



CHELSEA VILLAGE PLC ✓

*(Incorporated with limited liability in England under the Companies Act 1985)
(Registered Number: 2536231) ✓*

£75,000,000
8.875 per cent. First Mortgage Debenture Bonds due 2007

Issue price: 99.667 per cent.

SBC Warburg Dillon Read

MEESPIERSON SECURITIES (UK) LIMITED



This document comprises listing particulars given in compliance with the rules of the London Stock Exchange Limited (the "**London Stock Exchange**") made under the Financial Services Act 1986 for the purpose of giving information with regard to Chelsea Village plc (the "**Issuer**") and its subsidiaries (together the "**Group**") and the £75,000,000 8.875 per cent. First Mortgage Debenture Bonds due 2007 of the Issuer (the "**Bonds**"). The Issuer accepts responsibility for the information contained in this document. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Issuer is the holding company for the Group. The Bonds will have the benefit of guarantees (the "**Guarantees**") contained in the Trust Deed from certain of the Issuer's subsidiaries on a joint and several basis.

A copy of this document, which comprises listing particulars approved by the London Stock Exchange as required by Section 149 of the Financial Services Act 1986, has been delivered to the Registrar of Companies in England. Application has been made to the London Stock Exchange for the Bonds to be admitted to the Official List.

No person has been authorised to give any information or to make any representation other than those contained in this document in connection with the offering of the Bonds and, if given or made, such information or representations must not be relied upon as having been authorised by the Issuer or the Managers (as defined under "Subscription and Sale" below). Neither the delivery of this document nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the Group since the date hereof. This document does not constitute an offer of, or an invitation by, or on behalf of, the Issuer or the Managers to subscribe for, or purchase, any of the Bonds.

The distribution of this document and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by the Issuer and the Managers to inform themselves about and to observe any such restrictions.

The Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"), and are subject to U.S. tax law requirements. Subject to certain exceptions, the Bonds may not be offered, sold or delivered within the United States or to U.S. persons. For a further description of certain restrictions on the offering and sale of the Bonds and on distribution of this document, see "Subscription and Sale" below.

The Bonds will initially be represented by a temporary global bond, without interest coupons, (the "**Temporary Global Bond**") which will be deposited with a common depositary for Cedel Bank, société anonyme ("**Cedel Bank**") and Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System ("**Euroclear**") on or about 17 December 1997 (the "**Closing Date**"). The Temporary Global Bond will be exchangeable on or after a date which is expected to be 27 January 1998 for interests in a permanent global bond (the "**Permanent Global Bond**", and, together with the Temporary Global Bond, the "**Global Bonds**"), without interest coupons, upon certification that the beneficial owners of the relevant Bonds are not U.S. persons or persons who have acquired such Bonds for resale to any U.S. person. The Permanent Global Bond will be exchangeable for definitive Bonds only in certain limited circumstances — see "Summary of Provisions relating to the Bonds while represented by the Global Bonds".

All references herein to "**sterling**", "**pounds**" and "**£**" are to the currency of the United Kingdom.

In connection with this issue, Swiss Bank Corporation may over-allot or effect transactions which stabilise or maintain the market price of the Bonds at a level which might not otherwise prevail. Such stabilising, if commenced, may be discontinued at any time.

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CONDITIONS OF THE BONDS

The following is the text of the Conditions of the Bonds which (subject to modification and save for the italicised text) will be endorsed on each Bond in definitive form (if issued):

The £75,000,000 8.875 per cent. First Mortgage Debenture Bonds due 2007 (the "**Bonds**", which expression shall in these Conditions, unless the context otherwise requires, include any Further Bonds issued pursuant to Condition 20 and forming a single series with the Bonds) of Chelsea Village plc (the "**Issuer**") are constituted, guaranteed and secured by a Trust Deed dated 17 December 1997 (the "**Trust Deed**") made between the Issuer, the Original Charging Subsidiaries (as defined below) and The Law Debenture Trust Corporation p.l.c. (the "**Trustee**", which expression shall include its successor(s)) as trustee for the holders of the Bonds (the "**Bondholders**") and the holders of the interest coupons appertaining to the Bonds (the "**Couponholders**" and the "**Coupons**" respectively). The issue of the Bonds and the creation by the Issuer of security (*inter alia*) therefor and for all (if any) Further Bonds was authorised by a resolution of the Board of Directors of the Issuer passed on 27 November 1997 and the giving of its guarantee in respect of (*inter alia*) the Bonds and all (if any) Further Bonds and the creation by it of security for such guarantee and collateral security for (*inter alia*) the Bonds and all (if any) Further Bonds was authorised by a resolution of the Board of Directors of each Original Charging Subsidiary passed on 28 November 1997. The Bonds are on issue listed on the London Stock Exchange Limited (the "**London Stock Exchange**"). The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the Trust Deed and the Agency Agreement dated 17 December 1997 (the "**Agency Agreement**") made between the Issuer, the Original Charging Subsidiaries, the initial Paying Agents and the Trustee are available for inspection during normal business hours by the Bondholders and the Couponholders at the registered office for the time being of the Trustee, being at the date of issue of the Bonds at Princes House, 95 Gresham Street, London EC2V 7LY and at the specified office of each of the Paying Agents. The Bondholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them.

1. DEFINITIONS

"Adjusted Capital and Reserves" means at any time the aggregate of:

- (i) the amounts paid up or credited as paid up on the issued share capital of the Issuer; and
- (ii) the amount standing to the credit of the capital and revenue reserves (including any share premium account and capital redemption reserve and the amount standing to the credit of the profit and loss account) of the Issuer and its Subsidiaries,

all as shown by a consolidation of the balance sheets of the Issuer and its Subsidiaries for the most recently ended 12 Month Period (which shall be prepared on the basis of the historical cost convention modified, if applicable, for the revaluation of land and buildings and other assets) but:

- (a) adjusted in respect of any subsequent variation in (i) interests of the Issuer in such Subsidiaries; (ii) the share capital of the Issuer paid up or credited as paid up; and (iii) the amounts of the said reserves (other than variations in profit and loss account arising from normal trading), in each case since the dates of such balance sheets;
- (b) excluding all sums set aside for taxation whether in respect of deferred taxation or otherwise;
- (c) excluding all amounts attributable to outside interests in such Subsidiaries and any distributions to shareholders of the Issuer and (to the extent not attributable either directly or indirectly to the Issuer) shareholders of such Subsidiaries out of profits accrued prior to the dates of the relative audited balance sheets and not provided for therein;
- (d) excluding all amounts attributable to goodwill and other intangible assets other than the cost of players' registrations (as shown by such balance sheets);
- (e) deducting therefrom any debit balance on profit and loss account or any other reserve account;
- (f) excluding therefrom such part of the interests of the Issuer or such a Subsidiary in an associated company, not being such a Subsidiary, as is attributable to any post-acquisition undistributed profits and reserves, but including such interests at original cost or, if lower, book value; and
- (g) after making such other adjustments (if any) as the Auditors may consider appropriate.

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"Asset Acquisition" means (i) an investment in any other Person pursuant to which such Person shall become a Subsidiary of the Issuer or shall be merged with or into the Issuer or any of its Subsidiaries or (ii) the acquisition of assets of any Person which constitute all or substantially all of the assets of such Person or any division or type of business of such Person.

"Asset Sale" means any sale, lease, transfer, charge or other disposal of assets or of interests therein, whether by a single transaction or by a series of transactions, except:

- (i) disposals (including repayments of loans) made in the ordinary course of trading of the Person so disposing;
- (ii) disposals of assets in exchange for other assets equivalent or superior as to type and quality as determined in good faith by the Board of Directors of the Issuer;
- (iii) disposals from one Charging Company to another Charging Company;
- (iv) disposals of investments listed or dealt in on any stock exchange or over-the-counter market;
- (v) disposals of cash raised or borrowed in implementation of the purposes for which it was raised or borrowed;
- (vi) the payment of cash as consideration for the acquisition of any asset on arm's-length commercial terms; and
- (vii) disposals, in addition to those permitted under sub-paragraphs (i) to (vi) above, during any financial year of the Issuer, of assets which have an aggregate book value of not more than £500,000.

"AT&T Security" means the irrevocable instruction from Chelsea Football Club Limited to Umbro U.K. Limited to pay funds due to Chelsea Football Club Limited from Umbro U.K. Limited under the Umbro contract into an account maintained by AT&T Capital Limited pursuant to a hire purchase facility dated 23 September 1996 between Chelsea Football Club Limited and AT&T Capital Limited or any refinancing thereof.

"Auditors" means the auditors for the time being of the Issuer (or in the case of joint auditors any one of them) or, in the event of their being unable or unwilling promptly to carry out any action requested of them pursuant to the provisions of the Trust Deed, such other firm of accountants as may promptly be nominated by the Issuer and approved by the Trustee or, failing such nomination and/or approval, nominated by the Trustee.

"Autoglass contract" means the Sponsorship Agreement dated 16 April 1997 between Autoglass Limited and Chelsea Football Club Limited and any successor to or replacement for such agreement.

"Charging Company" means:

- (a) the Issuer and each of the Original Charging Subsidiaries; and
- (b) if applicable, each other Eligible Subsidiary or other Subsidiary of the Issuer (in the latter case, to which Condition 4(5) applies) which shall have given a guarantee in respect of (*inter alia*) the Bonds and all (if any) Further Bonds and any charge by way of security for such guarantee and collateral security for (*inter alia*) the Bonds and all (if any) Further Bonds.

"Charging Subsidiary" means any Charging Company other than the Issuer.

"Consolidated Net Income" means, for any period, the profit (or loss) attributable directly or indirectly to the members of the Issuer for such period on a consolidated basis, calculated by the Auditors in accordance with generally accepted accounting principles in the United Kingdom; provided that there shall be disregarded in the calculation thereof (i) gains and losses from Asset Sales (without regard to the £500,000 limitation set forth in the definition thereof) or (without double counting) write-offs of reserves relating thereto; and (ii) items classified as exceptional gains and losses, and the related tax effects according to generally accepted accounting principles in the United Kingdom; (iii) the net income (or loss) of any Person acquired in a merger accrued prior to the date it becomes a Subsidiary of the Issuer or is merged with the Issuer or any Subsidiary of the Issuer; and (iv) any amounts payable by way of penalty or fee on the early prepayment of any Indebtedness or the cancellation of any facility for Indebtedness.

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"Consolidated Operating Income" means Consolidated Net Income, but adding back, if applicable:

- (i) any provision for taxes;
- (ii) Total Interest; and
- (iii) any amount attributable to depreciation and amortisation (including goodwill and other intangible assets, but excluding any amortisation of deferred financing charges, fees or expenses),

in each case calculated by the Auditors on a consolidated basis in accordance with generally accepted accounting principles in the United Kingdom by reference to the most recently ended 12 Month Period.

"Consolidated Operating Income Coverage Ratio" means the ratio of (i) Consolidated Operating Income during the most recently ended 12 Month Period at the date (the **"Transaction Date"**) of the transaction giving rise to the need to calculate the Consolidated Operating Income Coverage Ratio to (ii) Total Interest for the 12 Month Period. For the purposes of this definition, **"Consolidated Operating Income"** and **"Total Interest"** shall be adjusted as more particularly described in the Trust Deed to take account of the incurrence of any Indebtedness by the Issuer or any Subsidiary of the Issuer (and the application of the proceeds thereof) giving rise to the need to make such calculation and any incurrence or repayment of other Indebtedness (the interest expense for which was or would be included in Total Interest) (and the application of the proceeds thereof) at any time subsequent to the last day of the 12 Month Period and on or prior to the Transaction Date and any Asset Sale or Asset Acquisition (and the consequences thereof) occurring during the 12 Month Period or at any time subsequent to the last day of the 12 Month Period and on or prior to the Transaction Date.

"Core Assets" means the Stamford Bridge Site excluding Walsingham Mansions (each as defined in the Trust Deed).

"eligible property" means:

- (a) those of the properties listed in the Valuation Certificate as shall for the time being be comprised in the specifically mortgaged premises;
- (b) commercial property which is:
 - (1) either freehold or leasehold having a term expiring at least 25 years after the final maturity date of the Bonds and all (if any) Further Bonds and, if leasehold, not containing a provision for forfeiture of the lease in any circumstances other than non-payment of rent or other breach of covenant by the lessee; and
 - (2) the subject of a certificate of title given by a leading firm of solicitors approved by the Trustee (such certificate to be in a form acceptable to the Trustee); and
 - (3) the subject of a valuation given by the Valuers in a form acceptable to the Trustee; and
- (c) any other commercial property which shall have been approved by the Trustee pursuant to the Trust Deed as security for (*inter alia*) the Bonds and all (if any) Further Bonds and/or any guarantee thereof,

and includes any additional interest in any eligible property then comprised in the specifically mortgaged premises.

"Eligible Subsidiary" means (a) each of the Original Charging Subsidiaries and (b) any other wholly-owned Subsidiary of the Issuer approved by the Trustee.

"Existing Indebtedness" means (i) all sums payable in relation to the Bonds; (ii) all sums payable in relation to the Working Capital Facility (whether drawn or undrawn); (iii) all sums payable in relation to the RBC Loan Agreement (whether drawn or undrawn); and (iv) all sums payable in relation to any other specified Indebtedness not exceeding £10,000,000 in existence on 9 December 1997, as certified to the Trustee by two executive directors (one of whom shall be the Finance Director) of the Issuer by the date of the Trust Deed.

"Further Bonds" means any further bonds which may be created and issued by the Issuer pursuant to Condition 20.

"Group" means the Issuer and its Subsidiaries from time to time.

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"Indebtedness" means all liabilities in respect of:

- (i) the principal amount owing in respect of any amounts borrowed by any Person;
- (ii) the principal amount owing in respect of any debentures (within the meaning of section 744 of the Companies Act 1985), whether issued for cash or in whole or in part for a consideration other than cash;
- (iii) the principal amount owing of any amounts borrowed by or other indebtedness of and the nominal amount of any share capital of any Person the repayment whereof or the payment of any premium, interest or dividends whereon is for the time being guaranteed or secured or the subject of an indemnity given by the Issuer or a Subsidiary of the Issuer and the beneficial interest in the right to such repayment or payment is not owned by the Issuer or a Subsidiary of the Issuer, which principal or nominal amount shall, except insofar as otherwise taken into account, be deemed to be Indebtedness of the Issuer or of such first-mentioned Subsidiary, as the case may be;
- (iv) the nominal amount of any issued share capital of any Subsidiary of the Issuer (not being equity share capital which, as regards capital and dividends, has rights no more favourable than those attached to its ordinary share capital), which nominal amount shall be deemed to be Indebtedness of such Subsidiary save to the extent that such issued share capital is attributable either directly or indirectly to the Issuer but excluding (other than for the purposes of Condition 14(3)) any such issued share capital which cannot be repaid or redeemed on or before 17 December 2007 other than for taxation reasons or following an event of default;
- (v) the principal amount raised by any Person by acceptances or under any acceptance credit opened on its behalf by any bank or accepting house;
- (vi) the principal amount of any book debts which have been sold or agreed to be sold, to the extent that the Issuer or any Subsidiary of the Issuer is for the time being liable to indemnify or reimburse the purchaser in respect of any non-payment;
- (vii) the principal payments payable by a Person under any hire purchase agreement or any finance lease (being any hire purchase agreement or lease which would be treated as a finance lease under generally accepted accounting principles in the United Kingdom);
- (viii) any part of the purchase price of any movable or immovable assets acquired by the Issuer or any Subsidiary of the Issuer, the payment of which is deferred beyond the date which is six months after completion of the conveyance, assignment or transfer of the legal estate to such assets or, if no such conveyance, assignment or transfer is to take place within six months after the date on which the contract for such purchase is entered into or (if later) becomes unconditional, six months after the date on which such contract is entered into or (if later) becomes unconditional; and
- (ix) for the purposes of Condition 14(3) only, amounts due and payable (on a net basis) under interest rate swaps, currency swaps (including spot and forward exchange contracts), caps, collars, floors and similar obligations,

and so that, for the purposes of these Conditions (except as specified in Condition 4(2)), if a Person becomes a Subsidiary of the Issuer at a time when such Person has outstanding any Indebtedness, such Indebtedness shall be deemed to be incurred at the time it becomes a Subsidiary of the Issuer.

"Indebtedness for Borrowed Money" means any present or future Indebtedness (whether being principal, premium, interest or other amounts) for or in respect of (i) money borrowed, (ii) liabilities under or in respect of any acceptance or acceptance credit or (iii) any bonds, notes, debentures, debenture stock, loan stock or other securities offered, issued or distributed whether by way of public offer, private placing, acquisition consideration or otherwise and whether issued for cash or in whole or in part for a consideration other than cash.

"Intercompany Indebtedness" means any Indebtedness of the Issuer to any Subsidiary of the Issuer and any Indebtedness of any Subsidiary of the Issuer to the Issuer or any other Subsidiary of the Issuer and for the purposes of this definition **"Subsidiary of the Issuer"** means any such Subsidiary whose accounts are consolidated with those of the Issuer in the audited consolidated accounts of the Issuer and its Subsidiaries for the most recently ended 12 Month Period or, in the case of a Subsidiary of the Issuer acquired after the end of such

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12 Month Period, whose accounts will be so consolidated in the audited consolidated accounts of the Issuer and its Subsidiaries for the 12 Month Period during which such acquisition occurred.

"Material Subsidiary" at any time shall include a Subsidiary of the Issuer (*inter alia*):

- (a) whose gross revenues attributable to the Issuer (consolidated in the case of a Subsidiary which itself has Subsidiaries) or whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent not less than 2.5 per cent. of the consolidated gross revenues attributable to the shareholders of the Issuer, or, as the case may be, consolidated total assets, of the Issuer and its Subsidiaries taken as a whole, all as calculated respectively by reference to the then latest audited accounts (consolidated or, as the case may be, unconsolidated) of the Subsidiary and the audited consolidated accounts of the Issuer and its Subsidiaries for the most recently ended 12 Month Period; or
- (b) to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Issuer which immediately before the transfer is a Material Subsidiary,

all as more particularly defined in the Trust Deed.

A report by the Auditors that in their opinion a Subsidiary of the Issuer is or is not or was or was not at any particular time or throughout any specified period a Material Subsidiary may be relied upon by the Trustee without further enquiry or evidence and, if relied upon by the Trustee, shall, in the absence of manifest error, be conclusive and binding on all parties.

"moneys" means (a) cash, (b) investments representing cash (as defined in the Trust Deed), and (c) any other investments which shall have been approved as money by the Trustee.

"Original Charging Subsidiaries" means Chelsea Village Catering Ltd., Chelsea Car Parks Limited, Chelsea Village Hotel Ltd, Bidgleam Limited, Chelsea Limited, Chelsea Football Club Limited, Stamford Bridge Securities Ltd., Stamford Bridge Properties Ltd., Fulham Securities Limited, Chelsea Communications Limited, Chelsea Leisure Services Limited, Chelsea Village Merchandising Ltd, Elizabeth Duff Travel Limited and Chelsea Village Management Ltd., each of which is a wholly-owned Subsidiary of the Issuer (other than Bidgleam Limited, 80 per cent. of the share capital of which is, at 9 December 1997, owned by the Issuer).

"Permitted Encumbrances" means (a) the AT&T Security; (b) the charges by way of second legal mortgage and other security created by the Issuer and certain of its Subsidiaries in respect of the Working Capital Facility in the Working Capital Facility Agreement dated 11 December 1997 and made between, *inter alios*, the Issuer and The Co-Operative Bank p.l.c.; (c) any mortgage, charge, lien, pledge, encumbrance or other security interest (a **"Security Interest"**) created by the Issuer or any Subsidiary of the Issuer to secure Indebtedness incurred to finance the acquisition of assets (not being assets forming part of the Stamford Bridge Site) and (where applicable) the development thereof by the Issuer or any Subsidiary of the Issuer provided that (i) such Indebtedness shall not be secured by any Security Interest over any assets of the Issuer or any of its Subsidiaries other than the assets so acquired; and (ii) the Security Interest securing such Indebtedness shall be created within 30 days of such acquisition; and (d) any replacement, extension or renewal, in whole or in part, of any Security Interest permitted pursuant to sub-paragraphs (a), (b) or (c) above to secure any Refinancing Indebtedness incurred for the purpose of refinancing the Indebtedness secured by any Security Interest referred to in such sub-paragraphs (a), (b) or (c) and otherwise in accordance with the definition thereof (including any increase in the total amount available under the Working Capital Facility as therein referred to).

"Permitted Indebtedness" means:

- (i) Existing Indebtedness;
- (ii) Refinancing Indebtedness;
- (iii) Intercompany Indebtedness; and
- (iv) any Indebtedness (whenever redeemable or repayable) which is non-interest bearing and on a winding up is subordinated in point of priority to the claims of the Bondholders.

"Person" means an individual, partnership, corporation, unincorporated organisation, trust or joint venture, or a governmental agency or political subdivision thereof.

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"principal", "principal amount" and "principal moneys" in relation to any payment in respect of Bonds includes, where applicable, the Redemption Price referred to in Condition 7(2) or the price of 101 per cent. of the principal amount thereof referred to in Condition 7(4).

"property" means freehold, leasehold or other immovable property situated in the United Kingdom of the Issuer or any Eligible Subsidiary or any other Subsidiary of the Issuer (in the latter case to which Condition 4(5) applies).

"RBC Loan Agreement" means the £5,000,000 Loan Agreement dated 11 July 1997 made between the Issuer and Royal Bank of Canada (Europe) Limited.

"Refinancing Indebtedness" means: (i) any Indebtedness which is incurred for the purpose of refinancing, and is to be used within 30 days of its incurrence to refinance, either (1) any Existing Indebtedness or (2) any Indebtedness referred to in sub-paragraph (c) of the definition of **"Permitted Encumbrances"** or (3) any previous refinancing of Existing Indebtedness or Indebtedness referred to in such sub-paragraph (c), provided that in any such case such Refinancing Indebtedness is entered into on terms which, as to principal amount, are not greater than the corresponding terms of the Indebtedness it is refinancing, unless it is not in fact so used, whereupon it shall forthwith cease to be Refinancing Indebtedness; and (ii) any increase in the total amount available under the Working Capital Facility provided that the total amount available under such Facility (whether drawn or undrawn) does not exceed at any time £5,000,000.

"Residential Lease Proceeds" has the meaning set out in the Trust Deed.

"share capital" means in relation to any relevant Person any of its share capital including but not limited to preference and deferred share capital.

"short gilts" means United Kingdom Government stocks listed on the London Stock Exchange with no more than five years to final redemption from the date of being charged.

"specifically mortgaged premises" means all the property, short gilts and moneys (other than the cash charged and/or paid to or in favour of the Trustee pursuant to Condition 3(4)) for the time being held by the Trustee and/or charged in favour of the Trustee by way of first legal mortgage or charge for the purpose of securing (*inter alia*) the Bonds and all (if any) Further Bonds and/or any guarantee thereof.

"Subsidiary" means a subsidiary as defined in section 736 of the Companies Act 1985 and a subsidiary undertaking as defined in section 258 and Schedule 10A of the Companies Act 1985.

"Total Interest" means the sum of:

- (i) consolidated interest expense (which for this purpose shall be deemed to include, without limitation, any amortisation of original issue discount but to exclude any amortisation of deferred financing charges, fees or expenses) of the Issuer and its Subsidiaries, whether expended or capitalised;
- (ii) all cash commissions and other cash charges incurred with respect to Indebtedness (excluding ordinary banking costs or charges (not in the nature of interest) and any amounts payable by way of penalty or fee on the early prepayment of any Indebtedness or the cancellation of any facility for Indebtedness) of the Issuer and its Subsidiaries; and
- (iii) any interest expense guaranteed or secured by the Issuer or any of its Subsidiaries,

less any interest earned by the Issuer or any of its Subsidiaries, in each case calculated by the Auditors on a consolidated basis in accordance with generally accepted accounting principles in the United Kingdom by reference to the most recently ended 12 Month Period.

"Umbro contract" means the Kit Sponsorship Agreement dated 30 November 1995 between Umbro UK Limited and Chelsea Football Club Limited and any successor to or replacement for such agreement.

