

Company Registered Number 198168

UMBRO INTERNATIONAL LIMITED

Report and Accounts 31 December 2007



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DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2007

The Directors present their report and the audited accounts of the Company for the year ended 31 December 2007

PRINCIPAL ACTIVITIES

The Company's principal activity is that of designing, sourcing and marketing of football related products which are sold in over 90 countries

The Company is a trading subsidiary of Umbro Ltd, which publishes more detailed commentary on activities, performance and prospects

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The Umbro group was acquired by Nike Inc on 3 March 2008, bringing to an end nearly four years of listing of the parent company on the London Stock Exchange and heralded an exciting new era for Umbro as part of the Nike organisation. The acquisition completed during one of the most challenging periods in Umbro's recent history as a major income stream from its contract with the England national football team (the FA) was severely impacted by reduced demand for England kits and associated products

Whilst this will have a significant effect on the results of the Company in the short term, the longer term prospects as part of Nike are stronger than ever. The combination of the strong brand heritage of Umbro with one of the world's largest and most successful sporting brands has huge potential. Umbro now has access to marketing, product and sourcing expertise together with financial backing that will help drive the brand to levels that would have been unattainable in the medium term as an independent group

The operating loss for the year was £21,275,000 (2006 profit of £27,857,000) and the loss after tax for the year was £13,906,000 (2006 profit of £22,156,000). These results were disappointing, with losses after tax primarily brought about by poor sales of England product compounded by significant England inventory write-offs. The effect of this overshadowed growth in branded products (products other than replica football kits and associated product)

The Company's key performance indicators are contained in the financial statements and are turnover, gross margin, net profit, cash flow from operations and net assets

Umbro's vision is to be the best football company in the world. It aims to achieve through a continuing focus solely on football. The Company aims to lead the market with great product, underpinned by a world-class team driven by creativity

• Sponsorships

Umbro retains a strong and carefully targeted portfolio of sponsored players and teams, which underpins its credentials as the authentic football brand. Additions during 2007 in the UK were Premiership team Blackburn and Championship team Birmingham. Umbro now has six English Premiership teams and four national teams amongst its 140 sponsored professional teams. Abroad, Umbro sponsored teams include Olympique Lyonnais, Santos, Independiente and Besiktas. Umbro's iconic sponsored players Michael Owen, John Terry and Deco were joined in 2007 by Hernan Crespo

Umbro's presence at every level of football is underpinned by tournament and event sponsorship activities. These seek to engage the "real football" consumer, portraying the brand as relevant to them as well as to the professional. The FA Umbro 5s held at Wembley and the Umbro International Cup are but a part of the global event sponsorship programme at this level

• Marketing

Marketing activities aim to reach consumers through a variety of means, including advertising, digital media and in-store imagery and displays, using the key sports marketing assets at the Company's disposal. Umbro's website developments in 2007 seek to engage, through interactive content, the target consumer, who in many markets is an internet user. The 2007 brand campaign was driven by the colloquialism "Bring It On" which emphasised a confident and gritty football image associated with the attitude of the brand

• Ethical policy and social responsibility

Corporate social responsibility is of the utmost importance to the Company and a system of policies and procedures is maintained by the CSR unit. Suppliers are required to comply with a written code of conduct which outlines minimum standards in working conditions and manufacturing processes. Suppliers are audited by an independent

body to ensure continued compliance and action plans where improvements are required are issued and monitored on an on-going basis

Staff welfare is equally important and is controlled by human resource policies covering health and safety, discrimination, disciplinary processes, working environment, staff evaluation and feedback and is supported by the Company ethos of making Umbro an enjoyable place to work

▪ **Risks and uncertainties and factors likely to affect future business**

The principal risks faced by the Company include the loss of business from major retail accounts in different countries, lack of success of new product ranges, loss of key licensees through business failure and price competition from other brands. The Company attempts to mitigate these risks through diversification and continuous monitoring of its activities so that it is able to respond to adverse events by taking early corrective action. Retail consolidation can lead to reduced margins but equally can result in increased volumes. Failure of teams and clubs to qualify for tournaments or to perform well in league tables can depress sales of licensed products

▪ **Dividend**

There was no dividend paid during the year to the immediate parent company (2006 £3,000,000)

▪ **Donations**

Charitable contributions of £3,000 were paid in the year (2006 £13,000). No contributions were made to political organisations (2006 £nil)

▪ **Environmental policy**

The Company recognises the importance of environmental responsibility and, where practicable, has an environmental policy in place for the relevant business areas of the Company

Key carbon-emitting activities of the Company are heating and power at the head office, staff travel, particularly air travel to the Far East for product selection, and shipping costs for product manufactured abroad. The head office energy consumption is discussed further below. A programme to restrict air travel has been introduced for 2007 which includes an investigation into the use of video technology. For travel in the UK, staff are strongly encouraged to use the train instead of aircraft or motor vehicles. Supply chain freight is a more difficult matter to resolve for so long as foreign suppliers remain the only realistically competitive sources for our products. Reputable freight forwarding companies, who are taking steps to monitor and reduce their environmental impact, are selected as suppliers and airfreight, the worst polluting form of transport, is in the main avoided.

The CO₂ output of the head office site resulting from heating and electricity consumption was 490 tonnes (2006 539 tonnes). The CO₂ output from staff air travel in 2007 was 1,067 tonnes (2006 1,840 tonnes)

▪ **Staff policies**

The quality, commitment and effectiveness of the Company's staff are crucial to its continued success. Staff policies and programmes are designed to encourage employees to become interested in the Company's activities and to reward all staff according to their contribution and capability. Employee communications are a high priority and regular staff briefings are used to ensure that all staff are kept properly informed. Employee share ownership is encouraged through savings-related and other employee share schemes.

Employment policies do not discriminate between employees or potential employees on the grounds of colour, race, ethnic or natural origin, sex, marital status, religious beliefs or disability. If an employee were to become disabled whilst in employment and, as a result, was unable to perform his/her duties, every effort would be made to offer suitable alternative employment and assistance with re-training.

Staff welfare at work is of paramount importance and the Company operates health and safety policies in the workplace and whilst travelling. Staff are issued with these policies in an employee handbook when they join the Company.

▪ **Directors**

The names and details of the Directors holding office at 31 December 2007 and up to the date of signing the accounts are shown below

Directors' shareholdings, Directors who served and conditional share awards

The Directors who served on the Board since the date of last year's accounts were as follows

L L Bird III – appointed 4 March 2008
G J Brown – CFO appointed 3 March 2008
M A Cook – CEO appointed 4 March 2008
G W Hanson – appointed 3 March 2008

G C Dinges – appointed 4 March 2008, resigned 18 July 2008
D A Hare – resigned 4 March 2008
S R Makin - resigned 3 March 2008
P McGuigan –resigned 31 July 2007

L L Bird III, M A Cook, G C Dinges and G W Hanson had no interest in the shares of the Company or its parent at any time
S R Makin, P McGuigan and G J Brown were directors of the Company's parent undertaking, Umbro Ltd, and their interests are disclosed in the accounts of that company D A Hare held a beneficial interest in nil ordinary shares of Umbro Ltd at 31 December 2007 (2006 Nil), and held the conditional awards as set out in the table below

Scheme	Options granted in year	Exercised during year	31 December 2007	Exercise price (pence)	Date from which exercisable	Date of lapse
SAYE 2004	-	11,781	-	80	01/7/07	-
LTIP 2004	-	31,382	-	nil	28/5/07	-
LTIP 2005	-	-	21,000	nil	21/3/09	21/3/12
LTIP 2006	-	-	24,390	nil	29/3/10	29/3/13
SAYE 2007	6,692	-	6,692	141	01/6/10	01/6/14
LTIP 2007	23,409	-	23,409	nil	19/4/11	19/4/14

