

UMBRO EUROPE LIMITED

(FORMERLY UMBRO UK LIMITED)

**Report and Accounts
31 December 1996**



UMBRO EUROPE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1996

The directors present their report and the audited accounts of the company for the year ended 31 December 1996.

PRINCIPAL ACTIVITIES

The company is a manufacturer and distributor of sports and leisurewear for the home and overseas markets.

REVIEW OF THE BUSINESS

The company's gross turnover increased by 23% to £123m, continuing the growth achievement of recent years. Margins, however, were depressed due to the competitive market environment. The company continues to enhance its brand profile through increased marketing expenditure, providing the basis for future growth and profitability. The company was a main sponsor of the Euro 96 Championships, which were a great success, both to the company and to the game of football in the UK. Umbro is proud to have been associated with an event which brought pleasure to millions and enhanced the profile of the company as the 'Heart and Soul of Football'.

TRADING RESULTS AND DIVIDEND

The profit for the year after tax was £800,000 (1995 : £9,585,000).

A dividend of £3,100,000 was paid in December 1996 (1995 : £7,000,000), leaving £2,300,000 to be deducted from reserves.

CHANGE OF NAME

On 31 December 1996 the company changed its name from Umbro UK Limited to Umbro Europe Limited. On the same date the immediate parent company also changed its name from Umbro Europe Limited to Umbro Europe (Holdings) Limited. The directors consider the new names better reflect the trading operations of the companies.

EVENTS SINCE THE BALANCE SHEET DATE

The directors have decided to dispose of the Italian subsidiary in 1998 and intend to maintain a trading presence in that country by means of a licensee. The investment's carrying value of £3,390,000 has been fully provided against as an exceptional item in the accounts since it is not expected to be recoverable.

The company is closing two of its manufacturing units as part of its global product sourcing strategy.

The costs of disposing of the Italian subsidiary and the UK factories cannot yet be quantified since sale negotiations are not yet completed.

UMBRO EUROPE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1996 (Continued)

FINANCING ARRANGEMENTS

As described in Note 1 to the accounts, the company is party to group bank and loan facilities through its American parent company and is dependent on this finance to meet its liabilities. The current facility extends to 1 February 1999 and is available subject to the achievement of a business plan which includes asset disposals in the American parent company. The business plan also incorporates a creditor payment plan.

UMBRO EUROPE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1996 (Continued)

DIRECTORS

The directors who served on the board during the year were as follows:

P F Kenyon (resigned 30 April 1997)
P J Draper
A Hadfield
M C Prothero
S Preston
F Barrow (deceased 11 June 1996)
A Duckworth

None of the directors had any interest in the shares of the company at 31 December 1996 or 31 December 1995.

S Preston and A Duckworth retired from the Board of Directors in accordance with the Articles of Association on 3 December 1997 and were re-elected.

DIRECTORS AND OFFICERS LIABILITY INSURANCE

Insurance has been taken out by the ultimate parent undertaking under Section 310(3) of the Companies Act 1985 in respect of liabilities arising in relation to the company.

DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departure disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that the accounts comply with the above requirements.

The directors are responsible for keeping proper account records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

UMBRO EUROPE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1996 (CONTINUED)

FIXED ASSETS

The changes which have taken place during the year are set out in Note 9 to the accounts.

EMPLOYEES

Full and fair consideration is given to applications for employment made by disabled persons having regard to their particular aptitudes and abilities. Wherever possible, provision is made for training, career development and promotion of disabled persons. Every effort is made to facilitate the continuation in employment of employees who become disabled.

Employees are kept informed by regular meetings and presentations from the management, and by official company notices at each site.

CHARITABLE CONTRIBUTIONS

During the year the company made charitable contributions of £11,694.

AUDITORS

The company's auditors, Ernst & Young have indicated their willingness to continue in office and a resolution for the re-appointment will be proposed at the next Annual General Meeting of the company.