"valuation" means:

- (a) in relation to property, a valuation thereof made by the Valuers on the basis of "open market value" or, in the case only of the football stadium on the Stamford Bridge Site, "depreciated replacement cost" (in each case in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered

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Surveyors in effect on the date at which the relevant valuation is made) or such other basis as the Trustee may approve;

- (b) in relation to short gilts, the price thereof (net of accrued interest) based on the bid price thereof as derived from the London Stock Exchange Daily Official List on the dealing day last preceding the date on which the relevant valuation is made;
- (c) in relation to cash, the amount thereof for the time being; and
- (d) in relation to other moneys, the value thereof as agreed between the Issuer and the Trustee or, in the event of any disagreement between the Issuer and the Trustee as to such value, the value thereof as determined by the Auditors.

"Valuation Certificate" means the valuation certificate set out in the Offering Circular dated 9 December 1997 relating to the Bonds.

"value" means:

- (a) in relation to property, the value ascribed thereto by the most recent valuation thereof, whether in the Valuation Certificate or in a valuation made pursuant to Condition 10(1)(a) or 10(1)(b), or, if not included in such most recent valuation, by a separate valuation, provided that, in every such case as aforesaid, such valuation shall be as at a date not more than six months (or such longer period as the Trustee may agree) before the date at which such value falls to be determined, provided that:
 - (1) for the purpose of Condition 9 but not Condition 10 or 20, and except where the relevant price arises from an intra-Group transaction, the Trustee may, if the Issuer agrees, instead of requiring a valuation, treat the value of a property as being its acquisition price or its agreed sale price; and
 - (2) for the purposes of determining value:
 - (i) there shall be added to any valuation or acquisition price the cost (as reported by the Auditors) of additions or improvements of a capital nature made to such property after such valuation or acquisition and before such determination; and/or
 - (ii) where there is any unremedied breach of any of the covenants of the Trust Deed in relation to a property which is to be released from the specifically mortgaged premises, there may, at the discretion of the Trustee, be deducted from any valuation or acquisition price of such property any amount (as reported by the Valuers) by which its value has been reduced as a result of such breach; and
- (b) in relation to short gilts and moneys, the value and amount thereof as shown by a valuation as at the date at which such value and amount fall to be determined.

"Valuers" means any firm of independent professional valuers who shall value the properties of the members of the Group (or any of them) for the purposes of the published audited annual accounts of the Group or such other firm of independent professional valuers as may from time to time be appointed by the Issuer with the approval of the Trustee.

"Working Capital Facility" means the £5,000,000 Working Capital Facility made available to the Issuer by The Co-Operative Bank p.l.c. on or about 11 December 1997.

"12 Month Period" means any 12 month financial period for which audited consolidated accounts of the Issuer are available whether or not ending on an accounting reference date.

The Trust Deed provides that the Trustee may rely upon a report by the Auditors as to the amount or effect of the Adjusted Capital and Reserves, Consolidated Operating Income, Consolidated Operating Income Coverage Ratio, Consolidated Net Income, any relevant Indebtedness, Total Interest and any other relevant term defined above or in the Trust Deed as at any given time or for any specified period, as applicable, in relation to compliance by the Issuer with any of the covenants referred to in Condition 4, in which event such report shall, in the absence of manifest error, be conclusive and binding on all parties.

Any reference to any statute or any provision of any statute shall be a reference to that statute or provision as amended and/or re-enacted from time to time.

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Any reference to an obligation being guaranteed shall include a reference to an indemnity being given in respect of the obligation.

2. FORM, DENOMINATION AND TITLE

- (1) The Bonds are in bearer form, serially numbered, in the denominations of £1,000, £10,000 and £100,000 each with Coupons attached on issue. Bonds of one denomination may not be exchanged for Bonds of another denomination.
- (2) Title to the Bonds and to the Coupons will pass by delivery.
- (3) The Issuer, the Charging Subsidiaries, any Paying Agent and the Trustee may (to the fullest extent permitted by applicable laws) deem and treat the bearer of any Bond and the bearer of any Coupon as the absolute owner for all purposes (whether or not the Bond or Coupon shall be overdue and notwithstanding any notice of ownership or writing on the Bond or Coupon or any notice of previous loss or theft of the Bond or Coupon or of any trust or interest therein) and shall not be required to obtain any proof thereof or as to the identity of such bearer.

3. STATUS, GUARANTEES AND SECURITY

- (1) The Bonds and the Coupons are direct, unconditional and secured obligations of the Issuer and rank and will rank *pari passu*, without any preference among themselves.
- (2) The payment of the principal, premium (if any) and interest on the Bonds and all (if any) Further Bonds and all other moneys payable by the Issuer under or pursuant to the Trust Deed has been unconditionally and irrevocably guaranteed by the Original Charging Subsidiaries in the Trust Deed (the "Guarantee", which expression shall include each and every guarantee given by Subsidiaries of the Issuer which become Charging Subsidiaries after the date of the Trust Deed). The obligations of the Original Charging Subsidiaries under the Guarantee constitute direct, unconditional and secured obligations of the Original Charging Subsidiaries.
- (3) The obligations of the Issuer to pay the principal, premium (if any) and interest on the Bonds and all (if any) Further Bonds and all other moneys payable by the Issuer under or pursuant to the Trust Deed and the obligations of the Original Charging Subsidiaries under the Guarantee are and shall be secured by first floating charges on the undertaking and assets, present and future, of the Issuer and the Original Charging Subsidiaries and by charges by way of first legal mortgage on eligible property of the Issuer and certain of the Original Charging Subsidiaries as provided in the Trust Deed.
- (4) In addition, the obligations of the Issuer to pay the principal, premium (if any) and interest on the Bonds and all (if any) Further Bonds and all other moneys payable by the Issuer under or pursuant to the Trust Deed are and shall be secured by the Issuer charging and/or paying cash to or in favour of the Trustee to be held as part of the security for the obligations of the Issuer as aforesaid but not so as to form part of the specifically mortgaged premises, being in an initial amount of approximately £28,000,000 to which shall be added the Residential Lease Proceeds all subject to and in accordance with the Trust Deed (together, the "Assigned Moneys"). The Assigned Moneys shall only be released to or to the order of the Issuer (i) upon receipt by the Trustee of a certificate addressed to the Trustee and signed by two executive directors (one of whom shall be the Finance Director) of the Issuer which certificate shall state the total amount of expenditure on the development of the Stamford Bridge Site incurred by the Issuer since the date of incurrence of the most recent such expenditure set out in the last such certificate to the Trustee or, if none, since the date of the Trust Deed and/or to be incurred by the Issuer within the period of seven days after the date of such certificate and in respect of which the Issuer wishes to be reimbursed from or paid Assigned Moneys, to which certificate the Issuer shall attach the certificate(s) (if any) received by the Issuer from the principal architect for the development of the Stamford Bridge Site in respect of such expenditure (or part thereof); and (ii) if at the date of such directors' certificate referred to in (i) above no Event of Default or Potential Event of Default (as defined in the Trust Deed) has occurred and is continuing. In such circumstances, the Trustee shall release to or to the order of the Issuer an amount of cash equal to the amount stated in the directors' certificate referred to in (i) above (irrespective of whether the amount stated therein is greater or lesser than the amount of moneys certified by such architect to have been or to be so incurred by the Issuer) or, if less, the amount of the Assigned Moneys remaining at that time.
- (5) Subject to the Trustee being of the opinion that the guarantee and mortgages and/or charges and/or payments to be given and/or made will be valid and effective, an Eligible Subsidiary which is not at that time a Charging

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Subsidiary may become a Charging Subsidiary by guaranteeing the obligations of the Issuer in respect of the Bonds and the Coupons and all (if any) Further Bonds and the coupons appertaining thereto and all other moneys payable by the Issuer under or pursuant to the Trust Deed and creating in favour of the Trustee a first floating charge on its undertaking and assets, present and future, and (if necessary in order to comply with Condition 9, 10 or 20) a charge by way of first legal mortgage on eligible property and/or charging short gilts and/or charging or paying moneys to or in favour of the Trustee, in each case as security for both the obligations of the Issuer in respect of the Bonds and the Coupons and all (if any) Further Bonds and the coupons appertaining thereto and all other moneys payable by the Issuer under or pursuant to the Trust Deed and for such guarantee.

- (6) Power is reserved to any Charging Company (if it is a Charging Subsidiary, with the consent of the Issuer) in its discretion and at its sole election to add to the specifically mortgaged premises by specifically charging in favour of the Trustee in the form (*mutatis mutandis*) provided in the Trust Deed or otherwise previously agreed with the Trustee any additional interest in any eligible property then comprised in the specifically mortgaged premises and/or other eligible property and/or short gilts and/or by charging or paying moneys to or in favour of the Trustee, in each case as part of the specifically mortgaged premises.

Except for the provisions of Condition 10(3), the Trust Deed will not contain any provisions requiring the Issuer, any Charging Subsidiary, any Eligible Subsidiary or any other Subsidiary of the Issuer to give any additional security in the event that at any time the aggregate value of the specifically mortgaged premises shall not reach or shall fall below any particular multiple or fraction of the aggregate principal amount of the Bonds and all (if any) Further Bonds from time to time outstanding.

4. NEGATIVE PLEDGE AND OTHER COVENANTS

The Issuer and the Original Charging Subsidiaries have given to the Trustee in the Trust Deed covenants to the following effect and each other Eligible Subsidiary or other Subsidiary of the Issuer (in the latter case to which Condition 4(5) applies) that becomes a Charging Subsidiary will be required to give to the Trustee covenants to the effect of those contained in paragraphs (1) and (2) below, such covenants in each case applying for so long as any of the Bonds or any Further Bonds remains outstanding:

(1) **Negative Pledge**

Other than a Permitted Encumbrance or pursuant to Condition 3(5), 3(6), 9, 10 or 20 and save for the security created in the Trust Deed, no Charging Company shall create or permit to subsist any mortgage, charge, lien, pledge, encumbrance or other security interest whether fixed or floating on or over the whole or any part of its undertaking or assets present or future whatsoever or wheresoever situate (including, but without limitation, any issued but uncalled capital, any contract entered into by any member of the Group relating to television coverage of football matches played at the Stamford Bridge Site, the Umbro contract and the Autoglass contract).

(2) **Limitation on incurrence of additional Indebtedness**

Save as permitted by the proviso hereto, neither the Issuer nor any of its Subsidiaries shall create, incur, assume, guarantee, acquire, become liable, contingently or otherwise, with respect to or otherwise become responsible for payment of (collectively, "incur" (provided that, if a Person becomes a Subsidiary of the Issuer at a time when such Person has outstanding any Indebtedness, such Indebtedness shall (for the purposes of the covenant described in this paragraph (2)) be deemed to be incurred on the date which is four months after the date it becomes a Subsidiary of the Issuer)), any Indebtedness (other than Permitted Indebtedness); provided, however, that if no Event of Default or Potential Event of Default has occurred and is continuing or would occur as a consequence of the incurrence of any such Indebtedness, the Issuer or any of its Subsidiaries may incur Permitted Indebtedness or any other Indebtedness if, on the date of the incurrence of such Indebtedness (other than Permitted Indebtedness), after giving effect to the incurrence thereof, the Consolidated Operating Income Coverage Ratio is equal to or greater than 2.0 to 1.0.

(3) **Adjusted Capital and Reserves**

The Issuer shall procure that the amount of Adjusted Capital and Reserves shall not at any time be less than £35,000,000.

(4) **Limitation on Asset Sales**

The Issuer will not, and will not permit any of its Subsidiaries to, make an Asset Sale unless (a) both at the time of such Asset Sale and immediately after the completion thereof no Event of Default or Potential

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Event of Default shall have occurred and be continuing or would thereupon occur respectively, and (b) the Issuer or the relevant Subsidiary, as the case may be, receives consideration at the time of completion of such Asset Sale at least equal to the full fair market value of the assets comprised therein (as determined in good faith by the Board of Directors of the Issuer).

(5) **After-acquired Subsidiaries**

The Issuer will exercise its power so as to procure that any wholly-owned Subsidiary of the Issuer and (subject to the consent of all the outside shareholders) any other Subsidiary of the Issuer which in either such case is not a Charging Subsidiary but is a Material Subsidiary shall as soon as reasonably practicable after becoming a Material Subsidiary (subject to the prior written consent of the Trustee) become a Charging Subsidiary by guaranteeing the obligations of the Issuer to pay the principal amount of, premium (if any) and interest on the Bonds and all (if any) Further Bonds and all other moneys payable by the Issuer under or pursuant to the Trust Deed and creating in favour of the Trustee a first floating charge on its undertaking and assets, present and future and, if at such time required by Condition 9, 10 or 20, a charge by way of first legal mortgage on eligible property and/or by charging short gilts and/or by charging or paying moneys to or in favour of the Trustee and, in each case as security for both the obligations of the Issuer to pay the principal amount of, premium (if any) and interest on the Bonds and all (if any) Further Bonds and all other moneys payable by the Issuer under or pursuant to the Trust Deed and for such guarantee, provided that no such Subsidiary shall be required to give such guarantee, first floating charge and/or other charge and/or make such payment if it would by doing so be in breach of any rule of law and provided further that, without prejudice to the obligations of the Issuer and the other Charging Companies under Conditions 9, 10 and 20, nothing in this paragraph (5) shall require such a Subsidiary to create a charge by way of first legal mortgage over any asset over which any Security Interest has been created in accordance with sub-paragraph (c) of the definition of "Permitted Encumbrances" in Condition 1 above.

(6) **Provision of information**

The Issuer shall publish, within three weeks after the signing by the Auditors of its audited consolidated annual accounts and within three weeks of the publication of its unaudited consolidated interim financial statements, a notice to Bondholders in accordance with Condition 17 notifying them that such accounts or statements, as the case may be, and a certificate setting out the consolidated turnover, operating income and net earnings of the Issuer as set out in such accounts or statements, as the case may be, are available for collection by Bondholders from the specified offices of the Paying Agents.

(7) **Use of ground**

The Issuer shall exercise its powers so as to procure that the football stadium at the Stamford Bridge Site shall remain the sole home football location for the first team of Chelsea Football Club Limited save in the case of its destruction by reason of the occurrence of an event (by forces entirely outside the control of the Issuer and its Subsidiaries), the risk of the occurrence of which the Issuer and the Charging Subsidiaries are required to insure against pursuant to the Trust Deed, in which case a temporary alternative home shall be permitted.

(8) **Regular Bondholders' Meetings**

The Issuer will hold a meeting at the Stamford Bridge Site at least once every calendar year, commencing in 1998, of which Bondholders shall be given at least 21 days' notice by the Issuer in accordance with Condition 17 and to which they and the Trustee shall be invited, at which senior management of the Issuer will be present to respond to questions from Bondholders.

(9) **Notice to Bondholders of change in security**

The Issuer will give notice to Bondholders in accordance with Condition 17:

- (a) concurrently with the publication of each notice pursuant to the covenant described in paragraph (6) above, stating that a list of all withdrawals from, substitutions to, and additions to, the specifically mortgaged premises (including the identity, description, age and tenure (but not the value) thereof) since the previous notice pursuant to the covenant described in this sub-paragraph (a), or, if none,

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since the date of the Trust Deed, together with copies of such reports and accounts, are available for collection from the specified office of each of the Paying Agents; and

- (b) within two months of the date of any withdrawal and/or substitution of any part of the specifically mortgaged premises as described in Conditions 9 and 10 which either alone or when aggregated with any other such withdrawal and/or substitution not previously the subject of such a notice comprises 15 per cent. or more of the aggregate value of the specifically mortgaged premises stating that copies of a notice specifying the identity, description, age and tenure (but not the value) of the security withdrawn and, where applicable, the security charged in substitution therefor are available for collection from the specified office of each of the Paying Agents.

5. INTEREST

- (1) The Bonds bear interest accruing on a daily basis from and including 17 December 1997 at the rate of 8.875 per cent. per annum payable annually in arrear on 17 December (each an "Interest Payment Date"), the first payment (representing a full year's interest) to be made on 17 December 1998. Each Bond will cease to bear interest from and including its due date for redemption unless, upon due presentation, payment of the principal and premium (if any) in respect of the Bond is improperly withheld or refused or unless default is otherwise made in respect of payment, in any of which events interest shall continue to accrue as provided in the Trust Deed.
- (2) When interest is required to be calculated in respect of a period of less than a full year, it shall be calculated on the basis of a 360 day year consisting of 12 months of 30 days each.
- (3) All amounts of interest will be rounded upwards, if necessary, to the nearest penny.

6. PAYMENTS

- (1) Payments of principal, premium (if any) and interest in respect of each Bond will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the Bond, except that payments of interest due on an Interest Payment Date will be made only against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Coupons, in each case at the specified office of any of the Paying Agents.
- (2) Payments will be made at the specified office of any Paying Agent, at the option of the holder, either by pounds sterling cheque drawn on, or by transfer to a pounds sterling account maintained by the payee with, a bank in London, subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 8.
- (3) Each Bond should be presented for payment together with all relative unmatured Coupons, failing which the full amount of any relative missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the full amount of the missing unmatured Coupon which the amount so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount so deducted will be paid in the manner mentioned above against presentation and surrender (or, in the case of part payment only, endorsement) of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 8) in respect of the relevant Bond (whether or not the Coupon would otherwise have become void pursuant to Condition 13) or, if later, five years after the date on which the Coupon would have become due, but not thereafter.
- (4) A holder shall be entitled to present a Bond or Coupon for payment only on a Presentation Date and shall not, except as provided in Condition 5, be entitled to any further interest or other payment if a Presentation Date is after the due date.

"Presentation Date" means a day which (subject to Condition 13):

- (a) is or falls after the relevant due date or, if the due date is not or was not a Business Day in London, is or falls after the next following such Business Day; and
- (b) is a Business Day in the place of the specified office of the Paying Agent at which the Bond or Coupon is presented for payment and, in the case of payment by transfer to a pounds sterling account in London as referred to above, in London.

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"Business Day" means, in relation to any place, a day on which commercial banks and foreign exchange markets settle payments in that place.

- (5) The names of the initial Paying Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right, subject to the approval of the Trustee, at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents provided that they will at all times maintain a Paying Agent having a specified office in London and at least one other Paying Agent having a specified office in a mainland European city approved by the Trustee. Notice of any termination or appointment and of any changes in specified offices will be given to the Bondholders promptly by the Issuer in accordance with Condition 17.

7. REDEMPTION AND PURCHASE

- (1) Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Bonds at their principal amount on 17 December 2007.
- (2) The Issuer may, having given not less than 30 nor more than 45 days' notice to the Bondholders in accordance with Condition 17 (which notice shall be irrevocable), redeem all the Bonds, or from time to time some only (being £1,000,000 in principal amount or an integral multiple thereof), at a price (the **"Redemption Price"**) which shall be the higher of the following, together with interest accrued up to, but excluding, the date of redemption:
- (a) their principal amount; and
 - (b) that price, expressed as a percentage (rounded to three decimal places, .0005 being rounded upwards) as reported to the Issuer and the Trustee by a financial adviser selected by the Issuer and approved by the Trustee at which the Gross Redemption Yield (as defined below) on the Bonds on the Reference Date (as defined below) is equal to the Gross Redemption Yield (determined by reference to the middle-market price) at 3.00 p.m. (London time) on that date on the Benchmark Gilt (as defined below).

For the purposes of this paragraph (2), **"Benchmark Gilt"** means the 7¼ per cent. Treasury Stock 2007 or such other government stock as the Trustee may, with the advice of three brokers and/or gilt-edged market makers or such other three persons operating in the gilt-edged market as the Trustee may approve, agree with the Issuer, or, failing such agreement, may decide, from time to time to be the most appropriate benchmark government stock for the Bonds, **"Gross Redemption Yield"** means a yield calculated on the basis indicated by the Joint Index and Classification Committee of the Institute and Faculty of Actuaries as reported in the Journal of the Institute of Actuaries, Vol 105, part 1, 1978, page 18 or on such other basis as the Trustee may approve and **"Reference Date"** means the date which is the third dealing day in London prior to the date of publication of the notice of redemption referred to in this paragraph (2).

- (3) If the Issuer satisfies the Trustee immediately before the giving of the notice referred to below that (a) as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political sub-division of, or any authority in, or of, the United Kingdom having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective after 9 December 1997, on the occasion of the next payment due in respect of the Bonds the Issuer would be required to pay additional amounts as provided or referred to in Condition 8, and (b) the requirement cannot be avoided by the Issuer taking reasonable measures available to it, the Issuer may at its option, having given not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 17 (which notice shall be irrevocable), redeem all (but not some only) of the Bonds (other than those (if any) in respect of which the Issuer shall have published a notice of redemption pursuant to paragraph (2) above) at their principal amount together with interest accrued to but excluding the date of redemption, provided that no notice of redemption shall be given earlier than 90 days before the earliest date on which the Issuer would be required to pay the additional amounts were a payment in respect of the Bonds then due. Prior to the publication of any notice of redemption pursuant to this paragraph (3), the Issuer shall deliver to the Trustee a certificate signed by two executive directors (one of whom shall be the Finance Director) of the Issuer stating that the requirement referred to in (a) above will apply on the occasion of the next payment due in respect of the Bonds and cannot be avoided by the Issuer taking reasonable measures available to it and the Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Bondholders and the Couponholders.

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- (4) (a) If, at any time while any of the Bonds remains outstanding, a Put Event (as defined below) occurs then, unless at any time (i) the Issuer shall give or shall have given a notice under Condition 7(2) in respect of his Bond expiring prior to the Put Date (as defined below) (in which event such Bond shall, notwithstanding the provisions of Condition 7(2), be repayable at the expiry of such notice at the higher of 101 per cent. of its principal amount and the Redemption Price, but otherwise in accordance with such provisions); or (ii) the Issuer shall give or shall have given a notice under Condition 7(3) expiring prior to the Put Date (in which event such Bond shall be repayable at the expiry of such notice at its principal amount in accordance with the provisions of Condition 7(3)), the holder of each Bond will, upon the giving of a Put Event Notice (as defined below), have the option (the **"Put Option"**) to require the Issuer to redeem that Bond on the Put Date at 101 per cent. of its principal amount together with interest accrued to, but excluding, the Put Date.
- (b) Promptly and in any event not later than 14 days after the Issuer becomes aware that a Put Event has occurred, the Issuer shall, and at any time upon the Trustee becoming similarly so aware, unless it shall already have been given by the Issuer, the Trustee may, and if so requested by the holders of at least one-fifth in principal amount of the Bonds then outstanding shall, give notice (a **"Put Event Notice"**) to the Bondholders in accordance with Condition 17 specifying the nature of the Put Event and the procedure for exercising the Put Option.
- (c) To exercise the Put Option, the holder of a Bond must deliver such Bond to the specified office of any Paying Agent, on a day which is a Business Day (as defined in Condition 6) in London and in the place of such specified office falling within the period (the **"Put Period"**) of 45 days after that on which a Put Event Notice is given, accompanied by a duly completed and signed notice of exercise in duplicate in the form (for the time being current) obtainable from any specified office of any Paying Agent (a **"Put Notice"**) and in which the holder may specify a bank account complying with the requirements of Condition 6 to which payment is to be made under this Condition 7(4). Each Bond should be delivered together with all Coupons appertaining thereto maturing after the day (the **"Put Date"**) being the fifteenth day after the date of expiry of the Put Period, failing which the full amount of any such missing Coupon will be deducted from the amount due for payment. Each amount so deducted will be paid in the manner provided in Condition 6 against presentation and surrender (or, in the case of part payment only, endorsement) of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 8) in respect of the relevant Bond (whether or not the Coupon would otherwise have become void pursuant to Condition 13) or, if later, five years after the date on which the Coupon would have become due, but not thereafter. The Paying Agent to which such Bond and Put Notice are delivered shall issue to the Bondholder concerned a non-transferable receipt in respect of the Bond so delivered. Payment in respect of any Bond so delivered shall be made, if the holder duly specifies a bank account in the Put Notice to which payment is to be made, on the Put Date by transfer to that bank account and, in every other case, on or after the Put Date, in each case against presentation and surrender or (as the case may be) endorsement of such receipt at any specified office of any Paying Agent, subject in any such case as provided in Condition 6. A Put Notice, once given, shall be irrevocable. For the purposes of Conditions 13, 14, 15, 16, 17 and 18, receipts issued pursuant to this Condition 7(4) shall be treated as if they were Bonds and any payment made in accordance with this sub-paragraph (c) in respect of any such receipt shall, to the extent of such payment, be a good discharge to the Issuer. The Issuer shall redeem the relevant Bond on the applicable Put Date unless previously redeemed or purchased.
- (d) For the purposes of these Conditions:
- (i) a **"Put Event"** shall occur upon (A) any Person or any Persons acting in concert (as defined in the City Code on Takeovers and Mergers) (other than any Person(s) who (i) is/are (a) shareholder(s) of the Issuer on the date of the Trust Deed, (ii) is/are Controlled, directly or indirectly, by such (a) shareholder(s), (iii) at the date of the Trust Deed Control(s) such (a) shareholder(s) or (iv) is/are Controlled, directly or indirectly, by (a) Person(s) who at the date of the Trust Deed Control(s), directly or indirectly, such (a) shareholder(s) acquiring Control of the Issuer or (B) the consolidation or merger of the Issuer with or into another Person; and
- (ii) **"Control"** in relation to (A) a body corporate shall mean the right, by virtue of holding, directly or indirectly, shares in such body corporate or otherwise, to exercise or to control the exercise of more

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than 50 per cent. of the total voting rights conferred upon the holders of the entire issued share capital for the time being of that body corporate and each Subsidiary of such body corporate shall be treated as being under the control of such body corporate for these purposes and (B) a trust shall mean the right to appoint trustees having management control, whether by reason of their being entitled to exercise a majority of the voting rights in relation to such trust or otherwise, of that trust.

