Chelsea Football Club Limited

Directors' report and consolidated financial statements

Registered number 1965149

30 June 2004

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 June 2004.

Principal activity and review of business

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

Results for the year

The results for the year are set out on page 4. The directors do not propose payment of a dividend *(2003: £nil)*

Directors

Directors who held office during the year are as follows:

B Buck	(appointed 14 August 2003)
E Tenenbaum	(appointed 14 August 2003)
PF Kenyon	(appointed 9 February 2004)

K W Bates	(resigned 10 March 2004)
M J Woodward	(resigned 8 July 2003)
Y S Todd	(resigned 14 August 2003)
C I Alexander	(resigned 14 August 2003)
T N Birch	(resigned 15 September 2003)
R J Creitzman	(appointed 14 August 2003 and resigned 20 May 2004)

None of the directors held any beneficial interest in the share capital of the Company.

Players' valuations

Two officers of the Company have each independently valued the playing staff. The average of their aggregate valuation as at 30 June 2004 was £185,000,000 *(2003: £87,000,000)*. This assumes willing buyers for the relevant players' registrations on normal contractual terms and an orderly disposal over a period of time.

Political and charitable donations

The Company made charitable donations of £1,830 during the year *(2003: £nil)*.

Auditors

During the year Saffrey Champness resigned and KPMG LLP were appointed as auditors of the Company. In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors 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

21 January 2005

Statement of 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 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 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 which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the 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

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 on pages 4 to 15.

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 are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with 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 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 30 June 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

21 January 2005

Profit and loss account
for the year ended 30 June 2004

	Note	**Operations excluding player trading**	**Player trading**	**Total**	
		2004	**2004**	**2004**	2003
		£000	**£000**	**£000**	£000
Turnover	*1*	118,032	-	**118,032**	75,136
Operating expenses		(135,026)	(55,932)	**(190,958)**	(85,902)
Operating loss		(16,994)	(55,932)	**(72,926)**	(10,766)
Loss on disposal of player registrations		-	(1,945)	**(1,945)**	654
Loss on ordinary activities before interest and taxation		(16,994)	(57,877)	**(74,871)**	(10,112)
Interest payable and similar charges	*3*	(1,024)	-	**(1,024)**	(5,165)
Loss on ordinary activities before taxation	*2*	(18,018)	(57,877)	**(75,895)**	(15,277)
Tax on loss on ordinary activities	*4*	-	-	-	-
Loss on ordinary activities after taxation		(18,018)	(57,877)	**(75,895)**	(15,277)

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

Statement of total recognised gains and losses
for the year ended 30 June 2004

	2004	2003
	£000	£000
Loss for the financial year	**(75,895)**	(15,277)
Unrealised deficit on revaluation of properties	-	(735)
Total recognised losses relating to the year	**(75,895)**	(16,012)

Note of historical costs profits and losses
for the year ended 30 June 2004

	2004	2003
	£000	£000
Reported loss on ordinary activities before taxation	**(75,895)**	(15,277)
Difference between a historical cost depreciation charge and the depreciation charge calculated on the revalued amount	**1,216**	1,137
Historical cost loss on ordinary activities before taxation	**(74,679)**	(14,140)
Historical cost loss retained	**(74,679)**	(14,140)

Balance sheet
As at 30 June 2004

	Note	**2004**		2003	
		£000	**£000**	£000	£000
Fixed assets					
Intangible assets	*5*		**153,236**		37,564
Tangible assets	*6*		**117,821**		114,667
			271,057		152,231
Current assets					
Debtors	*7*	**4,842**		4,971	
Cash at bank and in hand		**8**		-	
		4,850		4,971	
Creditors: amounts falling due within one year	*8*	**(113,975)**		(76,529)	
Net current liabilities			**(109,125)**		(71,558)
Total assets less current liabilities			**161,932**		80,673
Creditors: amounts falling due after more than one year	*9*		**(112,424)**		(55,270)
Net Assets			**49,508**		25,403
Capital and reserves					
Called up share capital	*12*		**15,010**		15,000
Share premium account	*13*		**99,990**		-
Revaluation reserve	*13*		**27,597**		28,813
Profit and loss account	*13*		**(93,089)**		(18,410)
Equity shareholders' funds	*14*		**49,508**		25,403

These financial statements were approved by the Board of Directors on 21 January 2005 and were signed on its behalf by:

Mr B Buck
Director

Notes
(forming part of the financial statements)

1 Accounting policies

Basis of preparation

The financial statements are prepared 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 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.

The consolidated financial statements of the immediate parent Company, Chelsea Village Plc, and ultimate parent Company, Chelsea Limited, can be obtained from the address given in note 20.

Related party transactions

The directors have taken advantage of the exemption in FRS8, paragraph 3(a), and have not disclosed transactions or balances between group entities that have been eliminated on consolidation.

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 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. 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 contracts and the difference is treated as a profit or loss on disposal.

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 buildings:-	
Structures	50 to 100 years on a straight line basis
Computers	4 years on a straight line basis
Fixtures, fittings & equipment	7 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.