BY ORDER OF THE BOARD

D A HARE
SECRETARY



Dallimore Road
Roundthorn Industrial Estate
Wythenshawe
Manchester
M23 9GJ

Company Registered Number: 198168

REPORT OF THE AUDITORS

to the members of Umbro Europe Limited

We have audited the accounts on pages 6 to 22 which have been prepared under the historical cost convention as modified by the revaluation of certain land and buildings and on the basis of accounting policies set out on pages 9 to 10.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

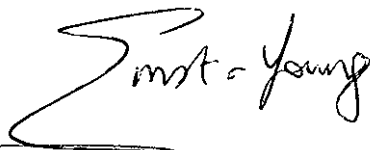
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error.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

Going concern

In forming our opinion we have considered the adequacy of the disclosures made in note 1 to the accounts concerning the continued availability of external finance. The accounts have been prepared on a going concern basis, the validity of which depends upon existing funding continuing to be made available for the period to 1 February 1999, the achievement during that period of a business plan including the disposal of certain operations and related assets, the continued support of creditors regarding the deferred payment of liabilities and the ability of the group to negotiate adequate new funding arrangements after that period. The accounts do not include any adjustments which would result from a withdrawal of the current facilities or a failure to achieve the business plan or secure new funding at 1 February 1999. Our opinion is not qualified in this respect.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 December 1996 and of the profit of the company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Chartered Accountants
Registered Auditor
Manchester

1 May 1998

UMBRO EUROPE LIMITED

**PROFIT AND LOSS ACCOUNT FOR
THE YEAR ENDED 31 DECEMBER 1996**

	<u>Notes</u>	<u>1996</u>	<u>1995</u>
		£000	£000
TURNOVER	2	123,399	100,647
Cost of sales		(84,345)	(64,537)
GROSS PROFIT		39,054	36,110
Selling and distribution costs		(32,610)	(23,358)
Administration expenses		(5,000)	(4,046)
		(37,610)	(27,404)
		1,444	8,706
Other operating income		6,747	5,678
OPERATING PROFIT	3	8,191	14,384
(Loss)/profit on disposal of fixed assets		(105)	362
Provision against investment in subsidiary		(3,390)	-
OPERATING PROFIT BEFORE INTEREST		4,696	14,746
Interest receivable	3	31	3
Interest payable	3	(1,449)	(433)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		3,278	14,316
Taxation	6	(2,478)	(4,731)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		800	9,585
Dividends	7	(3,100)	(7,000)
(LOSS)/PROFIT SET ASIDE TO RESERVES	18	(2,300)	2,585

The annexed notes form part of these accounts.

There are no other recognised gains or losses other than those shown in the profit and loss account.

UMBRO EUROPE LIMITED

NOTE OF HISTORICAL COST PROFITS AND LOSSES

	<u>1996</u> <u>£000</u>	<u>1995</u> <u>£000</u>
Reported profit on ordinary activities before tax	3,278	14,316
Difference between historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount	<u>34</u>	<u>34</u>
Historical cost profit on ordinary activities before tax	<u>3,312</u>	<u>14,350</u>
Historical cost profit after taxation	<u>834</u>	<u>9,619</u>

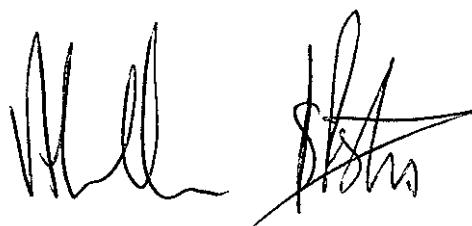
UMBRO EUROPE LIMITED

BALANCE SHEET - 31 DECEMBER 1996

	Notes	1996 £000	1995 £000
FIXED ASSETS			
Tangible fixed assets	9	6,320	2,834
Investment in subsidiaries	8	22	3,412
CURRENT ASSETS			
Stocks	10	16,023	8,620
Debtors	11	25,917	24,611
Cash at bank and in hand		2,097	2,502
		<u>44,037</u>	<u>35,733</u>
CREDITORS: Amounts falling due within one year	12	(35,063)	(23,414)
NET CURRENT ASSETS		<u>8,974</u>	<u>12,319</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>15,316</u>	<u>18,565</u>
CREDITORS: Amounts falling due after more than one year	13	(3,009)	(3,958)
Net assets		<u><u>12,307</u></u>	<u><u>14,607</u></u>
CAPITAL AND RESERVES			
Called up share capital	17	160	160
Revaluation reserve	18	829	863
Profit and loss account	18	11,318	13,584
Equity shareholders funds		<u><u>12,307</u></u>	<u><u>14,607</u></u>

Approved by the Board on 1 May 1998

DIRECTORS:



The annexed notes form part of these accounts.

