Company Registration No. 1965149 (England and Wales)

CHELSEA FOOTBALL CLUB LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2003

CONTENTS

COMPANY INFORMATION

Directors	K W Bates B Buck R J Creitzman E Tenenbaum
Secretary	A L Shaw
Company Number	1965149
Registered Office	Stamford Bridge Fulham Road London SW6 1HS
Auditors	Saffery Champness Lion House Red Lion Street London WC1R 4GB

DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2003

The directors present their annual report and financial statements for the year ended 30 June 2003.

Principal activity and review of business
The company's principal activity during the year continued to be that of a Premier League football club.

The results for the year and the financial position at the year end are considered satisfactory.

Results for the year
The results for the year are set out on page 4.

Directors

The following directors have held office since 1 July 2002:

K.W. Bates
M.J. Woodward (resigned 8 July 2003)
T.N. Birch (resigned 15 September 2003)
Y.S. Todd (resigned 14 August 2003)
C I Alexander (appointed 24 April 2003, resigned 14 August 2003)
B Buck (appointed 14 August 2003)
R J Creitzman (appointed 14 August 2003)
E Tenenbaum (appointed 14 August 2003)

None of the directors held any beneficial interest in the share capital of the company. The director's interests in the share capital of the immediate parent company, Chelsea Village Plc, are disclosed in that company's financial statements.

Players' valuations

Two directors of the club and a senior member of the player management have each independently valued the playing staff. The mean average of their aggregate valuation as at 30 June 2003 was £87,083,333 (2002:£111,666,667). This assumes willing buyers for the relevant players' registrations on normal contractual terms.

Creditor payment policy

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 90 days credit based on the total amounts of goods and services invoiced by them. Player transactions have been ignored in arriving at this figure.

Auditors

The company has by elective resolution dispensed with the obligation to appoint auditors annually in accordance with section 386(1) of the Companies Act 1985. Therefore the auditors, Saffery Champness, will be deemed to be reappointed for each succeeding financial year.

Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which 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 those financial statements the directors are required to :

- select suitable accounting policies and then apply them consistently ;

- make judgements 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 a 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 which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By Order Of the Board

AL Shaw
Secretary

21 November 2003

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF CHELSEA FOOTBALL CLUB LIMITED

We have audited the financial statements on page 4 to 16. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities on page 2, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

This report is made solely to the company's shareholders, 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* shareholders those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

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 if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for audit, or if information specified by law regarding directors' remuneration and transactions with the company 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 or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 30 June 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Saffery Champness

Saffery Champness

Chartered Accountants
Registered Auditors

Lion House
Red Lion Street
London
WC1R 4GB

24 November 2003

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE 2003

	Notes			2003	2002
		Operations excluding player trading £	Player trading £	Total £	Total £
Turnover	2	75,135,854	-	75,135,854	75,247,961
Cost of sales		(54,467,264)	-	(54,467,264)	(55,937,500)
Gross Profit		20,668,590	-	20,668,590	19,310,461
Administrative expenses		(11,089,423)	-	(11,089,423)	(8,456,110)
Operating profit	3	9,579,167	-	9,579,167	10,854,351
Amortisation of players' registrations		-	(20,345,344)	(20,345,344)	(22,378,389)
Gain on disposal of player registrations		-	654,454	654,454	6,224,010
Profit/(loss) on ordinary activities before interest and taxation		9,579,167	(19,690,890)	(10,111,723)	(5,300,028)
Interest payable and similar charges	4			(5,165,179)	(5,176,555)
Loss on ordinary activities before taxation				(15,276,902)	(10,476,583)
Tax on loss on ordinary activities	5			-	-
Loss on ordinary activities after taxation	15			(15,276,902)	(10,476,583)

The profit and loss account has been prepared on the basis that all operations are continuing operations.

The notes on pages 7 to 16 form part of these financial statements.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 30 JUNE 2003

	2003 £	2002 £
Loss for the financial year	(15,276,902)	(10,476,583)
Unrealised (deficit)/surplus on revaluation of properties	(734,995)	6,139,799
Total recognised gains and losses relating to the year	(16,011,897)	(4,336,784)

