NIKE MERCURIAL I LIMITED

Annual Report and Financial Statements
For the year ended 31 May 2016

Company Registered Number: 198168

NIKE MERCURIAL I LIMITED

DIRECTORS REPORT FOR THE YEAR ENDED 31 MAY 2016

The Directors present their annual report and the audited financial statements of the Company for the year ended 31 May 2016.

Small company provisions

This report has been prepared in accordance with the special provisions of Part 15 of the small companies' regime of the Companies Act 2006, relating to small companies.

Principal activities

The Company has had no business activity during the financial year ended 31 May 2016. The Company's principle activity is the funding of the Umbro Pension Plan.

Review of the business and future developments

The Directors report an operating loss of £522,000 (2015: gain of £64,921,000).

The loss before income tax for the year was £696,000 (2015: loss of £410,000).

The Company's parent, Nike, Inc., have indicated their intention to continue to fund the Company to enable it to settle its liabilities.

Trading operations of the Company ceased during 2013 following the sale of the trademark and licenses to Iconix.

In July 2013 the Company changed its name from Umbro International Limited to Nike Mercurial I Limited.

Trading results and dividend

The loss for the financial year was £696,000 (2015: loss of £410,000).

There was no dividend recommended or paid during the year to the immediate parent company (2015: £nil).

Charitable contributions

During the year the Company made no charitable contributions of sportswear and apparel, nor did it make donations (2015: £nil). No contributions were made to political organisations (2015: £nil), and no non-cash donations of product were made (2015: £nil).

Future developments

After cessation of trading in May 2013, the Company has and will continue to perform activities in connection with on-going funding of the pension plan. Nike, Inc. has provided a guarantee to the Trustees of the pension plan in respect of the Company's obligations to the pension plan.

Environmental policy

The CO_2 output of the Company was nil tonnes in the year as no operations were conducted (2015: nil tonnes).

Directors

The Directors who served on the Board during the year and up to the date of signing the financial statements were as follows:

G Hanson
E Reynolds

The Company Secretary during the year and up to the date of signing the financial statements was E Reynolds.

Treasury

The Company's financial instruments comprise borrowings, some cash and liquid resources, and various items that have arisen from its past operations.

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.

Interest rate risk

The Company finances its operations through Nike group loans. The Company currently does not hedge its interest rate risks, although this policy is reviewed regularly.

Liquidity risk

Short-term flexibility is achieved by loans from Nike group companies which are sufficient to meet the Company's foreseeable working capital requirements.

Foreign currency risk

The Company has limited exposure to foreign currency risk and does not hedge these risks.

Employees

During the fiscal year ended 31 May 2016, *there were no employees working for the* Company.

Going concern

Trading operations of the Company ceased during 2013 following the sale of the trademark and licenses to Iconix. The Company continues to perform activities in connection with on-going funding of the defined benefit pension plan. Nike, Inc. has provided a guarantee to the Trustees of the pension plan in respect of the Company's obligations to the pension plan.

NIKE UK Holding BV issued a sterling loan facility of £40,000,000 with an expiry date of 6 April 2023. In 2015 this loan, including the accrued interest, was for an amount of £12,800,000 contributed to the Company by NIKE UK Holding B.V. In 2016 no additional contribution has been made to the Company.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future to meet these ongoing obligations. For this reason, they continue to adopt the going concern basis in preparing the financial statements, as the Company has received a letter of financial support from Nike, Inc.

Independent auditors

The independent auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they 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 these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and 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 2006. 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.

Statement of Disclosure of Information to Auditors'

In accordance with Section 418 of Companies Act 2006, each Director in office at the date the Directors' Report is approved confirms that:

(a) So far each Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

(b) Each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Third party indemnity provision
Nike, Inc. has made qualifying third party indemnity provisions for the benefit of its directors (which extend to the performance of any duties as a director of any associated company). There provisions were in place throughout the financial year and at the date of this report.