UMBRO EUROPE LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1996

1 STATEMENT OF ACCOUNTING POLICIES AND BASIS OF PREPARATION

Basis of preparation

The company is dependent upon continuing finance being made available by external lenders to enable it to continue operating and to meet its liabilities as they fall due.

The company is party to group bank and loan facilities through its American ultimate parent company. Under these arrangements the company utilises part of the total facilities available. Since the year end the principal lender changed. The current facilities extend to 1 February 1999. The availability of this facility is subject to the successful achievement of the group business plan, which includes the disposal of certain trading operations and related assets. These disposals should realise funds to allow the group's indebtedness to be significantly reduced. The company's strategy also assumes an understanding is reached with major creditors to spread the payment of substantial portions of current debt over a number of months. Once this is achieved, the intention is to negotiate new finance facilities.

The directors are confident of the group's ability to achieve the business plan and to negotiate successfully adequate new funding arrangements after 1 February 1999. They believe that it is therefore appropriate to prepare the accounts on a going concern basis.

Accounting policies

(a) Accounting convention

The accounts have been prepared on the basis of historical cost, as modified by the revaluation of land and buildings, and are in accordance with applicable accounting standards.

(b) Consolidation

The results of the subsidiaries, Umbro Hong Kong Limited, Umbro Deutschland Sportswear Vertriebs GmbH and Umbro Italia SRL have not been consolidated into Umbro Europe Limited, as permitted by S228 of the Companies Act 1985. The financial statements present information about the company as an individual undertaking and not about its group.

(c) Tangible fixed assets and depreciation

Tangible fixed assets are stated at valuation or at cost and are depreciated at rates which will write off the book amount of these assets over their estimated useful lives. In general, annual depreciation rates are as follows:

Freehold and long leasehold property	4%	on straight line basis
Plant and machinery	20%	on straight line basis
Fixtures	10%	on straight line basis
Motor vehicles and computer equipment	25%	on straight line basis

In addition, short leasehold property is depreciated at rates which will write off the cost, including certain original fixtures, over the periods of the relevant leases.

(d) Stocks

Stocks and work in progress are stated at the lower of cost and estimated net realisable value. Cost of manufactured products includes an appropriate proportion of factory overheads.

UMBRO EUROPE LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1996 (CONTINUED)

1 STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

(e) Deferred taxation

Deferred taxation is provided using the liability method on all 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 anticipated the timing differences will reverse. Advance corporation tax which is expected to be recoverable in the future is deducted from the deferred taxation balance.

(f) Overseas currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All other transaction differences are taken to the Profit and Loss Account.

(g) Turnover

Turnover represents amounts charged to external customers after deduction of returns and allowances and value added tax.

(h) Leased assets

Assets obtained under finance leases are capitalised in the balance sheet and are depreciated over the duration of the lease. The interest element of the rental obligations is charged to profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to income on a straight line basis over the period of the lease.

(i) Pension costs

The costs of providing pensions for employees are charged in the profit and loss account over the average working life of employees in accordance with the recommendations of qualified actuaries. Any funding surpluses or deficits that may arise from time to time are amortised over the average working life of employees.

(j) Advertising and promotional costs

Advertising and promotional expenses are written off in the year in which they are incurred with the exception of catalogues and promotional material relating to the following seasons' ranges.

(k) Cash flow statement

The company has not prepared a cash flow statement, as permitted for wholly owned subsidiaries by the reporting standard. A cash flow statement is included in the group accounts.

UMBRO EUROPE LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1996 (CONTINUED)

2 TURNOVER

All turnover and profit arises from the single activity of the sale of sports and leisurewear. The geographical analysis of the company's turnover is as follows:

	<u>1996</u> £000	<u>1995</u> £000
<u>Geographical market</u>		
United Kingdom	105,810	86,269
Rest of Europe	15,328	12,187
Rest of World	2,261	2,191
	<u>123,399</u>	<u>100,647</u>

UMBRO EUROPE LIMITED**NOTES TO THE ACCOUNTS - 31 DECEMBER 1996 (CONTINUED)****3 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION**

