Chelsea FC plc

Directors' report and financial statements

Registered number 2536231

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 principal activities of the Group are the operation of a professional football club, the provision of catering and function facilities, hoteliers, retailing and media activities, car park management, event organisation, health and fitness club operators and property development and management.

Review of the business

Profit and Loss

The loss for the year was £80.2m compared to £140.2m for the previous year.

The year saw a record level of turnover increasing to £152.8m from £149.1m, an increase of £3.7m. Revenue from football activities grew by £7.7m as a result of new sponsorship deals and a strong performance on the pitch and merchandising sales grew by £3.3m. These increases were offset by a drop of £7.4m in hotel catering and nightclub revenues due principally to the sub-contracting of the catering operation to FMC. The Football 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 £237.6m were £7.1m down on the previous year, with a reduction of £11.8m in player amortisation being partially offset by increases in staff costs of £5.1m. 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 £178.2m at the year end, the bulk of the £9.2m additions have been spent at our new training facilities in Cobham and in improving spectator facilities at Stamford Bridge.

Our net current liabilities at £81.0m have increased by £11.9m. This is largely as a result of players transferred in for the 2006/07 season where the related liability had not been settled at the year end offset by settlement of the exceptional liability with Umbro.

Creditors falling due after more than one year of £192.2m include £131.3m owed to the Company's parent company, Chelsea Ltd and £36.1m still outstanding on the Eurobond due for repayment in 2007.

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 Group derives the bulk of its income from football activities and related merchandising of which three principal sources stand out; gate receipts, television and commercial income including merchandising.

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.

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.

Directors' report *(continued)*

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 Group is currently cash negative spending £129.6m in the last financial year. Funds are provided by the Club's parent company Chelsea Ltd who are supported by 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 41901 (2005: 41870)
- Progress in domestic cup competitions with 7 games (2005: 8 games)
- UEFA Cup last 16 (2005: semi-final)
- Merchandising footfall
- Hotel occupancy

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 and Directors Interests

The Directors who held office during the year are as follows:

B Buck

P Kenyon

E Tenenbaum

Company Secretary

AL Shaw served as Company Secretary throughout the year.

Results and dividends

The net loss for the year, after taxation and minority interest, was £80,193,000 *(2005 restated: £140,238,000)*. The Directors do not recommend the payment of a dividend for the financial year *(2005: £nil)*.

Going concern basis

The Company is reliant on its parent undertaking, Chelsea Limited, for its continued financial support. The Company has received confirmation from its parent undertaking 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.

Directors' report *(continued)*

Fixed assets

The movements in fixed assets during the year are as shown in notes 10 to 12 to the financial statements. The intangible fixed assets include the unamortised portion of the cost of players' registrations.

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 Chelsea Football Club Limited 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)*. The valuations assume willing buyers for the relevant players' registrations on normal contractual terms and an orderly disposal over a period of time.

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. Amounts due to the Company's suppliers at the balance sheet date represent approximately 54 days *(2005: 50 days)* credit based on the total amounts of goods and services invoiced by them.

Employees

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

Disabled 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.

Political and charitable donations

The Group made charitable donations of £220,000 (*2005: £27,000*).

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

AL

AL 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 the Directors have elected to prepare the Group and the Parent Company Financial Statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The Group and Parent Company Financial Statements are required by law to give a true and fair view of the state of affairs of the Group and the Parent Company and of the profit or loss 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 accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent 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 Parent Company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group 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 FC plc

We have audited the Group and Parent Company Financial Statements (the "Financial Statements") of Chelsea FC plc for the year ended 30 June 2006 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the 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 Directors' Report and 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 not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatement 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 Group's and Company's circumstances, consistently applied and adequately disclosed.

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

Independent auditor's report to the members of Chelsea FC plc *(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 Group's and the Parent Company's affairs as at 30 June 2006 and of the Group's loss for the year then ended;
- the Financial Statements have been properly prepared in accordance with the Companies Act 1985;
- the information given in the Directors' Report is consistent with the Financial Statements