- (e) The Trustee is under no obligation to ascertain whether a Put Event or any event which could lead to the occurrence of or could constitute a Put Event has occurred and until it shall have actual knowledge or express notice pursuant to the Trust Deed to the contrary the Trustee may assume that no Put Event or other such event has occurred.
- (5) In the case of a partial redemption of Bonds pursuant to Condition 7(2), Bonds to be redeemed will be selected in such place as the Trustee may approve and in such manner as the Trustee shall deem to be appropriate and fair without involving any part only of a Bond, not more than 65 days before the date fixed for redemption. Each notice of redemption will specify the date fixed for redemption and, in the case of a partial redemption pursuant to Condition 7(2), the aggregate principal amount, and the serial numbers, of the Bonds to be redeemed, the serial numbers of Bonds previously called for redemption and not presented for payment (if any) and the aggregate principal amount of the Bonds which will be outstanding after the partial redemption.
- (6) The Issuer or any of its Subsidiaries may at any time purchase Bonds (provided that all unmatured Coupons appertaining to the Bonds are purchased with the Bonds and are attached thereto or surrendered therewith) in any manner and at any price. If purchases are made by tender, tenders must be available to all Bondholders alike.
- (7) All Bonds which are (a) redeemed or (b) purchased by or on behalf of the Issuer or any of its Subsidiaries will forthwith be cancelled, together with all relative unmatured Coupons attached to the Bonds or surrendered with the Bonds, and accordingly may not be reissued or resold.
- (8) Upon the expiry of any notice as is referred to in paragraph (2), (3) or (5) above, the Issuer shall be bound to redeem the Bonds to which the notice refers, subject to the provisions of Condition 7(4), at their principal amount or, where applicable, the Redemption Price applicable at the date of such redemption together with interest accrued to, but excluding, such date.

8. TAXATION

- (1) All payments in respect of the Bonds by the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("Taxes") imposed or levied by or on behalf of the United Kingdom, or any political sub-division of, or any authority in, or of, the United Kingdom having power to tax, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Bondholders and Couponholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Bonds or, as the case may be, Coupons in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Bond or Coupon:
 - (a) to, or to a third party on behalf of, a holder who is liable to the Taxes in respect of the Bond or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of the Bond or Coupon; or
 - (b) to, or to a third party on behalf of, a holder who would not be liable or subject to the withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority; or
 - (c) where such Bond or Coupon is presented for payment more than 30 days after the Relevant Date except to the extent that the holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming that day to have been a Presentation Date.
- (2) In these Conditions, "**Relevant Date**" means the date on which the payment first becomes due but, if the full amount of the money payable has not been received in London by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect shall have been duly given to the Bondholders by the Issuer in accordance with Condition 17.

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- (3) Any reference in these Conditions to any amounts in respect of the Bonds shall be deemed also to refer to any additional amounts which may be payable under this Condition or under any undertakings given in addition to, or in substitution for, this Condition pursuant to the Trust Deed.

9. SUBSTITUTION OF SECURITY

A Charging Company may (if it is a Charging Subsidiary, with the consent of the Issuer) subject to the approval of the Trustee withdraw all or any part of the specifically mortgaged premises charged by it (other than any of the Core Assets) upon any Charging Company (if it is a Charging Subsidiary, with the consent of the Issuer) or any other Eligible Subsidiary (with the consent of the Issuer) (in the case of an Eligible Subsidiary) giving a guarantee and creating a first floating charge as described in Condition 3(5) and (in any case) charging specifically in favour of the Trustee and to its satisfaction other eligible property and/or short gilts and/or charging or paying moneys to or in favour of the Trustee and to its satisfaction in each case as part of the specifically mortgaged premises provided that the Trustee shall be satisfied either:

- (1) (a) immediately prior to such substitution that the aggregate value of the specifically mortgaged premises is at least one and one-half times the aggregate principal amount of the Bonds and all (if any) Further Bonds for the time being outstanding; and (b) at the time of such substitution that the value of the eligible property and/or short gilts and/or moneys being substituted is at least equal to the value of the specifically mortgaged premises or part thereof being released; or
- (2) at the time of such substitution that the value of the eligible property and/or short gilts and/or moneys being substituted is at least one and one-half times the value of the specifically mortgaged premises or part thereof being released.

In the case of any substitution pursuant to paragraph (1) above any excess in the value of the eligible property and/or short gilts and/or moneys substituted over the value of the specifically mortgaged premises or part thereof being withdrawn shall (if the Issuer so requests) be taken into account in any subsequent substitution prior to the next valuation made under Condition 10.

10. VALUATION OF SECURITY AND WITHDRAWALS

- (1) (a) The Issuer shall, not earlier than the day next following the last day of each financial year of the Issuer, commencing with the financial year ending 30 June 1998, and not later than the thirtieth day after the date of publication of the preliminary announcement of its results in respect of each such financial year or, if earlier, the day which falls six calendar months after the last day of each such financial year, deliver to the Trustee a valuation of the specifically mortgaged premises as at the last day of such financial year and, if the Issuer shall fail so to provide such a valuation, the Trustee shall have the right but not the obligation as soon as reasonably practicable on behalf of the Issuer to instruct the Valuers to provide the same promptly at the expense of the Issuer, provided that only one such valuation shall be made under this sub-paragraph (a) in any financial year of the Issuer (whether made at the instance of the Issuer or the Trustee); and
- (b) the Issuer may at any time deliver to the Trustee a valuation of the specifically mortgaged premises.
- (2) If, as shown by any such valuation, the aggregate value of the specifically mortgaged premises shall be in excess of twice the aggregate principal amount of the Bonds and all (if any) Further Bonds outstanding on the date as at which such valuation was made (the "valuation date") any Charging Company may (if it is a Charging Subsidiary, with the consent of the Issuer) within six months (or such longer period as the Trustee may agree) after the valuation date and prior to the next valuation made under this Condition 10 withdraw eligible property (other than any of the Core Assets) and/or short gilts and/or moneys approved by the Trustee from the specifically mortgaged premises without substituting therefor other eligible property or short gilts or moneys, provided that the specifically mortgaged premises remaining immediately after such withdrawal shall have a value as shown by such valuation (or by a valuation as at such later date as the Trustee and the Issuer may agree) of not less than twice the aggregate principal amount of such Bonds and all (if any) Further Bonds.
- (3) If (a) as shown by any such valuation, the aggregate value of the specifically mortgaged premises shall be less than one and one-half times the aggregate principal amount of the Bonds and all (if any) Further Bonds outstanding on the relevant valuation date; (b) such valuation is made at any time after an earlier valuation also made under this Condition 10 but which earlier valuation showed that the aggregate value of the specifically

CONDITIONS OF THE BONDS

mortgaged premises was equal to or in excess of twice the aggregate principal amount of the Bonds and all (if any) Further Bonds outstanding on the valuation date of such earlier valuation; and (c) at any time subsequent to such earlier valuation eligible property was withdrawn from the specifically mortgaged premises pursuant to subparagraph (2) above, such deficiency below one and one-half times the aggregate principal amount of such Bonds and all (if any) Further Bonds shall within three months after the delivery of such valuation be made good by any Charging Company (if it is a Charging Subsidiary with the consent of the Issuer) or any other Eligible Subsidiary or other Subsidiary (in the latter case to which Condition 4(5) applies) (with the consent of the Issuer) (in the case of an Eligible Subsidiary or other Subsidiary) giving a guarantee and creating a first floating charge as described in Condition 3(5) and (in any case) charging specifically in favour of the Trustee and to its satisfaction other eligible property and/or short gilts and/or charging or paying moneys to or in favour of the Trustee and to its satisfaction in each case as part of the specifically mortgaged premises with a value as shown by a valuation as at such valuation date (or as at such later date as the Trustee and the Issuer may agree) not less than the amount of such deficiency.

- (4) If, pursuant to Condition 7, the Issuer shall redeem any of the Bonds or Further Bonds or the Issuer or any Subsidiary of the Issuer shall purchase any of the Bonds or Further Bonds and in each case such Bonds or Further Bonds shall have been cancelled, any Charging Company may (if it is a Charging Subsidiary, with the consent of the Issuer) within three months (or such longer period as the Trustee may agree) after the date of such redemption or purchase and cancellation and prior to the next valuation made under this Condition 10 withdraw eligible property (other than any of the Core Assets) and/or short gilts and/or moneys approved by the Trustee from the specifically mortgaged premises without substituting therefor other eligible property or short gilts or moneys provided that the value of the specifically mortgaged premises remaining immediately after such withdrawal, as shown by the latest valuation made under this Condition 10, shall be not less than twice the aggregate principal amount of the Bonds and all (if any) Further Bonds outstanding immediately after such withdrawal. The provisions of this sub-paragraph (4) are without prejudice to the provisions of sub-paragraph (2) above.

11. INSURANCE

The Trust Deed contains normal insurance covenants in respect of the specifically mortgaged premises save that moneys payable in respect of any claim for less than £500,000 shall be released to any relevant Charging Company and accordingly shall no longer form part of the specifically mortgaged premises.

12. RESTRICTIONS

Without the prior written consent of the Trustee:

- (1) no part of the equity of redemption of the specifically mortgaged premises shall be disposed of (which, for the avoidance of doubt, but without limitation to the generality of the foregoing, shall include the exercising or agreeing to exercise the statutory or other powers of granting or agreeing to grant, and accepting or agreeing to accept surrenders of, leases, tenancies, licenses or rights to occupy the properties comprised in the specifically mortgaged premises) except to a Charging Company and save that Chelsea Village Hotel Ltd may grant a residential long lease over each apartment contained in the Southern Complex (as defined in the Trust Deed) of the Stamford Bridge Site subject to the Residential Lease Proceeds forming part of the Assigned Moneys, Stamford Bridge Securities Ltd. and/or Fulham Securities Limited may grant leases over any or all of the apartments contained in Bovril Court and/or Stamford Gate (in each case as defined in the Trust Deed), in each case at the Stamford Bridge Site and Chelsea Football Club Limited may grant leases over spectator boxes in the West Stand Development (as defined in the Trust Deed) at the Stamford Bridge Site, all subject to and in accordance with the provisions of the Trust Deed; and
- (2) the Issuer shall not (i) permit any wholly-owned Subsidiary of the Issuer which is for the time being a Charging Company to cease to be a wholly-owned Subsidiary of the Issuer; or (ii) permit any Subsidiary of the Issuer which is for the time being a Charging Company to cease to be a Subsidiary of the Issuer; or (iii) cease to own at least 80 per cent. of the share capital of Bidgleam Limited.

13. PRESCRIPTION

Bonds and Coupons will become void unless presented for payment within periods of 10 years (in the case of principal and premium (if any)) and five years (in the case of interest) from the Relevant Date in respect of the Bonds or, as the case may be, the Coupons, subject to the provisions of Condition 6.

14. EVENTS ON WHICH SECURITY BECOMES ENFORCEABLE

The security constituted by the Trust Deed shall (subject as therein provided) become immediately enforceable in any of the following events (subject to the proviso below, "Events of Default"):

- (1) if default is made in the payment of any principal, premium (if any) or interest due in respect of the Bonds or any of them and the default continues for a period of 3 days in the case of principal or premium (if any) and 5 days in the case of interest; or
- (2) if the Issuer or any Charging Subsidiary fails to perform or observe any of its other obligations under these Conditions or the Trust Deed and (except in any case where the Trustee considers the failure to be incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days (or such longer period as the Trustee may permit) next following the service by the Trustee on the Issuer or, as the case may be, the relevant Charging Subsidiary of notice requiring the same to be remedied; or
- (3) if any Indebtedness of the Issuer or any Subsidiary of the Issuer becomes due and repayable prematurely by reason of an event of default (however described) or the Issuer or any Subsidiary of the Issuer fails to make any payment in respect of any Indebtedness on the due date for payment as extended by any applicable grace period or any security given by the Issuer or any Subsidiary of the Issuer for any Indebtedness becomes enforceable and steps are taken to enforce the same provided that no such event shall constitute an Event of Default unless the relative Indebtedness either alone or when aggregated with other Indebtedness relative to all (if any) other such events which shall have occurred and remain outstanding shall amount to at least £100,000 (or its equivalent in any other currency or currencies); or
- (4) if any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer or any Charging Subsidiary, save on terms approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders; or
- (5) if the Issuer or any Charging Subsidiary ceases or threatens to cease to carry on the whole or a substantial part of its business, save on terms approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders, or the Issuer or any Charging Subsidiary stops or threatens to stop payment of, or is unable to, or admits in writing its inability to, pay, its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or
- (6) if an encumbrancer takes possession of the whole or a material part of the undertaking or assets of the Issuer or any Charging Subsidiary or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or a material part of the undertaking or assets of any of them and is not discharged within 21 days; or
- (7) if (i) proceedings are initiated against the Issuer or any Charging Subsidiary under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, or an application is made for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or any Charging Subsidiary or, as the case may be, in relation to the whole or a material part of the undertaking or assets of any of them and (ii) in any case (other than an application for the appointment, or the appointment, of an administrator) is not discharged within 21 days; or
- (8) if the Issuer or any Charging Subsidiary initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws; or
- (9) if the Issuer or any Charging Subsidiary makes a general assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting

CONDITIONS OF THE BONDS

is convened by the Issuer or any Charging Subsidiary to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors); or

- (10) if there occurs, in relation to the Issuer or any Charging Subsidiary, in any country or territory in which it carries on business or to the jurisdiction of whose courts it or any of its property is subject any event which corresponds in that country or territory with any of those mentioned in paragraphs (2) to (9) inclusive above, provided that no such event, other than those described in sub-paragraphs (1), (4) (in the case of a winding up or dissolution of the Issuer) or (10) (in relation to any event having a corresponding effect to the winding up or dissolution of the Issuer), shall constitute an Event of Default unless and until the Trustee shall have certified to the Issuer that such event is in its opinion materially prejudicial to the interests of the Bondholders.

Upon the security constituted by the Trust Deed becoming immediately enforceable and the Trustee determining or becoming bound to enforce the same, the Bonds shall become immediately due and repayable at the Redemption Price referred to in Condition 7(2) (but as if the reference therein to the date of publication of the notice of redemption were a reference to the date upon which the Trustee so determines or becomes so bound), together with accrued interest.

15. ENFORCEMENT

- (1) Subject as provided in the Trust Deed, at any time after the security thereby constituted shall have become enforceable, the Trustee may, at its discretion and without further notice, take such proceedings as it may think fit to enforce the security and repayment of the Bonds at the Redemption Price together with any accrued interest, but it shall not be bound to take any such proceedings or any other action in relation to the Trust Deed, the Bonds or the Coupons unless (a) it shall have been so directed by an Extraordinary Resolution of the Bondholders or so requested in writing by the holders of at least one-fifth in principal amount of the Bonds then outstanding, and (b) it shall have been indemnified to its satisfaction.
- (2) No Bondholder or Couponholder shall be entitled to proceed directly against the Issuer or any Charging Subsidiary unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

16. REPLACEMENT OF BONDS AND COUPONS

Should any Bond or Coupon be lost, stolen, mutilated, defaced or destroyed, it may, subject to all applicable laws and stock exchange requirements, be replaced at the specified office of the Principal Paying Agent upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Bonds or Coupons must be surrendered before replacements will be issued.

17. NOTICES

All notices to the Bondholders will be valid if published in a leading English language daily newspaper published in London or such other English language daily newspaper with general circulation in Europe as the Trustee may approve. Any notice shall be deemed to have been given on the date of publication. It is expected that publication will normally be made in the *Financial Times*. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Bondholders in accordance with this Condition 17.

18. MEETINGS OF BONDHOLDERS, MODIFICATION, WAIVER AND AUTHORISATION

- (1) The Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of these Conditions or the provisions of the Trust Deed. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing a clear majority in principal amount of the Bonds for the time being outstanding, or at any adjourned such meeting one or more persons present whatever the principal amount of the Bonds held or represented by him or them, except that, at any meeting the business of which includes the modification of certain of the provisions of these Conditions and certain of the provisions of the Trust Deed, the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not

CONDITIONS OF THE BONDS

less than two-thirds, or at any adjourned such meeting not less than one-third, of the principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Bondholders will be binding on all Bondholders, whether or not they are present at the meeting, and on all Couponholders.

- (2) The Trustee may agree, without the consent of the Bondholders or Couponholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed, or determine, without any such consent as aforesaid, that any Event of Default or Potential Event of Default shall not be treated as such, which in any such case is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders or may agree, without any such consent as aforesaid, to any modification which is of a formal, minor or technical nature or to correct a manifest error.
- (3) In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Trustee shall have regard to the general interests of the Bondholders as a class but shall not have regard to any interests arising from circumstances particular to individual Bondholders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Bondholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Bondholder or Couponholder be entitled to claim from the Issuer, the Trustee or any other person, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders or Couponholders except to the extent already provided for in Condition 8 and/or any undertaking given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.
- (4) Any modification, waiver, authorisation or determination shall be binding on the Bondholders and the Couponholders and, unless the Trustee agrees otherwise, any modification shall be notified by the Issuer to the Bondholders as soon as practicable thereafter in accordance with Condition 17.

19. INDEMNIFICATION OF THE TRUSTEE AND ITS CONTRACTING WITH THE ISSUER

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified to its satisfaction.

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (1) to enter into business transactions with the Issuer and/or any of its Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any of its Subsidiaries, (2) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Bondholders or Couponholders, and (3) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

20. FURTHER ISSUES

The Issuer is at liberty from time to time without the consent of the Bondholders or Couponholders to create and issue further bonds (being Further Bonds) ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and so that the same shall be consolidated and form a single series with the Bonds provided that no Further Bonds may be created or issued unless the Trustee is satisfied that immediately thereafter the aggregate value of the specifically mortgaged premises will be not less than twice the aggregate principal amount of the Bonds and all Further Bonds then outstanding. Any Further Bonds shall be constituted by a deed supplemental to the Trust Deed. Any other securities (not being Further Bonds) may not be so constituted.

Upon any issue of Further Bonds being duly constituted in accordance with the provisions of the Trust Deed, the Further Bonds so constituted and all Further Bonds constituted by any supplemental deed previously executed and the Bonds and premium (if any) and the interest thereon shall thenceforth rank *pari passu* in point of security and shall be equally and rateably secured by and upon the specifically mortgaged premises.

21. GOVERNING LAW

The Trust Deed (including the Guarantee), the Bonds and the Coupons are governed by, and will be construed in accordance with, English law.

SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE REPRESENTED BY THE GLOBAL BONDS

The following is a summary of the provisions to be contained in the Trust Deed to constitute and secure the Bonds and in the Global Bonds which will apply to, and in some cases modify, the Conditions of the Bonds while the Bonds are represented by the Global Bonds.

1. Exchange

The Permanent Global Bond will be exchangeable in whole but not in part (free of charge to the holder) for definitive Bonds only (1) upon the happening of any of the events defined in the Trust Deed as "Events of Default", (2) if either Euroclear or Cedel Bank is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Trustee is available, or (3) if the Issuer would suffer a disadvantage as a result of a change in laws or regulations (taxation or otherwise) or as a result of a change in the practice of Euroclear and/or Cedel Bank which would not be suffered were the Bonds in definitive form and a certificate to such effect signed by two executive directors (one of whom shall be the Finance Director) of the Issuer is given to the Trustee. Thereupon (in the case of (1) and (2) above) the holder of the Permanent Global Bond (acting on the instructions of (an) Accountholder(s) (as defined below)) may give notice to the Issuer, and (in the case of (3) above) the Issuer may give notice to the Trustee and the Bondholders, of its intention to exchange the Permanent Global Bond for definitive Bonds on or after the Exchange Date (as defined below).

On or after the Exchange Date the holder of the Permanent Global Bond may or, in the case of (3) above, shall surrender the Permanent Global Bond to or to the order of the Principal Paying Agent. In exchange for the Permanent Global Bond the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated definitive Bonds (having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global Bond), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Trust Deed. On exchange of the Permanent Global Bond, the Issuer will procure that it is cancelled and, if the holder so requests, returned to the holder together with any relevant definitive Bonds.

"Exchange Date" means a day specified in the notice requiring exchange falling not less than 60 days after that on which such notice is given and on which banks are open for business in the city in which the specified office of the Principal Paying Agent is located and in the city in which the relevant clearing system is located.

2. Payments

On and after 27 January 1998, no payment will be made on the Temporary Global Bond unless exchange for an interest in the Permanent Global Bond is improperly withheld or refused. Payments of principal, premium and interest in respect of Bonds represented by a Global Bond will, subject as set out below, be made against presentation for endorsement and, if no further payment falls to be made in respect of the Bonds, surrender of such Global Bond to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Bondholders for such purposes. A record of each payment made will be endorsed on the appropriate part of the schedule to the relevant Global Bond by or on behalf of the Principal Paying Agent, which endorsement shall be *prima facie* evidence that such payment has been made in respect of the Bonds. Payments of interest on the Temporary Global Bond will be made only upon certification as to non-U.S. beneficial ownership unless such certification has already been made.

3. Notices

For so long as all of the Bonds are represented by one or both of the Global Bonds and such Global Bond(s) is/are held on behalf of Euroclear and/or Cedel Bank, notices to Bondholders may be given by delivery of the relevant notice to Euroclear and/or Cedel Bank (as the case may be) for communication to the relative Accountholders rather than by publication as required by Condition 17 provided that, so long as the Bonds are listed on the London Stock Exchange, the London Stock Exchange so agrees. Any such notice shall be deemed to have been given to the Bondholders on the seventh day after the day on which such notice is delivered to Euroclear and/or Cedel Bank (as the case may be) as aforesaid.

4. Accountholders

For so long as all of the Bonds are represented by one or both of the Global Bonds and such Global Bond(s) is/are held on behalf of Euroclear and/or Cedel Bank, each person who is for the time being shown in the records

SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE REPRESENTED BY THE GLOBAL BONDS

of Euroclear or Cedel Bank as the holder of a particular principal amount of such Bonds (each an "Accountholder") (in which regard any certificate or other document issued by Euroclear or Cedel Bank as to the principal amount of such Bonds standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of such principal amount of such Bonds for all purposes (including for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Bondholders) other than with respect to the payment of principal, premium and interest on such Bonds, the right to which shall be vested, as against the Issuer, the Charging Subsidiaries and the Trustee, solely in the bearer of the relevant Global Bond in accordance with and subject to its terms and the terms of the Trust Deed. Each Accountholder must look solely to Euroclear or Cedel Bank, as the case may be, for its share of each payment made to the bearer of the relevant Global Bond.

5. Prescription

Claims against the Issuer and the Charging Subsidiaries in respect of principal or premium and interest on the Bonds represented by a Global Bond will be prescribed after 10 years (in the case of principal and premium) and five years (in the case of interest) from the Relevant Date (as defined in Condition 8).