	<u>1996</u> £000	<u>1995</u> £000
OPERATING PROFIT		
Operating profit is stated after charging:		
Staff costs:		
Wages and salaries	8,860	8,119
Social security costs	784	551
Other pension costs	263	200
	<u>9,907</u>	<u>8,870</u>
Depreciation of tangible fixed assets (note 9)	724	790
Auditors' remuneration for audit services	46	46
Auditors' remuneration for non-audit services	40	54
Hire of plant and machinery	270	118
Contract hire of motor vehicles	71	44
INTEREST PAYABLE		
Interest payable on bank borrowings repayable within five years	1,391	301
Interest on finance leases and hire purchase contracts	48	56
Other interest payable	10	76
	<u>1,449</u>	<u>433</u>
INTEREST RECEIVABLE		
Interest on loan to subsidiary undertaking	-	2
Other interest receivable	31	1
	<u>31</u>	<u>3</u>

UMBRO EUROPE LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1996 (CONTINUED)

4 DIRECTORS' REMUNERATION

	<u>1996</u>	<u>1995</u>
	<u>£000</u>	<u>£000</u>

Directors' remuneration charged in the accounts:

Remuneration for management services	<u>557</u>	<u>614</u>
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The remuneration of the directors for management services, excluding pension contributions, was:

	<u>1996</u>	<u>1995</u>
	<u>£000</u>	<u>£000</u>
Highest paid director	<u>122</u>	<u>130</u>

	<u>Number</u>	<u>Number</u>
Directors emoluments fell within the following ranges:		
Nil - £5,000	1	1
£30,001 - £35,000	1	-
£80,001 - £85,000	2	2
£85,001 - £90,000	-	1
£95,001 - £100,000	1	1
£105,001 - £110,000	1	-
£110,001 - £115,000	-	1
£120,001 - £125,000	1	-
£125,001 - £130,000	-	1

5 EMPLOYEES

The average number of persons employed by the company during the year was 654 (1995 - 610).

UMBRO EUROPE LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1996 (CONTINUED)

6 TAXATION

	<u>1996</u> £000	<u>1995</u> £000
The taxation charge comprises:		
UK corporation tax on profit for the period at 33%	2,271	4,624
Overseas tax	176	113
	<u>2,447</u>	<u>4,737</u>
Tax underprovided in previous years:		
Corporation tax	31	(6)
	<u>2,478</u>	<u>4,731</u>

7 DIVIDENDS

	<u>1996</u> £000	<u>1995</u> £000
Equity dividends on ordinary shares		
Paid £19.38 (1995 : £43.75)	<u>3,100</u>	<u>7,000</u>

UMBRO EUROPE LIMITED**NOTES TO THE ACCOUNTS - 31 DECEMBER 1996 (CONTINUED)****8 INVESTMENT IN SUBSIDIARIES**

	£000
<u>Cost</u>	
At 1 January 1996	3,412
Provision against investment	(3,390)
	<hr/>
At 31 December 1996	22
	<hr/>

	<u>Proportion of ordinary share capital held</u>	<u>Country of incorporation and operation</u>	<u>Nature of business</u>
Umbro Hong Kong Limited	100%	Hong Kong	Sportswear procurement services
Umbro Italia SRL	99.5%	Italy	Sportswear trading
Umbro Deutschland Sportswear Vertriebs GmbH	100%	Germany	Sportswear trading

The company has not prepared consolidated accounts as allowed by S228 of the Companies Act 1985 since it is a wholly owned subsidiary of Umbro Europe (Holdings) Limited, a company incorporated in England and Wales.

In the opinion of the directors the aggregate value of the company's investments in subsidiary undertakings (including amounts owed by subsidiary undertakings) is not less than the amount at which they are stated in the accounts.

The company holds a 25% investment in a joint venture with its ultimate parent undertaking. The company's share of profits and losses of the joint venture is reflected in the profit and loss account.

A provision of £3,390,000 has been charged against the investment in the subsidiary, Umbro Italia, following the decision to divest of the company in 1998. The provision represents 100% of the carrying value of the investment.