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

21 December 2006

Consolidated profit and loss account

for the year ended 30 June 2006

	Note	Operations excluding player trading 2006 £000	Player trading 2006 £000	Total 2006 £000	2005 restated £000
Turnover: Group and share of joint venture	2	152,838	-	**152,838**	149,112
Less: Share of joint venture's turnover		(2,822)	-	**(2,822)**	(2,540)
Group turnover		150,016	-	**150,016**	146,572
Operating expenses		(166,807)	(70,800)	**(237,607)**	(244,681)
Exceptional items	3	-	-	**-**	(25,500)
Other operating income		1,854	-	**1,854**	-
Group operating loss	3	(14,937)	(70,800)	**(85,737)**	(123,609)
Share of operating loss in joint venture		(326)	-	**(326)**	(1,111)
Total operating loss: Group and share of joint venture		(15,263)	(70,800)	**(86,063)**	(124,720)
Profit/(loss) on disposal of player registrations	3	-	7,345	**7,345**	(11,806)
Profit on dilution of shareholding in joint venture	3	1,569	-	**1,569**	-
Loss before interest and taxation		(13,694)	(63,455)	**(77,149)**	(136,526)
Other interest receivable and similar income	6	392	-	**392**	259
Interest payable and similar charges	7				
Group		(3,236)	-	**(3,236)**	(3,694)
Share of joint venture		(240)	-	**(240)**	(476)
		(3,476)	-	**(3,476)**	(4,170)
Loss on ordinary activities before taxation	3	(16,778)	(63,455)	**(80,233)**	(140,437)
Taxation on loss on ordinary activities	8	-	-	**-**	-
Loss on ordinary activities after taxation		(16,778)	(63,455)	**(80,233)**	(140,437)
Minority interest		40	-	**40**	3
Loss for the financial year	20	(16,738)	(63,455)	**(80,193)**	(140,434)

All activities relate to continuing operations.

There were no recognised gains or losses in the current or proceeding year other than the losses included in the profit and loss account.

Consolidated statement of historical cost profits and losses
for the year ended 30 June 2006

	Note	**2006 £000**	2005 restated £000
Loss on ordinary activities before taxation	*20*	**(80,233)**	(140,437)
Difference between historical cost depreciation charge and depreciation charge based on revalued amounts	*20*	**1,290**	1,289
Historical cost loss on ordinary activities before taxation		**(78,943)**	(139,148)
Historical cost loss on ordinary activities after taxation		**(78,943)**	(139,148)

Balance sheet

As at 30 June 2006

	Note	Group 2006	Group 2005 restated	Company 2006	Company 2005
		£000	£000	**£000**	£000
Fixed assets					
Intangible assets	*10*	**181,159**	144,938	**-**	-
Tangible assets	*11*	**178,196**	175,855	**4,275**	3,785
Investments	*12*	**-**	-	**541,996**	442,856
		359,355	320,793	**546,271**	446,641
Current assets					
Stocks	*13*	**656**	596	**-**	-
Debtors: Due in one year	*14*	**24,447**	19,305	**14,369**	14,536
Due after one year	*14*	**36,682**	18,294	**26,684**	18,294
Total debtors		**61,129**	37,599	**41,053**	32,830
Cash at bank and in hand		**2,812**	23,477	**2,783**	23,393
		64,597	61,672	**43,836**	56,223
Creditors: Amounts falling due within one year	*15*	**(145,635)**	(130,739)	**(23,112)**	(41,719)
Net current (liabilities)/assets		**(81,038)**	(69,067)	**20,724**	14,504
Total assets less current liabilities		**278,317**	251,726	**566,995**	461,145
Creditors: Amounts falling due after one year	*16*	**(192,246)**	(184,419)	**(167,473)**	(158,325)
Provisions for liabilities and charges	*18*				
Investment in joint venture					
- share of gross assets		**1,492**	1,270	**-**	-
- share of gross liabilities		**(6,099)**	(6,880)	**-**	-
	18	**(4,607)**	(5,610)	**-**	-
Net assets		**81,464**	61,697	**399,522**	302,820
Capital and reserves					
Called up share capital	*19*	**1,730**	1,720	**1,730**	1,720
Share premium account	*20*	**405,095**	305,105	**405,095**	305,105
Revaluation reserve	*20*	**32,706**	33,996	**6,555**	6,555
Profit and loss account	*20*	**(358,105)**	(279,202)	**(13,858)**	(10,560)
Shareholders' funds		**81,426**	61,619	**399,522**	302,820
Minority interests		**38**	78	**-**	-
		81,464	61,697	**399,522**	302,820

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

B Buck
Director

Consolidated cash flow statement

For the year ended 30 June 2006

	Note	2006 £000	2005 £000
Cash outflow from operating activities	*21*	**(32,277)**	(6,857)
Returns on investments and servicing of finance	*22*	**(2,844)**	(3,435)
Taxation		**-**	-
Capital expenditure and financial investment	*22*	**(94,464)**	(140,849)
Financing	*22*	**108,953**	161,118
(Decrease)/increase in cash		**(20,632)**	9,977