None of the Directors had any interest in the shares of the Company at 31 December 2007 or 31 December 2006

▪ Treasury

The Company's financial instruments comprise borrowings, some cash and liquid resources, foreign exchange contracts and various items, such as trade debtors and trade creditors that arise directly from its operations

Foreign exchange contracts reduce or eliminate the Company's exposure to exchange rate fluctuations concerning its purchases of product, major foreign currency payments and royalty revenues

The Board has reviewed and agreed policies for managing interest rate risk arising from the Company's financial instruments and this is summarised below. This policy has remained unchanged since the beginning of the year. Short-term debtors and creditors that meet the definition of a financial asset or liability under IAS 32 have been excluded from the disclosures as permitted by the Standard

▪ Interest rate risk

The Company finances its operations through a mixture of retained profits and bank borrowings (and since the date of acquisition by Nike Inc, by loans from Nike). The Company's operating activities are principally financed by floating rate borrowings. The Company currently does not hedge its interest rate risks, although this policy is reviewed regularly

▪ Liquidity risk

Short-term flexibility is achieved by overdraft facilities and (from the date of acquisition by Nike on 3 March 2008) by loans from Nike, which are sufficient to meet the Company's foreseeable working capital requirements

▪ Foreign currency risk

The Company has exposure to foreign currency risk and hedges these risks by cash flow hedges in the form of foreign exchange contracts taken out with its bankers

- **Supplier payment policy**

The Company does not follow a code but operates a payment policy to agreed terms in settling outstanding debts. For certain types of regular contracted services, the Company encourages direct debit or standing order arrangements. Most other suppliers have terms of payment that are agreed when the account is opened. The majority of payments are made by electronic transfer direct to suppliers' bank accounts. The amount of trade creditors shown in the balance sheet represents 41 days (2006 42 days) of average purchases during the year for the Company.

- **Auditors**

The remuneration and expenses of the Auditors are fully disclosed in note 3 to the Accounts.

- **Going concern**

After making appropriate enquiries, including a review of budgets and other plans, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the financial statements in accordance with applicable laws and regulations

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. In preparing these financial statements, the Directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB). The financial statements are required by law to 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 that the financial statements comply with IFRSs as adopted by the European Union and IFRSs issued by the IASB, and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary

The Directors confirm that they have complied with the above requirements in preparing the financial statements

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

The Directors are responsible for maintaining the integrity of the Company's website. Legislation in the UK concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm the following

So far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware and each Director has taken all steps that ought to have been taken in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

BY ORDER OF THE BOARD



D A Hare
Company Secretary

30 October 2008

Umbro House
Lakeside
Cheadle
Cheshire
SK8 3GQ

Company Registered Number 198168

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF UMBRO INTERNATIONAL LIMITED

We have audited the financial statements of Umbro International Limited for the year ended 31 December 2007 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Company's affairs as at 31 December 2007 and of its loss and cash flows for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Manchester

30 October 2008

Income Statement
for the year ended 31 December 2007

		2007	2006
	Note	£'000	£'000
Total wholesale equivalent	2	343,876	409,366
Turnover	2	91,636	146,841
Cost of sales		(90,255)	(93,915)
Gross profit		1,381	52,926
Selling and distribution costs		(16,536)	(19,739)
Administrative expenses		(9,735)	(8,611)
Exceptional items	8	(484)	-
Total administrative expenses		(10,219)	(8,611)
Other operating income	4	4,099	3,281
Operating (loss)/profit		(21,275)	27,857
Finance costs	5	(2,114)	(1,475)
Finance income	6	4,468	3,658
(Loss)/profit before tax	3	(18,921)	30,040
Taxation	7	5,015	(7,884)
(Loss)/profit for the period attributable to equity holders transferred to reserves	20	(13,906)	22,156

The results shown are in respect of continuing activities

The notes on pages 11 – 38 are an integral part of these financial statements

Statement of recognised income and expense
for the year ended 31 December 2007

	2007	2006
	£'000	£'000
Cash flow hedges		
- net fair value gains / (losses)	2,322	(5,292)
Actuarial gain	2,525	471
Deferred tax on market value of share incentives	(311)	353
Deferred tax on actuarial (gain) / loss	(978)	(142)
Net (loss) / income recognised directly in equity	3,558	(4,610)
(Loss) / profit for the financial year	(13,906)	22,156
Total (losses) / gains recognised since last financial statements	(10,348)	17,546

The notes on pages 11 – 38 are an integral part of these financial statements

Balance Sheet
as at 31 December 2007

	Note	2007 £'000	2006 £'000
Assets			
Non-current assets			
Investments in subsidiaries	9	66,040	66,015
Investment in associate	10	26,840	6,798
Property, plant and equipment	11	3,058	2,350
Intangible assets	12	128	745
Deferred income tax asset	13	1,979	3,192
		98,045	79,100
Current assets			
Inventories	14	5,465	11,315
Trade and other receivables	15	92,347	89,452
Current income taxes receivable		9,425	-
Cash and cash equivalents		10	4,007
		107,247	104,774
Liabilities			
Current liabilities			
Trade and other payables	16	93,383	95,892
Financial liabilities	17	42,652	3,051
Current income tax liabilities		-	4,266
		136,035	103,209
Net current (liabilities) / assets		(28,788)	1,565
Non-current liabilities			
Financial liabilities	17	7	27
Other non-current liabilities	18	6,914	4,974
Retirement benefit liability	23	4,222	7,202
		11,143	12,203
Net assets		58,114	68,462
Shareholders' equity			
Equity share capital	20	160	160
Other reserves	20	57,954	68,302
Total equity	21	58,114	68,462

The notes to the accounts are an integral part of these financial statements. The financial statements were approved by the board of Directors on 30 October 2008 and were signed on its behalf by



G J Brown
Director

Statement of Cash Flows
for the year ended 31 December 2007

	Note	2007 £'000	2006 £ 000
Cash flows from operating activities			
Cash (outflow) / inflow from operations	27	(19,590)	23,543
Interest and finance costs paid		(2,114)	(1,475)
Interest received		4,468	3,658
Income tax paid		(8,676)	(8,163)
Net cash (outflow) / inflow from operating activities		(25,912)	17,563
Cash flows from investing activities			
Payments to acquire investments	9	(25)	(458)
Consideration on associate undertaking		(18,128)	(1,609)
Purchase of property, plant and equipment	11	(1,556)	(602)
Purchase of intangible assets	12	(38)	(45)
Proceeds from sale of property, plant and equipment		49	60
Net cash used in investing activities		(19,698)	(2,654)
Cash flows from financing activities			
Capital element of finance lease rental payments		(41)	(160)
Ordinary dividends paid		-	(3,000)
Net cash used by finance activities		(41)	(3,160)
Net (decrease) / increase in cash and cash equivalents		(45,651)	11,749
Cash and cash equivalents at beginning of the period		4,007	(7,742)
Cash and cash equivalents at end of the period		(41,644)	4,007

NOTES TO THE ACCOUNTS - 31 DECEMBER 2007

1 Statement of significant accounting policies

a Basis of Preparation

These financial statements have been prepared in accordance with EU Endorsed International Financial Reporting Standards (IFRS), International Financial Reporting Interpretations Committee (IFRIC) interpretations and the Companies Act 1985 applicable to companies reporting under IFRS. These financial statements have been prepared on the going concern basis under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed elsewhere in the accounting policies.

