchase schemes	53	51
	1,828	1,734

4 Staff numbers and costs

The average number of employees (including directors) during the year was

	2006 Number	2005 Number
Playing staff (including managers/coaches)	90	87
Administration and commercial	70	46
	160	133

The aggregate payroll costs of these persons were as follows

	2006 £000	2005 £000
Wages and salaries	93,522	89,944
Social security costs	9,938	8,064
Other pension costs	193	166
	103,653	98,174

The Company also employs approximately 550 (*2005 535*) temporary staff on match days

5 Interest payable and similar charges

	2006 £000	2005 £000
Bank loans, overdrafts and other interest	-	457
Hire purchase interest	2	2
	2	459

Notes *(continued)*

6 Taxation

	2006 £000	2005 £000
Factors affecting the tax charge for the year		
Loss on ordinary activities before taxation	**(78,297)**	(132,398)
Loss on ordinary activities multiplied by the standard rate of UK corporation tax of 30% *(2005 30%)*	**(23,489)**	(39,856)
Effects of		
Non deductible expenditure	**814**	837
Depreciation in excess of capital allowances	**-**	-
Losses carried forward	**22,675**	39,019
	23,489	39,856
Current tax charge	**-**	-
Losses available to carry forward at 30 June	**315,801**	241,335

A potential deferred tax asset of £91,143,000 (*2005 £68,785,000*) has not been recognised due to uncertainty over future profits

7 Intangible fixed assets

	Players registrations £000
Cost	
At 1 July 2005	244,748
Additions	115,753
Disposals	(21,464)
At 30 June 2006	339,037
Depreciation	
At 1 July 2005	99,810
Charge for the year	70,800
On disposal	(12,732)
At 30 June 2006	157,878
Net book value	
At 30 June 2006	**181,159**
At 30 June 2005	144,938

Notes *(continued)*

8 Tangible fixed assets

	Freehold land	Long lease land & buildings	Computers, fixtures and fittings	Construction in progress	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 1 July 2005	6,439	114,002	4,013	3,599	128,053
Additions	-	-	511	5,803	6,314
Completed assets under construction	462	4,040	1,517	(6,019)	-
At 30 June 2006	6,901	118,042	6,041	3,383	134,367
Depreciation					
At 1 July 2005	27	3,883	1,548	-	5,458
Charge for the year	141	2,037	1,447	-	3,625
At 30 June 2006	168	5,920	2,995	-	9,083
Net book value					
At 30 June 2006	**6,733**	**112,122**	**3,046**	**3,383**	**125,284**
At 30 June 2005	6,412	110,119	2,465	3,599	122,595

As required under FRS 11 'Impairment of fixed assets and goodwill' the Directors have re-assessed the carrying values and are of the opinion that no impairments are required in the current year (*2005 £nil*)

Comparable historical cost for the land and buildings included at valuation:

	Total
	£000
Cost	
At 1 July 2005	100,576
Additions	4,502
At 30 June 2006	105,078
Depreciation	
At 1 July 2005	5,134
Charge for the year	962
At 30 June 2006	6,096
Net book value	
At 30 June 2006	**98,982**
At 30 June 2005	95,442

9 Debtors

	2006	2005
	£000	£000
Other debtors	**3,468**	2,559
Prepayments and accrued income	**4,205**	664
	7,673	3,223

Notes *(continued)*

10 Creditors: amounts falling due within one year

	2006 £000	2005 £000
Trade creditors	**50,279**	30,814
Other creditors	**5,888**	4,543
Taxes and social security costs	**2,681**	8,866
Accruals and deferred income	**61,587**	43,016
	120,435	87,239

£57,439,000 (*2005 £30,348 000*) of the accruals and deferred income balance represents season ticket sales for the forthcoming season

11 Creditors: amounts falling due after more than one year

	2006 £000	2005 restated £000
Trade creditors	**4,749**	10,749
Amounts owed to Group undertakings	**345,560**	250,786
Other creditors	**23**	43
Accruals and deferred income	**5,000**	5,330
Preference share capital	**15,000**	15,000
	370,332	281,908

Deferred income included above represents that part of amounts received as at 30 June 2006 from the sale of 10 year licences on the Millennium Suites, which relate to the 2006/2007 season and beyond

As more fully explained in note 1 following the application of FRS 25, preference share capital has been classified as a financial liability As permitted by the transitional provisions of FRS 25, the prior year has also been restated The effect of this change is to reduce net assets in both the current and prior year balance sheets by £15,000,000

Preference share capital	2006 Number	2005 Number	2006 £000	2005 £000
Authorised				
Cumulative preference shares of £1 each	**15,000,000**	15,000,000	**15,000**	15,000
Allotted, called up and fully paid				
Cumulative preference shares of £1 each	**15,000,000**	15,000,000	**15,000**	15,000