Reconciliation of net cash flow to movement in net debt

	Note	2006 £000	2006 £000	2005 restated £000	2005 restated £000
(Decrease)/increase in cash	*23*	**(20,632)**		9,977	
Cash outflow from change in net debt and lease financing	*23*	**(8,953)**		(7,492)	
			(29,585)		2,485
Amortisation of Eurobond issue costs	*23*		**(192)**		(192)
Movement in net debt in period			**(29,777)**		2,293
Net debt at 1 July	*23*		**(149,892)**		(152,185)
Net debt at 30 June	*23*		**(179,669)**		(149,892)

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 Group's financial statements.

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 of financial statements

The financial statements are prepared in accordance with applicable accounting standards and under the historical cost convention, as modified where applicable to include the revaluation of freehold and long leasehold land and buildings.

Basis of consolidation

The Group financial statements incorporate the financial statements of Chelsea FC plc and all its subsidiary undertakings for the year ended 30 June 2006 (see note 30). Acquisitions are accounted for under the acquisition method of accounting with goodwill representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, being capitalised in the consolidated balance sheet and amortised over its expected useful life, being 20 years.

Entities in which the Group holds an interest on a long-term basis, and which are jointly controlled by the Group and other parties, are treated as joint ventures.

On 7 October 2005, the Group's shareholding in the ordinary share capital of Chelsea Digital Media was reduced from 80% to 65%, the remaining 35% being owned by Sky New Media Ventures Limited (SNMV), a wholly owned subsidiary of British Sky Broadcasting Group plc. The directors believe that the nature of control is that of a joint venture and as such CDM has been accounted for in accordance with Financial Reporting Standard ('FRS') number 9 'Associates and joint ventures'.

A separate profit and loss account dealing with the results of the Company alone has not been presented as permitted by Section 230(4) of the Companies Act 1985 (see note 9).

Going concern

The Company is reliant on its parent undertaking, Chelsea Limited, for its continued financial support. The Company has received confirmation from its parent undertaking 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.

Related party transactions

The directors have taken advantage of the exemption in FRS 8, paragraph 3(a), and have not disclosed transactions or balances between Group entities that have been eliminated on consolidation.

Investment in subsidiaries

Subsidiary companies are valued in the parent Company balance sheet at cost. Where an impairment in value occurs and it is considered to be permanent, the impairment below the cost of the investment, including loans, is written off to the profit and loss account.

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
Freehold and long leasehold buildings	50 years on a straight line basis
Plant and equipment	4 to 10 years on a straight line basis

Players' registrations

All costs associated with the acquisition of a players' registration are capitalised as intangible fixed assets and are amortised evenly over the period of the players' initial contract of employment with the Group. In the event that the initial contract is renegotiated prior to expiry, 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.

Players' signing on fees

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

Stadium development

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

Capitalised Interest

Separately identifiable borrowing costs and interest incurred on the development of specific projects are capitalised as part of the Group's development costs for that project.

Taxation

The charge for tax 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.

Deferred tax is recognised without discounting in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19 'Deferred tax'.

Turnover

Turnover represents all income arising from the ordinary activities of the Group excluding transfer fees and excluding Value Added Tax. Principal sources of income include match day, media, commercial and operation of hotel and stadium facilities.

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.

Notes *(continued)*

1 Accounting policies *(continued)*

Classification of financial instruments issued by the Group

Following the adoption of FRS 25, financial instruments issued by the Group 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 Group to deliver cash or other financial assets or to exchange financial liabilities with another party under conditions that are potentially unfavourable to the Group; and

b) Where the instrument will or may be settled in the Group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Group's own equity instruments or is a derivative that will be settled by the Group'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 Group'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 shareholder's 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.

Operating leases

Payments made under leases regarded as operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Pensions

The Group operates a number of defined contribution schemes. Contributions to these schemes are charged to the profit and loss account as incurred.

Stocks

Stocks, which comprise goods held for resale, are valued at the lower of cost and net realisable value.

Foreign currencies

Transactions in foreign currencies are translated into sterling at the rate of exchange ruling on the transaction date. Foreign currency monetary assets and liabilities are translated into sterling at the rate of exchange ruling at the balance sheet date. Exchange gains and losses are included in the profit and loss account.

Deferred income

Income from season tickets, sponsorship, broadcasting and other commercial contracts, which has been received prior to the year end in respect of future football seasons is treated as deferred income.