Notes *(continued)*

1 Accounting policies *(continued)*

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.

Taxation

The charge for taxation is based on the profit 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.

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.

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 for that project.

Deferred income

Deferred income comprises amounts received on sales of millennium sites 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

		2004	2003
		£000	£000
This is stated after charging:			
Depreciation of tangible fixed assets		**2,417**	2,239
Amortisation of intangible assets		**55,932**	20,345
Impairment of freehold land		**-**	1,276
Loss on disposal of tangible fixed assets		**200**	387
Loss on disposal of players		**1,945**	654
Auditors remuneration	- KPMG LLP in respect of audit services	**19**	-
	- KPMG LLP in respect of other services	**86**	-
	- Saffrey Champness in respect of audit services	**-**	21
Operating lease rentals:			
Plant and machinery		**1,247**	831
Land and buildings		**881**	784

Notes *(continued)*

3 Interest payable

	2004	2003
	£000	£000
On amounts payable to group companies	-	2,676
Bank loans, overdrafts and other interest	**1,015**	2,469
Hire purchase interest	**9**	20
	1,024	5,165

4 Taxation

	2004	2003
	£000	£000
Current tax charge	-	-
Factors affecting the tax charge for the year:		
Loss on ordinary activities before taxation	**(75,895)**	(15,277)
Loss on ordinary activities multiplied by the standard rate of UK corporation tax of 30%	**(22,768)**	(4,583)
Effects of:		
Non deductible expenditure	**561**	1,027
Depreciation in excess of capital allowances	**181**	-
Losses carried forward	**22,026**	3,556
	22,768	4,583
Current tax charge	-	-
Losses available to carry forward at 30 June	**61,954**	39,186

A potential deferred tax asset of £18,586,000 (*2003: £11,756,000*) has not been recognised due to uncertainly over future profits.

5 Intangible fixed assets

	Players registrations
	£000
Cost	
At 1 July 2003	99,677
Additions	175,082
Disposals	(71,129)
At 30 June 2004	203,630
Depreciation	
At 1 July 2003	62,113
Charge for the year	55,932
On disposal	(67,651)
At 30 June 2004	50,394
Net book value	
At 30 June 2004	**153,236**
At 30 June 2003	37,564

Notes *(continued)*

6 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 2003	1,350	112,530	2,961	37	116,878
Additions	-	843	197	6,783	7,823
Disposals	(1,350)	(1,102)	(2,105)	-	(4,557)
At 30 June 2004	-	112,271	1,053	6,820	120,144
Depreciation					
At 1 July 2003	-	-	2,211	-	2,211
Charge for the year	200	1,940	277	-	2,417
Disposals	(200)	-	(2,105)	-	(2,305)
At 30 June 2004	-	1,940	383	-	2,323
Net book value					
At 30 June 2004	**-**	**110,331**	**670**	**6,820**	**117,821**
At 30 June 2003	1,350	112,530	750	37	114,667

The carrying value of the Company's long leasehold properties, calculated on existing use and depreciated replacement cost bases, were valued at 30 June 2003 by Chesterton International Plc, Chartered Surveyors, in accordance with 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 & Co., Chartered Surveyors at 30 June 2003.

Included above are assets held under finance lease with a net book value of £nil *(2003: £86,522).*

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

	Total
	£000
Cost	
At 1 July 2003	95,441
Additions	843
Disposals	(3,878)
At 30 June 2004	92,406
Depreciation	
At 1 July 2003	2,199
Charge for the year	924
At 30 June 2004	3,123
Net book value	
At 30 June 2004	89,283
At 30 June 2003	93,242

Notes *(continued)*

7 Debtors

	2004 £000	2003 £000
Trade debtors	**526**	1,900
Other debtors	**3,229**	2,747
Prepayments and accrued income	**1,087**	324
	4,842	4,971

8 Creditors: amounts falling due within one year

	2004 £000	2003 £000
Bank loans	-	5,000
Bank overdraft	-	2,054
Trade creditors	**58,834**	24,640
Other creditors	**5,150**	16,740
Taxes and social security costs	**8,999**	6,420
Net obligations under hire purchase contracts	-	82
Accruals and deferred income	**40,992**	21,593
	113,975	76,529

£29.3m (*2003: £19.7m*) of the accruals and deferred income balance represents season ticket sales and Millennium Suite income for the forthcoming season.

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

Notes *(continued)*

9 Creditors: amounts falling due after more than one year

	2004 £000	2003 £000
Trade creditors	**10,604**	8,899
Amounts owed to group undertakings	**95,477**	37,189
Other creditors	**91**	643
Accruals and deferred income	**6,252**	8,539
	112,424	55,270

Deferred income included above represents that part of amounts received as at 30 June 2004 from the sale of 10 year licences on the Millennium Suites, which relate to the 2005/2006 season and beyond.