CHELSEA FOOTBALL CLUB LIMITED

BALANCE SHEET
AS AT 30 JUNE 2003

	Notes	2003		2002	
		£	£	£	£
Fixed assets					
Intangible assets	6		37,563,674		57,608,345
Tangible assets	7		114,667,075		118,329,373
			152,230,749		175,937,718
Current assets					
Debtors	8	4,971,260		4,279,195	
Cash at bank and in hand		-		309,803	
		4,971,260		4,588,998	
Creditors: amounts falling due within one year	9	(76,529,270)		(52,980,938)	
Net current liabilities			(71,558,010)		(48,391,940)
Total assets less current liabilities			80,672,739		127,545,778
Creditors: amounts falling due after more than one year	10		55,270,103		83,031,245
Football trust grants	11		-		3,100,000
Capital and reserves					
Called up share capital	13		15,000,100		15,000,100
Revaluation reserve	14		28,812,735		29,547,730
Profit and loss account	14		(18,410,199)		(3,133,297)
Shareholders' funds including non-equity interests	15		25,402,636		41,414,533
			80,672,739		127,545,778

The notes on pages 7 to 16 form part of these financial statements.
These financial statements were approved by the Board of Directors on 24 November 2003.

K.W. Bates
Director

1. Accounting Policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention, modified to include the revaluation of freehold land and buildings.

1.2 Compliance with accounting standards

The financial statements are prepared in accordance with applicable accounting standards.

1.3 Cash flow statement

The company has taken advantage of the exemption in Financial Reporting Standard No 1(Revised 1996) from the requirement to produce a cash flow statement on the grounds that it is a subsidiary undertaking where 90 percent or more of the voting rights are controlled within the group.

1.4 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.

1.5 Players' registrations

All costs associated with the acquisitions of a player's registration are capitalised as intangible fixed assets and are amortised evenly over the period of the player's 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 of the contract. Fees receivable are set off against the player's net book value at the date of sale, plus any payments made in settlement of the contract and the difference is treated as a profit or loss on disposal.

1.6 Commercial rights

The costs of commercial rights are capitalised as intangible fixed assets and are amortised over the length of the contract with the Company.

1.7 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 and long leasehold land	Not depreciated
Long leasehold buildings:-	
Structures	Over 100 years on a straight line basis
Residual finishes	Over 25 years on a straight line basis
Computers	Over 4 years on a straight line basis
Fixtures, fittings & equipment	Over 7 to 10 years on a straight line basis

1.8 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 the contracts or leases. 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.

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

1.9 Grants

Capital grants received are included in the balance sheet as liabilities. Where grants are not repayable they are released to the profit and loss account over the useful life of the applicable asset. Where the retention of grants is dependent on continuing obligations, no release to the profit and loss account is made.

1.10 Pensions

The company is one of a number of employers in a shared defined contribution scheme for playing staff and defined benefit 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.

1.11 Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

1.12 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.

1.13 Capitalised interest

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

1.14 Stadium development

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

2. Turnover

The turnover and pre-tax loss are wholly attributable to the company's principal activity, a Premier League Football club. All turnover arises entirely in the United Kingdom.

3. Operating profit

	2003 £	2002 £
This is stated after charging:		
Amortisation of commercial rights	12,499	37,500
Depreciation of tangible assets	2,238,590	2,082,565
Impairment of freehold land	1,275,525	-
Loss on disposal of fixed assets	386,518	-
Auditors remuneration	20,750	20,750
Operating lease rentals		
- Plant and machinery	830,762	660,187
- Land and buildings	783,971	894,176

4. Interest payable and similar charges

	2003 £	2002 £
On amounts payable to group companies	2,676,300	2,915,200
On bank loans and overdrafts	2,469,372	2,224,402
Hire purchase interest	19,507	36,953
	5,165,179	5,176,555

5. Taxation

	2003 £	2002 £
Current tax charge	-	-
Factors affecting the tax charge for the year:		
Loss on ordinary activities before taxation	(15,276,902)	(10,476,583)
Loss on ordinary activities multiplied by the standard rate of UK corporation tax of 30% (2002: 30%)	(4,583,071)	(3,142,975)
Effects of:		
Non deductible expenditure	1,026,704	346,059
Losses available for carry forward	3,556,367	2,796,916
	4,583,071	(3,142,975)
Current tax charge	-	-
Losses available to carry forward	39,186,399	27,847,630

6. Intangible fixed assets

	Players Registration £	*Commercial* Rights £	*Total* £
Cost			
At 1 July 2002	110,127,335	100,000	110,227,335
Additions	1,208,197	-	1,208,197
Disposals	(11,658,414)	(100,000)	(11,758,414)
At 30 June 2003	99,677,118	-	99,677,118
Depreciation			
At 1 July 2002	52,531,489	87,501	52,618,990
Charge for year	20,332,845	12,499	20,345,344
On disposals	(10,750,890)	(100,000)	(10,850,890)
At 30 June 2003	62,113,444	-	62,113,444
Net Book Value			
At 30 June 2003	37,563,674	-	37,563,674
At 30 June 2002	57,595,846	12,499	57,608,345