Debt

Debt is initially stated at the amount of the net proceeds after deducting any issue costs which are amortised over the life of the debt, in accordance with FRS 4 'Capital Instruments'.

Notes *(continued)*

2 Segmental analysis of turnover

	2006 £000	2005 £000
Football activities	**130,411**	122,657
Hotel/Catering/Nightclub	**6,553**	13,961
Merchandising	**11,047**	7,733
Leisure services	**1,034**	1,131
Car parking/Events/Other	**840**	971
Property sales/leasing	**131**	119
	150,016	146,572
Share of joint venture turnover – digital media	**2,822**	2,540
	152,838	149,112

All turnover arises in the United Kingdom and relates to continuing operations.

3 Loss on ordinary activities before taxation

	2006 £000	2005 £000
Loss on ordinary activities before taxation is stated after charging:		
Depreciation of tangible fixed assets (see note 11):		
Owned	**6,697**	9,092
Amortisation of intangible assets	**70,800**	82,550
Operating lease rentals:		
Land and buildings	**123**	1,448
Plant and equipment	**-**	355
Auditor's remuneration - in respect of audit services	**78**	75
- in respect of other services	**154**	103
Profit on disposal of tangible fixed assets	**-**	58
Profit/(loss) on disposal of player registrations	**7,345**	(11,806)
Exceptional item	**-**	25,500
Profit on dilution of shareholding in joint venture	**1,569**	-

Included in auditor's remuneration above is £27,000 (*2005: £20,000*) relating to the audit of the parent company.

Exceptional item

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. Chelsea 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 year.

Loss on disposal of player registrations

The net loss on disposal of player registrations in 2005 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.

Profit on dilution of shareholding in joint venture

On 7 October 2005, SNMV subscribed for a further £500,000 of ordinary shares in Chelsea Digital Media Limited, diluting the Group's shareholding in Chelsea Digital Media Limited from 80% to 65%. As a result, the Group's share of net liabilities has reduced, the resultant profit on dilution is £1,569,000.

Notes *(continued)*

4 Staff numbers and costs

The average number of employees (including directors) of the Group during the year was as follows:

	2006 Number	2005 Number
Playing staff, managers and coaches	**90**	87
Administration and commercial	**473**	510
	563	597

The Group also employees approximately 550 (2005: 535) temporary staff on match days.

The aggregate payroll costs of these employees (including directors) were as follows:

	£000	£000
Wages and salaries	**102,812**	99,411
Social security costs	**10,799**	8,969
Other pension costs	**391**	507
	114,002	108,887

5 Directors' remuneration

	2006 £000	2005 £000
Directors emoluments	**1,775**	1,683
Company contributions to money purchase pension schemes	**53**	51
	1,828	1,734

	Number	Number
The number of directors to whom retirement benefits are accruing is:		
Money purchase schemes	**1**	1

The emoluments of the highest paid director were:

	£000	£000
Aggregate emoluments	**1,775**	1,683
Money purchase pension contributions	**53**	51
	1,828	1,734

6 Other interest receivable and similar income

	2006 £000	2005 £000
Bank interest	**392**	259

Notes *(continued)*

7 Interest payable and similar charges

	2006 £000	2005 restated £000
Eurobond 2007	**3,234**	3,234
Bank loan, overdraft and other interest	**-**	457
Finance lease charges	**2**	3
	3,236	3,694
Share of joint venture interest	**240**	476
	3,476	4,170

The restatement in the prior period is due to the recognition of the Group's share of joint venture finance costs on shares classified as liabilities following the adoption of FRS 25, as explained in note 1.

8 Taxation

	2006 £000	2005 restated £000
Current tax:		
UK corporation tax at 30%	**-**	-
Share of joint venture	**-**	-
Adjustment in relation to previous year	**-**	-
Total current tax	**-**	-
Factors affecting the tax charge for the year:		
Loss on ordinary activities before taxation	**(80,233)**	(140,241)
Loss on ordinary activities multiplied by the standard rate of UK corporation tax of 30% *(2005: 30%)*	**(24,070)**	(42,072)
Effects of:		
Non deductible expenditure	**1,676**	2,904
Losses available to carry forward	**22,886**	39,168
Group relief surrendered	**(492)**	-
	24,070	42,072
Current tax charge	**-**	-
Losses available to carry forward at 30 June	**350,152**	275,356

9 Company result for the financial year

The Company has taken advantage of Section 230(4) of the Companies Act 1985 and has not presented its own profit and loss account. The loss for the financial year dealt within the accounts of Chelsea FC plc was £3,298,000 *(2005: £3,318,000)*.