The cumulative preference shares attract a fixed cumulative preferential dividend at the rate of 5p per share per annum, with the first such dividend accruing in respect of the period 1 January 2007 to 31 December 2007 On winding-up of the Company, the assets of the Company available for distribution among the members shall be applied, in priority to any payment to holders of any other class of shares, in repaying the holders of the cumulative preference shares a sum equal to the nominal capital paid up or credited as paid up thereon

Notes *(continued)*

12 Pension Commitments

a) Defined Benefit Scheme

Certain employees of the Group are members of The Football League Limited Pension and Life Assurance Scheme ('the scheme') Accrual of benefits under a final salary basis was suspended with effect from 31 August 1999 following an actuarial review which revealed a substantial deficit

As one of a number of participating employers, the Group is advised only of its share of the deficit in the Scheme and was advised that its contributions to make good the deficit amounted to £272,000 and this has been charged to the profit and loss account in previous years The latest actuarial valuation was at 1 April 2006 and the Group was advised that the deficit has increased and further contributions amounting to £130,000 were required The revised deficit is being paid off over a period of 10 years from April 2006

b) Defined Contribution Schemes

The Group also contributes to other schemes providing benefits based upon contributions made The assets of the schemes are held separately from those of the Company in independently administered funds The pension charge for the year was £193,000 (*2005 £166,000*)

13 Called up share capital

	2006 Number	2005 Number	2006 £000	2005 £000
Authorised				
Ordinary shares of £1 each	**1,000,000**	1,000,000	**1,000**	1,000
Allotted, called up and fully paid				
Ordinary shares of £1 each	**10,100**	10,100	**10**	10

The Articles of Association limit dividends payable on ordinary shares to 15% of the paid up share capital in any one year

As more fully explained in note 1, following the application of FRS 25 preference share capital has been classified as a financial liability As permitted by the transitional provisions FRS 25, the prior year has also been restated

14 Statement of movement on reserves

	Share premium account £000	Revaluation Reserve £000	Profit & loss account £000	Total £000
Balance at 1 July 2005	99,990	26,381	(224,727)	(98,356)
Retained loss for the year	-	-	(78,297)	(78,297)
Difference on depreciation	-	(1,216)	1,216	-
Balance at 30 June 2006	**99,990**	**25,165**	**(301,808)**	**(176,653)**

Notes *(continued)*

15 Reconciliation of movements in shareholders' funds

	2006 £000	2005 restated £000
Loss for the financial year	**(78,297)**	(132,854)
Other recognised gains and losses	**-**	-
Issue of share capital	**-**	-
Net addition/(reduction) to shareholders' funds	**(78,297)**	(132,854)
Opening shareholders funds	**(98,346)**	34,508
Closing shareholders' funds	**(176,643)**	(98,346)
Equity Interest	**(176,643)**	(98,346)

As more fully explained in note 1, following the adoption of FRS 25, preference share capital has been classified as a financial liability As permitted by the transitional provisions of FRS 25, the prior year has also been restated The effect of this change is to reduce shareholders funds in both the current and prior year by £15,000,000

16 Contingent liabilities

On 17 December 1997, the immediate parent Company issued a £75,000,000 Euro Bond, £36,147,000 of which is outstanding at the year end *(2005 £35,955,000)* The obligations of the Holding Company pursuant to such issue were guaranteed by the Company As security for such guarantee the Company gave a fixed charge over its property assets and a floating charge over its undertakings The amount covered by this guarantee at 30 June 2006 was £36,147,000 *(2005 £35 955,000)*

Under the terms of certain contracts with other football clubs in respect of player transfers, additional amounts would be payable by the Company if certain conditions are met The maximum amount that could be payable is £3,296,000 *(2005 £2,812,000)*

17 Financial commitments

At 30 June the Company had annual commitments under non-cancellable operating leases as follows

	Land and Buildings		Other	
	2006 £000	2005 £000	**2006 £000**	2005 £000
Expiry date				
Within one year	**-**	1,079	**-**	-

18 Capital commitments

At the 30 June the Company had capital commitments as follows

	2006 £000	2005 £000
Contracted for but not provided in the financial statements	**1,672**	4,542

Notes *(continued)*

19 Ultimate parent Company

The Directors consider the Ultimate Parent Undertaking to be Chelsea Limited, a company incorporated in England and Wales The largest group of undertakings in which the Company's results are included is Chelsea Limited The smallest group of undertakings in which the Company's results are included is Chelsea FC plc

The accounts of this Company and its parent may be obtained from the Registrar of Companies, Companies House, Crown Way, Cardiff, CF14 3UZ

20 Post Balance Sheet Events

Since the year end the Company has acquired the registrations of several football players at a cost of £21,184,000 (*2005 £52,800,000*) and disposed of the registrations of players at a profit of £3,641,000 (*2005 £1,000,000*)