6. Cancellation

Cancellation of any Bond represented by a Global Bond and required by the Conditions of the Bonds to be cancelled following its redemption or purchase will be effected by endorsement by or on behalf of the Principal Paying Agent of the reduction in the principal amount of the relevant Global Bond on the relevant part of the schedule thereto.

7. Put Option

For so long as all of the Bonds are represented by one or both of the Global Bonds and such Global Bond(s) is/are held on behalf of Euroclear and/or Cedel Bank, the option of the Bondholders provided for in Condition 7(4) may be exercised by the Accountholders giving a duly completed Put Event Notice in the form obtainable from the specified office of any of the Paying Agents to the Principal Paying Agent of the principal amount of the Bonds in respect of which such option is exercised and at the same time presenting or procuring the presentation of the relevant Global Bond to the Principal Paying Agent for notation accordingly within the time limits set forth in that Condition. Whilst the Bonds are represented by one or both of the Global Bonds and such Global Bond(s) is/are held on behalf of Euroclear and/or Cedel Bank, Put Event Notices shall be given in accordance with the standard procedures of Euroclear and/or Cedel Bank.

8. Call Option

For so long as all of the Bonds are represented by one or both of the Global Bonds and such Global Bond(s) is/are held on behalf of Euroclear and/or Cedel Bank, no drawing of Bonds will be required under Condition 7(5) in the event that the Issuer exercises its call option pursuant to Condition 7(2) in respect of less than the aggregate principal amount of the Bonds outstanding at such time. In such event, the standard procedures of Euroclear and/or Cedel Bank shall operate to determine which interests in the Global Bond(s) are to be subject to such option.

9. Euroclear and Cedel Bank

References therein to Euroclear and/or Cedel Bank shall be deemed to include references to any other clearing system approved by the Trustee.

USE OF PROCEEDS

The net proceeds from the issue of the Bonds, which are expected to amount to approximately £73,065,000, will be used:

- (a) as to between £29,456,000 and £29,600,000, to repay existing debt of the Group;
- (b) as to between £11,754,000 million and £11,800,000, to assist in the acquisition of the freehold and long leasehold interest in the Site (as defined on page 36); and
- (c) as to the remainder to assist in the completion of the development of the Site.

VALUATION CERTIFICATE

The Valuation Certificate received from Chesterston plc, external Valuers & Surveyors, is reproduced below:



The Directors
Chelsea Village plc
Stamford Bridge
Fulham Road
London
SW6 1HS

Swiss Bank Corporation
1 High Timber St
London
EC4V 3SB

The Directors
The Law Debenture
Trust Corporation p.l.c.
Princes House
95 Gresham Street
London
EC2V 7LY

International Property Consultants
54 Brook Street London W1A 2BU
DX 9014 West End 1

MeesPierson Securities (UK) Limited
Camomile Court
23 Camomile Street
London
EC3A 7PP

9 December 1997

Dear Sirs

ASSETS OF CHELSEA VILLAGE PLC AND ITS SUBSIDIARIES AT STAMFORD BRIDGE FOOTBALL GROUND, LONDON SW6 (THE "PROPERTY") — VALUATION IN CONNECTION WITH £75,000,000 FIRST MORTGAGE DEBENTURE BONDS DUE 2007 (THE "BONDS")

In accordance with instructions we have received from Chelsea Village plc, we have inspected the Property, made our usual enquiries and report as follows:—

1.0 INSTRUCTIONS

- 1.1 In accordance with your instructions acting as External Valuers we have inspected the Property, and made all necessary enquiries and have prepared this Valuation Certificate which you have advised us is required in connection with the issue of the Bonds to be secured on, *inter alia*, the Property.
- 1.2 The Property will be held freehold by Chelsea Village plc, except for the Main Stadium which will be held leasehold for a term of 199 years from 17th December 1997.
- 1.3 The Property has been inspected on a number of occasions in 1996/7 and was reinspected on 31st October 1997 for the purpose of preparing this valuation. The valuations attributable to the Property are set out in the attached schedule; the date of valuation is 9th December 1997.
- 1.4 We are of the opinion that the amalgamated value of the assets comprising the Property as set out in the attached schedule, as at 9th December 1997, on the basis of existing use to the Chelsea Village plc group companies, calculated on the basis of OMV, EUV and DRC (as appropriate for each property) is in the order of:—

£90,244,500

(Ninety Million Two Hundred and Forty Four Thousand Five Hundred Pounds)

(Paragraph 3 of this Valuation Certificate explains the bases of Valuation which we have used and which we consider appropriate and sets out the definitions of OMV, EUV and DRC.)

- 1.5 We have seen plans showing developments in progress and proposed developments for the Stadium, Hotel Annex, Southern Complex (comprising the Chelsea Village Hotel and the Apartments), Stamford Gate and a Sports and Leisure Centre. Quantity Surveyors and Architects estimate that to complete these developments will cost in the order of £55,338,000, including a market allowance for professional fees and interest. Due to the Group's existing involvement with the properties, there should be cost savings to be made on our figures above if the developments are undertaken by group companies, due to different finance arrangements.

VALUATION CERTIFICATE

- 1.6 On completion of all the proposals, we are of the opinion that the existing use value to the Chelsea Village plc group companies of the Property, calculated on the basis of OMV, EUV and DRC (as appropriate) is in the order of:-

£147,936,500

**(One Hundred and Forty Seven Million Nine Hundred
and Thirty Six Thousand Five Hundred Pounds)**

- 1.7 Of the above values, certain properties are being constructed with a view to direct sales; these are mostly residential apartments in the Southern Complex at Bovril Court and at Stamford Gate. The net monies realised by the sales (on completion and after non-recoverable costs have been deducted) is likely to be in the order of £12,057,500.

- 1.8 We are of the opinion that the amalgamated value (on the basis mentioned in paragraph 1.6) of the remaining assets set out in the attached schedule, assuming all development works are complete, and the apartments have been sold in accordance with the plans, is in the order of:-

£135,879,000

**(One Hundred and Thirty Five Million Eight Hundred
and Seventy Nine Thousand Pounds)**

- 1.9 The figure mentioned in paragraph 1.8 represents the existing use value of those parts of the Property remaining subject to security for the Bonds after the sales mentioned in paragraph 1.7 have been completed, on completion of the development. The figures are expressed in terms of today's value and include no allowance for inflation or market fluctuations. Some of the proposals do not have detailed planning consent at present, and there is, therefore, a degree of risk that the precise proposed developments may not proceed.

- 1.10 We have been provided with the Directors' financial projections for the development of the Property and have considered these with a view to providing a valuation of the Property fully equipped as an operational entity and valued having regard to trading potential. This is only applicable to the trading assets of the group companies. In valuing to EUV (above) we have had regard to trading potential, where appropriate, and therefore the only major change on this basis is the value of the Main Stadium. We are of the opinion that the OMV of the amalgamated assets of the group companies, valued either as investment properties, or fully equipped as operational entities and valued having regard to their trading potential, on the assumption that all developments are completed and trading as predicted as at 30th November 1997, is in the order of:-

£158,684,000

**(One Hundred and Fifty Eight Million Six Hundred
and Eighty Four Thousand Pounds)**

- 1.11 Because of the restrictions contained in the lease of the Main Stadium there is no alternative use value to the Main Stadium.

2.0 VARIANCE FROM YEAR END VALUATIONS

- 2.1 The various property assets of the Chelsea Village plc group companies were valued as at 30th June 1997 by Chesterton, excepting for the residential properties on Fulham Road and the site on which the Sports and Leisure Centre is to be developed, which were valued by Messrs Rawley and Company. The amalgamated value reported (on a leasehold basis) as at 30th June 1997 was £56,595,500. The value on a freehold equivalent basis as at 30th June 1997 would have been £69,095,500.

As at 9th December 1997, all of the properties have been valued by Chesterton, with the amalgamated value being some £90,244,500; this represents an increase of some 31% when compared to the equivalent freehold value as at 30th June 1997. This is explained as follows:-

- a) Build Price Indices — In the five months from June 1997, tenders for commercial building have increased and hence, in analysing the depreciated replacement cost of assets, there has been a slight uplift in values, causing the existing assets to be worth £807,000 (3.5%) more, as constructing alternative replacements would cost considerably more.

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- b) Monies Expended — The south stand and Southern Complex are due for a phased completion between December 1997 and February 1998 and, therefore, these last five months have been periods of intense draw down of development finance. Considerable additional sums have been expended on these developments, and the assets are now considerably nearer completion. The Southern Complex has increased its value by £5,230,000. The CFC offices, ticket office, the south stand and improvements to the East Stand give an overall enhancement of value of a further £8,055,000.
- c) As at June 1997, only the enabling works of the west stand had been undertaken, whereas by 30th November, 6,800 seats of the lower tier had been installed and were available for match days. This has enhanced the value by £5,081,000.
- d) The site of the proposed hotel annex has increased with its new proposed use, as at the year end it was valued as a site for proposed office development. The new use leaves the site £535,000 more valuable.
- e) There has been a £10,000 enhancement in the open market value with 469 and 471 Fulham Road, in line with market movements, and a £350,000 enhancement in Walsingham Mansions, following Chelsea Village plc group companies gaining possession of units previously let on regulated tenancies, and granting more assured shorthold tenancies at market rent.
- f) The Bovril Court development at Bovril Gate has been completed; at the year end, this was held as work in progress, and therefore this appears as a new asset at £1,336,500.

3.0 BASIS OF VALUATION AND VALUATION ASSUMPTIONS

- 3.1 Our valuations have been carried out in accordance with the Practice Statements and Guidance Notes set out in the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors (September 1995, as amended).
- 3.2 We have valued the various parts of the Property on two bases. First we have valued them on the following basis:-
 - (i) The Main Stadium has been valued on the basis of its Depreciated Replacement Cost, as it comprises a large and unusual type of property, which would rarely, if ever, be sold in the open market, except as part of the existing undertaking. We have therefore assessed the value of the land in its existing use, and added to this the gross replacement cost of the buildings and other site works, from which appropriate deductions have been made to allow for the age, condition, economic and functional obsolescence and environmental and other factors, which may result in the existing property being worth less than any replacement.
 - (ii) The stadium properties under construction as at the date of valuation have been valued on a Depreciated Replacement Cost basis although, as they are not completed, we have merely taken the value for the land in its existing use and added to it the costs of works undertaken to date. It has, however, been confirmed that the costs of works undertaken do not exceed their ultimate end value.
 - (iii) The owner occupied properties have been valued on the basis of their Existing Use Value to the Chelsea Village plc group companies. These properties include:-
 - The car park
 - The site for future hotel annex (upper deck of car park)
 - The Chelsea Megastore
 - The sports and leisure complex site
 - (iv) Certain properties are held as investments and these have been valued to open market value. These include:-
 - Stamford Gate, 392-400 Fulham Road (under construction)
 - 469 Fulham Road
 - 471 Fulham Road
 - Walsingham Mansions, Fulham Road
 - Bovril Court, Bovril Gate, Fulham Road

In addition to the above, we have considered Architects' drawings, Quantity Surveyors' estimates and projections for certain developments, to analyse the likely value of the Property on completion of the development proposals.

VALUATION CERTIFICATE

We have derived valuations in today's terms (no allowance has been made for inflation or fluctuations in the Property market), on the assumption that the developments have been completed in accordance with the plans.

(There is a summary of our valuations on the above basis after the Schedule to this Valuation Certification)

- 3.3 Secondly we have valued the Property on the basis of Open Market Value but fully equipped as operational entities and having regard to trading potential. In this regard, we have been provided with copies of the Directors five year plan for the Property and other information contained within the circular.
- 3.4 The definitions of the various valuation bases adopted are as follows:-

Open Market Value (OMV)

Practice Statement 4.2 of the Appraisal and Valuation Manual defines Open Market Value as "an opinion of the best price at which the sale of an interest in the Property would have been completed unconditionally for cash consideration on the date of valuation, assuming:

- a) a willing seller;
- b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the Property and the state of the market) for the proper marketing of the interest, for the agreement of the price and terms and for the completion of the sale;
- c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and
- e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion".

Existing Use Value (EUV)

Practice Statement 4.3 of the Appraisal and Valuation Manual defines Existing Use Value as Open Market Value (above), with the additional provisos:—

- f) the Property can be used for the foreseeable future only for the existing use; and
- g) that vacant possession is provided on completion of the sale of all parts of the Property occupied by the business.

In valuing the Property as a going concern, we have had due regard to Guidance Note 7 of the Manual and the valuation of Property fully equipped as an operational entity and valued having regard to its trading potential; this includes the land and buildings, the trade fixtures, fittings, furniture, furnishings and equipment. It also includes the market's perception of the trading goodwill, together with an assumed ability to renew existing licences, consents, certificates and permits.

Depreciated Replacement Cost (DRC)

Practice Statement 4.8 of the Appraisal and Valuation Manual defines Depreciated Replacement Cost as "the aggregate amount of the value of the land for the existing use or a notional replacement site in the same locality, and the gross replacement cost of the buildings and other site works, from which appropriate deductions may then be made to allow for the age, condition, economic or functional obsolescence, environmental and other relevant factors; all of these might result in the existing property being worth less than the undertaking in occupation than would a new replacement".

- 3.5 In preparing the Valuation and Certificate, the following assumptions have been made:
- a) that, following due diligence, all information provided to us by Chelsea Village plc, and/or its professional advisors or any other named party, upon which we have relied, is complete and correct;
 - b) that the Property complies with all relevant Statutory Requirements (including but not limited to Fire Regulations, Bye-Laws and Health and Safety at Work). That all necessary licences, certificates and orders have been obtained in order to conduct the business and would be available to transfer to a purchaser;
 - c) that the Property has been constructed, and is occupied, in accordance with valid Town Planning Consents and Buildings Regulations Approvals, and that it complies with any other relevant Statutory and Bye-Law

VALUATION CERTIFICATE

requirements and that there are no outstanding Statutory or other notices in connection with the Property or its current use (we have made informal enquiries of the planning authority which have confirmed that the Property has planning permissions for its existing uses and that there exists planning permissions for the development of those areas of the Property which are in the course of development but we have not seen those consents. In addition, Chelsea Village plc confirmed to us at the time of our last inspection that there were no material outstanding notices relating to contravention of statutory requirements); and

- d) that the presence of high alumina cement, calcium chloride additive, blue asbestos or any other deleterious or hazardous material has not been determined and our valuations have been arrived at on the basis that these materials have not been used in the construction of any of the buildings.
- 3.6 No structural surveys have been carried out by Chesterton, nor have we tested any services nor inspected roof voids, woodwork or any parts of the structures which are covered, unexposed or inaccessible, and, in the absence of information to the contrary, such parts have been assumed to be in good repair and condition and the services are assumed to be in full working order. Any obvious defects or items of disrepair have been taken into account, but we will not be able to give any assurance that any Property is free from defect.
- 3.7 We have not carried out nor commissioned a site investigation or geographical or geophysical survey and, therefore, are not able to give any opinion or assurance or guarantee that the ground has sufficient load bearing strength to support any of the existing constructions or any other constructions that may be erected in the future. We also cannot give any opinion or assurance or guarantee that there are no underground mineral or other workings beneath the site or in its vicinity nor that there is any fault or disability underground including, but not limited to, any contamination which could or might affect the Property or any construction thereon.
- 3.8 In respect of contamination and environmental factors, we have not been provided with details of the contents of any environmental audit or other environmental investigation or soil survey which may have been carried out on the Property and which may draw attention to any contamination or the possibility of any such contamination. Therefore, in undertaking our work, we have assumed that no contaminative or potentially contaminative uses have ever been carried out in the Property.
- 3.9 We have not carried out any investigation into past or present uses, either of the Property or of any neighbouring land, to establish whether there is any contamination or potential for contamination to the Property from these uses or sites, and in the absence of information to the contrary, we have assumed that none exists. Should it be established subsequently that contamination, seepage or pollution exists at the Property or on any neighbouring land, or that the Property has been or is being put to a contaminative use, this might reduce the values set out in our Valuation Certificate.
- 3.10 No account has been taken of any liability for taxation which may arise upon the disposal of the Property, nor have we deducted the likely costs of such disposal. However, normal purchasers' costs are reflected in our valuations.
- 3.11 We have not examined the title documents but we have seen and considered a report on title prepared by Allen & Overy and a copy of the lease of the Main Stadium and, except as disclosed by those documents, we have assumed that the Property is not subject to any onerous covenants, restrictions, onerous planning conditions or any adverse matters which would be revealed by a local authority search.
- 3.12 Our valuations assume the continued occupation and use of the Property by Chelsea Village plc group companies in accordance with your specific instructions.
- 3.13 The values of the various parts of Property are set out in the schedule attached. At the end of the Schedule there is a summary of our valuations.
- 3.14 Neither the whole nor any part of this valuation nor any reference thereto may be included in any published document, circular or statement nor published in any way without our previous written consent as to the form and context in which it may appear.

Yours faithfully,

Chesterton plc

VALUATION CERTIFICATE

A. Property owner-occupied for the purposes of the business and valued to open market value for existing use

Property	Description, Age & Tenure	Existing Use Value 30 November 1997
Car Park.....	The underground car park, constructed at basement level only, of reinforced concrete frame, also provides the structural foundation for the proposed Hotel Annex above. The car park, which provides 234 car parking spaces, was completed in 1996 and is traded on a commercial basis. Turnover has recently substantially picked up, and it is envisaged that this will be further enhanced on completion of the hotel and residential blocks. Freehold.	£3,990,000
Chelsea Megastore.....	This comprises a 11,407 sq ft (1,060 sq m) unit, constructed to the rear of the south stand to a high standard. The shop, which is of framed construction, is set out on ground and a single upper floor, with a large glazed display window to the front. The shop is occupied by the club and used for retailing merchandise. It was completed in July 1997. Freehold.	£4,190,000

B. Properties held as investments

Property	Description, Age & Tenure	Terms of Existing Tenancies	Estimated ¹ Net Annual Rents Receivable	Open Market Value 30 November 1997
Walsingham Mansions Fulham Road London SW6.....	Purpose built mansion block, dating from the turn of the Century, comprising 14, three bedroom flats, each with a kitchen/breakfast room, reception room and bathroom. The properties are fully fitted and decorated to a reasonable standard. Freehold.	Flat 11 is let on a regulated tenancy at a rent of £420 pcm, with flat 14 being let on a regulated tenancy, which is in dispute. The remainder are let on assured shorthold tenancies, on renewable bases at an amalgamated rent of £11,814.70 pcm; flats 2 and 3 are currently being refurbished and will shortly be available for letting, which will enhance the gross rents receivable by circa £3,000 pcm.	£125,000	£1,750,000
469 Fulham Road London SW6.....	Victorian terraced property, comprising a ground and lower ground floor at retail unit with residential upper parts. The lower ground and ground floor retail unit has been fully fitted to a reasonable standard by the tenant; the upper parts have been sold off on a long lease. Freehold.	The retail unit is let for a term expiring October 2002 on full repairing and insuring terms at a rent of £9,000 per annum exclusive, subject to a single review with mutual break option in October 1999. The upper parts are held on a 99 year lease from June 1995 at a ground rent of £120 per annum, doubling every 33 years.	£9,120	£85,000
471 Fulham Road London SW6.....	The property comprises a terraced, Victorian building, set out with a retail unit on ground and basement floors, with three floors of residential accommodation above; the third floor is a more recent mansarded addition at roof level. The property is fully fitted, commensurate with other buildings in the area, with the shop being occupied by an associated group company. Freehold.	The shop on ground floor and lower ground levels is let to an associated group company on a renewal licence agreement, at a rent of £9,000 per annum. It is utilised by agents as a sales office for the residential development opposite. The upper parts are let to four individuals on an assured shorthold tenancy for a period of 6 months from 1 September 1997 at a rent of some £1,387 pcm.	£24,000	£255,000

VALUATION CERTIFICATE

Property	Description, Age & Tenure	Terms of Existing Tenancies	Estimated ¹ Net Annual Rents Receivable	Open Market Value 30 November 1997
Bovril Court, Bovril Gate, Fulham Road, London SW6.....	Newly built block of eight residential units, adjacent to the Bovril Gate of the Club. Each of the units comprises two bedrooms, two bathrooms, reception room and kitchen and are finished to a good standard. Practical completion is due imminently. Freehold.	Contracts have been exchanged to sell six of the eight units, with a further two being reserved. All of the sales are on 99 year ground leases at fixed rents of £100 per annum. The landlord insures the property and recovers the sums from the tenants.	£800	£11,500

1 Estimated costs of non recoverable outgoings have been deducted

C. Freehold properties in the course of development

Property	Description, Age and Tenure	Open Market Value when Complete	Estimated Completion Date	Estimated Costs of Completing Development	Existing Use Value 30 November 1997
The Southern Complex (Chelsea Village Hotel and Apartments)	Freehold, situated to the rear of the south stand, the Southern Complex is currently under construction (for which planning consent has been obtained) and will comprise:- <i>Hotel and Restaurant Building</i> — This comprises a 160 bed three star hotel with ancillary areas and circa 15,000 sq ft of restaurant accommodation, giving 4 licensed restaurants. <i>Residential Accommodation</i> — Situated adjacent to and on top of the hotel and currently under construction, this comprises 34 one bedroom flats and 4 three bedroom penthouses. At the date of valuation, contracts had been exchanged to sell 26 of these units, with a further 8 being reserved and only 4 still available. Sales are on long leases at nominal ground rents and occupation will be at the completion date. Total	£18,510,000 (retained security) £9,020,000 (monies realised) £27,530,000	December 1997 to February 1998 January 1998	£6,125,000 (together)	£20,875,000 (together)
Stamford Gate 392-400 Fulham Road London SW6.....	Previously a terrace of shops with residential upper parts, demolition is underway with a view to redeveloping 8 flats, with a retail unit of circa 2,560 sq ft (238 sq m) on basement and ground floors for which planning consent was obtained on 31/3/95. The property has a fairly innovative semi circular design, leaving the retail unit prominent and good natural light into the flats above. The flats will be sold on long leases at nominal ground rents and it is estimated that they will all be sold by the estimated completion date and occupation will occur then. The retail unit will be let but it is anticipated that it will be pre-let and occupation will occur on the estimated	£577,500 (retained security) £1,712,500 (monies realised)	August 1998	£1,206,000	£975,000

VALUATION CERTIFICATE

Property	Description, Age and Tenure	Open Market Value when Complete	Estimated Completion Date	Estimated Costs of Completing Development	Existing Use Value 30 November 1997
	completion date and that has been assumed in our "Open Market Value When Complete".				
	Total	£2,290,000			

D. Property Held for Future Development

Property	Description, Age and Tenure	Existing Use Value 30 November 1997
Hotel Annex.....	<p>Located above the underground car park, the site currently has planning consent for an office development. There are proposals to construct a new building, a similar specification as the main hotel, to provide 142 additional bedrooms with a 1,900 sq ft (177 sq m) restaurant. The car park beneath provides the structural support for the property and, therefore, when construction starts, it is likely to be quicker and cheaper than for a comparable property. Detailed planning permission is required for this proposed development and this has not been applied for but a planning permission for an office development on this site was granted on 31/3/95.</p> <p>Freehold.</p> <p>Chelsea Village plc aims to commence this development as soon as possible but it is difficult to give a meaningful estimate of when development will commence, the development period at this stage.</p>	£835,000
Sports and Leisure Centre....	<p>Currently proposed as "The Chelsea Club", the sports and leisure centre site lies to the north end of the ground, in an area currently utilised for surface car parking. The proposed building is some 75,000 sq ft (6,968 sq m) and accommodates a swimming pool, three aerobic studios, a crèche, two main exercise halls, health and beauty and treatment rooms, three paddle tennis courts and four indoor tennis courts, with a running track, climbing wall, changing areas and bars and ancillary areas etc. Beneath the club will be a museum. Planning permission has been obtained on 2/4/90 for a 55,000 sq ft (5,110 sq m) development of this type but detailed planning permission is required for the current proposed development.</p> <p>Freehold.</p> <p>It is not possible to state when the development will commence, the likely development period at this stage.</p>	£1,300,000