ON BEHALF OF THE BOARD

E Reynolds
Director

14 October 2016

Nike Office, Camberwell Way
Doxford International Business Park
Sunderland
England
SR3 3XN

Company Registered Number: 198168

NIKE MERCURIAL I LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NIKE MERCURIAL I LIMITED

Report on the financial statements

Our opinion

In our opinion, Nike Mercurial I Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 May 2016 and of its loss and cash flow for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual report and financial statements (the "Annual Report"), comprise:

- the Statement of financial position as at 31 May 2016;
- the Income statement and Statement of Comprehensive Income for the year then ended;
- the Statement of Cash Flows for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the Notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

DIRECTORS REPORT FOR THE YEAR ENDED 31 MAY 2016 (CONTINUED)

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to: take advantage of the small companies exemption in preparing the Directors' Report; and take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK & Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Edward Moss

Edward Moss (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
14 October 2016

NIKE MERCURIAL I LIMITED

Income Statement
for the year ended 31 May 2016

	Note	**2016 £'000**	2015 £'000
Other income	3	**-**	65,000
Other operating expenses		**(522)**	(79)
Operating (loss) / gain		**(522)**	64,921
Impairment of subsidiary investment	7	**-**	(65,001
Finance costs	4	**(1,185)**	(1,312)
Finance income	5	**1,011**	982
Loss before income tax	2	**(696)**	(410)
Income tax	6	**-**	-
Loss for the financial year	12	**(696)**	(410)

The results shown relate to discontinued operations.

The accompanying notes on pages 10 to 24 are an integral part of these financial statements

Statement of Comprehensive Income
For the year ended 31 May 2016

	Note	**2016** **£'000**	2015 £'000
Loss for the financial year		**(696)**	(410)
Other comprehensive expense:			
Items not subsequently reclassified to the income statement			
Actuarial loss	15	**(93)**	(2,006)
Net loss recognised directly in equity		**(93)**	(2,006)
Total comprehensive expense		**(789)**	(2,416)

The accompanying notes on pages 10 to 24 are an integral part of these financial statements.

Statement of Financial Position
As at 31 May 2016

	Note	2016 £'000	2015 £'000
Assets			
Non-current assets			
Investments in subsidiaries	7	-	-
		-	-
Current assets			
Trade and other receivables	8	**14**	2,357
Cash and cash equivalents	9	**455**	286
		469	2,643
Liabilities			
Current liabilities			
Trade and other payables	10	**(3,011)**	(2,857)
		(3,011)	(2,857)
Net current liabilities		**(2,542)**	(214)
Non-current liabilities			
Retirement benefit liability	15	**(4,243)**	(5,782)
		(4,243)	(5,782)
Net liabilities		**(6,785)**	(5,996)
Shareholders' Equity			
Equity share capital	12	**160**	160
Other reserves	12	**(6,945)**	(6,156)
Total equity		**(6,785)**	(5,996)

The accompanying notes on pages 10 to 24 are an integral part of these financial statements of NIKE MERCURIAL I LIMITED (registered number 198168). The financial statements on pages 6 to 24 were approved by the Directors on 14 October 2016 and were signed on its behalf by:

E Reynolds
Director

Statement of Changes in Equity
For the year ended 31 May 2016

	Equity Share capital	Capital reserve	Share Premium	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000
At 1 June 2014	160	35,000	74,312	(125,852)	(16,380)
Loss for financial year	-	-	-	(410)	(410)
Actuarial gain on pension fund	-	-	-	(2,006)	(2,006)
Total comprehensive expense	**-**	**-**	**-**	**(2,416)**	**(2,416)**
Transactions with owners:					
Capital Contribution	-	12,800	-	-	12,800
Total transactions with owners	**-**	**12,800**	**-**	**-**	**12,800**
At 31 May 2015	160	47,800	74,312	(128,268)	(5,996)
At 1 June 2015	160	47,800	74,312	(128,268)	(5,996)
Loss for financial year	-	-	-	(696)	(696)
Actuarial loss on pension fund	-	-	-	(93)	(93)
Total comprehensive expense	**-**	**-**	**-**	**(789)**	**(789)**
At 31 May 2016	**160**	**47,800**	**74,312**	**(129,057)**	**(6,785)**

The accompanying notes on pages 10 to 24 are an integral part of these financial statements.

Statement of Cash Flows
For the year ended 31 May 2016

	Note	2016 £'000	2015 £'000
Cash flows from operating activities			
Cash inflow / (outflow) from operations	19	**343**	(12,570)
Interest and finance costs paid		**(1,185)**	(1,312)
Interest received		**1,011**	982
Net cash inflow / (outflow) from operating activities		**169**	(12,900)
Net cash generated/(used) in investing activities		**-**	-
Cash flows from financing activities			
Capital contribution	12	**-**	12,800
Net cash inflow from financing activities		**-**	12,800
Net increase / (decrease) in cash and cash equivalents		**169**	(100)
Cash and cash equivalents at beginning of the year		**286**	386
Cash and cash equivalents at end of the year		**455**	286

The accompanying notes on pages 10 to 24 are an integral part of these financial statements.