1 Standards, amendment and interpretations effective in 2007

IFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to IAS 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Company's financial instruments, or the disclosures relating to taxation and trade and other payables.

IFRIC 8, 'Scope of IFRS 2', requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2. This standard does not have any impact on the Company's financial statements.

2 Interpretation early adopted by the Company

None

3 Standards, amendments and interpretations effective in 2007 but not relevant

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Company's operations:

IFRS 4, 'Insurance contracts',

IFRIC 7, 'Applying the restatement approach under IAS 29, Financial reporting in hyper-inflationary economies',

IFRIC 9, 'Re-assessment of embedded derivatives' and

IFRIC 10, 'Interim financial reporting and impairment'

4 Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2008 or later periods, but the Company has not early adopted them:

IFRIC 11, 'IFRS 2 – Group and treasury share transactions',

IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009),

IFRS 8, 'Operating segments' (effective from 1 January 2009),

IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008)

5 Interpretations to existing standards that are not yet effective and not relevant for the Company's operations

The following interpretations to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2008 or later periods but are not relevant for the Company's operations:

IFRIC 12, 'Service concession arrangements' (effective from 1 January 2008),

IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2008)

b Consolidation

The results of the subsidiaries have not been consolidated into Umbro International 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.

NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

c Associate Companies

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Company's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

d Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from other segments. The Company has identified the principal business segments as buy/sell and licensee. Those costs which cannot be reasonably allocated to either segment are separated as "unallocated".

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

e Goodwill and intangible fixed assets

Intangible fixed assets are stated at historical cost less amortisation. Amortisation of intangible fixed assets is calculated to write off the cost of the assets in equal annual instalments over their estimated useful lives at the following rates:

Computer software	25%
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f Tangible fixed assets and depreciation

Tangible fixed assets are stated at historical cost less depreciation.

Depreciation of tangible fixed assets is calculated to write off the cost of the assets less net realisable value in equal annual instalments over their estimated useful lives at the following rates:

Plant and machinery	20%
Fixtures	10%
Motor vehicles	25%
Computer and office equipment	25%

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other operating income" in the income statement.

g Investments

Investments are stated at cost less any provision for impairment.

h Inventory

Inventory is stated at the lower of cost and net realisable value. Provision is made to reduce cost to net realisable value having regard to the age, saleability and condition of inventory. Cost is determined using the first-in-first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

i Deferred taxation

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

l Foreign currency

1 Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in sterling ('£') which is the Company's functional and presentation currency.

2 Translation of foreign subsidiaries

Results of foreign subsidiaries are translated to Sterling using the net investment method. Income statement balances are translated at the average rate ruling for the year. The closing rate is used to translate the balance sheet.

Exchange differences arising from the translation of the net investment in overseas subsidiaries are taken directly to reserves. All other translation differences are taken to the income statement.

3 Transactions in foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies which are held at the year-end are translated into sterling at the rate of exchange ruling at the balance sheet date.

4 Hedging activities – cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss on the ineffective part is shown in the income statement. Amounts accumulated in equity are recycled into the income statement in the periods when the hedged item will affect income. When the hedge is used to purchase a non-financial asset, such as inventory, the amounts accumulated in equity are transferred to the cost of the asset.

k Revenue recognition

1 Buy/sell operations

Turnover represents amounts charged to external customers after deduction of returns and allowances, discounts and VAT. Turnover is recognised on despatch of goods.

2 Royalties

Royalty income from licensee activities is included in turnover and represents royalties due on sales made (or in some cases on merchandise sourced from suppliers) by royalty partners.

'Total wholesale equivalent sales' represents the Company's buy/sell sales (where the Company acts as principal), plus the wholesale equivalent value of its licensees' sales, from which Umbro is entitled to royalties (where the Company acts as agent).

l Sports marketing costs

1 Basic payments

Payments under team and individual player sports marketing contracts are charged to the income statement over the active life of the contract.

2 Additional payments

Some contracts include a requirement to make additional payments where wholesale sales, over defined periods, exceed specified levels. The Company forecasts total sales over the defined period and charges the additional royalty expense to the income statement on a pro rata basis. Subsequent revisions to estimates for earlier years are charged to the income statement in the current year, rather than being spread prospectively. Other additional payments specified in team and individual players' contracts are charged to the income statement as incurred.

3 Impairment

All contracts are individually reviewed annually and impairment charges raised as needed.

NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

m Leased assets

Assets held under finance leases where substantially all the benefits and risks of ownership are transferred to the Company, are capitalised as tangible fixed assets in the balance sheet and are depreciated over the useful economic life of the lease. The interest element of the rental obligations is charged to the income statement over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals in respect of operating leases, under which substantially all the benefits and risks of ownership remain with the lessors, are charged to the income statement on a straight line basis over the period of the lease.

n Pension costs

The Company operates a defined benefit scheme and defined contribution schemes.

A full actuarial valuation using the projected unit method of the defined benefit scheme is carried out every three years with interim reviews in the intervening years.

The liability recognised in the balance sheet in respect of the defined benefit pension scheme is the present value of the defined benefit obligation at the balance sheet date less the fair value of scheme assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised immediately through the Statement of Recognised Income and Expense in the period in which they arise.

Past service costs are recognised immediately in income.

For defined contribution plans, the Company pays into private or group administered plans and has no further obligation once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

o Costs of raising debt finance

Costs of raising debt finance are deducted from the finance raised and amortised on a straight-line basis to the income statement over the period over which the finance is outstanding.

p Financial instruments

Derivatives are initially recognised and measured at fair value on the date a derivative contract is entered into and subsequently measured at fair value. The gain or loss on re-measurement is taken to the income statement except where the derivative is a designated cash flow hedging instrument. The accounting treatment of derivatives classified as hedges depends on their designation, which occurs on the date that the derivative contract is committed. The Company designates derivatives as:

A hedge of the fair value of an asset or liability ('fair value hedge')

A hedge of the income/cost of a highly probable forecasted transaction or commitment ('cash flow hedge')

A hedge of a net investment in a foreign entity

In order to qualify for hedge accounting, the Company is required to document in advance the relationship between the item being hedged and the hedging instrument. The Company is also required to document the relationship between the hedged item and the hedging instrument and demonstrate that the hedge will be highly effective on an on-going basis. This effectiveness testing is re-performed at each period end to ensure that the hedge remains highly effective.

Gains or losses on fair value hedges that are regarded as highly effective are recorded in the income statement along with the fair value gain or loss on the hedged item attributable to the hedged risk. Gains or losses on cash flow hedges that are regarded as highly effective are recognised in equity. Where the forecast transaction results in a financial asset or liability, gains or losses previously recognised in equity are reclassified to profit or loss in the same period as the asset or liability affects profit or loss. Where the forecasted transaction or commitment results in a non-financial asset or a liability, then any gains or losses previously deferred in equity are included in the carrying amount of the related asset or liability. If the forecasted transaction or commitment results in future income or expenditure, gains or losses deferred in equity are transferred to the income statement in the same period as the underlying income or expenditure. The ineffective portions of the gain or loss on the hedging instrument are not recognised in equity, rather they are recognised immediately in the income statement.

NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

For the portion of hedges deemed ineffective or transactions that do not qualify for hedge accounting under IAS 39, any change in assets or liabilities is recognised immediately in the income statement. Where a hedge no longer meets the effectiveness criteria, any gains or losses deferred in equity are only transferred to the income statement when the committed or forecasted transaction is recognised in the income statement. However, where an entity applied cash flow hedge accounting for a forecasted or committed transaction that is no longer expected to occur, then the cumulative gain or loss that has been recorded in equity is transferred to the income statement. When a hedging instrument expires or is sold, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. Where the Company hedges net investments in foreign entities through currency borrowings, the gains or losses on the translation of the borrowings are recognised in equity. If the Company uses derivatives as the hedging instrument, the effective portion of the hedge is recognised in equity with any ineffective portion being recognised in the income statement. The Company has not separated out the interest element of the fair value of the forward currency contract. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

Fair value estimation

The fair value of the interest rate swaps and currency swaps is based on the market price of comparable instruments at the balance sheet date if they are publicly traded. The fair value of the forward currency contracts has been determined based on market forward exchange rates at the balance sheet date.

The fair values of short-term deposits, loans and overdrafts with a maturity of less than one year are assumed to approximate to their book values.

q Cost of sales

Cost of sales comprises the cost of purchasing products for the buy/sell operations, sports marketing costs, and design and development costs.

r Cash and cash equivalents

Cash and cash equivalents includes cash in hand, bank overdrafts and all highly liquid investments with original maturity dates of three months or less.

s Dividends

Dividends are recognised in the financial statements in the period when they are paid.

t Exceptional items

Exceptional items are those which are significantly large and unusual enough to require separate disclosure so that the underlying trends within the business can be identified.

u Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

v Trade receivables

Trade receivables are recognised initially at invoice value less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the realizable value. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'selling and distribution costs'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'selling and distribution costs' in the income statement.

w Critical Accounting Estimates and Assumptions

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, where assumptions and estimates are significant to the consolidated financial statements, are as follows:

NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

- Intangible assets
- Inventory provisions
- Discount provisions against trade receivables
- Defined benefit pension assumptions

x Financial risk management

The Company's multinational operations expose it to a variety of financial risks that include the effects of changes in foreign exchange rates, credit risks, liquidity and interest rates. The Company has a risk management programme that aims to reduce uncertainty in the financial performance of the Company by using foreign currency financial instruments and credit insurance.

Foreign exchange risk

The Company has operations in the USA, receives royalties from its licensees worldwide, and sources product overseas. The Company is primarily exposed to US dollar exchange risks in respect of product sourcing and royalty income, and to Euro exchange risks in respect of a significant part of its royalty income.

The Company enters into forward foreign exchange contracts to buy US dollars and to sell Euros. The cash flow hedges typically extend for 12 months, and cover 70 to 100% of the anticipated requirements.

Interest rate risk

The Company is exposed to interest rate risk in respect of its UK borrowings. The Company has a policy to keep interest rate risk under constant review, but did not take out any financial instruments in either 2006 or 2007.

Credit risk

The Company has some concentration of credit risk in respect of its UK sales to major customers, but this risk is minimised by credit insurance cover. Credit limits are set and adhered to in order to restrict debt to the lower of credit insurance limits or internally approved levels. Credit checks are carried out on all customers before sales commence and monitored continuously thereafter.

Liquidity risk

The Company actively maintains a mixture of long and short term facilities that are designed to ensure the Company has sufficient available funds for operations and planned expansions.

Company details

The Company is domiciled and incorporated in the United Kingdom under registration number 3674789. The registered office is Umbro House, Lakeside, Cheadle Royal Business Park, Cheadle, Cheshire, SK8 3GQ.

NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

2 Turnover

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

Segmental Analysis

Business Analysis

	2007 £'000	2006 £'000
Turnover – Buy/sell operations		
Licensed apparel	29,648	92,465
Branded apparel	14,622	14,909
<i>Total apparel</i>	44,270	107,374
Footwear	15,095	5,913
Equipment and other	4,948	3,527
	64,313	116,814
Turnover – Royalty income		
Licensed apparel	5,444	7,501
Branded apparel	11,612	12,772
<i>Total apparel</i>	17,056	20,273
Footwear	6,610	6,857
Equipment and other	3,657	2,897
	27,323	30,027
Total Turnover		
Licensed apparel	35,092	99,966
Branded apparel	26,234	27,681
<i>Total apparel</i>	61,326	127,647
Footwear	21,705	12,770
Equipment and other	8,605	6,424
	91,636	146,841
Wholesale Equivalent of Royalty Income		
Licensed apparel	33,348	45,047
Branded apparel	134,837	132,136
<i>Total apparel</i>	168,185	177,183
Footwear	81,322	75,935
Equipment and other	30,056	39,434
	279,563	292,552
Total Wholesale Equivalent		
Licensed apparel	62,996	137,512
Branded apparel	149,459	147,045
<i>Total apparel</i>	212,455	284,557
Footwear	96,416	81,848
Equipment and other	35,005	42,961
	343,876	409,366

NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

Segment information

Primary reporting format- business segments

The segment results for year ended 31 December 2007

	Buy/sell £'000	Licensee £'000	Unallocated £'000	Total £'000
Turnover	64,312	27,324	-	91,636
Operating profit	(38,345)	17,070	-	(21,275)
Net finance income	-	-	2,354	2,354
Profit before tax	(38,345)	17,070	2,354	(18,921)
Tax	-	-	5,015	5,015
Profit for the year	(38,345)	17,070	7,369	(13,906)

The segment results for year ended 31 December 2006

	Buy/sell £'000	Licensee £'000	Unallocated £'000	Total £'000
Turnover	116,814	30,027	-	146,841
Operating profit	10,009	17,848	-	27,857
Net finance income	-	-	2,183	2,183
Profit before tax	10,009	17,848	2,183	30,040
Tax	-	-	(7,884)	(7,884)
Profit for the year	10,009	17,848	(5,701)	22,156

Segment information

Primary reporting format- business segments

Other non-cash segment items included in the income statement for year ended 31 December 2007

	Buy/sell £'000	Licensee £'000	Unallocated £'000	Total £'000
Depreciation	739	-	-	739
Amortisation of intangible assets	655	-	-	655
Impairment of trade receivables	49	79	-	128

Other non-cash segment items included in the income statement for year ended 31 December 2006

	Buy/sell £'000	Licensee £'000	Unallocated £'000	Total £'000
Depreciation	761	-	-	761
Amortisation of intangible assets	520	-	-	520
Impairment of trade receivables	38	336	-	374

NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

Segment assets and liabilities and capital expenditure for year ended 31 December 2007

	Buy/sell £'000	Licensee £'000	Unallocated £'000	Total £'000
Assets	91,560	9,437	104,294	205,291
Liabilities	95,089	1,836	50,252	147,177
Capital expenditure	1,556	-	-	1,556

Segment assets and liabilities and capital expenditure for year ended 31 December 2006

	Buy/sell £'000	Licensee £'000	Unallocated £'000	Total £'000
Assets	34,715	6,525	142,634	183,874
Liabilities	(31,565)	(838)	(83,009)	(115,412)
Capital expenditure	689	-	-	689

The business at the date of these accounts comprises two segments: buy/sell and licensee. Items that cannot be reasonably allocated to these segments are classified as "unallocated".

The buy/sell business is that in which the Company sells product to customers as principal. The licensee business is that in which the Company licenses third parties to sell product containing the Company's trademarks in return for a royalty.

Unallocated represents exceptional items, holding Company costs, interest, share of associate's net profit, and tax in the income statement, and exceptional items, investment in associate, loans and pension deficit in the balance sheet.

NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

Segmental Analysis

Geographical Analysis

	2007 £'000	2006 £'000
Turnover – Buy/sell operations		
United Kingdom	62,037	113,855
Rest of Europe	2,020	2,541
Asia Pacific	153	-
North and South America	103	418
	64,313	116,814
 Turnover – Royalty Income		
United Kingdom	3,294	7,635
Rest of Europe	13,032	13,371
Asia Pacific	7,043	5,787
North and South America	3,954	3,234
	27,323	30,027
 Total Turnover		
United Kingdom	65,331	121,490
Rest of Europe	15,052	15,912
Asia Pacific	7,196	5,787
North and South America	4,057	3,652
	91,636	146,841
 Wholesale Equivalent of Royalty Income		
United Kingdom	21,420	34,132
Rest of Europe	136,695	148,320
Asia Pacific	66,644	61,601
North and South America	54,804	48,499
	279,563	292,552
 Total Wholesale Equivalent		
United Kingdom	83,457	147,987
Rest of Europe	138,715	150,861
Asia Pacific	66,797	61,601
North and South America	54,907	48,917
	343,876	409,366

Turnover and licensee royalty income is allocated based on where the customer is located

Total assets and all capital expenditure are situated within the United Kingdom

NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

3 Profit before tax

	2007 £'000	2006 £'000
Profit before tax is stated after charging / (crediting):		
Cost of inventories	41,361	58,077
Sports marketing costs (included in cost of sales)	27,632	30,304
Design & development costs (included in cost of sales)	4,481	5,534
Staff costs	12,234	12,725
Depreciation of owned property plant and equipment	659	634
Depreciation of leased property plant and equipment	80	127
Amortisation of intangible assets (included in administrative)	655	520
Loss / (profit) on sale of fixed assets	60	(41)
Audit services – fees payable to Company auditor for audit of parent company and consolidated accounts	104	127
Non-audit services – fees payable to the Company's auditor for other services		
Audit of the Company's subsidiaries	10	10
Tax services	74	80
Operating lease rentals		
Land and buildings	1,187	1,196
Plant and machinery	33	23
Impairment of trade receivables	128	374

In addition to the above services, the Company's auditors acted as auditor to the Umbro pension plan. The appointment of the auditors to the pension plan and the fees in respect of that audit are agreed by the trustees of the plan who act independently to the management of the Company. The fees paid to the auditor in respect of the pension plan were £7,000 (2006: £6,000).

4 Other operating income

	2007 £'000	2006 £'000
Rental	59	193
Commissions	4,100	3,047
(Loss) / profit on disposal of fixed assets	(60)	41
	4,099	3,281

Rental income is in respect of money received for the leasing of unused warehouse space.

Commissions income relates to amounts earned for arranging stock purchases with suppliers, on behalf of customers.

5 Finance costs

	2007 £'000	2006 £'000
Interest payable to ultimate parent company	212	403
Bank loans and overdrafts	1,835	808
Interest on finance lease assets	3	10
Other interest payable	64	254
	2,114	1,475

NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

6 Finance income

	2007 £'000	2006 £'000
Interest receivable from subsidiary companies	4,400	3,556
Other	68	102
	4,468	3,658

7. Taxation

	2007 £'000	2006 £'000
Analysis of charge for the year all relating to continuing operations		
Current tax		
UK Corporation tax		
Current tax on income at 30% (2006 30%)	(6,198)	8,134
Adjustments in respect of prior years	(29)	(1,499)
	(6,227)	6,635
Foreign tax		
Corporation taxes	1,016	1,167
Total current tax charge	(5,211)	7,802
Deferred tax		
Origination and reversal of timing differences	(147)	345
Timing differences on share incentive schemes	343	(263)
Tax (credit) / charge on profit on ordinary activities	(5,015)	7,884

The tax rate applicable on profit from ordinary activities varied from the standard rate of corporation tax in the UK of 30%. The differences are explained below

	2007 £'000	2006 £'000
Loss / profit on ordinary activities before tax	(18,921)	30,040
Loss / profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	(5,676)	9,012
Effects of		
Adjustments to tax in respect of prior periods	(29)	(1,499)
Other timing differences	(549)	9
Capital allowances	147	245
Items not assessable for tax purposes		
Other potentially disallowable costs	76	117
Excess foreign taxes suffered	1,016	-
Tax charge on profit on ordinary activities	(5,015)	7,884

During the year, as a result of the change in the UK corporation tax rates which will be effective from 1 April 2008, deferred tax balances have been re-measured. Deferred tax relating to temporary differences which are expected to reverse prior to 1 April 2008 is measured at 30% and deferred tax relating to temporary differences which are expected to reverse after 1 April 2008 is measured at 28%, as these are the tax rates that will apply on reversal.

NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

Analysis of tax movements taken to reserves

	2007	2006
	£'000	£'000
Deferred tax on hedge reserve	(273)	-
Deferred tax on difference in market value and P&L charge of share incentives	312	(353)
Deferred tax on actuarial losses taken to reserves	978	142
Debit / (credit) to reserves	1,017	(211)

8 Exceptional items

	2007	2006
	£'000	£'000
Exceptional items included under administration costs are		
Legal costs associated with termination of licensee contract	484	-
	484	-

The tax effect of the exceptional items is a credit for the year of £0.1m in the Company accounts

9. Investments in subsidiaries

	2007	2006
	£'000	£'000
Cost		
At 1 January	66,015	65,557
Acquisition of additional shareholding in USISL Inc	25	458
At 31 December	66,040	66,015

	Proportion of ordinary share capital held	Country of incorporation and operation	Nature of business
Umbro Hong Kong Limited	100%	Hong Kong	Management company
Umbro Licensing Limited	100%	UK	Dormant company
USISL Inc	98%	USA	Soccer league management
Umbro Corp	100%	USA	Sportswear trading
Umbro Sportswear Ltd	100%	UK	Dormant company
Umbro com Limited	100%	UK	Dormant company

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

NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

10 Investments in associates

	2007 £'000	2006 £'000
Cost		
At 1 January	6,798	6,798
Acquisition of 49% shareholding in Noel Soccer	9,671	-
Acquisition of 15% shareholding in Team and Sports Limited	9,355	-
Re-assessment of Team and Sports Limited deferred consideration	940	-
Acquisition of 49% shareholding in Club Website Limited	69	-
Acquisition of 25% shareholding in BBV Sport d o o	7	-
At 31 December	26,840	6,798

In 2005 Umbro International Limited acquired a 25% interest in the A and B ordinary shares of Team and Sports Limited, a company incorporated in Hong Kong with interests in Hong Kong, China and Taiwan. The interest has been treated as an associate on the basis that the Umbro International Ltd only has significant influence and not control of the financial and operating policies of the company.

The initial purchase consideration is payable as follows: £2.8m on acquisition (30 September 2005), £1.3m on 31 July 2006, and the balance of approximately £2.7m over the period January 2006 to January 2011. The latter payments are based on 1.5% of the sales of Team and Sports Limited, and are the best estimates based on the likely future sales.

A re-assessment of the deferred consideration relating to the initial 15% stake purchased in 2005 led to an addition of £940,000 to the cost of investment.

In March 2007 Umbro International Limited acquired a further 15% interest (increasing the stake to 40%) in the A and B ordinary shares of Team and Sports Limited, a company incorporated in Hong Kong with interests in Hong Kong, China and Taiwan. The interest will continue to be treated as an associate on the basis that the Umbro Group only has significant influence and not control of the financial and operating policies of the company. The purchase consideration of £10,295,000 was payable upon completion.

The following represents the gross financial information of Team and Sports Limited at 31 December 2006, unadjusted for intra-group transactions and group accounting policies:

	2007 US\$'000	2006 US\$'000
Assets	64,283	51,733
Liabilities	(30,157)	(39,053)
Net profit for the year	8,045	6,500

In May 2007 Umbro International Limited acquired a 49% interest in the ordinary share capital of Noel Soccer, a company incorporated in France. The interest will be treated as an associate on the basis that the Umbro Group only has significant influence and not control of the financial and operating policies of the company.