E. Property owner-occupied for the purposes of the business and valued on the basis of depreciated replacement cost

Property	Description, Age and Tenure	Existing Use Value when Complete	Estimated Completion Date	Estimated Costs of Completing Development	Existing Use Value 30 November 1997
Main Stadium	<p>This comprises the main stadium of Chelsea Football Club, together with the north, south, east and west stands. The north stand was extended last season with the north west wrap around, giving the ground a capacity of some 30,820 at the end of the last season. The south stand has just been redeveloped and reopened at the start of this season with a capacity of some 6,510, although finishing works are taking place. The old west stand (previous capacity 8,710) has been removed in its entirety and is also the subject of current redevelopment; this will have a phased opening, with 6,800 seats currently ready in the lower tier, giving the ground an existing capacity of circa 34,800. This will increase</p>				

VALUATION CERTIFICATE

Property	Description, Age and Tenure	Existing Use Value when Complete	Estimated Completion Date	Estimated Costs of Completing Development	Existing Use Value 30 November 1997
	to 42,110 on completion of the West Stand. Behind the stands, the property includes a variety of ancillary offices, club bars and other areas, which are fully fitted to a good specification; these areas are being considerably extended and greater provision made in the new south and west stands. The east stand dates from the mid 1970s, with the north stand having been completed in 1995 and the north west wraparound in 1996. The total area extends to some 8¾ acres (3.54 hectares). The main stadium is leasehold for a term of 199 years from 17 December 1997 at a fixed, peppercorn rent. The lease is a full repairing lease and the tenant is responsible for insuring the buildings. The lease permits use as a football stadium and ancillary uses only. If Chelsea Football Club ceases to play association football the landlord can call for the surrender of the lease. Chelsea Football Club are not permitted to assign the lease. The objectives of this agreement from both parties is to ensure the continuance of football at the pitch.				
	Existing east stand, north stand, north west wraparound and improvements to east stand and entire stadium site	£31,956,000	Completed	Nil	£31,956,000
	South Stand	£13,072,000	December 1997	£840,000	£12,232,000
	CFC Offices	£3,666,000	February 1998	£236,000	£3,430,000
	Ticket Office	£438,000	December 1997	£28,000	£410,000
	West Stand Phase 1	£9,563,000	March 1998	£2,938,000	£6,625,000
	West Stand Phase 2	£23,500,000	May 1999	£23,500,000	Nil
	TOTAL	£82,195,000		£27,542,000	£54,653,000

VALUATION CERTIFICATE

Summary of Valuations

							OMV as a Going Concern, valued with regard to trading potential
	Basis of Valuation	Current figures 30/11/1997	Cost to complete as at 30/11/97	Value on completion in today's terms	Net Monies Realised by sales (after costs)	Ultimate Retained Security	
Leasehold Property							
Stadium & Land	DRC	£ 31,956,000		£ 31,956,000		£ 31,956,000	
South Stand	DRC	£ 12,232,000	£ 840,000	£ 13,072,000		£ 13,072,000	
CFC Offices	DRC	£ 3,430,000	£ 236,000	£ 3,666,000		£ 3,666,000	
Ticket Office	DRC	£ 410,000	£ 28,000	£ 438,000		£ 438,000	
West Stand I	DRC	£ 6,625,000	£ 2,938,000	£ 9,563,000		£ 9,563,000	
West Stand II	DRC		£ 23,500,000	£ 23,500,000		£ 23,500,000	
Total Leasehold Stadium	DRC	£ 54,653,000	£ 27,542,000	£ 82,195,000		£ 82,195,000	£105,000,000
Freehold Property							
Car Park	EUV	£ 3,990,000		£ 3,990,000		£ 3,990,000	£ 3,990,000
Chelsea Megastore	EUV	£ 4,190,000		£ 4,190,000		£ 4,190,000	£ 4,190,000
Hotel Annex	EUV	£ 835,000	£ 10,495,000	£ 12,000,000		£ 12,000,000	£ 12,000,000
Southern Complex	EUV	£ 20,875,000	£ 6,125,000	£ 27,530,000	£ 9,020,000	£ 18,510,000	£ 18,510,000
Stamford Gate, 392-400 Fulham Rd	OMV	£ 975,000	£ 1,206,000	£ 2,290,000	£ 1,712,500	£ 577,500	£ 577,500
469 Fulham Rd	OMV	£ 85,000		£ 85,000		£ 85,000	£ 85,000
471 Fulham Rd	OMV	£ 255,000		£ 255,000		£ 255,000	£ 255,000
Walsingham Mansions	OMV	£ 1,750,000		£ 1,750,000		£ 1,750,000	£ 1,750,000
Bovril Court, Bovril Gate	OMV	£ 1,336,500		£ 1,336,500	£ 1,325,000	£ 11,500	£ 11,500
Sports & Leisure and Museum	EUV	£ 1,300,000	£ 9,970,000	£ 12,315,000		£ 12,315,000	£ 12,315,000
Total Freehold		£ 35,591,500	£ 27,796,000	£ 65,741,500	£ 12,057,500	£ 53,684,000	£ 53,684,000
Overall Total		£ 90,244,500	£ 55,338,000	£147,936,500	£ 12,057,500	£135,879,000	£158,684,000

Notes:

The bases of valuation are defined in paragraph 2.3 of this certificate

The above summary must be read in conjunction with the supplementary documentation provided in this certificate

For net monies realised, estimated non-recoverable costs have been deducted

The sports & leisure complex and hotel annex are subject to being granted detailed planning consent

The values will not necessarily add up across the page due to interest payments and the time value of money

The costs to complete include interest payments, professional fees and carrying costs

The OMV as a going concern assumes the developments are completed and trading as predicted as at the date of valuation

CHELSEA VILLAGE PLC

INTRODUCTION

The Issuer was incorporated on 3 September 1990 under registration number 2536231. It is the holding company for a group of companies (the "Group") with diverse leisure interests centred around a leading professional football club, Chelsea Football Club Limited (the "Club"), the holding company of which is Chelsea Limited. Apart from professional football, the Group's interests and activities encompass merchandising/retailing, catering, corporate hospitality, media and communications, publishing, hotel and restaurant businesses, travel, property and various other football related activities. The ordinary shares of the Issuer are listed on the Alternative Investment Market ("AIM") of the London Stock Exchange.

The Issuer conducts the majority of its business at the Stamford Bridge site (the "Site"), which comprises 12.5 acres located approximately 1.5 miles from Harrods and Hyde Park on London's Fulham Road. The Site represents one of the largest and most valuable sites for football grounds in the UK. Since the Issuer obtained security of tenure in the Site in 1992, a substantial redevelopment programme has been initiated to transform the Site from a football ground to a leisure village.

The following table sets out selected financial highlights of the Group over the last four financial years:

	Year ended 30 June 1994	Year ended 30 June 1995	Year ended 30 June 1996	Year ended 30 June 1997
	(£ millions)	(£ millions)	(£ millions)	(£ millions)
Total Revenues	10.4	13.2	15.9	23.7
Gross Profit	5.1	6.8	5.4	8.1
Operating Profit ¹	1.6	2.5	(0.3)	1.5
Tangible Fixed Assets	20.1	28.2	36.6	62.4
Net Worth	15.1 ²	16.4 ²	21.7	47.9

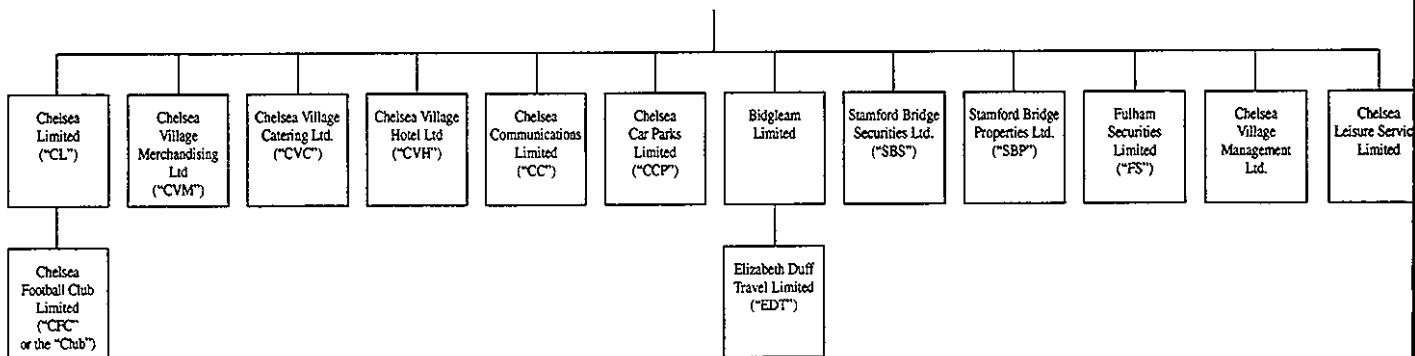
1 Operating profit before transfer fees after net interest.

2 As restated after prior year adjustment dealt with in the audited consolidated accounts for the year ended 30 June 1996.

GROUP STRUCTURE

The following chart shows the material subsidiaries of the Group. The Group also has a number of other dormant subsidiaries which are not shown:

CHELSEA VILLAGE plc ("the Issuer")



Other than Bidgleam Limited, which is 80 per cent. owned, each subsidiary is 100 per cent. owned by the Issuer. Bidgleam Limited owns 100 per cent. of EDT.

HISTORY

The Club has been playing football at Stamford Bridge stadium (the "Stadium") since 1905. CFC has played in the top English professional football division for 63 of its 83 seasons, was a founder member of the Premier League in 1993 and has played in the Premier League in every season since its inception. In the 1996/97 season, CFC had one of its more successful campaigns, winning the FA Cup and finishing sixth in the Premier League.

In the early years of the Club's history, additional stadium capacity grew rapidly to reflect a growing CFC supporter base. The highest home game attendance ever recorded at Stamford Bridge was achieved in 1935, when 82,905 people watched CFC play Arsenal. CFC won the Division One Championship in 1955, the FA Cup in 1970 and the European Cup Winners Cup in 1971.

Given the success of the 1970 and 1971 seasons, the decision was made to develop a new all-seater East Stand in 1972. Significant cost overruns and delays associated with the development of the East Stand forced the then controlling Mears family to sell the Site to property developers in 1982 (subject to a seven year lease with an option to buy the freehold of the Site in favour of the Club (the "Old Lease")) and to cede control of the Club to Mr. Ken Bates, the current Chairman of the Issuer.

During the 1980s, the property developers obtained planning permission to allow the development of the Site into a housing estate. At the end of the Old Lease in 1989, the property developers indicated that they wished to re-develop the Site. The Club exercised an option contained in the Old Lease to acquire the freehold of the Site at "open market value" as at 23 August 1988. Following arbitration, the Site's "open market value" as at 23 August 1988 was valued at £22.85 million. However, the exercise of the option resulted in litigation. During the course of this litigation, the residential property market collapsed and the freehold of the Site as at November 1991 (when the option price was determined) was independently valued at £16.5 million.

The litigation continued until December 1992 when Mr. Bates successfully negotiated a twenty year lease of the Site and a new option (the "Option") for the Issuer to purchase the freehold interest (either in whole or in parts) at a fixed price. In March 1993, to protect against the possibility of developers acquiring the Site and to preserve the Site as the home of the Club, the Issuer agreed to assign the benefit of the Option, as it related to the Stadium, to a newly formed company, Chelsea Pitch Owners plc ("CPO") which is owned by supporters of the Club. An integral part of the Issuer's agreement with CPO was that upon CPO's acquisition of the freehold of the Stadium, CPO must grant the Club a 199 year lease of the Stadium.

In May 1995, a company beneficially owned by the late Matthew Harding (who died in October 1996), at the time a director of the Club, acquired Stardust Investments Ltd, which owned the freehold of the Site, subject to the Option.

As part of the continuing development of the Site, in April 1997 the Issuer exercised its option in respect of those parts of the Site upon which the Chelsea Village Hotel and Bovril Court have already been built and upon which it is intended to build the Sports and Leisure Club (see below). The Issuer completed the acquisition of such interest (via its Subsidiaries) on 1 July 1997.

By agreement with the executors of Mr. Harding's estate, on the Closing Date, CPO will acquire the entire issued share capital of Stardust Investments Ltd and simultaneously (i) will procure that Stardust Investments Ltd grants the Club a 199 year lease of the Stadium at a peppercorn rent and (ii) will procure that Stardust Investments Ltd sells the freehold interest in the remainder of the Site to the Issuer. The Issuer intends to fund the acquisition costs using part of the proceeds from the Bonds.

Before the Option was granted in 1992, uncertainty surrounding CFC's financial and operating future restricted the management's ability to develop the Club. The security of tenure produced by the successful negotiation of the lease made it possible for the Issuer's management to implement its strategy for the Site as well as for the Club. The CFC football business has been built through the acquisition of quality management and playing staff. In 1993, Glenn Hoddle became player manager, leading the Club to the final of the FA Cup in 1994 and the semi-finals of the European Cup Winners Cup and the FA Cup in 1995 and 1996, respectively. When Mr. Hoddle left the Club to become England team coach in May 1996, Ruud Gullit, an experienced international player signed by CFC during Mr. Hoddle's tenure, was appointed player manager. In his first season in charge, the Club achieved its highest Premiership finishing place and won the FA Cup Final at Wembley before a worldwide television audience of approximately 400 million. Since Mr. Gullit became player manager, the club has signed eleven international players.

FOOTBALL INDUSTRY OVERVIEW

Introduction

The Football Association (the "FA") is the overall governing body for football in England and Wales. It directly regulates such matters as club ownership, and sets rules on procedures for transfers of players from club to club. Professional football in England is regulated by three bodies, the FA, the Premier League and the Football League.

Articles of Association

Member club companies are required by the FA rules to have provisions in their articles of association, which, *inter alia*, restrict the dividends payable on their shares. The current maximum is 15 per cent. per annum (cumulative for up to three years) of the amount credited as paid up on the shares. On a return of assets on a winding-up, shareholders are entitled only to the amount credited as paid up on their shares. The remaining assets are to be distributed to the FA Benevolent Fund or to some local club, institution or charity approved by the shareholders. The FA and the relevant league body must approve the terms of appointment of any paid executive director of a member club, who must work full time for that club.

These rules apply to the Club but not to the Issuer or any of its other Subsidiaries.

Restriction on Ownership of Shares

Under Premier League rules, any person (or any associate of that person) who is a director of, or interested in, the share capital of a club, cannot hold more than 10 per cent. of the issued share capital of another club. Further, the prior written consent of the Premier League board is required if a person (or any associate of that person) is involved in the management or administration of more than one club.

Football League rules stipulate that no person (nor any of his associates) may have a direct or indirect interest in more than one football club at any one time, without the Football League's prior written consent. However, this does not prevent a person from holding not more than one per cent. of the share capital of any club whose shares are listed on the London Stock Exchange or the Alternative Investment Market. An "interested" person includes anyone involved in any capacity whatsoever in the management or administration of a football club or who has lent money to it or guaranteed its debt or obligations.

The Premier League

The Premier League organises the league of the top twenty association football clubs in England and Wales. Each season every Premier League club plays each of the other 19 clubs, once at home and once away. At the end of each season, the bottom three clubs are relegated to the First Division of the Football League. Each Premier League club holds one share in The Football Association Premier League Limited. The FA holds one special share under the terms of which the FA's prior written consent is required for some matters, including certain amendments to the Premier League rules.

Gate Receipts

Gate receipts for each game are retained by the home club.

Sponsorship

Carling, owned by Bass plc, has a four-year sponsorship contract with the Premier League worth £36 million. Sponsorship income is distributed equally to the clubs currently in the Premier League. Each club relegated in the previous two seasons also receives a share equivalent to half that received by each club remaining in the Premier League.

Television

The written consent of the Premier League board is required for the televising, recording or transmitting by satellite, cable or any similar method of Premier League matches, save for close circuit television within the home ground. A £743 million four-year contract between the Premier League, BSkyB and BBC, which has yet to be executed but the terms of which have been implemented since the start of the current season, covers the period up to and including the season ending in 2001. The terms of that contract provide for the exploitation of television rights on a pay-per-view basis for the 1999/2000 and 2000/01 seasons if both the Premier League and BSkyB agree.

The current Premier League rules set out how income from the broadcasting and televising of Premier League matches in the UK is to be distributed.

At present, 50 per cent. is distributed amongst clubs currently in the Premier League with each club relegated in the previous two seasons receiving a share equal to half that received by each non-relegated club; 25 per cent. is allocated to clubs on the basis of the number of matches in which they play which are televised live; and 25 per cent. is allocated to clubs according to their position in the Premier League at the end of the season.

The Premier League currently has a contract with CSI, worth approximately £9 million per annum, for the right to broadcast Premier League matches outside the UK. In November 1997 the Premier League announced that it had agreed terms with TVI/Canal Plus for a contract relating to the right to broadcast Premier League matches outside the UK, which would replace the existing contract with CSI. The agreed terms provide for a minimum of £100 million to be paid to the Premier League over the next three seasons (1998/99 to 2001/02), with an option to extend the term of the contract for a further three seasons during which period the payments made would be linked to the Retail Prices Index. The TVI/Canal Plus contract has not been executed, and no assurance can be given that it will be, or that it will be on the terms described above.

Income (after the deduction of costs) from the broadcasting of Premier League matches for use outside the UK is distributed equally to each of the clubs currently in the Premier League. Each club relegated in the previous two seasons also receives a share equal to half that received by each non-relegated club.

The Director General of Fair Trading has referred various rules of the Premier League relating to the televising and scheduling of Premier League matches and some provisions of the Premier League's contracts with BSkyB and the BBC to the Restrictive Practices Court for consideration under the Restrictive Trade Practices Act 1976. The Court must consider whether such rules and provisions are contrary to the public interest and, if so, it can make such order as appears to it to be proper for restraining the parties from enforcing or giving effect to such rules and provisions or from making or enforcing or giving effect to any other agreement of like effect.

The Football League

The Football League organises 72 clubs in the three divisions below the Premier League as well as competitions such as the Coca-Cola Cup, which is also open to Premier League clubs. During the course of the Football League season each club plays the other clubs in its division twice, once at home and once away. At the end of each season three clubs are promoted from Division One to the Premier League, two by virtue of finishing first and second in the division and a third after a play-off between the teams finishing from third to sixth.

Gate Receipts

After the deduction of three per cent. of net receipts paid to the Football League pool, gate receipts for each game are retained by the home club. The pool is divided between the Football League clubs according to their division and their position at the end of each season.

Sponsorship

Nationwide Building Society has a three year sponsorship contract with the Football League up to and including the 1998/99 season. It is worth £5.25 million in total.

Television

BSkyB has had a contract for live television coverage of the Football League since the 1996/97 season. Under the contract £25 million is distributed to the 72 clubs each year with 75 per cent. going to the Division One clubs, 18 per cent. to the Division Two clubs and 7 per cent. to the Division Three clubs.

FA Cup

The FA Cup is open to all eligible clubs which are members or associate members of the FA. It is a knock-out competition in which each round is played over one leg. Premier League clubs enter the competition at the third round.

Gate Receipts

Net gate receipts are calculated, by deducting the travelling costs of the visiting club, the cost of match officials and certain other expenses from the gross gate receipts excluding value added tax.

For the third to sixth rounds, each club receives 45 per cent. of the net gate receipts. The remaining 10 per cent. is paid to the FA Cup Pool. For replays each club receives 42.5 per cent., the remaining 15 per cent. being paid to the FA.

The net gate receipts of the two semi-finals are pooled and 5.5 per cent. is paid to the County Football Associations. The remainder is divided between the four semi-finalists (who receive 16.25 per cent. each), the FA (25 per cent.) the FA Cup pool (10 per cent.). Net gate receipts are distributed in the same proportions if both semi-finals are replayed. If only one of the semi-finals is replayed, the net gate receipts from the replay are divided between the two clubs (who receive 32.5 per cent. each) the FA (25 per cent.) and the FA Cup pool (10 per cent.). Net gate receipts of the final, and any replay of the final, are also divided in this manner.

The FA Cup pool is distributed to the Premier and Football League clubs competing in the competition.

Sponsorship

Littlewoods Pools Limited currently sponsor the FA Cup.

Television

Clubs competing in matches televised by BSkyB and BBC receive a fee from the FA. For the current season from the 3rd round to the semi-finals this will be £150,000 for live coverage (£75,000 for a replay) and £18,750 for highlights. The two clubs reaching the final will share in an FA allocated pool to which television coverage contributes £1,750,000.

Coca-Cola Cup

The Coca-Cola Cup is open to all members of the Premier League and the Football League. It is a knock-out competition in which the first and second rounds, and the semi-finals, are played over two legs, home and away. All Premier League clubs enter the competition at the second round. Those Premier League clubs which are also competing in European competitions enter the competition at the third round.

Gate Receipts

Net gate receipts are calculated in the same way as for the FA Cup. Net gate receipts for each match, including replays, are divided between the two competing clubs (who receive 45 per cent. each), and the Coca-Cola Cup pool (10 per cent.).

50 per cent. of the pool is distributed equally to competing Premier League clubs. The other 50 per cent. is distributed amongst the competing Football League clubs.

Sponsorship

Coca-Cola Inc. sponsor the competition. In the 1996/97 season £1,045,000 was divided equally between the Premier League and Football League clubs. In addition, a prize fund of £200,000 was shared by the winner of the competition (£100,000), the runner up (£50,000) and the semi-final losers (£25,000 each).

Television

In the 1997/98 season an appearance fee of £100,000 is being paid to Premier League clubs by the Football League for any live appearances up to and including the semi-finals. A pool of £100,000 will also be distributed to the clubs who have highlights of their matches shown. No payment is made to participants in the final.

European Cup Competitions

UEFA, the European governing body, runs three pan-European competitions for which the Club is eligible to qualify:

- (i) the UEFA Champions League, which is open to the previous season's Premier League champions and runners up;
- (ii) the European Cup Winners Cup which is open to the holders of the FA Cup: the Club is currently the holder of the FA Cup and is competing in this year's European Cup Winners Cup and has progressed to the quarter finals which will be played in March 1998; and
- (iii) the UEFA Cup which, for the 1998/99 season will be open to the four highest placed Premier League Clubs who do not qualify for either of the other two European competitions.

Employment and Transfer of Players

A player may enter into a contract with any club and may receive a signing-on fee for doing so. If a player wishes to move to another club during his contract, and the clubs can agree, a transfer fee may be payable between the two clubs. Contracted players may only play for a club if they are registered with the FA.

The Bosman ruling of 1995, which (i) prohibits clubs in EU countries from receiving transfer fees for out-of-contract EU players, and (ii) lifts previous restrictions concerning the number of EU players allowed in EU teams, has had an effect on the cost structure of football clubs. Most EU clubs now prefer to sign players on long term contracts in an effort to protect the value of the club's players. The result has been that salaries have risen as new longer term contracts have been negotiated, while transfer fees are forecast to represent a smaller percentage of total player costs.

Under the Bosman ruling, a club cannot receive compensation if a player moves to a club in another member state of the EU when his contract ends. The FA have recently decreed that this scheme will apply to leagues under its jurisdiction when a player is over 24 years of age at the expiry of his contract. A transfer fee may still be required in respect of players who are under 24 years of age at the expiry of their contract.

The FA and the relevant league must approve the transfer of a player's registration. They must also be notified of any transfer fee. For transfers between UK clubs, at least 50 per cent. of the transfer fee must be paid as soon as the transfer is registered and any outstanding balance must be paid within 12 months. This does not apply to transfers of players from abroad. The transferee club must pay five per cent. of the transfer fee to the appropriate league.

Ground Safety

One of the key recommendations of the Taylor Report was that designated sports grounds should become all seater stadia under a phased programme. The Club has complied with all of the key recommendations of the Taylor Report.

BUSINESS

The Group's activities are divided into direct football activities and other commercial activities.

Compared to other Premiership venues, the Site benefits greatly from its location, approximately 1.5 miles from Harrods and Hyde Park. Further, the 12.5 acre area of the Site has allowed the development of both the stadium and the rest of the Site. Upon completion of the redevelopment, stadium capacity will be in excess of 40,000 seats. The Site comprises the Chelsea Megastore, a 160 room hotel, four restaurants and 46 apartments and it is intended to build a 142 room annex to the hotel, two further restaurants, a 75,000 sq. ft. sports and leisure centre, a 15,000 sq. ft. visitors' attraction centre and a further 8 apartments together with additional retail space.