UMBRO EUROPE LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1996 (CONTINUED)

9 TANGIBLE FIXED ASSETS

	Long leasehold land and buildings £000	Short leasehold land and buildings £000	Plant and machinery fixtures, motor vehicles and computer installation Purchased £000	Finance leased £000	Total £000
<u>Cost or valuation</u>					
At 1 January 1996	1,700	36	2,303	2,542	6,581
Additions	2,022	-	1,826	643	4,491
Disposals	-	-	(739)	(431)	(1,170)
At 31 December 1996	3,722	36	3,390	2,754	9,902
Comprising:					
Cost	2,022	-	3,390	2,754	8,166
Valuation	1,700	36	-	-	1,736
	3,722	36	3,390	2,754	9,902
<u>Depreciation</u>					
At 1 January 1996	260	36	1,707	1,744	3,747
Charge for the year	82	-	267	375	724
Disposals	-	-	(598)	(291)	(889)
At 31 December 1996	342	36	1,376	1,828	3,582
<u>Net Book Amount</u>					
At 31 December 1996	3,380	-	2,014	926	6,320
At 1 January 1996	1,440	Nil	596	798	2,834

The company's United Kingdom long leasehold properties were revalued as at 31 January 1992 on an open market, in existing use, basis by The Elliott Partnership, Chartered Surveyors.

UMBRO EUROPE LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1996 (CONTINUED)

TANGIBLE FIXED ASSETS (CONTINUED)

For land and buildings, the amount at which the assets would have been stated under historical cost principles is as follows:

	Long leasehold land and buildings	
	<u>1996</u>	<u>1995</u>
	£000	£000
Cost	2,851	829
Aggregate depreciation	(300)	(252)
	<u>2,551</u>	<u>577</u>

10 STOCKS

	<u>1996</u>	<u>1995</u>
	£000	£000
Stocks comprise:		
Raw materials and consumables	431	268
Work in progress	834	687
Finished goods and goods for resale	14,757	7,665
	<u>16,023</u>	<u>8,620</u>

The net replacement value of stock is not materially different from that stated in the balance sheet.

11 DEBTORS

	<u>1996</u>	<u>1995</u>
	£000	£000
Trade debtors	17,157	13,632
Amount due from ultimate parent undertaking	243	-
Amount due from subsidiary undertakings	1,036	3,031
Amount due from fellow subsidiary undertakings	671	655
Other debtors	1,442	542
Prepayment and accrued income	5,368	6,751
	<u>25,917</u>	<u>24,611</u>

UMBRO EUROPE LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1996 (CONTINUED)

12 CREDITORS: Amounts falling due within one year

	<u>1996</u> £000	<u>1995</u> £000
Bank overdraft and other borrowings (secured)	14,019	5,873
Trade creditors	7,221	6,789
Amounts owed to immediate parent undertaking	585	-
Amounts owed to ultimate parent undertaking	1,433	360
Amounts owed to subsidiary undertakings	748	16
Amounts owed to fellow subsidiary undertakings	886	732
Obligations under finance leases (note 14)	431	390
Corporation tax	1,618	2,971
Indirect tax and social security	253	220
Other creditors	32	135
Accruals and deferred income	7,837	5,928
	<u>35,063</u>	<u>23,414</u>

The company has issued a fixed and floating charge over its assets, and joint and several guarantees in respect of the group United Kingdom overdraft and other borrowings of £14,019,000 at 31 December 1996 (1995 : £5,873,000).

13 CREDITORS: Amounts falling due after more than one year

	<u>1996</u> £000	<u>1995</u> £000
Obligations under finance leases (note 14)	151	157
Loan from immediate parent undertaking	2,858	3,801
	<u>3,009</u>	<u>3,958</u>

The loan from the parent undertaking is repayable on demand and carries a variable rate of interest. The parent undertaking has indicated that it is not its intention to require repayment within twelve months of the balance sheet date.

UMBRO EUROPE LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1996 (CONTINUED)

14 FINANCE LEASES AND HIRE PURCHASE CREDITORS

	<u>1996</u> £000	<u>1995</u> £000
Amounts payable within one year	460	419
Amounts payable between two and five years	156	163
Less: Finance charges allocated to future periods	(34)	(35)
	<u>582</u>	<u>547</u>
Analysed as:		
Current obligations	431	390
Non-current obligations	151	157
	<u>582</u>	<u>547</u>

15 OPERATING LEASES

Annual commitments under non-cancellable operating leases are as follows:

	<u>Land and buildings</u>		<u>Plant and machinery</u>		<u>Motor vehicles</u>	
	<u>1996</u> £000	<u>1995</u> £000	<u>1996</u> £000	<u>1995</u> £000	<u>1996</u> £000	<u>1995</u> £000
Expiring:						
Within one year	726	23	11	16	40	-
Two to five years	-	460	119	97	-	40
In more than five years	-	-	-	-	-	-
	<u>726</u>	<u>483</u>	<u>130</u>	<u>113</u>	<u>40</u>	<u>40</u>

UMBRO EUROPE LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1996 (CONTINUED)

16 PROVISION FOR LIABILITIES AND CHARGES - DEFERRED TAX

Deferred taxation provided in the accounts and the amounts not provided are as follows:

	Provided		Not provided	
	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>
	£000	£000	£000	£000
Capital allowances in advance of depreciation	-	-	-	-
Other timing differences	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

17 CALLED UP SHARE CAPITAL

	<u>1996</u>	<u>1995</u>
	£000	£000
Authorised, allotted and fully paid: 160,000 Ordinary shares of £1 each	<u>160</u>	<u>160</u>

18 RESERVES

	<u>Revaluation</u>	<u>Profit and</u>
	<u>reserve</u>	<u>loss account</u>
	£000	£000
At 1 January 1996	863	13,584
Amount set aside to reserves	-	(2,300)
Transfer-increased depreciation on revalued assets	(34)	34
	<u>829</u>	<u>11,318</u>

UMBRO EUROPE LIMITED**NOTES TO THE ACCOUNTS - 31 DECEMBER 1996 (CONTINUED)****19 MOVEMENT IN SHAREHOLDERS' FUNDS**

	<u>1996</u> £000	<u>1995</u> £000
Profit for the financial year	800	9,585
Dividends	(3,100)	(7,000)
	<u>(2,300)</u>	<u>2,585</u>
Opening shareholders' funds	14,607	12,022
Closing shareholders' funds	<u>12,307</u>	<u>14,607</u>

20 CONTINGENT LIABILITIES

The company has issued letters of credit to suppliers for £347,000. The letters of credit are renewed six-monthly and are redeemable by the suppliers at any time. They serve as financial guarantees to the suppliers.

The company has given unsecured guarantees in respect of Italian lire 6.8bn bank borrowings of a subsidiary at 31 December 1996 up to a maximum of Italian lire 7.0bn.

21 POST BALANCE SHEET EVENTS

In March 1998 the company announced its intention to dispose of its two manufacturing units at Ellesmere Port and Biddulph. This is part of a strategic plan to purchase product from the most cost efficient sources. The costs of closure cannot yet be quantified as there are sale offers in negotiation.

The company also announced its intention to close its loss-making subsidiary, Umbro Italia, and to convert the business to a licensee. The costs of closure cannot yet be quantified as sale offers are also in consideration.

UMBRO EUROPE LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1996 (CONTINUED)

22 PENSION COMMITMENTS

The company operates a pension plan providing benefits based on final pensionable pay. The assets of the Plan, which are held separately from those of the company, are invested in an exempt managed fund.

Contributions to the Plan are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The rates of contribution are determined by qualified actuaries on the basis of triennial valuations using the projected unit method.

The Plan is the result of the merger of the former pension schemes at 1 November 1993 and 6 April 1994. Benefits for members of the previous schemes were improved to allow for post retirement increases and normal retirement age was equalised for men and women.

The most recent actuarial valuation of the Plan was undertaken at 6 April 1996. The main assumptions used were that future investment returns would average 9% per annum, general salary increases would average 7% per annum, and pensions in payment (in excess of Guaranteed Minimum Pensions) would increase at 4.5% per annum. The average growth in dividends was assumed to be 4.5% per annum.

The valuation recommended a regular cost to the company of 8.5% per annum. The market value of the Plan's assets was £5.545 million. The actuarial value of the assets was 106% of the value of benefits that had accrued to members, after allowing for expected future increases in earnings. This surplus resulted in a variation in the cost to the company of 0.5% per annum over the average working lifetime of the Plan members of 14 years.

The pension charge for the year was £263,000.

23 HOLDING COMPANY

The parent undertaking of the largest group of undertakings for which group accounts are prepared, and of which the company is a member, is Umbro International, Inc., which is incorporated and registered in the USA. The parent undertaking of the smallest such group is Umbro Europe (Holdings) Limited which is incorporated in Great Britain and registered in England and Wales. Copies of the accounts can be obtained from the registered office noted on page 3.