7. *Tangible Fixed Assets*

	Freehold Land	Long Lease Land & Buildings	Computers	Fixtures, Fittings & Equipment	Total
	£	£	£	£	£
Cost or Valuation					
At 1 July 2002	2,381,294	114,860,000	318,208	2,631,105	120,190,607
Additions	394,231	3,630,772	28,457	72,810	4,126,270
Disposals	-	(541,809)	-	-	(541,809)
Revaluation adjustment	(1,425,525)	(2,318,963)	-	-	(3,744,488)
Inter company transfers	-	-	(52,940)	-	(52,940)
Football grant	-	(3,100,000)	-	-	(3,100,000)
At 30 June 2003	1,350,000	112,530,000	293,725	2,703,915	116,877,640
Depreciation					
At 1 July 2002	-	-	246,405	1,614,829	1,861,234
Charge for the year	-	1,889,259	22,518	326,813	2,238,590
Disposals	-	(155,291)	-	-	(155,291)
Revaluation adjustment	-	(1,733,968)	-	-	(1,733,968)
At 30 June 2003	-	-	268,923	1,941,642	2,210,565
Net Book Value					
At 30 June 2003	1,350,000	112,530,000	24,802	762,273	114,667,075
At 30 June 2002	2,381,294	114,860,000	71,803	1,016,276	118,329,373

The *carrying value of the company's long leasehold properties, calculated on an existing use basis,* was valued at 30 June 2003 by Chesterton Plc, International Property Consultants, in accordance with PS 4.3 of the Royal Institute of Chartered Surveyors Appraisal and Valuation manual.

Additionally the carrying value of the company's freehold land was valued on an existing use basis at 30 June 2003 by Rawley and Co., Chartered Surveyors.

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

	Total
	£
Cost	
At 1 July 2002	91,957,954
Additions	4,025,003
Disposals	(541,809)
At 30 June 2003	95,441,148
Depreciation based on cost	
At 1 July 2002	1,446,038
Charge for the year	752,478
At 30 June 2003	2,198,516
Net Book Value	
At 30 June 2003	93,242,632
At 30 June 2002	90,511,916

Included above are assets held under finance leases or hire purchase contracts as follows:-

	Fixtures, Fittings & equipment £
Net Book Values	
At 30 June 2003	86,522
At 30 June 2002	257,709
Depreciation charge for year	
At 30 June 2003	171,187
At 30 June 2002	171,187

8. Debtors

	2003 £	2002 £
Trade debtors	1,899,620	1,869,729
Other debtors	2,747,248	2,145,805
Prepayments and accrued income	324,392	263,661
	4,971,260	4,279,195

9. Creditors: Amounts falling due within one year

	2003 £	2002 £
Bank overdraft	2,054,328	-
Trade creditors	24,640,595	19,291,607
Bank loans	5,000,000	5,000,000
Taxes and social security costs	6,419,659	2,960,227
Other creditors	16,740,244	4,511,340
Net obligations under hire purchase contracts	81,678	205,954
Advance income	19,701,620	17,585,686
Accruals and deferred income	1,891,146	3,426,124
	76,529,270	52,980,938

Advance income represents season ticket sales and Millennium suites income for the 2003/2004 season.

The obligations under hire purchase contracts and finance leases are secured by the related leased assets.

10. Creditors: Amounts falling due after more than one year

	2003 £	2002 £
Trade creditors	8,898,592	22,940,588
Amounts owed to group undertakings	37,189,164	50,405,993
Other creditors	643,000	127,986
Net obligations under hire purchase contracts	-	81,678
Advance income	7,889,347	8,287,500
Accruals and deferred income	650,000	1,187,500
	55,270,103	83,031,245

Advance income included above represents that part of amounts received as at 30 June 2003 from the sale of 10 year licences on the millenium suites, which relates to the 2004/2005 season and beyond.