Direct Football Activities

Fundamental change is currently evident within the English football industry. Driven by increasing popularity, improved ground safety, new technology and heightened commercialisation, larger clubs are faced with increasing pressure to compete both on and off the field. By identifying and addressing the changing dynamics of the industry proactively, the management of the Issuer believes it is well-positioned to capitalise on the opportunities presented by this changing environment.

The following table demonstrates the football performance of the Club since the inception of the Premier League:

Season	1993/94	1994/95	1995/96	1996/97	1997/98 ¹
Football League.....	Premier	Premier	Premier	Premier	Premier
Finishing Position in League.....	14th	11th	11th	6th	4th
FA Cup.....	Finalist	4th Round	Semi Finalist	Winner	N/A
Coca-Cola Cup.....	3rd Round	3rd Round	2nd Round	3rd Round	Quarter Finalist
Home Games in Europe.....	—	4	—	—	2 ²
Home Games Played.....	25	28	23	23	9
Total Games Played.....	53	56	48	46	19

¹ As at 20 November 1997

² A third game is guaranteed

Gate Receipts

Revenues from tickets, both season ticket sales and match day receipts, represent CFC's primary sources of revenue. Each season, the Club plays 19 home games in the Premier League and retains 100 per cent. of gate receipts. In the

1996/97 season, 42 per cent. of CFC revenues were derived from Premier League gate receipts. Additional home games may also be played, depending on CFC's participation in the various domestic and European cup competitions. The allocation of revenues from these games depends on the rules of each competition as described in "Football Industry Overview" above. As a result of the Club's FA Cup victory last season, 11 per cent. of CFC turnover in the financial year ended 30 June 1997 was generated from FA Cup receipts as compared with 7 per cent. for the financial year ended 30 June 1996.

To achieve an optimum balance between sales of season tickets and match day tickets, football clubs must evaluate inherent supply and demand factors, stadium capacity and supporter demographics. An industry report published by Fletcher Research and Oliver Ohlbaum in September 1997 identified CFC as the Premier League club which, "above all clubs, has understood the varying demand for its games".

Season Tickets: Although demand for season tickets at Stamford Bridge currently exceeds supply, CFC deliberately limited season ticket sales for the current season to approximately 15,100, or 43 per cent. of current stadium capacity. This strategy allows CFC to increase the "reach" of the Club's match day attendance. The reach of a club's attendance means the number of *different* supporters who attend a game over the course of an entire season. The premise of the Club's ticket strategy assumes that on a per match basis, the likelihood is greater that a less frequent match day ticket buyer will spend more on merchandise and programmes than will a season ticket holder. Given strong demand, therefore, greater reach has a positive impact on ancillary business units, while generating comparable gate receipts. Further, the improved availability gained from limiting season tickets allows more supporters to attend a game in person, such as young supporters who may not be able to purchase season tickets, but who form an important element of the future supporter base. Greater reach is also a key focus area in advertising, where value is placed on more people seeing stadium signage and other forms of advertising at the ground, enabling CFC to command improved sponsorship revenues.

Match Day Tickets: Integrated with the season ticket strategy, CFC has implemented a three-tiered pricing strategy designed to maximise match day receipts for each game individually. First, CFC offers the widest range of ticket prices in the Premier League. CFC can justify some of the highest seat prices in English football. By also selling relatively low-priced tickets, however, CFC takes care not to alienate its traditional supporter bases. Secondly, CFC ticket prices are geared to reflect demand for individual games. Therefore, if CFC is playing a popular opponent, prices are higher than they would be for less attractive fixtures. Thirdly, "loyalty points" are awarded to ticket buyers for attending matches. Supporters receive more points for attending a less popular match. This loyalty is later rewarded by using points to determine priority for FA Cup match ticket allocation.

The table below sets out capacity and average Premier League attendance information for the seasons from 1992/93 to 1997/98 (as at 12 November 1997):

Year	Ground			Boxes		Executive Club		Galleria		Season Tickets	Members
	Capacity	Avg. Attend.	% of Capacity	Capacity	Avg. Attend.	Capacity	Avg. Attend.	Capacity	Avg. Attend.		
1992/3.....	39,300	17,800	45%	14	9	301	151	N/A	N/A	3,000	11,000
1993/4.....	37,200	19,382	52%	21	13	301	156	N/A	N/A	3,300	12,941
1994/5.....	31,500	21,062	67%	21	16	301	202	N/A	N/A	3,500	24,607
1995/6.....	31,500	25,440	81%	21	19	437	296	N/A	N/A	4,650	26,060
1996/7.....	28,500	27,580	97%	23	23	437	437	N/A	N/A	8,700	26,400
1997/8.....	32,340 ⁽¹⁾	32,203 ⁽¹⁾	100%	23	23	437	437	445	445	15,100	50,000

(1) Average for the season to 12 November 1997. Currently capacity is 34,800.

Television

CFC's share of revenues from television rights is discussed under "Football Industry Overview" above. Based on CFC's performance thus far in the European Cup Winners Cup and the Coca-Cola Cup, combined with seven Premier League games scheduled for the current season through to the end of February to be broadcast on BSkyB, CFC management estimates that television revenues will total a minimum of £8.7 million for the 1997-98 season.

The switch from analogue to digital television broadcasting, which is expected to begin in the UK during 1998, will lead to a multiplication both in the number and capacity of television channels. Digital technology allows broadcasters to offer a substantially more diverse selection of programming and television based services to consumers. In this environment, programming with a proven track record of attracting key demographic groups should be able to

command a premium price. Sports programming, of which football is the core component, is likely to be one of the main beneficiaries of these trends due to its proven popularity with consumers and capacity to fill substantial blocks of air time which makes it attractive to broadcasters.

Sponsorship and Advertising

Due to the high number of regular supporters and increasing television coverage, football has become increasingly attractive to sponsors and advertisers. The industry report published by Fletcher Research and Oliver Ohlbaum in September 1997 estimated that there are approximately 21 million football supporters in England, of which two-thirds support a Premier League club. Football's popularity among young, relatively affluent males, a demographic group which has been difficult to target through other advertising media, further increases the attractiveness of the sport to sponsors and advertisers. The principal differentiating factors between individual clubs include supporter group size, coverage by the media and the size and location of facilities. Other considerations which impact the perception of a club's brand and coverage include recent on-field success, profile of players, the previously discussed reach, supporter base demographics and geographic concentrations. The majority of CFC's sponsorship revenues are derived from the following two sources:

Umbro UK Limited ("Umbro"): CFC's kit sponsor is Umbro. Under the terms of an eight-year £8.0 million contract expiring in June 2003, Umbro has the exclusive right to use, procure and sub-license the trade marks or trade names owned or used by the Club. Umbro has agreed to pay CFC a guaranteed minimum amount each season, in addition to bonus payments if CFC finishes in first or second place in the Premier League Championship or wins or reaches the finals of named other competitions. The Club also receives royalty payments on Umbro products carrying CFC's brand, which are sold in the Chelsea Megastore and at other retail outlets nationally and internationally.

Autoglass Limited ("Autoglass"): CFC's new club sponsor from the 1997/98 season is Autoglass, with whom a four-year contract is in place worth in the region of £4.5 million. The Autoglass logo is displayed on CFC's first and second choice strips. Aside from the logos of CFC, Umbro and the Premier League, no other logo besides that of Autoglass is permitted on Club garments.

Player Costs

CFC currently has a squad of 35 full time professional football players. Whilst some have joined CFC in highly publicised transfers, many have developed through the ranks of the youth development programme, which is expected to continue to produce potential first team players in the future.

Of the current first team squad, 14 players have come through the youth programme. By developing talent internally, CFC reduces expenses on both net transfer fees and its wage bill, as well as augmenting intangible asset values. Although there is no generally adopted industry standard accounting practice, the Issuer and certain other Premier League clubs fully amortise the acquisition cost of each relevant player's contract over the life of the contract on a straight line basis. The balance sheet contract value includes only transfer fees, fees paid to agents and the net levy paid to the FA. Player salaries and bonus payments flow through the profit and loss account as incurred. Hence, an internally developed player is carried on the balance sheet at nil value, while the book value of a player acquired in the transfer market is written off over time. If a player's contract expires and a new contract is negotiated, he is carried on the balance sheet at nil value because no transfer fees are incurred. As at 30 June 1997, the net book value of players on the CFC balance sheet totalled £16.3 million. The difference between a player's book value and his estimated value in the transfer market, therefore, represents additional hidden value not reported in a club's financial statements. CFC management estimates the total transfer market value of its squad at 30 June 1997 was approximately £49.2 million, in excess of three times the amount appearing in the balance sheet as at that date. The aggregate player value used for insurance purposes is £54 million.

CFC management believes the Bosman ruling (see "Football Industry Overview — Employment and Transfer of Players") will have a positive impact on its operations due to reduced transfer fees. Although rising salaries are likely, salary expenses are spread over the period of the contract, thereby improving cash flow.

Commercial Activities

Merchandising

The main role of CVM, the merchandising business, is to sell products relating to the Club, including replica kit to all age groups and develop the brands of CFC and the Issuer. Also within the range of products on offer are mid to high

priced casual clothes. The clothing lines are supported by the sale of books, videos and other accessories, providing a comprehensive choice of over one-thousand products. The product range is being widened to include other brands. The merchandising business is also responsible for the licensing and the protection of the brand for the Group's products.

Merchandising was taken "in house" at the start of the current financial year and, in the early stages of the operation, merchandising products have predominantly been sourced from the UK in order to ensure quality and timely delivery. CVM is, however, exploring other options to reduce manufacturing costs, particularly by sourcing production out of Asia in the near future to enhance profit margins whilst maintaining quality and timely delivery. Retail merchandising operations and CVM's mail order business are serviced by a 14,000 sq/ft leasehold warehouse in Camberley.

Retail: On 24 July 1997, eight weeks ahead of schedule, CVM opened the Chelsea Megastore, which now comprises 11,407 sq/ft of retail space on three floors at the southwest corner of the Stadium. In just over two months of Megastore operations, the merchandising business reported a net contribution to the Group's full year consolidated profits of £142,000, almost half the previous year's contribution of £300,000. CVM management reports that approximately 60 per cent. of those people who come through the turnstiles of the Megastore purchase at least one item. Additional smaller retail outlets, both on and off site are also being considered by CVM management.

Mail-Order: Operated out of the warehouse in Camberley, the mail-order business was launched in August 1997 with CVM's first catalogue. It has capacity for 14 tele-sales operators and undertakes 72 hour delivery. The product range has been widened to include own label wine.

Licensing and concessions: Since 1 July 1997 CVM has entered into licensing and concession agreements worth approximately £400,000 for the period up to 30 June 1998.

Wholesale: Currently, wholesale merchandising is undertaken by the previous retail franchisee on a one year licence. The business is being reviewed by CVM management with a view to taking it "in house".

Catering

CVC is responsible for all catering at the Site.

Match Day: Catering activities on match days principally consist of corporate hospitality facilities supplemented by kiosk sales of fast food and drink. Corporate hospitality facilities within the Stadium currently cater for up to 1,000 people including 23 executive boxes, the Galleria and four restaurants including Bentley's. The Galleria is a 445 seat corporate hospitality and viewing area running the length of the South Stand.

Non Match Day: Even under difficult conditions during the Site redevelopment works, CVC has established Stamford Bridge as a popular venue for conferences and banquets. Income from this source is expected to increase significantly by improved utilisation of existing space and the introduction of new areas, such as the Galleria, in which functions can be held. On non-match days, the Galleria can cater for 450 seated guests and receptions for 1,500 guests. CVC will also operate a club known as "Midnight at Chelsea" that is being developed in part of the South Stand development.

Chelsea Village Hotel

Hotel: From December 1997 or January 1998, CVH will open and operate the 160 bedroom hotel. The hotel will have 4 themed restaurants: a seafood restaurant, a sports cafe, a brasserie and an Irish restaurant. The hotel will also have a five room business centre. As well as direct marketing, CVH is a member of "Utell", the international reservation service and has joint marketing arrangements with American Express. The value of advance bookings for the hotel between opening and 31 December 1998 exceed £192,000 and the number of reservations are expected to accelerate following opening. Approximately 25 per cent. of the bed stock is currently allocated to certain tour companies on a 7-14 day call basis. Currently, CVH management understands that such allocation for hotels in London is subject to an 80 per cent. take-up rate. In general, CVH management understands that occupancy levels in London are currently running at approximately 85 per cent. of availability for comparable hotels.

CVH also intend to develop on the Site a 142 room annex to the hotel which will also house another restaurant — see "Future Strategy".

Apartments: As part of the hotel development, CVH is close to completing the construction of 34 apartments and four penthouses with a total sale value of approximately £9.1 million. 24 apartments and one penthouse are in a stand alone block and 10 apartments and three penthouses form part of the hotel structure. As at 5 December 1997, contracts

have been exchanged in respect of 23 apartments and three penthouses with a further seven apartments and one penthouse under offer.

On 1 July 1997, a company beneficially owned by Ken Bates exchanged contracts with CVH for the purchase of 150 year leasehold interests in two apartments in the Southern Complex of the Site. The purchase price payable on completion of those transactions on a date to be 10 days after the service of a certificate of practical completion by the appointed architects will be £775,000 and £180,000 respectively. On 27 August 1997, a company beneficially owned by Stewart Thompson exchanged contracts with CVH for the purchase of a 150 year leasehold interest in an apartment in the Southern Complex of the Site. The purchase price payable on completion of this transaction (which will occur on the same basis as above) will be £595,000.

Sports and Leisure Centre

It is the intention of the Issuer to develop and operate a 75,000 sq/ft members' sports and leisure club at the north end of the Site. The Issuer has detailed planning consent for 55,000 sq/ft and will submit by February 1998 a detailed planning application relating to the proposed increase. It is intended that construction will start promptly upon grant of acceptable planning permission and is expected to take 12 months to complete. The Issuer intends to recruit an industry experienced management team. This development will be funded using part of the proceeds from the Bond issue.

Communications

CC has responsibility for the media activities of the Group. It maintains the Chelsea website which regularly receives between 30,000 and 60,000 "page visits" per day. It also produces "Channel Chelsea TV". This channel is circulated throughout the Site on match days and could be adapted in the event of "pay per view" TV becoming a reality. CC publishes "Football Monthly" which has recently been relaunched and will take the Chelsea Magazine "in house" once the current contract expires in mid-1999. CC has negotiated a publishing agreement with Boxtree Macmillan that will provide for the publication of populist books concerning the Club and some of its more notable members of staff.

The Issuer also intends to submit by February 1998 a planning application for a 15,000 sq/ft visitors' attraction centre, the construction of which will form part of the sports and leisure club developed as described above. The operation of the proposed visitors' attraction centre will also fall within CC's responsibilities. The design and management of the visitors' attraction centre is currently out to tender. London currently attracts 13.5 million overseas and 12.2 million domestic tourists and the Issuer expects that the visitors' attraction centre will form an integral part of stadium tours which the Issuer offers. This development will be funded using part of the proceeds from the Bond issue.

Travel

In July 1997 the Issuer acquired an 80 per cent. holding in Bidgleam Limited of which EDT is a wholly owned subsidiary. According to Business Travel World magazine's 1997 survey, EDT is the 14th largest travel agent in the UK. It is based at offices in Reigate, Surrey. The large majority of its business is derived from the corporate sector with EDT acting on behalf of many well known names. Since the acquisition, EDT has generated a substantial amount of new business, using the Club's database to enhance the process. It has also obtained a full ATOL licence to enable it to arrange packages for the Club's supporters attending CFC's away matches in European competitions. It also organises packages for overseas clubs' supporters attending matches at Stamford Bridge.

Other Properties

SBP owns the freehold of a mansion block on the Fulham Road at the main entrance to the Site. The building comprises 13 apartments mainly subject to multi-occupational lettings. Six of the apartments have been refurbished and have been let on an arm's length basis to CVH for use by its employees. SBP intends to refurbish the remainder to improve rental revenue.

SBS owns the main entrance way to the Site and the land to the east thereof between the main gate and the mansion block. It is intended to redevelop part of this land into six two bedroom apartments, two one bedroom apartments and a retail facility of approximately 2,760 sq. ft. SBS also owns the freehold of two buildings opposite the main entrance which are let and are income-producing.

FS developed the residential site adjoining a secondary access to the Site at 418 Fulham Road as a development of eight apartments. The completed development, known as Bovril Court, has been sold for an aggregate consideration of £1.56 million.

Car Park

CCP developed and operates a 234 space underground car park that is situated under the hotel and forecourt on the Site. 50 spaces have been allocated to the residential tenants at an annual index-linked rent of £1,500 per space. 23 spaces are reserved for hotel use. The car park at present is full on match days and is expected to become increasingly busy on non-match days once the hotel development is completed.

Future Strategy

The Issuer intends to continue and complete the development of the Site into a leisure village and to maximise the value of the Group brands. The Issuer estimates that approximately £48 million will be needed to complete the development of the Site. The Issuer currently intends to finance this as follows:

- (i) £42 million from the proceeds of the Bonds; and
- (ii) £6 million from its own resources.

Subject to final detailed planning consents, CFC aims to complete the upper tiers of the West Stand by early 1999. When complete, the West Stand will provide facilities for approximately an additional 2,500 corporate spectators and will bring the capacity of the Stadium to in excess of 40,000. Not only will this increased capacity enable greater gate receipts but it should generate higher merchandising, catering, communications and other revenues. By capitalising on these ancillary business opportunities, the multiplier effect of additional capacity on total revenues is augmented considerably.

As described above, CVH has submitted a detailed planning application for a 142 room annex to the hotel including a further restaurant. Subject to approval of the planning application, construction is expected to start in spring 1998 and be completed within 12 months.

CVC intends to maximise the conference and banqueting facilities at the Site including the concourse facilities of the West Stand that will comprise approximately 10,800 square feet of open space suitable for exhibitions. It also intends to open an Italian restaurant, "Caneletto", in the East Stand in August 1998. The facility will also be used for match day catering.

Demolition of the properties owned by SBS on the gateway as described has been completed and a design and build contract is currently out for tender for the construction of six two bedroom and two one bedroom apartments and a retail facility. Completion is expected in January 1999.

Following the successful launch of the Chelsea credit card, the Issuer is investigating further opportunities to provide services of a financial and other nature to its supporters. It also intends to introduce group wide loyalty schemes encompassing all of the Group's activities.

Management

The Issuer has five board members, consisting of two executive and three non-executive directors.

Board of Directors of the Issuer

Name	Position	Significant Outside Activities
Ken Bates.....	Chairman and Chief Executive	None
Michael Russell	Finance Director	None
Stewart Thompson.....	Non-Executive Director	Chief Executive of Single Service Limited, a part of the H.J. Heinz Corporation
Patrick Murrin	Non-Executive Director	Senior Partner of the Harbour Group, an international fiduciary services group in Guernsey
Mark Taylor.....	Non-Executive Director	A Partner of Jacobsens

The business address of each of the above is Stamford Bridge, Fulham Road, London, SW6 1HS

Alan Shaw is the company secretary of the Issuer.

CHELSEA VILLAGE PLC

Directors of the Original Charging Subsidiaries

Chelsea Village Catering Ltd.

Directors: Mr K.W. Bates
Mr P.G. Price
Mr M.I. Russell
Mr S.O. Thompson

Stamford Bridge Properties Ltd.

Directors: Mr M.I. Russell
Mr A.L. Shaw

Chelsea Car Parks Limited

Directors: Mr K.W. Bates
Mr M.I. Russell

Fulham Securities Limited

Directors: Mr M.I. Russell
Mr A.L. Shaw

Chelsea Village Hotel Ltd

Directors: Mr K.W. Bates
Mr P.G. Price
Mr M.I. Russell
Mr A.L. Shaw

Chelsea Communications Limited

Directors: Mr M.I. Russell
Mr A.L. Shaw

Bidgleam Limited

Directors: Mr K.W. Bates
Mr G.J. Pinchen
Mr M.I. Russell

Chelsea Leisure Services Limited

Directors: Mr M.I. Russell
Mr A.L. Shaw

Chelsea Limited

Directors: Mr M.I. Russell
Mr A.L. Shaw

Chelsea Village Merchandising Ltd

Directors: Mr M.I. Russell
Mr A.L. Shaw

Chelsea Football Club Limited

Directors: Mr K.W. Bates
Mr C. Hutchinson
Ms Y.S. Todd

Elizabeth Duff Travel Limited

Directors: Mr K.W. Bates
Mr C. Hutchinson
Mr G.J. Pinchen
Mr M.I. Russell
Mr R.M. Taylor

Stamford Bridge Securities Ltd.

Directors: Mr M.I. Russell
Mr A.L. Shaw

Chelsea Village Management Ltd.

Directors: Mr M.I. Russell
Mr A.L. Shaw

Principal Shareholders

As at 21 November 1997 the following interests had been notified to the Issuer:

	%
Swan Management Ltd.....	32.1
NY Nominees Ltd	22.7
Mayflower Securities Limited ¹	19.0
Havering Ltd.....	4.7
The Trustees of the Estate of Matthew Harding.....	2.5
Publicly Held	19.0
	<u>100.0</u>

¹ Ken Bates is the beneficial owner. Includes 2.5% representing shares held in another name, the beneficial owner of which is Mayflower Securities Limited.

CAPITALISATION OF THE GROUP

The following table sets out the unaudited consolidated share capital and reserves of the Group as at 31 October 1997:

	As at 31 October 1997 £'000
Capital and Reserves⁽¹⁾	
Share Capital	
Authorised:	
170 million ordinary shares of 1p each	1,700
Issued and fully paid:	
158,165,083 ordinary shares of 1p each ⁽²⁾	1,582
Reserves	45,886
Shareholders' funds	47,468

Notes:

- (1) The capital and reserves table above has not been adjusted to reflect any acquisition or disposals affected or proposed since 31 October 1997.
 (2) Between 31 October 1997 and 9 December 1997 there has been no change to the issued share capital of the Issuer.

The following table sets out the unaudited consolidated indebtedness of the Group as at 31 October 1997.

	As at 31 October 1997 £'000
Indebtedness	
Term loans	25,850
Bank loans, overdrafts and other borrowings	6,569
Other loans	100
Contingent liabilities ⁽⁴⁾	1,945
Total indebtedness	34,464

Notes:

- (1) The indebtedness table above has not been adjusted to reflect the issue of the Bonds.
 (2) The term loans, bank loans and overdrafts are secured by fixed and floating charges over the undertakings and all property and assets, present and future.
 (3) Other borrowings comprise finance leases and hire purchase contracts which are secured by the related assets.
 (4) Contingent liabilities include an amount of £1,250,000, in respect of estimated taxation assessments made by the Inland Revenue on the Issuer and which represents the worst case position of tax payable. The Issuer considers the assessments have no merit and disagrees that a charge arises.

The Directors have sought professional taxation advice when formulating the Issuer's tax liability. However, the Inland Revenue are disputing the treatment of a subsidiary company's expenditure which, if successful, would result in deferred taxation losses being reduced to nil and a tax charge of £695,000 being payable. This amount has also been included in contingent liabilities. All advice taken confirms this view has no grounds and the Directors are firmly of the same opinion.

Contingent liabilities do not include any amounts in respect of guarantees given by companies within the Group on the borrowings of other companies within the Group. These borrowings have been included under the headings of Term loans and Bank loans, overdrafts and other borrowings in the above table.

- (5) There has been no material change to the consolidated indebtedness of the Group since 31 October 1997.

FINANCIAL STATEMENTS

The financial statements appearing on pages 49 to 52 and the notes to such financial statements appearing on pages 53 to 68 have been extracted without material adjustment from the annual report and accounts for the year ended 30 June 1997.