Notes *(continued)*

10 Intangible fixed assets

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

11 Tangible fixed assets

Group	Land and buildings £000	Plant and equipment £000	Assets in the course of construction £000	Total £000
Cost or valuation				
At 1 July 2005	172,537	16,502	4,137	193,176
Additions	28	2,376	6,750	9,154
Disposals	-	(1,138)	-	(1,138)
Completed assets in the course of construction	4,502	1,517	(6,019)	-
At 30 June 2006	177,067	19,257	4,868	201,192
Depreciation				
At 1 July 2005	9,513	7,808	-	17,321
Charge for the year	2,834	3,863	-	6,697
On Disposals	-	(1,022)	-	(1,022)
At 30 June 2006	12,347	10,649	-	22,996
Net book value				
At 30 June 2006	**164,720**	**8,608**	**4,868**	**178,196**
At 30 June 2005	163,024	8,694	4,137	175,855

The Group does not hold any fixed assets under hire purchase or finance lease at the year end. Finance costs capitalised included in the value of tangible fixed assets amount to £2,003,000 (*2005: £2,003,000*).

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: £2,800,000*).

Notes *(continued)*

11 Tangible fixed assets *(continued)*

The net book value of land and buildings comprises:	**2006 £000**	2005 £000
Freehold	**51,123**	51,429
Long leasehold	**113,587**	111,585
Short leasehold	**10**	10
	164,720	163,024

Company	**Freehold land £000**	**Plant and Equipment £000**	**Assets in the course of construction £000**	**Total £000**
Cost or valuation				
At 1 July 2005	312	5,505	387	6,204
Additions	-	1,213	680	1,893
Disposals	-	(41)	-	(41)
At 30 June 2006	312	6,677	1,067	8,056
Depreciation				
At 1 July 2005	-	2,419	-	2,419
Charge for the year	-	1,362	-	1,362
At 30 June 2006	-	3,781	-	3,781
Net book value				
At 30 June 2006	**312**	**2,896**	**1,067**	**4,275**
At 30 June 2005	312	3,086	387	3,785

The value of land and buildings determined according to the historical cost accounting rules is as follows:

Group	**2006 £000**	2005 £000
Cost		
Freehold property	**51,126**	50,636
Long leasehold property	**98,187**	94,147
	149,313	144,783
Depreciation		
Freehold property	**7,167**	6,306
Long leasehold property	**5,689**	5,005
	12,856	11,311
Net book value		
Freehold property	**43,959**	44,330
Long leasehold property	**92,498**	89,142
	136,457	133,472

Notes *(continued)*

12 Fixed asset investments

Group	Joint Venture £000
Cost	
At 1 July 2005	-
Share of loss of joint venture	(566)
Transfer from provision for liabilities and charges	566
At 30 June 2006	-
Net book value	
At 30 June 2006 and 30 June 2005	-

The Director believes it to be appropriate to account for Chelsea Digital Media Limited, of which the Group owned 65% of the ordinary share capital at the year end, as a joint venture in accordance with FRS9 'Associates and joint ventures'. Chelsea Digital Media Limited is currently funded by way of preference share capital subscribed for by SNMV.

In accordance with FRS9, 'Associates and joint ventures', the Group's share of losses from its investment in the joint venture of £1,043,000 *(2005 restated: £1,391,000)* has been calculated by reference to the proportion of ordinary shares it owned. The Group's cash investment is £1,000, of which £1,000 has been fully paid.

The cumulative losses of the Company were previously financed 100% by SNMV, through preference shares to a limit of £7,000,000. At the prior year end, SNMV's total investment in preference shares had reached the maximum allocation. On 14 September 2005, SNMV and Chelsea FC plc together provided funding of £250,000 to the Company by way of a subscription for ordinary shares pro-rata to their shareholdings at that date. On 7 October 2005, SNMV subscribed for a further £500,000 of ordinary shares in the Company increasing SNMV's percentage share holding in the Company from 20% to 35%. SNMV has also undertaken to provide further funding of up to £1,000,000 in new ordinary and preference shares as and when required by the Company.