The purchase consideration was payable as follows: £8,306,000 upon completion with the balance of £1,365,000 payable upon achievement of future growth targets over the next 5 years.

The following represents the gross financial information of Noel Soccer at 31 December 2007, unadjusted for intra-group transactions and group accounting policies:

	2007 €'000
Assets	17,079
Liabilities	(11,110)
Net profit for the year	1,260

In June 2007 Umbro International Ltd acquired a 49% stake in Club Website Limited, a company incorporated in the UK for which the purchase consideration (payable on completion) was £69,000.

NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

In June 2007 Umbro International Ltd acquired a 25% stake in BBV Sport d o o, a company incorporated in Croatia for which the purchase consideration (payable on completion) was £7,000

11 Tangible fixed assets

	2007 £'000	2006 £'000
Plant and Equipment		
Cost		
At 1 January	7,008	7,034
Additions	1,556	644
Disposals	(353)	(670)
At 31 December	8,211	7,008
Depreciation		
At 1 January	4,658	4,548
Charge for the year	739	761
Disposals	(244)	(651)
At 31 December	5,153	4,658
Net Book Value		
At 31 December	3,058	2,350

The cost of fixed assets above includes assets held under finance leases amounting to £364,000 (2006 £1,316,000) and their net book value as at 31 December 2007 amounted to £69,000 (2006 £176,000)

Depreciation is charged to the Income Statement to various cost categories based on the department holding the asset

NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

12 Intangible assets

	Computer software
	£'000
Cost	
At 1 January	2,315
Addition	38
At 31 December	2,353
Amortisation	
At 1 January	1,570
Charge for year	655
At 31 December	2,225
Net book value	
At 31 December 2007	128
at 31 December 2006	745

13. Deferred income tax asset

	Depreciation in advance of capital allowances £'000	Pension deficit £'000	Other £'000	Share incentive schemes £'000	Total £'000
At 1 January 2006	299	2,391	121	250	3,061
Credit to reserves	-	(142)	-	353	211
Income statement (charge)/credit	(178)	(89)	(77)	264	(80)
At 31 December 2006	121	2,160	44	867	3,192
At 1 January 2007	121	2,160	44	867	3,192
Credit to reserves	-	(978)	273	(312)	(1,017)
Income statement (charge)/credit	147	-	-	(343)	(196)
At 31 December 2007	268	1,182	317	212	1,979

14 Inventories

	2007 £'000	2006 £'000
Finished goods	5,465	11,315

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

NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

15 Current assets – Trade and other receivables

	2007 £'000	2006 £'000
Trade debtors	3,808	18,826
Less provision for impairment	(189)	(183)
Trade debtors - net	3,619	18,643
Amount due from ultimate parent undertaking	9,018	-
Amount due from immediate parent undertaking	64,020	59,877
Amount due from subsidiary undertakings	4,435	2,745
Other debtors	9	9
Prepayments and accrued income	11,246	8,178
	92,347	89,452

Concentration of credit risk in relation to trade receivables is limited due to the Company's customer base being large and unrelated. As a result management consider no further credit risk provision is required in excess of normal provisions for doubtful debts.

As of 31 December 2007 trade receivables of £189,000 (2006 £183,000) were impaired. The individually impaired receivables mainly relate to customers suffering in unexpectedly difficult economic conditions. The ageing of these receivables is as follows,

	2007 £'000	2006 £'000
3 to 6 months	72	98
over 6 months	117	85
	189	183

As of 31 December 2007 trade receivables of £2,869,000 (2006 £7,076,000) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing analysis of these trade receivables is,

	2007 £'000	2006 £'000
up to 3 months	443	4,549
3 months and over	2,426	2,527
	2,869	7,076

The carrying amounts of the Company's trade and other receivables are denominated in the following currencies,

	2007 £'000	2006 £'000
Pounds	90,598	86,727
Euro	738	419
US Dollar	1,011	2,306
	92,347	89,452

Movements on the Company provision for impairment of trade receivables are as follows,

	2007 £'000	2006 £'000
At 1 January	183	139
Cash received	(122)	(330)
Written off to the income statement in selling and distribution expenses	128	374
At 31 December	189	183

NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

16 Current liabilities – Trade and other payables

	2007 £'000	2006 £'000
Trade creditors	10,063	12,951
Amounts owed to ultimate parent undertaking	-	120
Amounts owed to subsidiary undertakings	65,078	65,279
Deferred income	164	-
Other tax and social security	257	294
Other creditors	1,338	1,850
Accruals	16,482	15,398
	93,383	95,892

Included in the amounts owed to subsidiaries is £65,000,000 in respect of the investment in the subsidiary Umbro Licensing Limited

17 Financial liabilities

	2007 £'000	2006 £'000
Current liabilities:		
Bank borrowings (secured, all £ sterling)		
Overdraft facility	41,654	-
Forward foreign exchange contracts	978	3,010
Obligations under finance leases	20	41
	42,652	3,051
Non-current liabilities		
Obligations under finance leases	7	27

At 31 December 2007, the Company had issued fixed and floating charges over its assets and those of its subsidiaries in respect of the Company United Kingdom bank borrowings of £41.7m at that date (2006 £nil)

There is also a maximum £75m overdraft and revolving credit facility which expires on 28 April 2009

18 Other non-current liabilities

	2007 £'000	2006 £'000
Other creditors and accruals	3,702	1,910
Loan from immediate parent undertaking	3,212	3,064
	6,914	4,974

The parent undertaking has indicated that it is not its intention to require repayment within twelve months of the balance sheet date

NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

19 Financial instruments

Current assets – Financial assets	2007	2006
	£'000	£'000
Forward foreign exchange contracts	-	-

The Company enters into forward foreign currency contracts. The purpose of such transactions is to manage cash flow currency risks associated with:

- i Stock purchases denominated in foreign currency,
- ii Royalty receipts denominated in foreign currency, and
- iii Capital investments.

It is, and has been through the period under review, the Company's policy that no trading in financial instruments shall be undertaken.

Fair values of financial assets and financial liabilities

With the exception of forward currency contracts, the book value of the Company's financial assets and liabilities approximates their fair value.

The fair value of the derivative financial instruments is no different from the values in the table above.

The net fair value losses at 31 December 2006 on open foreign exchange contracts that hedge the cash flow currency risks of anticipated future purchases are £3.0m. These are included in the hedge reserves and will be transferred to the income statement over the next 12 months. There were no derivatives outstanding at the balance sheet date that were designated as fair value hedges.

Maturity of financial liabilities

The maturity profile of the carrying amount of the Company's financial liabilities during the period, other than short-term trade creditors and accruals, was as follows:

	Finance Leases £'000
Year ended 31 December 2007	
Within one year, or on demand	20
In more than one year but not more than two years	7
In more than two years but not more than five years	-
	27
Year ended 31 December 2006	
Within one year, or on demand	41
In more than one year but not more than two years	11
In more than two years but not more than five years	16
	68

NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

Borrowing facilities

The Company has the following undrawn committed borrowing facilities available during the period covered by the financial statements in respect of which all conditions precedent had been met at the balance sheet date

	2007 £'000	2006 £'000
Expiring within 1 year	75,000	6,000
Expiring between 1 and 2 years	-	50,000
	75,000	56,000

At 31 December 2006, the Company had a maximum £50m overdraft and revolving credit facility (£30m committed and £20m uncommitted), and a £6m undrawn guarantee facility. Commitment fees are incurred on the undrawn portion of the facility at market rates. There are no fixed interest rate facilities in the above.