CHELSEA VILLAGE plc CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 1997

	Note	£'000	1997 £'000	£'000	1996 £'000
TURNOVER	2		23,729		15,948
Direct operating costs.....			(15,673)		(10,593)
GROSS PROFIT			8,056		5,355
Administrative expenses.....			(5,885)		(4,701)
			2,171		654
PLAYER AMORTISATION	3		(1,921)		(2,635)
OPERATING PROFIT / (LOSS)	4		250		(1,981)
Interest receivable and similar income.....	8	434		79	
Provision for diminution in investment.....		—		(4)	
Interest payable.....	9	(1,060)		(1,048)	
			(626)		(973)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION			(376)		(2,954)
Taxation.....	10		—		—
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION	26		(376)		(2,954)
Retained profit brought forward.....			2,418		5,372
RETAINED PROFIT CARRIED FORWARD			2,042		2,418
LOSS PER SHARE	12		(0.24p)		(2.47p)

All amounts relate to continuing activities.

The notes numbered 1 to 32 form part of these financial statements.

CHELSEA VILLAGE plc
GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 30 JUNE 1997

	1997 £'000	1996 £'000
Loss for the financial year	(376)	(2,954)
Unrealised (deficit) / surplus on revaluation of short leasehold properties	(4,499)	2,199
Unrealised surplus / (deficit) on revaluation of freehold properties	4,931	(2)
Total recognised gains and losses for the financial year	<u>56</u>	<u>(757)</u>

There is no difference between the reported loss on ordinary activities before taxation and the equivalent historical cost amount. Movements on reserves are shown in note 26 to the financial statements.

The notes numbered 1 to 32 form part of these financial statements

CHELSEA VILLAGE plc
BALANCE SHEET
AS AT 30 JUNE 1997

		Group		Company	
	Note	1997 £'000	1996 £'000	1997 £'000	1996 £'000
FIXED ASSETS					
Intangible assets.....	13	16,316	6,193	—	—
Tangible assets.....	14	62,355	36,551	12,606	6,848
Investments.....	15	—	—	21,088	20,613
		<u>78,671</u>	<u>42,744</u>	<u>33,694</u>	<u>27,461</u>
CURRENT ASSETS					
Stock.....	16	32	30	—	—
Debtors.....	17	6,613	1,998	1,187	32
Short term development.....	18	1,110	131	555	131
Cash at bank and in hand.....		<u>5,195</u>	<u>43</u>	<u>14,560</u>	<u>1</u>
		<u>12,950</u>	<u>2,202</u>	<u>16,302</u>	<u>164</u>
CREDITORS					
Amounts falling due within one year.....	19	(18,274)	(6,063)	(955)	(598)
Income in advance.....	19	<u>(8,399)</u>	<u>(2,985)</u>	—	—
		<u>(26,673)</u>	<u>(9,048)</u>	<u>(955)</u>	<u>(598)</u>
NET CURRENT ASSETS/(LIABILITIES).....		<u>(13,723)</u>	<u>(6,846)</u>	<u>15,347</u>	<u>(434)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES.....		<u>64,948</u>	<u>35,898</u>	<u>49,041</u>	<u>27,027</u>
CREDITORS					
Amounts falling due after one year.....	20	14,028	9,349	785	2,268
Convertible Liabilities.....	21	—	2,000	—	2,000
Football Trust grants.....	23	3,000	2,800	—	—
CAPITAL AND RESERVES					
Called up share capital.....	25	1,561	1,194	1,561	1,194
Share premium account.....	26	34,648	8,900	34,648	8,900
Revaluation reserve.....	26	9,669	9,237	6,753	6,610
Profit and loss account.....	26	<u>2,042</u>	<u>2,418</u>	<u>5,294</u>	<u>6,055</u>
SHAREHOLDERS' FUNDS.....	26	<u>47,920</u>	<u>21,749</u>	<u>48,256</u>	<u>22,759</u>
		<u>64,948</u>	<u>35,898</u>	<u>49,041</u>	<u>27,027</u>

These financial statements were approved by the Board of Directors on 24 October 1997.

M.I. Russell

R.M. Taylor

The notes numbered 1 to 32 form part of these financial statements.

CHELSEA VILLAGE plc
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 1997

	Note	£'000	1997 £'000	£'000	1996 £'000
CASH FLOW FROM OPERATING ACTIVITIES	27.1		19,332		3,965
RETURNS ON INVESTMENTS AND					
SERVICING OF FINANCE.....	27.2		(626)		(969)
Capital expenditure and financial investment.....	27.2		(35,896)		(8,021)
Acquisitions and disposals	27.2		(898)		—
Cash outflow before use of liquid resources and financing.....			(18,088)		(5,025)
Management of liquid resources.....	27.2		(5,036)		522
FINANCING					
Issue of shares	27.2	24,115		1,112	
Reduction in debt.....	27.2	(78)		2,646	
			<u>24,037</u>		<u>3,758</u>
			<u>913</u>		<u>(745)</u>
RECONCILIATION OF NET CASH FLOW TO					
MOVEMENT IN NET DEBT.....	27.3				
Increase/(decrease) in cash in year		913		(745)	
Cash outflow/(inflow) from reduction in debt and lease financing.....		78		(2,646)	
Cash outflow/(inflow) from increase/(decrease) in liquid resources		<u>5,036</u>		<u>(522)</u>	
Change in net debt resulting from cash flows			6,027		(3,913)
New hire purchase and finance leases.....			(2,147)		(770)
Loans converted to share capital			<u>2,000</u>		<u>5,000</u>
Movement in net debt in period			5,880		317
Net debt at 1 July 1996.....			<u>(12,882)</u>		<u>(13,199)</u>
NET DEBT AT 30 JUNE 1997.....			<u><u>(7,002)</u></u>		<u><u>(12,882)</u></u>

The notes numbered 1 to 32 form part of these financial statements

CHELSEA VILLAGE plc
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 1997

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, which are prepared in accordance with applicable accounting standards.

a) Basis of preparation of financial statements

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost convention, with the exception that certain land and buildings have been revalued.

b) Consolidation

The Group financial statements incorporate the financial statements of Chelsea Village plc and all its subsidiary undertakings for the year ended 30 June 1997.

A separate profit and loss account dealing with the results of the Company only has not been presented as permitted by Section 230 of the Companies Act 1985.

c) Investment in subsidiaries

Subsidiary companies are valued in the parent company balance sheet at their net asset value. Where a diminution in value is considered to be permanent, the cost of the investment, including loans, is written off to the profit and loss account.

d) Depreciation

Land and Buildings

Depreciation is not provided on freehold land. The Directors do not consider it appropriate to amortise the value of short and long leasehold properties since the leases are held for future group development of the Stamford Bridge site on which options are held to purchase the freehold.

Freehold and leasehold properties are maintained by a programme of repair and refurbishment such that the residual value is at least equal to its book value. Having regard to this, it is the opinion of the Directors that the depreciation of any such property as required by the Companies Act 1985 and accounting standards would not be material.

Other Assets

Depreciation is provided on other tangible fixed assets in equal instalments over their estimated useful lives. The following rates apply:

Plant and equipment	10% — 25%
---------------------------	-----------

e) Deferred taxation

Deferred taxation is provided using the liability method to take account of all material timing differences to the extent that they are expected to reverse in the future without being replaced, calculated at the rate at which it is estimated that tax will be payable.

f) Transfer fees

The cost of transfer fees (including levies and levy rebates) are capitalised as intangible fixed assets and are amortised evenly over the period of the player's initial contract of employment with the Group. 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.

g) Players' signing on fees

Players' contracts of employment may include a signing on fee payable in equal instalments over the period of the 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.

CHELSEA VILLAGE plc
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 1997

h) 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.

i) Grants

Capital expenditure grants, received in respect of assets which are not depreciated, are brought into account on an accruals basis, and are released to non-distributable capital reserves over the estimated life of the asset to which they relate. Revenue expenditure grants are brought into the profit and loss account on an accruals basis.

j) Hire purchase and leasing commitments

Assets held under hire purchase contracts and finance leases are included in the fixed assets at total rental cost less finance charges. Finance charges are amortised over each lease term to give a constant rate of charge on the remaining balance of the obligation. Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the periods of the leases.

k) Pensions

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

l) Stocks

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

m) Stadium development

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

2. Turnover

Turnover (excluding valued added tax) represents the following:

	1997 £'000	1996 £'000
Primary football activities	21,899	14,756
Property leasing	297	202
Catering facilities	1,485	916
Event organisation	48	74
	<u>23,729</u>	<u>15,948</u>

All turnover arises in the United Kingdom.

3. Player Amortisation

	1997 £'000	1996 £'000
Amortisation of cost of players' registrations	5,881	3,723
Gain on disposal of players' registrations	<u>(3,960)</u>	<u>(1,088)</u>
	<u>1,921</u>	<u>2,635</u>

CHELSEA VILLAGE plc
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 1997

4. Operating profit/(loss)

This is stated after charging:

	1997 £'000	1996 £'000
Depreciation of tangible fixed assets:		
Owned	134	102
Leased.....	114	23
Amortisation of other intangible fixed assets.....	499	—
Operating lease rentals:		
Land and buildings	1,720	1,704
Other.....	4	98
Auditors remuneration and expenses		
Audit.....	64	46
Other.....	9	40
	<u> </u>	<u> </u>

5. Staff numbers and costs

The average number of employees of the Group during the year was as follows:

	1997 No.	1996 No.
Playing staff, managers and coaches	58	64
Ground staff	8	8
Administration and commercial	59	48
	<u>125</u>	<u>120</u>

The aggregate payroll costs of these employees were as follows:

	1997 £'000	1996 £'000
Wages and salaries	13,426	8,261
Social Security costs.....	1,315	839
Other pension costs	132	119
	<u>14,873</u>	<u>9,219</u>

6. Directors' emoluments

	1997 £'000	1996 £'000
Emoluments.....	65	102
Company contributions to money purchase pension scheme	8	6
Gains made on exercise of share options.....	375	—
	<u>448</u>	<u>108</u>
The emoluments of the chairman was.....	<u>1</u>	<u>1</u>

On 18 December 1996, Mr. K.W. Bates sold his benefits under a share option agreement over 7,500,000 shares for 5p per share, which gave rise to a profit of £375,000. All contributions to money purchase pension schemes were payable in respect of the highest paid director.

The emoluments of the highest paid director was.....

	<u>64</u>	<u>61</u>
Other directors emoluments were within the following ranges:		
£0 — £ 5,000	4	4
£35,001 — £40,000	<u>—</u>	<u>1</u>

CHELSEA VILLAGE plc
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 1997

7. Related party transactions

K.W. Bates has an interest in a material contract between the company and Mayflower Securities Limited, a company in which he has a controlling interest. During the year ended 30 June 1997 the Group expended £122,425 (1996 £135,719) in respect of publicity and promotion of the Group's business, under the principal terms of that contract.

On 16 February 1995 an interest free loan of £15,000 was made to M.I. Russell. The loan is repayable over three years in equal monthly instalments. The amount outstanding at 30 June 1997 was £2,917 (1996 £7,917).

In June 1996 Rysaffe Ltd had provided a £2,000,000 loan facility to the Company which was converted into ordinary shares of 1p each in the Company at 60p per share on 12 August 1996.

8. Interest receivable

	1997 £'000	1996 £'000
Bank interest	434	79
	<u>434</u>	<u>79</u>

9. Interest payable and similar charges

	1997 £'000	1996 £'000
Interest payable on bank loans and overdrafts:		
repayable within five years	251	516
repayable after five years	322	144
Other loans	36	7
Finance lease charges	451	381
	<u>1,060</u>	<u>1,048</u>

10. Taxation

No liability to corporation tax has arisen due to losses incurred and the availability of group relief. (1996 £ nil)

11. Loss for the financial year

The loss for the financial year of the Group includes a profit of £289,688 (1996 loss £121,287) dealt with in the individual accounts of Chelsea Village plc.

12. Loss per share

The calculation of loss per share is based on the loss for the year of £375,723 (1996 loss £2,954,480) and on 156,081,152 (1996 119,401,200) ordinary shares in issue.

CHELSEA VILLAGE plc
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 1997

13. Intangible fixed assets

Group

	Other Intangibles £'000	Cost of Players' Registrations £'000	Total £'000
Cost			
At 1 July 1996	—	13,621	13,621
Additions	1,018	17,310	18,328
Disposals	—	(5,574)	(5,574)
At 30 June 1997	1,018	25,357	26,375
Amortisation			
At 1 July 1996	—	7,428	7,428
Charge for the year	499	5,881	6,380
Disposals	—	(3,749)	(3,749)
At 30 June 1997	499	9,560	10,059
Net Book Value			
At 30 June 1996	—	6,193	6,193
At 30 June 1997	519	15,797	16,316

14. Tangible fixed assets

Group

	Land and Buildings £'000	Plant and Equipment £'000	Site Development Costs £'000	Total £'000
Cost/valuation				
At 1 July 1996	35,220	777	813	36,810
Additions	15,753	1,623	8,400	25,776
Umbro contribution	(75)	—	—	(75)
Short term development	(81)	—	—	(81)
Revaluation	432	—	—	432
At 30 June 1997	51,249	2,400	9,213	62,862
Amortisation				
At 1 July 1996	4	255	—	259
Charge for the year	8	240	—	248
At 30 June 1997	12	495	—	507
Net Book Value				
At 30 June 1996	35,216	523	813	36,551
At 30 June 1997	51,237	1,905	9,213	62,355
Cost or valuation comprises:				
At cost	3,874	2,400	9,213	15,487
At 30 June 1997 valuation	47,375	—	—	47,375
At 30 June 1997	51,249	2,400	9,213	62,862

CHELSEA VILLAGE plc
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 1997

The net book value of land and buildings comprises:

	1997 £'000	1996 £'000
Freehold land and buildings.....	11,558	2,705
Long leasehold building.....	—	81
Short leasehold land and buildings.....	39,679	32,430
	<u>51,237</u>	<u>35,216</u>

Company

	Land and Buildings £'000	Plant and Equipment £'000	Site Development Costs £'000	Total £'000
Cost / valuation				
At 1 July 1996.....	5,351	828	706	6,885
Additions.....	3,663	71	547	4,281
Revaluation.....	211	—	—	211
Group transfers.....	(81)	—	1,391	1,310
At 30 June 1997.....	<u>9,144</u>	<u>899</u>	<u>2,644</u>	<u>12,687</u>
Amortisation				
At 1 July 1996.....	—	37	—	37
Charge for the year.....	—	44	—	44
At 30 June 1997.....	<u>—</u>	<u>81</u>	<u>—</u>	<u>81</u>
Net Book Value				
At 30 June 1996.....	<u>5,351</u>	<u>791</u>	<u>706</u>	<u>6,848</u>
At 30 June 1997.....	<u>9,144</u>	<u>818</u>	<u>2,644</u>	<u>12,606</u>
Cost or valuation comprises:				
At cost.....	—	899	2,644	3,543
At 30 June 1997 valuation.....	9,144	—	—	9,144
At 30 June 1997.....	<u>9,144</u>	<u>899</u>	<u>2,644</u>	<u>12,687</u>

The net book value of land and buildings comprises:

	1997 £'000	1996 £'000
Freehold land and buildings.....	8,844	250
Long leasehold building.....	—	81
Short leasehold land and buildings.....	300	5,020
	<u>9,144</u>	<u>5,351</u>

Valuations

Group

The open market value of the Group's freehold and leasehold interest in the hotel, office block site, car park and stadium were valued by Chesterton plc, International Property Consultants as at 30 June 1997 in the sum of £47,747,031 in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors.

Included within this valuation are: the stadium valued at £27,362,031 calculated on a depreciated replacement cost basis; the club shop, which has been valued at £4,190,000 calculated to existing use value as have the hotel, office block site and car park.

The open market value of the Group's leasehold interest in the residential and leisure developments and the Group's freehold and leasehold residential properties were valued by Rawley & Co., Surveyors, Valuers and Property

CHELSEA VILLAGE plc
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 1997

Consultants as at 30 June 1997 in the sum of £3,765,000 in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors.

Company

The open market value of the Company's freehold land and leasehold interest in the hotel, office block site and car park were valued by Chesterton plc, International Property Consultants, as at 30 June 1997 in the sum of £7,843,541 in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors.

The open market value of the Company's leasehold interest in the residential and leisure developments were valued by Rawley & Co., Surveyors, Valuers and Property Consultants as at 30 June 1997 in the sum of £1,300,000 in accordance with the Statement of Asset Valuation Practice and Guidance Notes of the Royal Institution of Chartered Surveyors.

Group

Included in revalued land and buildings are:

	1997 £'000	1996 £'000
Finance arrangement costs	184	69
Interest payable	70	70
	<u>254</u>	<u>139</u>

The value of land and buildings (included at cost or valuation) determined according to the historical cost accounting rules is as follows:

	Group		Company	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Cost				
Freehold property	11,481	2,332	8,945	204
Short leasehold property	29,594	23,676	—	5,078
Long leasehold property	—	81	—	81
	<u>41,075</u>	<u>26,089</u>	<u>8,945</u>	<u>5,363</u>
Depreciation				
Freehold property	675	—	675	—
Short leasehold property	206	870	—	675
Long leasehold property	—	—	—	—
	<u>881</u>	<u>870</u>	<u>675</u>	<u>675</u>
Net book value				
Freehold property	10,806	2,332	8,270	204
Short leasehold property	29,388	22,806	—	4,403
Long leasehold property	—	81	—	81
	<u>40,194</u>	<u>25,219</u>	<u>8,270</u>	<u>4,688</u>
Included in fixed assets are assets which are held under finance leases and hire purchase contracts as follows:				
Net book value	<u>6,182</u>	<u>4,148</u>	<u>752</u>	<u>781</u>
Depreciation charged in the year	<u>114</u>	<u>23</u>	<u>38</u>	<u>23</u>

CHELSEA VILLAGE plc
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 1997

15. Fixed asset investments

Company

	Shares £'000	Current Accounts £'000	Total £'000
Investment in subsidiary undertakings			
Cost / valuation			
At 1 July 1996	7,264	13,445	20,709
Additions	—	—	—
Disposals	—	—	—
Revaluation	(68)	—	(68)
Movement during the year	—	1,593	1,593
At 30 June 1997	<u>7,196</u>	<u>15,038</u>	<u>22,234</u>
Provision for diminution			
At 1 July 1996	1	95	96
Release	—	—	—
Charge during the year	—	1,050	1,050
At 30 June 1997	<u>1</u>	<u>1,145</u>	<u>1,146</u>
Net Book Value			
At 30 June 1996	<u>7,263</u>	<u>13,350</u>	<u>20,613</u>
At 30 June 1997	<u>7,195</u>	<u>13,893</u>	<u>21,088</u>

Details of the Company's Subsidiary undertakings are shown in note 32.

16. Stocks

	Group		Company	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Food and beverages	<u>32</u>	<u>30</u>	<u>—</u>	<u>—</u>

17. Debtors

	Group		Company	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Trade debtors	3,610	1,810	1	—
Other debtors	2,045	45	826	30
Prepayments and accrued income	958	143	360	2
	<u>6,613</u>	<u>1,998</u>	<u>1,187</u>	<u>32</u>
Included in the above are the following amounts which are due after one year:				
Prepayments and accrued income	174	—	—	—
Other debtors	—	4	—	3
	<u>174</u>	<u>4</u>	<u>—</u>	<u>3</u>

Included in Group prepayments is pre-opening expenditure of £174,043 in respect of the Hotel. This will be amortised over a period of five years once the Hotel has commenced trading.

CHELSEA VILLAGE plc
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 1997

18. Current asset investments

	Group		Company	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Unlisted investments.....	—	131	—	131
Short term development	1,110	—	555	—
	<u>1,110</u>	<u>131</u>	<u>555</u>	<u>131</u>

The property development held for resale is due for completion in October 1997. It represents the development of 8 residential apartments which will be sold on long term leases.

19. Creditors:

Amounts falling due within one year:

	Group		Company	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Bank loans and overdrafts.....	671	864	24	180
Trade creditors	12,414	2,261	147	87
Corporation tax	147	101	—	—
Other loans	100	100	—	—
Other creditors	863	311	—	—
Other tax and social security	1,788	1,033	12	10
Accruals and deferred income.....	1,019	667	654	223
Hire purchase and finance lease obligations	1,272	726	118	98
	<u>18,274</u>	<u>6,063</u>	<u>955</u>	<u>598</u>
Payments received in advance	8,399	2,985	—	—
	<u>26,673</u>	<u>9,048</u>	<u>955</u>	<u>598</u>

20. Creditors:

Amounts falling due after one year

	Group		Company	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Bank loans and overdrafts.....	7,028	6,752	78	1,102
Payments received in advance	65	115	—	—
Trade creditors	3,796	—	—	—
Other loans	25	125	—	—
Other creditors	12	—	—	—
Amounts owed to group undertakings.....	—	—	192	541
Hire purchase and finance lease obligations	3,102	2,357	515	625
	<u>14,028</u>	<u>9,349</u>	<u>785</u>	<u>2,268</u>

Other loans represent an interest free loan of £125,000 (1996: £225,000) to Chelsea Football Club Limited from the Football Trust.

21. Convertible liabilities

	Group		Company	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Loan stock (note 7)	—	2,000	—	2,000
As at 30 June 1997.....	<u>—</u>	<u>2,000</u>	<u>—</u>	<u>2,000</u>

CHELSEA VILLAGE plc
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 1997

The loan stock was converted into 3,333,333 ordinary 1p shares on 12 August 1996 at 60p per share.

22. Borrowings and secured liabilities

	Group		Company	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
The aggregate borrowings amounted to:				
Bank loans and overdrafts.....	7,699	7,616	102	1,282
Hire purchase and finance lease obligations	4,374	3,083	633	723
Convertible unsecured loan stock	—	2,000	—	2,000
Other loans.....	125	225	—	—
	<u>12,198</u>	<u>12,924</u>	<u>735</u>	<u>4,005</u>
Which are repayable as follows:				
Within one year or on demand				
Bank loans and overdrafts.....	671	864	24	180
Hire purchase and finance lease obligations	1,272	726	118	98
Other loans.....	100	100	—	—
	<u>2,043</u>	<u>1,690</u>	<u>142</u>	<u>278</u>
Between two and five years				
Bank loans.....	5,203	4,602	78	1,102
Hire purchase and finance lease obligations	3,046	2,195	459	464
Other loans.....	25	125	—	—
Convertible loan stock.....	—	2,000	—	2,000
	<u>10,317</u>	<u>10,612</u>	<u>679</u>	<u>3,844</u>
After five years				
Bank loans.....	1,825	2,150	—	—
Convertible unsecured loan stock	—	—	—	—
Hire purchase and finance lease obligations	56	162	56	161
	<u>12,198</u>	<u>12,924</u>	<u>735</u>	<u>4,005</u>

Obligations under finance leases and hire purchase contracts are secured by the related leased assets. Liabilities under hire purchase agreements amounting to £2,506,557 are further secured by an assignment and first fixed and floating legal and equitable charges over all rights and monies due to the Group under a sponsorship agreement dated 30 November 1995.

The bank loans and overdrafts are secured by debentures giving fixed and floating charges over the undertakings and all property and assets, present and future.

A bank loan of £3,300,000 being the amount drawn down at 30 June 1997 out of a total development loan facility of £9,000,000 is secured by a debenture dated 16 October 1996 giving fixed and floating charges over the undertaking and all property and assets present and future. The total facility is repayable as follows:

	£'000
Within one year	500
Between two and five years.....	4,000
After five years	4,500
	<u>9,000</u>

The portion of the bank loan due after five years is repayable in equal quarterly instalments up to and including 30 June 2006.

CHELSEA VILLAGE plc
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 1997

Loans due after five years

Included in amounts due after one year are amounts repayable in instalments, some of which fall due after five years:

	Group		Company	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Due within five years:				
Bank loans.....	1,175	850	—	—
Hire purchase and finance lease liabilities	539	377	539	377
	<u>1,714</u>	<u>1,227</u>	<u>539</u>	<u>377</u>
Due after five years:				
Bank loans.....	1,825	2,150	—	—
Hire purchase and finance lease liabilities	56	161	56	161
	<u>1,881</u>	<u>2,311</u>	<u>56</u>	<u>161</u>

The bank loan which totals £3,000,000 is repayable in variable annual instalments as follows:

	Group		Company	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
For the year ended:				
30 June 1998.....	100	100	—	—
30 June 1999.....	225	225	—	—
30 June 2000.....	250	250	—	—
30 June 2001.....	275	275	—	—
30 June 2002.....	325	325	—	—
30 June 2003.....	350	350	—	—
30 June 2004.....	375	375	—	—
30 June 2005.....	425	425	—	—
30 June 2006.....	450	450	—	—
30 June 2007.....	225	225	—	—

The year end rate of interest on the underlying borrowings is 9.41489%, which fluctuates dependant on LIBOR.