Company	Subsidiary undertakings £000	Loan to group undertaking £000	Total £000
Cost			
At 1 July 2005	112,225	334,915	447,140
Additions	-	99,140	99,140
At 30 June 2006	112,225	434,055	546,280
Provision			
At 1 July 2005 and 30 June 2006	2,922	1,362	4,284
Net book value			
At 30 June 2006	**109,303**	**432,693**	**541,996**
At 30 June 2005	109,303	333,553	442,856

13 Stocks

	Group		Company	
	2006 £000	2005 £000	**2006 £000**	2005 £000
Goods held for resale	**656**	596	**-**	-

Notes *(continued)*

14 Debtors

	Group		Company	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Due in less than one year				
Trade debtors	**12,862**	14,117	**11,764**	13,480
Other debtors	**5,385**	2,907	**1,273**	40
Prepayments and accrued income	**6,200**	2,281	**1,332**	1,016
	24,447	19,305	**14,369**	14,536
Due after one year:				
Trade debtors	**15,904**	9,500	**15,904**	9,500
Amounts owed by group undertakings	**12,020**	-	**2,022**	-
Other debtors	**8,758**	8,794	**8,758**	8,794
	36,682	18,294	**26,684**	18,294

As part of the Eurobond issue in 1997 the Company made a loan to Chelsea Pitch Owners plc of £11,151,000, which is interest free and has an unspecified repayment date. This was used to acquire the share capital of Chelsea Stadium Limited (previously Stardust Investments Limited) and discharge the debts of that Company in order to leave the freehold interest in the stadium site unencumbered.

On the same date, Chelsea Stadium Limited (previously Stardust Investments Limited) granted a long leasehold interest over the stadium site at a peppercorn rent to Chelsea Football Club Limited. Chelsea Pitch Owners plc is obliged to repay the debt in full. The balance outstanding at 30 June 2006 was £8,758,000 (*2005: £8,794,000*). The directors believe that the balance outstanding will be ultimately recovered.

15 Creditors: amounts falling due within one year

	Group		Company	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Bank loans and overdrafts	**8**	41	**8**	8
Trade creditors	**59,155**	60,182	**8,664**	29,324
Amounts owed to group undertakings	**3,637**	-	**3,637**	-
Other taxes and social security	**9,740**	14,021	**7,022**	4,933
Other creditors	**6,287**	4,916	**295**	246
Accruals and deferred income	**66,808**	51,579	**3,486**	7,208
	145,635	130,739	**23,112**	41,719

£57,732,000 (*2005: £30,348,000*) of the accruals and deferred income balance represents season ticket sales for the forthcoming season.

Notes *(continued)*

16 Creditors: amounts falling due after more than one year

	Group		Company	
	2006	2005 restated	**2006**	2005
	£000	£000	**£000**	£000
Trade creditors	**4,749**	10,749	**-**	-
Amounts owed to group undertakings	**131,326**	117,343	**131,326**	122,370
Eurobond 2007	**36,147**	35,955	**36,147**	35,955
Other creditors	**24**	41	**-**	-
Deferred income	**5,000**	5,331	**-**	-
Preference shares classified as liabilities	**15,000**	15,000	**-**	-
	192,246	184,419	**167,473**	158,325

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 2007/08 season and beyond.

As more fully explained in note 1, following the application of FRS 25 preference share capital is classified as a financial liability. The preference share capital of £15,000,000 is in the company's subsidiary, Chelsea Football Club Limited and was previously disclosed in the group accounts as a minority interest. In accordance with the transitional provisions permitted by FRS 25 this has been reclassified as a financial liability in both the current and prior years, reducing net assets in both years 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 Chelsea Football Club Limited, the assets of that 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.

17 Borrowings and secured liabilities

	Group		Company	
	2006	2005 restated	**2006**	2005
	£000	£000	**£000**	£000
The aggregate borrowings amounted to:				
Bank loans and overdrafts	**8**	41	**8**	8
Eurobond 2007	**36,147**	35,955	**36,147**	35,955
Preference shares classified as liabilities	**15,000**	15,000	**-**	-
	51,155	50,996	**36,155**	35,963

Notes *(continued)*

17 Borrowings and secured liabilities (continued)

Borrowings are repayable as follows:

	Group		Company	
	2006	2005 restated	**2006**	2005
	£000	£000	**£000**	£000
Repayable within one year or on demand:				
Bank loans and overdrafts	**8**	41	**8**	8
	8	41	**8**	8
Repayable between one and two years:				
Eurobond 2007	**36,147**	35,955	**36,147**	35,955
Repayable between two and five years				
Preference shares classified as liabilities	**15,000**	15,000	**-**	-

On 17 December 1997 Chelsea FC plc issued a £75,000,000 Eurobond. The coupon rate is 8.875% payable annually on the anniversary of the issue. The Trustee of the issue holds a first mortgage debenture over the Group's assets. Following the change in ownership of Chelsea FC plc in 2003, the Company made an offer to the bondholders to redeem the £75,000,000 8.875% First Mortgage Debenture Bonds due 2007 as required under the trust deed. £38,565,000 was redeemed in 2004 following the offer.