	2003 £	2002 £
Loan maturity analysis		
Between one and two years	5,000,000	5,000,000
Between two and five years	3,898,592	7,833,312
	8,898,592	12,833,312

	2003 £	2002 £
Net obligations under finance leases and hire purchase contracts		
Repayable within one year	81,678	205,954
Repayable between one and five years	-	81,678
	81,678	287,632
Included in creditors falling due within one year	(81,678)	(205,954)
	-	81,678

11. Football trust grants

	Grants £
At 1 July 2002	3,100,000
Transferred to long leasehold land & buildings	(3,100,000)
At 1 July 2003	-

Grants from the Football Trust totalling £3,100,000 (2002 £3,100,000) have been received to date in connection with the redevelopment of the football stadium. These were repayable in the event that Chelsea Football Club Limited cease to play football at Stamford Bridge. The Football Stadia *Improvement Fund have, however, agreed to waive the repayment term.*

12. Pension costs

The company operates a shared defined contribution pension scheme for playing staff and a defined benefit scheme for certain other members of staff. Both schemes are administered by Football League Limited. The company 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 cost charge represents contributions payable by the company to the funds and amounted to £249,269 (2002 - £175,647).

13. Share Capital

	2003 £	2002 £
Authorised		
1,000,000 Ordinary shares of £1 each	1,000,000	1,000,000
15,000,000 Cumulative preference shares of £1 each	15,000,000	15,000,000
	16,000,000	16,000,000
Allotted, called up and fully paid		
100 Ordinary shares of £1 each	100	100
15,000,000 Cumulative preference shares of £1 each	15,000,000	15,000,000
	15,000,100	15,000,100

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 a 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.

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

14. Statement of movement on reserves

	Revaluation Reserve £	Profit & Loss Account £
At 1 July 2002	29,547,730	(3,133,297)
Retained loss for the year	-	(15,276,902)
Revaluation during the year	(734,995)	-
At 30 June 2003	28,812,735	(18,410,199)

15. ***Reconciliation of movements in shareholders' funds***

	2003 £	2002 £
Loss for the financial year	(15,276,902)	(10,476,583)
Other recognised gains and losses	(734,995)	6,139,799
Net depletion in shareholders' funds	(16,011,897)	(4,336,784)
Opening shareholders' funds	41,414,533	45,751,317
Closing shareholders' funds	25,402,636	41,414,533
Equity interest	10,402,636	26,414,533
Non-equity interest	15,000,000	15,000,000
	25,402,636	41,414,533

16. Contingent liabilities

The company has guaranteed the bank loans and overdrafts of its parent and fellow subsidiary undertakings. *The amount covered by this guarantee at 30 June 2003 was nil (2002:nil).*

On the 17 December 1997, the parent company, Chelsea Village plc, issued a £75,000,000 Euro Bond. The obligations of the parent 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 other assets.

17. Financial commitments

At 30 June 2003 the company had annual commitments under non-cancellable operating leases as follows:

	Land and Buildings		Other	
	2003 £	2002 £	2003 £	2002 £
Expiry date:				
Within one year	630,263	561,005	453,762	-
Between two and five years	152,000	152,000	498,069	951,732
	782,263	713,005	951,831	951,732

18. ***Capital commitments***

At the 30 June 2003 the company had capital commitments as follows:

	2003 £	2002 £
Contracted for but not provided in the financial statements	1,027,027	409,000

19. Directors' emoluments

	2003	2002
	£	£
Emoluments for qualifying services	321,100	356,420
Company pension contributions to money purchase schemes	32,100	37,500
	353,200	393,920

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 1 (2002 – 1).
The number of directors for whom retirement benefits are accruing under defined benefits schemes amounted to 1 (2002 – 1).

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

	2003	2002
Emoluments for qualifying services	321,100	356,420
Company pension contributions to money purchase schemes	32,100	37,500
	353,200	393,920

20. Employees

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

	2003	2002
	Number	Number
Playing staff (including managers/coaches)	76	80
Administration and commercial	29	24
	105	104

Employment Costs

	2003	2002
	£	£
Wages and Salaries	40,184,962	42,960,222
Social security costs	4,773,052	4,584,049
Other pension costs	249,269	237,929
	45,207,283	47,782,200

21. Control

Since the year end Chelsea Limited acquired 100% of the company's parent undertaking, Chelsea Village plc. The directors now consider Chelsea Limited to be the ultimate parent undertaking and the ultimate controlling party is Mr R Abramovich.

22. Related party transactions

The company received rent of £104,000 from Midnight at Chelsea Limited, a 75% subsidiary of Chelsea Village Plc. The company has taken advantage of the exemption in Financial Reporting Standard Number 8 from the requirement to disclose transactions with other group companies on the grounds that 90 percent or more of the voting rights are controlled within the group.