In addition the company entered into interest rate swap arrangements which have the effect of fixing the rate of interest at 10.4375% plus margin on borrowings totalling £2,000,000 until total repayment of the loan at 31 December 2006.

The finance lease due after more than five years is repayable in quarterly instalments of £29,058, including finance charges at an average rate of 9.9%.

23. Football trust grants

	Group		Company	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Grants receivable	<u>3,000</u>	<u>2,800</u>	<u>—</u>	<u>—</u>

The grants receivable from the Football Trust are in respect of the completed North Stand Development at the stadium.

CHELSEA VILLAGE plc
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 1997

24. Deferred taxation

No provision for deferred taxation has been made. An analysis of the deferred taxation (assets) / liabilities unprovided, calculated at 31%, is as follows:

	Group		Company	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Accelerated capital allowances.....	653	1,314	(3)	(1)
Taxation losses.....	(4,737)	(2,710)	(132)	(241)
Short term timing differences	—	—	—	—
Other timing differences.....	4,834	2,044	—	—
	750	648	(135)	(242)
Property and investment revaluations	3,341	3,622	2,444	2,601
	<u>4,091</u>	<u>4,270</u>	<u>2,309</u>	<u>2,359</u>

25. Share capital

	1997		1996	
	Number	£'000	Number	£'000
Ordinary shares of 1p each				
Authorised	170,000,000	1,700	170,000,000	1,700
Allotted, issued and fully paid.....	156,081,100	1,561	119,401,241	1,194

Ordinary share capital was issued during the year to provide funds for the continuing development of the site, and the exercising of part of the company's option to acquire the freehold of the site.

CHELSEA VILLAGE plc
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 1997

26. Movement on reserves and reconciliation of movement in shareholders' funds

	Share Capital £'000	Share premium account £'000	Revaluation reserve £'000	Profit and loss £'000	Total shareholders funds £'000
Group					
Balance at 30 June 1995	1,026	2,955	7,040	5,372	16,393
Loss for the financial year	—	—	—	(2,954)	(2,954)
Unrealised surplus on revaluation of property	—	—	2,197	—	2,197
Issue of share capital	168	5,945	—	—	6,113
Balance at 30 June 1996	1,194	8,900	9,237	2,418	21,749
Loss for the financial year	—	—	—	(376)	(376)
Unrealised surplus on revaluation of property	—	—	432	—	432
Issue of share capital	367	25,925	—	—	26,292
Issue costs	—	(177)	—	—	(177)
Equity shareholders funds at 30 June 1997	<u>1,561</u>	<u>34,648</u>	<u>9,669</u>	<u>2,042</u>	<u>47,920</u>
Company					
Balance at 30 June 1995	1,026	2,955	7,511	(1,051)	10,441
Loss for the financial year	—	—	—	(121)	(121)
Unrealised deficit on revaluation of property	—	—	(30)	—	(30)
Issue of share capital	168	5,945	—	—	6,113
Investment revaluation	—	—	6,356	—	6,356
Realised surplus on disposal of investment	—	—	(7,227)	7,227	—
Balance at 30 June 1996	1,194	8,900	6,610	6,055	22,759
Loss for the financial year	—	—	—	(761)	(761)
Unrealised surplus on revaluation of property	—	—	211	—	211
Issue of share capital	367	25,925	—	—	26,292
Issue costs	—	(177)	—	—	(177)
Investment revaluation	—	—	(68)	—	(68)
Equity shareholders funds at 30 June 1997	<u>1,561</u>	<u>34,648</u>	<u>6,753</u>	<u>5,294</u>	<u>48,256</u>

27. Notes to the Cash Flow Statement

27.1 Reconciliation of operating profit to operating cash flows

	1997 £'000	1996 £'000
Operating profit / (loss)	250	(1,981)
Depreciation charges	248	126
Profit on sale of intangible fixed assets	(3,960)	(1,088)
Amortisation of players' registrations	5,881	3,723
Amortisation of commercial rights	499	—
Increase in stocks	(2)	(19)
Increase / (decrease) in debtors	(4,620)	399
Increase in creditors	21,036	2,805
Net cash inflow from operating activities	<u>19,332</u>	<u>3,965</u>

CHELSEA VILLAGE plc
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 1997

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

	1997 £'000	1996 £'000
Returns on investments and servicing of finance		
Interest received.....	434	79
Interest paid.....	(609)	(667)
Interest element of finance lease rental payments	(451)	(381)
	<u>(626)</u>	<u>(969)</u>
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(23,554)	(5,506)
Purchase of: Intangible fixed assets.....	(18,328)	(4,841)
Contract settlements	(879)	(124)
Grants received	200	200
Sale of intangible fixed assets.....	6,665	2,250
	<u>(35,896)</u>	<u>(8,021)</u>
Acquisition and disposals		
Cost of short term development.....	(1,029)	—
Sale of interest in joint venture	131	—
Net cash outflow for acquisitions and disposals	<u>(898)</u>	<u>—</u>
Management of liquid resources		
Cash deposited on 7 day deposit	(5,036)	522
Net cash outflow from management of liquid resources	<u>(5,036)</u>	<u>522</u>
Financing		
Issue of ordinary share capital	24,292	1,112
Expenses on issuing share capital.....	(177)	—
Debt due within one year		
Increase in short term borrowings	479	202
Repayment of short term borrowings	(100)	(2,580)
Debt after one year		
New secured loan	2,800	5,649
Repayment of secured loan	(1,400)	—
Repayment of unsecured loan	(1,000)	—
Hire purchase and capital element of finance lease rental payments.....	(856)	(625)
	<u>(77)</u>	<u>2,646</u>
	<u>24,038</u>	<u>3,758</u>

27.3 Analysis of Net Debt

	At 1 July 1996 £'000	Cash flow £'000	Other non cash changes £'000	At 1 July 1997 £'000
Cash at bank and in hand.....	43	117	—	160
Bank overdrafts	(843)	796	—	(47)
Convertible loan.....	(2,000)	—	2,000	—
Debt due within one year	(6,877)	(400)	224	(7,053)
Debt due after one year	(122)	(378)	(224)	(724)
Hire purchase and finance leases	(3,083)	856	(2,147)	(4,374)
Current asset: 7 day deposit.....	—	5,036	—	5,036
	<u>(12,882)</u>	<u>6,027</u>	<u>(147)</u>	<u>(7,002)</u>

CHELSEA VILLAGE plc
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 1997

27.4 Major non-cash transactions

- a) During the year the Group entered into hire purchase and finance lease arrangements in respect of assets with a total capital value at the inception of the agreements and leases of £2,147,320 (1996 £770,000).
- b) During the year a £2,000,000 convertible loan was converted into ordinary share capital of the Company.
- c) During the preceding year £5,000,000 loan stock 2008 was converted into ordinary share capital of the Company.

28. Capital commitments

The annual commitments under non-cancellable operating leases are:

	Group		Company	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Land and buildings:				
Leases expiring within one year	—	60	—	—
Leases expiring within two to five years	12	12	—	—
Leases expiring in more than five years	1,725	2,038	1,179	1,557
	<u>1,737</u>	<u>2,110</u>	<u>1,179</u>	<u>1,557</u>
Other				
Leases expiring within two to five years	<u>9,514</u>	<u>9,891</u>	<u>—</u>	<u>—</u>
Capital expenditure commitments were as follows:				
Contracted for but not provided:				
Tangible	21,500	360	—	—
Intangible	<u>2,250</u>	<u>—</u>	<u>—</u>	<u>—</u>

29. Contingent liabilities

- a) The Company has guaranteed the bank loans and overdrafts of its subsidiary undertakings. The amount covered by this guarantee at 30 June 1997 was £15,721,495.
- b) The Company has guaranteed a hire purchase liability of a subsidiary undertaking. The amount covered by this guarantee at 30 June 1997 was £2,506,557.
- c) Grants totalling £564,217 have been received in respect of the refurbishment of residential freehold property. If conditions attaching to the grants are not complied with until May 1998, then the whole or a part of the grants may become repayable.
- d) The Inland Revenue has made estimated assessments on the Company, which if successful would in the worst case give rise to a tax charge of £1,250,000. The Company considers the assessments have no merit and disagree that a charge arises.

The Directors have sought professional taxation advice when formulating the Company's tax liability. However, the Inland Revenue are disputing the treatment of a subsidiary company's expenditure which, if successful, would result in deferred taxation losses being reduced to nil and a tax charge of £695,000 being payable. All advice taken confirms this view has no grounds and the Directors are firmly of the same opinion.

30. Pension commitments

A subsidiary undertaking contributes to pension schemes providing benefits based both upon contributions made and upon final salary. Both schemes are administered by the Football League Limited. 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 cost charge of £131,730 (1996 £119,017) is payable to these funds.

CHELSEA VILLAGE plc
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 1997

31. Post balance sheet events

Since 30 June 1997 the Group has acquired the registrations of four professional football players and sold one other. The net expenditure of these transfers was £5.3 million.

The Company has acquired 80% of the entire share capital of the Bidgleam Group of Companies. The cost of this investment was £2,319,000, with a commitment to acquire the remaining 20% within a period of 3 years at a price determined by that Group's profit performance. The purchase consideration was paid by the issues of 1,750,001 shares at £1.20 each and cash of £219,000.

32. Subsidiary undertakings

The company has the following subsidiary undertakings:

Trading	Nature of business
Chelsea Football Club Limited	Professional football club
Chelsea Car Parks Limited.....	Car park management
Chelsea Communications Limited	Publications, Radio and Internet operations
Chelsea Village Catering Limited.....	Catering services
Chelsea Village Hotel Limited.....	Hotel development
Chelsea Village Merchandising Limited.....	Merchandising and Mail Order
Chelsea Events Limited.....	Event organisation
Fulham Securities Limited	Property lessors and development
Stamford Bridge Properties Limited	Property lessors
Stamford Bridge Securities Limited	Property lessors and development
Dormant	
Chelsea Limited	Holding company of Chelsea Football Club Limited
Arkles Limited	
Chelsea Caterers Limited	
Chelsea Financial Consultants Limited	
Chelsea Garden Village Limited	
Chelsea Leisure Services Limited	
Chelsea Pacific Limited	
Chelsea Pensioner Limited	
Chelsea Television Limited	
Chelsea T.V. Limited	
Chelsea Village Contractors Limited	
Chelsea Village Management Limited	
Chelsea Vintners Limited	
Chelsea Worldwide Travel Limited	
London Voice Limited	
Midnight at Chelsea Limited	
The Chelsea Style Limited	
Virjeans Limited	

All of the above companies are incorporated in Great Britain and registered in England and Wales.

The entire share capital of Chelsea Car Parks Limited is held by The Co-Operative Bank plc, although the voting rights attached to those shares are exercised at the direction of the Company and the Company directs the financial and operating policies of Chelsea Car Parks Limited.

The entire share capital and control of 100% of the voting rights of all the other subsidiary undertakings is held by the Company.

REPORT OF HARGREAVES, BROWN & BENSON

The following is the report of Hargreaves, Brown & Benson, Chartered Accountants and Registered Auditors, on the Group's financial statements for the year ended 30 June 1997. References to page numbers are the page numbers which appear on the Annual Report and Accounts of the Group.

"AUDITORS' REPORT TO THE MEMBERS OF CHELSEA VILLAGE plc FOR THE YEAR ENDED 30 JUNE 1997

We have audited the financial statements on pages 10 to 29 which have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets and the accounting policies set out in note 1 to the accounts.

Respective responsibilities of Directors and Auditors

As described on page 8, the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, 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 and Group affairs as at 30 June 1997 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Hargreaves, Brown & Benson
Chartered Accountants and Registered Auditor

Colne, Lancashire

24 October 1997"

REPORT OF SAFFERY CHAMPNESS

The following is the report of Saffery Champness, Chartered Accountants and Registered Auditors, on the audited accounts of the Group for the two years ended 30 June 1997.

Saffery Champness

CHARTERED ACCOUNTANTS

Fairfax House, Fulwood Place
Gray's Inn, London WC1V 6UB

The Directors
Chelsea Village plc
Stamford Bridge
London
SW6 1HS

Swiss Bank Corporation
1 High Timber Street
London
EC4V 3SB

MeesPierson Securities (UK) Limited
Camomile Court
23 Camomile Street
London
EC3A 7PP

Dear Sirs

Chelsea Village plc

We have examined the audited accounts (the "Audited Accounts") of Chelsea Village plc (the "Company") and of its subsidiary undertakings (collectively referred to as the "Group") for the two years ended 30 June 1997. Our examination has been carried out in accordance with the Auditing Guideline: Prospectuses and the Reporting Accountant.

The audit reports for both years ending 30 June 1996 and 1997 were unqualified. Hargreaves, Brown & Benson have been auditors of the Group throughout this period.

No audited accounts of the Group have been made up in respect of any period subsequent to 30 June 1997.

The financial information set out on pages 36, 48, 49 to 68 of the Offering Circular dated 9 December 1997 relating to the issue of the Company's £75,000,000 8.875 per cent. First Mortgage Debenture Bonds due 2007 is based on the Audited Accounts of the Group to which no adjustments were considered necessary.

In our opinion the Audited Accounts give a true and fair view of the losses and cash flows and of the state of affairs of the Company and the Group for the two years and as at the dates stated.

Yours faithfully

Saffery Champness
Chartered Accountants and Registered Auditors

9 December 1997

UNITED KINGDOM TAXATION

The following is a summary of the Issuer's understanding of current law and practice in the United Kingdom relating to the taxation of the Bonds. Some aspects do not apply to certain classes of taxpayer (such as dealers). Prospective Bondholders who may be subject to tax in jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.

INTEREST ON THE BONDS

1. The Bonds will constitute "quoted Eurobonds" within the meaning of section 124 of the Income and Corporation Taxes Act 1988 ("the Act") as long as they continue to be in bearer form and listed on a "recognised stock exchange" within the meaning of section 841 of the Act. The London Stock Exchange is currently recognised for this purpose. Accordingly, payments of interest on the Bonds may be made without withholding or deduction for or on account of United Kingdom income tax:

- (a) where payment is made by or through a paying agent who is not in the United Kingdom;
- (b) where payment is made by or through a paying agent in the United Kingdom and either:
 - (i) the beneficial owner of the Bonds and the related Coupons is not resident in the United Kingdom; or
 - (ii) the Bonds are held in a "recognised clearing system" within the meaning of Section 841A of the Act;

and, in the case of (b), any other administrative conditions imposed by regulations made under the Act (as amended by the Finance Act 1996) have been satisfied.

In all other cases an amount must be deducted on account of income tax at the lower rate (currently 20 per cent.), subject to any direction to the contrary by the Inland Revenue pursuant to the provisions of an applicable double taxation treaty.

2. Where a person in the United Kingdom in the course of a trade or profession either:

- (a) acts as custodian of the Bonds and receives interest on the Bonds or directs that interest on the Bonds be paid to another person or consents to such payment; or
- (b) collects or secures or arranges to collect or secure payment of or receives interest on the Bonds for a Bondholder or a Couponholder whether by means of Coupons or otherwise (except by means solely of clearing a cheque or arranging for the clearing of a cheque);

(a "collecting agent") the collecting agent will be required to withhold on account of income tax at the lower rate unless:

- (i) the relevant Bonds are held in a "recognised clearing system" and the collecting agent either:
 - (A) pays or accounts for the interest directly or indirectly to the "recognised clearing system"; or
 - (B) is acting as depositary for the "recognised clearing system"; or
- (ii) the person beneficially entitled to the interest is not resident in the United Kingdom and beneficially owns the relevant Bonds;

and in cases (i)(A) and (ii) above a declaration has been made in the prescribed form that one of those conditions is satisfied.

There are also other exemptions for certain types of Bondholders and other prescribed circumstances (e.g. pension funds, charities and non-resident trusts).

3. Interest on the Bonds constitutes United Kingdom source income for tax purposes and, as such, may be subject to income tax by direct assessment even where paid without withholding or deduction.

However, interest with a United Kingdom source received without deduction or withholding on account of United Kingdom tax will not be chargeable to United Kingdom tax in the hands of a Bondholder who is not resident for tax purposes in the United Kingdom unless that Bondholder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the Bonds are attributable. There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers).

UNITED KINGDOM CORPORATION TAX PAYERS

4. In general, all returns on and fluctuations in the value of the Bonds will be charged to tax as income for Bondholders within the charge to corporation tax, broadly in accordance with their statutory accounting treatment. Such Bondholders will generally be charged to tax in each accounting period by reference to the interest accrued in that period.

OTHER UNITED KINGDOM TAX PAYERS

Taxation of Chargeable Gains

5. It is expected that the Bonds will be treated by the Inland Revenue as "qualifying corporate bonds" within the meaning of section 117 Taxation of Chargeable Gains Act 1992. Accordingly, a disposal by a Bondholder would not give rise to a chargeable gain or an allowable loss for the purpose of the UK taxation of chargeable gains.

Accrued Income Scheme

6. On a disposal of Bonds by a Bondholder, any interest which has accrued since the last interest payment date may be chargeable to tax as income if that Bondholder is not within, the charge to United Kingdom corporation tax but is resident or ordinarily resident in the United Kingdom or carries on a trade, profession or vocation in the United Kingdom through a branch or agency to which the Bonds are attributable.

Relevant Discounted Securities

7. It is believed that Inland Revenue practice is not to treat the Bonds as "relevant discounted securities" for the purposes of the Finance Act 1996, notwithstanding that the issue price is slightly less than the amount payable on maturity of the Bonds.

STAMP DUTY AND SDRT

8. No stamp duty or stamp duty reserve tax is payable on the issue or transfer by delivery of the Bonds or on redemption.

SUBSCRIPTION AND SALE

Swiss Bank Corporation and MeesPierson Securities (UK) Limited (the "Managers") have, pursuant to a Subscription Agreement (the "Subscription Agreement") dated 9 December 1997, jointly and severally agreed to subscribe or procure subscribers for the Bonds at the issue price of 99.667 per cent. of the principal amount of Bonds, for a selling commission of 0.75 per cent. and a combined management and underwriting commission of 0.75 per cent. of the principal amount of the Bonds. The Issuer will also reimburse the Managers in respect of certain of their expenses. The Subscription Agreement may be terminated in certain circumstances prior to payment of the Issuer.

UNITED STATES OF AMERICA

The Bonds have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") and Bonds are subject to U.S. tax law requirements. Subject to certain exceptions, Bonds may not be offered, sold or delivered within the United States or to U.S. persons. Each Manager has agreed that it will not offer, sell or deliver a Bond within the United States or to U.S. persons except as permitted by the Subscription Agreement.

In addition, until 40 days after the commencement of the offering, an offer or sale of Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

UNITED KINGDOM

Each of the Managers has represented and agreed that:

- (i) it has not offered or sold and will not offer or sell any Bonds to persons in the United Kingdom prior to admission of the Bonds to listing in accordance with Part IV of the Financial Services Act 1986 (the "FSA") except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 or the FSA;
- (ii) it has complied and will comply with all applicable provisions of the FSA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom; and
- (iii) it has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the issue of the Bonds, other than any document which consists of or any part of listing particulars, supplementary listing particulars or any other document required or permitted to be published by listing rules under Part IV of the FSA, to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 (as amended) or is a person to whom such document may otherwise lawfully be issued or passed on.

GENERAL INFORMATION

APPROVALS AND AUTHORISATIONS

The issue of the Bonds and the creation of security therefor by the Issuer was authorised pursuant to a resolution of the Board of Directors of the Issuer passed on 27 November 1997. The provision of the guarantee and the creation of the security in respect of the Bonds and any further Bonds was authorised by each of the Original Charging Subsidiaries on 28 November 1997.

LISTING

The listing of the Bonds on the London Stock Exchange will be expressed as a percentage of their principal amount (exclusive of accrued interest). It is expected that listing of the Bonds on the London Stock Exchange will be granted on 12 December 1997, subject only to the issue of the Temporary Global Bond. Prior to listing, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for settlement in sterling and for delivery on the third business day after the date of the transaction.

CLEARING SYSTEMS

The Bonds have been accepted for clearance through Cedel Bank and Euroclear. The ISIN for this issue is XS0082850396 and the Common Code is 8285039.

ACCOUNTS AND AUDITORS

The auditors of the Issuer were Hargreaves, Brown & Benson, Chartered Accountants and Registered Auditors of 2 Derby Street, Colne, Lancashire who audited the Issuer's consolidated accounts for the three financial years ended 30 June 1997 in accordance with auditing standards and have made reports under section 235 of the Companies Act in respect of each set of statutory accounts and each such report was not qualified (within the meaning of Section 262 of the Companies Act) and did not contain a statement under section 237(2) or (3) of the Companies Act.

Hargreaves, Brown & Benson have given, and have not withdrawn, their written consent to the issue of this Offering Circular with the inclusion herein of its report and of the references to their name in the form and context in which they appear and have authorised the contents of those parts of this Offering Circular for the purposes of Section 152(1)(e) of the FSA.

On 24 October 1997 Hargreaves, Brown & Benson resigned as auditors of the Issuer and Saffery Champness Chartered Accountants of Fairfax House, Fulwood Place, Gray's Inn, London WC1V 6UB were appointed as auditors of the Issuer and the Group. Saffery Champness have given, and have not withdrawn, their written consent to the issue of this Offering Circular with the inclusion therein of its report and the references to their name in form and context in which they appear and have authorised the contents of those parts of this Offering Circular for the purposes of Section 152(1)(e) of the FSA.

NO SIGNIFICANT OR MATERIAL CHANGE

Save as disclosed herein, there has been no significant change in the financial or trading position of the Issuer or the Group and no material adverse change in the financial position or prospects of the Issuer or the Group, in either case since 30 June 1997.

LITIGATION

No member of the Group is or has been engaged in any legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of this document, a significant effect on the Group's financial position nor are any such proceedings pending or threatened.

U.S. TAX LEGEND

The following legend will appear on all Bonds and Coupons: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code". Under these limitations, if a Bond or Coupon is paid, sold or otherwise disposed of in a transaction that results in a taxable gain or a loss for United States Federal income tax purposes, the gain will be treated as ordinary income and not as capital gain, and no deduction will be allowable in respect of the loss.

GENERAL INFORMATION

DOCUMENTS ON DISPLAY

Copies of the following documents will be available for inspection during usual business hours on any weekday (Saturdays and public holidays excepted) at the offices of Jacobsens, The Outer Temple, 222 Strand, London WC2R 1DE for 14 days after the date hereof:

- (a) the Memorandum and Articles of Association of the Issuer;
- (b) the Annual Report and Accounts of the Group for each of the years ended 30 June 1997 and 30 June 1996;
- (c) the Report of Saffery Champness set out above;
- (d) the Subscription Agreement;
- (e) drafts, subject to modification, of the Trust Deed (including the forms of the Bonds and the Coupons) and the Agency Agreement;
- (f) the Valuation Certificate set out above; and
- (g) the 1997 year end valuations of Chesterton plc, International Property Consultants and Messrs Rawley and Company.

VALUATIONS

Chestertons have given and have not withdrawn their written consent to the issue of this Offering Circular with the inclusion herein of the Valuation Certificate dated 9 December 1997 and of the references to their name in the form and context in which they appear and have authorised the contents of those parts of this Offering Circular for the purposes of section 152(1)(e) of the FSA.

ENVIRONMENT

The Issuer is not aware of any breach of any legislation concerning environmental matters which affects any of the properties specified in the Valuation Certificate. In the light of the above, no environmental surveys of any of the properties specified in the Valuation Certificate have been undertaken specifically for the purposes of the issue of the Bonds or otherwise. Furthermore, the Trust Deed will not provide that any such surveys may be required in respect of any new eligible property which may be added to the specifically mortgaged premises after the date of the Trust Deed.

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London EC2V 7LY

PRINCIPAL PAYING AGENT

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Throgmorton Street
London EC2R 7HT

PAYING AGENT

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To the Managers and the Trustee

Allen & Overy
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LISTING AGENT

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