18 Deferred taxation

No deferred tax asset has been recognised in either year for the Company or the Group due to the uncertainty over the ability to utilise losses against future profits.

The Group and the Company have unrecognised deferred tax assets as follows:

	Group		Company	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Accelerated capital allowances	**(1,560)**	(1,081)	**895**	526
Short term timing differences	**788**	50	**33**	1,601
Tax losses	**105,045**	82,607	**1,571**	33
Unrecognised deferred tax asset	**104,273**	81,576	**2,499**	2,160

Investment in joint ventures

	Group
	£000
At 1 July 2005	5,134
Restatement of share of joint venture cumulative losses	476
At 1 July 2005 restated	5,610
Loss for the year transferred from fixed asset investment	566
Reduction in share of net liabilities as a result of dilution in shareholding	(1,569)
At 30 June 2006	**4,607**

Notes *(continued)*

19 Called up share capital

	Company 2006 Number	Company 2005 Number	Company 2006 £000	Company 2005 £000
Authorised				
Ordinary shares of 1p each	**200,000,000**	200,000,000	**2,000**	2,000
Allotted, issued and fully paid				
Ordinary shares of 1p each	**173,005,000**	172,005,000	**1,730**	1,720

Allotment during the year

The Company made an allotment of 1,000,000 ordinary shares of £0.01 each at £100 per share. The difference between the total consideration of £100,000,000 and the total nominal value of £10,000 has been credited to the share premium account (£99,990,000).

20 Reconciliation of movement in equity shareholders' funds

Group	Share Capital £000	Share premium account £000	Revaluation reserve £000	Profit and loss account £000	Equity shareholders' funds £000
At 1 July 2005	1,720	305,105	33,996	(278,726)	62,095
Restatement of share of joint venture cumulative losses	-	-	-	(476)	(476)
At 1 July 2005 restated	1,720	305,105	33,996	(279,202)	61,619
Loss for the financial year	-	-	-	(80,193)	(80,193)
Difference on depreciation	-	-	(1,290)	1,290	-
Issue of shares	10	99,990	-	-	100,000
Shareholders' funds at 30 June 2006	**1,730**	**405,095**	**32,706**	**(358,105)**	**81,426**

Restatement of share of joint venture cumulative losses represents accrued finance costs on shares classified as liabilities, as explained in note 1.

Company

At 1 July 2006	1,720	305,105	6,555	(10,560)	302,820
Loss for the financial year	-	-	-	(3,298)	(3,298)
Issues of shares	10	99,990	-	-	100,000
Equity shareholders' funds at 30 June 2006	**1,730**	**405,095**	**6,555**	**13,858**	**399,522**

21 Reconciliation of operating loss to net cash outflow from operating activities

	2006 £000	2005 £000
Operating loss	**(85,737)**	(123,609)
Depreciation	**6,697**	9,092
Loss on disposal of tangible fixed assets	**-**	(58)
Amortisation of Eurobond issue costs	**192**	192
Amortisation of intangible fixed assets	**70,800**	82,550
(Increase)/decrease in stocks	**(60)**	585
Increase in debtors	**(15,388)**	(3,399)
(Decrease)/increase in creditors	**(8,781)**	27,790
Net cash outflow from operating activities	**(32,277)**	(6,857)

Notes *(continued)*

22 Analysis of cash flows for headings netted in the cash flow statement

	2006 £000	2005 £000
Returns on investments and servicing of finance		
Interest received	**392**	259
Interest paid	**(3,234)**	(3,691)
Interest elements of finance lease rental payments	**(2)**	(3)
	(2,844)	(3,435)
Capital expenditure		
Purchase of tangible fixed assets	**(9,154)**	(14,346)
Sale of tangible fixed assets	**116**	221
Purchase of intangible fixed assets	**(98,391)**	(126,980)
Sale of intangible fixed assets	**12,965**	256
	(94,464)	(140,849)
Financing		
Issue of shares	**100,000**	150,000
Repayment of loans	**(12,000)**	(5,500)
Receipt from borrowings	**20,953**	16,618
	108,953	161,118

23 Analysis of net debt

	At 1 July 2005 restated £000	Cash flow £000	Other non-cash changes £000	At 30 June 2006 £000
Cash movements				
Cash at bank and in hand	23,477	(20,665)	-	**2,812**
Bank loans and overdrafts	(41)	33	-	**(8)**
	23,436	(20,632)	-	**2,804**
Debt due within one year	-	-	-	
Debt due after one year	(173,328)	(8,953)	(192)	**(182,473)**
Net debt	(173,328)	(8,953)	(192)	**(182,473)**
	(149,892)	(29,585)	(192)	**(179,669)**

The net debt position at the start of the year has been restated to include preference shares as a financial liability in accordance with FRS 25 (see note 16).