The effective interest rates at the balance sheet date were

	2007	2006
Bank overdraft	6.5%	6.0%
Revolving credit facility	6.65%	5.9%
Finance leases	8.0%	8.0%

20 Share capital and reserves

	2007		2006	
	Number '000	£'000	Number '000	£'000
Issued.				
Ordinary shares of £1 each	200	200	200	200
Allotted, called up and fully paid				
Ordinary shares of £1 each	160	160	160	160

Analysis of reserves

	Hedge reserve £'000	Capital reserve £'000	Retained profits £'000	Total £'000
At 1 January 2007	(2,958)	35,000	36,260	68,302
Cash flow hedges	2,322	-	-	2,322
Profit for financial period	-	-	(13,906)	(13,906)
Actuarial gain on pension fund	-	-	2,525	2,525
Deferred tax on pension deficit movement	-	-	(978)	(978)
Deferred tax on excess of market value over cost of share incentives	-	-	(311)	(311)
At 31 December 2007	(636)	35,000	23,590	57,954

NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

21 Statement of changes in equity

	Share capital £'000	Capital reserve £'000	Hedge reserve £'000	Retained profits £'000	Total equity £'000
At 1 January 2006	160	35,000	2,334	16,422	53,916
Net fair value losses	-	-	(5,292)	-	(5,292)
Profit for financial period	-	-	-	22,156	22,156
Actuarial gains on pension fund	-	-	-	471	471
Deferred tax on pension deficit movement	-	-	-	(142)	(142)
Deferred tax on excess of market value over cost of share incentives	-	-	-	353	353
Ordinary dividends	-	-	-	(3,000)	(3,000)
At 31 December 2006	160	35,000	(2,958)	36,260	68,462
At 1 January 2007	160	35,000	(2,958)	36,260	68,462
Net fair value gains	-	-	2,322	-	2,322
Loss for financial period	-	-	-	(13,906)	(13,906)
Actuarial gains on pension fund	-	-	-	2,525	2,525
Deferred tax on pension deficit movement	-	-	-	(978)	(978)
Deferred tax on excess of market value over cost of share incentives	-	-	-	(311)	(311)
At 31 December 2007	160	35,000	(636)	23,590	58,114

NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

22 Employee costs and Directors' remuneration

	2007 £'000	2006 £'000
Staff costs (including Directors' remuneration) for the Company during the year were as follows		
Wages and salaries	10,645	10,150
Social security costs	1,105	995
Other pension costs	560	704
Equity settled share based payments recharged from ultimate parent		
- Long Term Incentive Plan	(138)	808
- Save As You Earn Schemes	62	68
	12,234	12,725

Average monthly number of people (including executive Directors) employed	number	number
United Kingdom	202	207

	2007 £'000	2006 £'000
Key management compensation		
Salaries and short term employee benefits	1,017	1,001
Post employment benefits	83	96
	1,100	1,097

	2007 £'000	2006 £'000
Directors' remuneration		
Salaries and short term employee benefits	727	751
Post employment benefits	76	85
	797	836

In 2007, retirement benefits accrued to 2 directors (2006: 2) under defined contribution pension schemes

	2007 £'000	2006 £'000
The amounts in respect of the highest paid Director are		
Emoluments	328	343
Company contributions to defined contribution pension schemes	37	44

NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

23 Pension commitments

The Company operated defined benefit and defined contribution schemes and also contributed to Directors personal pension plans. The defined benefit scheme ('the Plan') provides benefits based on final pensionable pay. The assets of the Plan are held in a separate trustee administered fund. The Plan was closed to new entrants with effect from 6 April 2001. Under the projected unit method, the current service cost of this scheme will increase as the members approach retirement.

Contributions to the Plan are charged to the income statement so as to spread the cost of pensions over active employees' working lives with the Company. The rates of contribution are determined by a qualified actuary on the basis of triennial valuations.

The principal funds are those in the UK. Outside the UK there is one defined contribution scheme.

The most recent actuarial valuation of the Plan was carried out as at 6 April 2005 on the statutory Minimum Funding Requirement ('MFR') basis. The valuation has been updated to 31 December 2007 on an approximate basis. This was carried out by JLT, independent professionally qualified actuaries.

The contributions made by the employer over the financial year have been £680,000 (2006 £708,000), equivalent to 8.5% of pensionable pay plus £500,000 p.a. The employer contribution rate includes insurance premiums for death in service benefits, the expenses of running the Plan, and estimated levies payable to the Pensions Protection Fund.

It is the policy of the Company to recognise all actuarial gains and losses in the year in which they occur outside the income statement in the statement of recognised income and expense.

The market value of the assets held in respect of all scheme members at the valuation date of 6 April 2005 was £10.4 million and the market value of the assets was sufficient to cover 101% of the liabilities on the statutory MFR basis.

The pension charge for the period for all defined contribution schemes was £358,000 (2006 £375,000). The creditor at the end of the year was £nil (2006 £nil).

Reconciliation of opening and closing balances of the present value of the defined benefit obligation

	2007 £'000	2006 £'000
Defined benefit obligation at start of year	21,945	19,995
Current service cost	272	337
Interest cost	1,121	984
Contributions by plan participants	164	163
Actuarial (gain) / loss	(3,091)	777
Benefits paid, death in service premiums and expenses	(383)	(311)
Defined benefit obligation at end of year	20,028	21,945

Reconciliation of opening and closing balances of the fair value of the plan assets

	2007 £'000	2006 £'000
Fair value of assets at start of year	14,743	11,987
Expected return on assets	1,168	948
Actuarial (losses) / gains	(566)	1,248
Contributions by employer	680	708
Contributions by Plan participants	164	163
Benefits paid, death in service premiums and expenses	(383)	(311)
Fair value of assets at end of year	15,806	14,743

NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

Total expense recognised in income statement

	2007 £'000	2006 £'000
Current service cost	272	337
Interest on pension plan liabilities	1,121	984
Expected return on plan assets	(1,168)	(948)
Total included in employee benefit expense	225	373

Gains / (losses) recognised in the statement of recognised income and expense

	2007	2006
Difference between expected and actual return on plan assets		
Amount (£'000)	(566)	1,248
Percentage of scheme assets (%)	3.6	8.5
Experience gains and losses arising on the plan liabilities		
Amount (£'000)	230	178
Percentage of present value of plan liabilities (%)	1.1	0.8
Effect of changes in the demographic and financial assumptions underlying the present value of the plan liabilities		
Amount (£'000)	2,861	(955)
Percentage of present value of plan liabilities (%)	14.3	(4.4)
Total amount recognised in the statement of recognised income and expense		
Amount (£'000)	2,525	471
Percentage of present value of plan liabilities (%)	12.6	2.1

The cumulative amount of actuarial losses recognised in the statement of recognised income and expense since adoption of IAS19 is £1,672,000

Allocation of plan assets

	2007	2006
Equities	79%	75%
Bonds	1%	1%
Property	20%	23%
Cash	-	1%

None of the fair value of the assets shown above include any of the Company's own financial instruments or any property occupied by, or other assets used by, the Company

Expected long term rate of return

The expected long term return on cash is equal to base rates at the balance sheet date. The expected return on bonds is determined by reference to UK long dated gilt and bond yields at the balance sheet date. The expected rate of return on equities and property have been determined by setting an appropriate risk premium above gilt/bond yields having regard to market conditions at the balance sheet date.

NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

	2007	2006
Equities	7.8%	7.8%
Bonds	4.5%	4.6%
Property	7.8%	7.8%
Cash	5.5%	5.0%
Overall for plan	7.8%	7.8%

Actual return on plan assets

The actual return on the plan assets over the year ended 31 December 2007 was 4.0% (2006 17.9%)

Assumptions

The assets of the scheme have been taken at market value and the liabilities have been calculated using the following principal actuarial assumptions

	2007	2006
Inflation	3.25%	2.95% pa
Salary increases	3.75%	3.45% pa
Rate of discount	5.80%	5.10% pa
Pension in payment increases of RPI or 2.5% if less	2.35%	2.25% pa
Pension in payment increases of RPI or 5.0% if less	3.25%	2.95% pa
Pension in payment increases of RPI or 5.0% if less, minimum 3%	3.50%	3.40% pa
Revaluation rate for deferred pensioners	3.25%	2.95% pa
Allowance for cash commutation at retirement	No	No

The mortality assumptions imply the following life expectancies in years at age 65

	2007	2006
Male currently age 40	20.5	20.5
Female currently age 40	23.4	23.4
Male currently age 65	20.5	20.5
Female currently age 65	23.4	23.4

Present value of defined benefit obligations, fair value of assets and liabilities

	2007 £'000	2006 £'000
Present value of funded obligations	(20,028)	(21,945)
Fair value of plan assets	15,806	14,743
Deficit in the scheme	(4,222)	(7,202)

As all actuarial gains and losses are recognised, the deficits shown above are those recognised in the balance sheet

Summary movement in balance sheet deficit during the year

	2007 £'000	2006 £'000
Deficit in scheme at beginning of year	(7,202)	(8,008)
Total employee benefit expense	(225)	(373)
Actuarial gains / (losses) taken to reserves	2,525	471
Contributions	680	708
Deficit in scheme at end of year	(4,222)	(7,202)

NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

Estimate of contributions to be paid to the plan for the year ending 31 December 2008

The estimated total contributions to be paid to the plan for the year ending 31 December 2008 are £680,000

Summary of key statistics for the current and previous four years

	2007 £'000	2006 £'000	2005 £'000	2004 £'000	2003 £'000
Fair value of assets	15,806	14,743	11,987	10,086	8,898
Defined benefit obligation	(20,028)	(21,945)	(19,995)	(15,450)	(15,138)
Deficit in plan	(4,222)	(7,202)	(8,008)	(5,364)	(6,240)
Experience adjustments on plan liabilities	230	178	(116)	825	(71)
Experience adjustments on plan assets	(566)	1,248	1,030	293	549
Effect of changes in the demographic and financial assumptions underlying the present value of the plan liabilities	2,861	(955)	(3,356)	-	(2,166)

The parent company did not operate any defined benefit or contribution plans during the year

24 Operating leases

The Company has lease agreements in respect of properties, vehicles, plant and equipment, for which the payments extend over a number of years. The total of future minimum lease payments under non-cancellable operating leases due in each period are as follows

	2007 £'000	2006 £'000
Falling due in the period		
Within one year	1,036	1,104
Within two to five years	4,205	4,363
After five years	1,138	2,172
	6,379	7,639

NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

25 Related party transactions

Umbro International Limited made payments to Nottingham Forest and Morecambe football clubs of £128,000 during the year (2006 £138,000) under sponsorship agreements. The amounts owing to the clubs at 31 December 2007 is £22,000 (2006 £nil). N Doughty and P McGuigan are directors of Nottingham Forest and Morecambe football clubs respectively.

Umbro International Limited received royalty payments of £4,925,000 (2006 £2,331,000) from its associated undertaking Team and Sports Limited, and the balance outstanding on trade receivables at 31 December 2007 was £19,000 (2006 £952,000). The acquisition of the 25% stake is disclosed in notes 12 to 14.

Umbro International Limited received royalty payments of £2,691,000 (2006 £2,747,000) from its associated undertaking Noel Soccer SAS, and the balance outstanding on trade receivables at 31 December 2007 was £15,000 (2006 £76,000). The acquisition of the 49% stake is disclosed in notes 12 to 14.

Umbro International Limited incurred expenses of £2,105,000 (2006 £1,089,000) on behalf of its subsidiary company Umbro Corp during the year. Umbro International Limited received contribution in respect of these expenses totalling £346,000 (2006 £477,000). The amount owed to Umbro International Limited at 31 December 2007 was £4,147,000 (2006 £2,388,000).

Umbro International Limited incurred operational expenses of £1,290,000 (2006 £1,278,000) on behalf of its subsidiary company Umbro Hong Kong Ltd during the year. Umbro International Ltd made payment in respect of these expenses totalling £1,446,000 (2006 £1,404,000). The amount owed by Umbro Hong Kong Ltd at 31 December 2007 was £235,000 (2006 £79,000).

Umbro International Limited made payments of £148,000 (2006 £131,000) to its immediate parent company Umbro International Holdings Limited during the year. The amount owed to Umbro International Holdings Limited at 31 December 2006 is £3,212,000 (2005 £3,064,000). Umbro International Limited did not pay a dividend (2006 £3,000,000) to Umbro International Holdings Limited during the year.

Umbro International Limited made payments to Umbro Finance Limited of £4,144,000 (2006 £8,645,000) during the year. The balance owed to Umbro International Limited at 31 December 2006 was £64,020,000 (2006 £59,876,000).

Umbro International Limited made payments of £9,138,000 (2006, £6,225,000) to its ultimate parent company Umbro Plc during the year. The balance owed to Umbro International Limited at 31 December 2007 was £9,018,000 (2006 owed to Umbro Plc £120,000).

At 31 December 2007 Umbro International Limited owed £65,000,000 to its subsidiary company Umbro Licensing Limited (2006 £65,000,000).

26 Ultimate holding company

The immediate holding company is Umbro International Holdings Limited whose registered office is at Umbro House, Lakeside, Cheadle, Cheshire, SK8 3GQ.

The ultimate parent company of the smallest and largest group is Nike Inc and accounts may be obtained from 1 Bowerman Drive, Beaverton, Portland, Oregon.

NOTES TO THE ACCOUNTS - 31 DECEMBER 2007 (CONTINUED)

27 Cash generated from operations

Reconciliation of net (loss)/profit to net cash flow from operations

	2007	2006
	£'000	£'000
Net (loss)/profit	(13,906)	22,156
Adjustments for		
Tax	(5,015)	7,884
Depreciation	739	761
Amortisation of intangible assets	655	520
Interest income	(4,468)	(3,658)
Interest expense	2,114	1,475
Transfer from hedge reserve	290	64
Profit/(loss) on disposal of fixed assets	60	(41)
Changes in working capital		
Increase in stock	5,850	(4,324)
(Increase) / decrease in debtors	(2,895)	19,133
(Decrease) in creditors	(3,014)	(20,427)
Net cash (outflow)/inflow from operations	(19,590)	23,543

Cash and cash equivalents disclosed in the cash flow statement comprise,

	2007	2006
	£'000	£'000
Bank overdrafts	(41,654)	-
Cash	10	4,007
Cash and cash equivalents	(41,644)	4,007

28 Post balance sheet events

Subsequent to the year end, the Umbro group (including Umbro International Ltd) was acquired by Nike Vapor Limited for £283m. The ultimate parent company of the smallest and largest group is Nike Inc and accounts may be obtained from 1 Bowerman Drive, Beaverton, Portland, Oregon. Umbro plc was re-registered as a private company on 4 March 2008 and changed its name to Umbro Ltd.

29 Contingent liabilities

A former licensee of the Company, Teamsport BV, has issued arbitration proceedings for €80 million for wrongful termination of its license agreement. The Company believes that it had strong grounds for the termination. The outcome of the litigation is uncertain, any compensation that may be payable if the action were lost cannot yet be quantified and consequently no provision is held.