10 Borrowings and secured liabilities

	2004 £000	2003 £000
The aggregate borrowing amounted to:		
Bank loans and overdrafts	**-**	5,000

Borrowings are prepayable as follows:

	2004 £000	2003 £000
Prepayable within one year or on demand		
Bank loans and overdrafts	**-**	5,000

Notes *(continued)*

11 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 31 August 2002 and the Group was advised that the deficit has increased and further contributions amounting to £54,000 were required. This amount was charged to the profit and loss account in full in the prior period as it is principally attributable to employees who have left the group or retired. The revised deficit is being paid off over a period of 10 years from April 2003.

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 £365,000 (*2003: £249,000*)

12 Called up share capital

	2004 Number	**2003 Number**	**2004 £000**	2003 £000
Authorised				
Ordinary shares of £1 each	**1,000,000**	1,000,000	**1,000**	1,000
Cumulative preference shares of £1 each	**15,000,000**	15,000,000	**15,000**	15,000
	16,000,000	16,000,000	**16,000**	16,000
Allotted, called up and fully paid				
Ordinary shares of £1 each	**10,100**	100	**10**	-
Cumulative preference shares of £1 each	**15,000,000**	15,000,000	**15,000**	15,000
	15,010,100	**15,000,100**	**15,010**	15,000

During the year the Company issued 10,000 ordinary shares with nominal value of £1 each for a total consideration of £100,000,000.

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 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.

Notes *(continued)*

13 Statement of movement on reserves

	Share premium account	Revaluation Reserve	Profit & loss account	Total
	£000	£000	£000	£000
Balance at 1 July 2003	-	28,813	(18,410)	**10,403**
Premium on value of shares (nominal value £10,000)	99,990	-	-	**99,990**
Retained loss for the year	-	-	(75,895)	**(75,895)**
Transfer from realised profits	-	(1,216)	1,216	-
Balance at 30 June 2004	**99,990**	**27,597**	**(93,089)**	**34,498**

14 Reconciliation of movements in shareholder's funds

	2004	2003
	£000	£000
Loss for the financial year	**(75,895)**	(15,277)
Other recognised gains and losses	-	(735)
Issue of share capital	**100,000**	-
Net addition/(reduction) to shareholder's funds	**24,105**	(16,012)
Opening shareholder's funds	**25,403**	41,415
Closing shareholders' funds	**49,508**	25,403
Equity Interest	**34,508**	10,403
Non-equity interest	**15,000**	15,000
	49,508	25,403

15 Contingent liabilities

On 17 December 1997, the immediate parent Company issued a £75,000,000 Euro Bond, £35,763,000 of which is outstanding at the year end *(2003:£75,000,000)*. 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 2004 was £35,763,000.

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 £2,860,000 *(2003:£nil)*.

Notes *(continued)*

16 Financial commitments

At 30 June 2004 the Company had annual commitments under non-cancellable operating leases as follows:

	Land and Buildings		Other	
	2004	2003	**2004**	2003
	£000	£000	**£000**	£000
Expiry date:				
Within one year	**723**	630	**873**	454
Between two and five years	**152**	152	**-**	498
	875	782	**873**	952

17 Capital commitments

At the 30 June 2004 the Company had capital commitments as follows:

	2004	2003
	£000	£000
Contracted for but not provided in the financial statements	**3,473**	1,027

18 Remuneration of directors

	2004	2003
	£000	£000
Emoluments for qualifying services	**802**	321
Compensation for loss of office	**2,407**	-
Company pension contributions to money purchase schemes	**28**	32
	3,237	353

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounts to 1 *(2003: 1)*.

The number of directors for whom retirement benefits are accruing under defined benefits schemes amounted to 1 *(2003: 1)*.

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

	2004	2003
	£000	£000
Emoluments for qualifying services	**269**	321
Compensation for loss of office	**2,407**	-
Company pension contributions to money purchase schemes	**8**	32
	2,684	353

Notes *(continued)*

19 Staff numbers and costs

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

	2004 Number	2003 Number
Playing Staff (including managers/coaches)	91	76
Administration and commercial	33	29
	124	105

The aggregate payroll costs of these persons were as follows:

	2004 £000	2003 £000
Wages and Salaries	95,434	40,185
Social security costs	6,662	4,773
Other pension costs	365	249
	102,461	45,207

The Company also employs approximately 400 (*2003: 330*) temporary staff on match days.

20 Ultimate parent company

The directors consider the ultimate parent undertaking to be Chelsea Limited, a company incorporated in England and Wales. The largest group 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 Village plc.

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

21 Related party transactions

The Company has taken advantage of the exemption in Financial Reporting Standard Number 8 from the requirement to disclose transactions with group companies on the grounds that consolidated financial statements are prepared by the ultimate parent company.

22 Post Balance Sheet Events

Since the year end the Company has acquired the registrations of several football players at a cost of £81.7m and disposed of the registrations of two players at a loss of £0.1m.

Post year end Mr A Mutu's employment contract has been terminated. Mr A Mutu's player registration had a net book value of £13,700,000 at 30 June 2004.