Notes *(continued)*

24 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 these other schemes are held separately from those of the Company in independently administered funds. The pension charge for the year was £391,000 *(2005: £507,000)*. Amounts owed to the Scheme at the year end amounted to £nil *(2005: £nil)*.

25 Operating leases and capital commitments

The annual commitments under non-cancellable operating leases are as follows for the Group:

	Group	
	2006	2005
	£000	£000
Land and buildings:		
Leases expiring within one year	**-**	1,079
Leases expiring between two to five years	**280**	280
Leases expiring in more than five years	**140**	223
	420	1,582
Capital expenditure commitments were as follows:		
Contracted for but not provided:		
Tangible	**1,672**	4,542
	1,672	4,542

There are no capital commitments in the Company.

26 Contingent liabilities

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

Notes *(continued)*

27 Control

The directors consider Chelsea Limited to be the ultimate parent Company of the Group, and the ultimate controlling party is Mr R Abramovich. The largest group of undertakings for which group accounts have been drawn up is that headed by Chelsea Limited.

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

28 Related party transactions

During the year, in the normal course of business, Mr B Buck, a director of Chelsea FC plc, through his legal firm, Skadden, Arps, Slate, Meagher & Flom (UK) LLP, invoiced £5,000 *(2005:£538,000)* in legal fees to the Company or its subsidiary undertakings. The balance owing to Skadden, Arps, Slate, Meagher & Flom (UK) LLP at the year end was £nil *(2005: £nil)*.

29 Post balance sheet events

Acquisition and disposal of players

Since the year end the Group 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)*.

30 Principal subsidiary undertakings

The Company has the following subsidiary undertakings:

Trading	**Nature of Business**
Chelsea Car Parks Limited	Car park management
Chelsea Digital Media Limited	Television and Internet broadcasters
Chelsea Football Club Limited	Professional football club
The Hotel at Chelsea Limited	Hotel management and catering services
Chelsea FC Merchandising Limited	Merchandising, mail order and publications
Chelsea Leisure Services Limited	Health and fitness club/visitor attraction
Stamford Bridge Securities Limited	*Property holding*
Non-trading at year end	
Chelsea Village Radio Limited	Radio broadcaster
Chelsea Village Travel Limited	Travel agent
Paramont Limited	Property holding
In Liquidation	
Midnight at Chelsea Limited	Nightclub operator

Notes *(continued)*

30 Principal subsidiary undertakings *(continued)*

Dormant

Bidgleam Limited
Briskspring Limited
Bulmer Travel Associates Limited
Chelsea Club Limited
Chelsea Events Limited
Chelsea Exclusive Events Limited
Chelsea Financial Consultants Limited
Chelsea Football Club SPV plc
Chelsea Pacific Limited
Chelsea Pensioner Limited
Chelsea Sports and Leisure Limited
Chelsea TV Limited
Chelsea Village Management Limited

Dormant

Chelsea Village Catering Limited
Chelsea Village Communications Limited
Chelsea Village Contractors Limited
Chelsea Village European Travel Limited
Chelsea Village Television Limited
Chelsea Village Travel Limited
Chelsea World of Sport Limited
Chelsea Worldwide Travel Limited
Elizabeth Duff Travel Limited
Fulham Holdings Limited
Fulham Securities Limited
Stamford Bridge Properties Limited

All the subsidiary undertakings are incorporated in Great Britain and registered in England and Wales.

The entire ordinary share capital and control of 100% of the voting rights of all the subsidiary undertakings is held by the Company, with the exception of Chelsea Exclusive Events Limited which is 50% owned, Chelsea Digital Media Limited which was 65% owned at year end, and Midnight at Chelsea Limited which is 75% owned.

£15,000,000 of non-equity preference shares in Chelsea Football Club Limited are owned by British Sky Broadcasting Group plc.

A special resolution for the members voluntary winding up of Midnight at Chelsea Limited was passed at an Extraordinary General Meeting of the members on 22 June 2006.