1. Statement of significant accounting policies

Significant accounting policies used in the preparation of these financial statements are set out below and were consistently applied to all the years presented.

a. Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as issued by the International Accounting Standards Board (IASB) as adopted by the European Union, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. These financial statements have been prepared on a going concern basis under the historical cost basis of accounting.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of significant events in notes to the financial statements.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances. Although these estimates are based on management's best knowledge of the account, event or actions, actual results may differ from those estimates.

The accounting policies adopted are consistent with those of the previous year.

Amendments in IFRS

Standards and interpretations

Adoption of new and revised standards

The following standards, amendments to standards, improvements or interpretations became effective during the year to 31 May 2016:

International Accounting Standards (IAS/IFRSs)

- Annual improvements 2010-2012 (effective 1 July 2014) (endorsed for 1 Feb 2015)
- Amendment to IAS 19, 'Employee benefits', on defined benefit plans (effective 1 July 2014) (endorsed for 1 Feb 2015)
- Annual improvements 2011-2013 (effective 1 July 2014) (endorsed for 1 Jan 2015)
- IFRIC 21, 'Levies' (effective 1 January 2014) (endorsed 17 June 2014)

Where applicable the effects of these changes have been included in these financial statements.

Future announcements

The following new standards, amendments and interpretations are effective from the dates stated below. Standards have been endorsed by the EU unless otherwise stated. None of these are expected to impact the Company

- Annual improvements 2012-2014 (effective 1 January 2016)
- Amendment to IFRS 11,'Joint arrangements' on acquisition of an interest in a joint operation', (effective 1 January 2016) (subject to EU endorsement)
- Amendment to IAS 16 ,'Property, plant and equipment' and IAS 38,'Intangible assets', on depreciation and amortisation (effective 1 January 2016) (subject to EU endorsement)
- Amendments to IAS 16, 'Property, plant and equipment' and IAS 41, 'Agriculture' on bearer plants *(effective 1 January 2016) (subject to EU endorsement)*
- Amendments to IAS 27, 'Separate financial statements' on equity accounting (effective 1 January 2016) (subject to EU endorsement)
- Amendments to IFRS 10, 'Consolidated financial statements', IFRS 12, 'Disclosure of Interests in other entities', and IAS 28,'Investments in associates and joint ventures' on applying the consolidation exemption (effective 1 January 2016) (subject to EU endorsement)
- Amendments to IAS 1,'Presentation of financial statements' disclosure initiative (effective 1 January 2016) (subject to EU endorsement)
- IFRS 9, 'Financial Instruments' (effective 1 January 2018)
- IFRS 15, 'Revenue from contracts with customers' (effective 1 January 2018)

- IFRS 16, 'Leases' (effective 1 January 2019)

1. Statement of significant accounting policies (continued)

b. Consolidation

The results of the subsidiaries have not been consolidated into Nike Mercurial I Limited, as permitted by s401 of the Companies Act 2006. The financial statements present information about the Company as an individual undertaking and not about its group.

c. Investments

Investments are stated at cost less any provision for impairment.

The Company performs annual impairment tests on investments with indefinite lives in the fourth quarter of each fiscal year, or when events occur or circumstances change that would, more likely than not, reduce the fair value of a reporting unit or intangible assets with an indefinite life below its carrying value.
The impairment analysis involves estimating the fair value of the reporting unit. Fair value is determined using an equal weighting of the income approach (discounted cash flow analysis) and the market approach (guideline public company analysis). Fair value is then compared to the carrying value of the investment (net assets) to determine if evidence of potential impairment exists.

d. Foreign Currency

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.

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.

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.

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.

1. Statement of significant accounting policies (continued)

Pension Costs

The Company operates a defined benefit scheme (closed to future accrual as of 5 April 2010) 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 changes in equity 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.

Financial instruments

The Company did not have any derivative contracts in 2016 and 2015.

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.

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.

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.

Equity 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.

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.

1. Statement of significant accounting policies (continued)

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

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:

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

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.

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 accounting period.

Credit risk

The Company has limited credit risk as all receivables relate to intercompany receivables.

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.

Capital management

The Company continues to perform activities in connection with on-going funding of the defined benefit pension plan. Nike, Inc. has provided a guarantee to the Trustees of the pension plan in respect of the Company's obligations to the pension plan. The Company will pay annual contributions to the pension plan of £1.9 million and £2.0 million in fiscal year 2017 and 2018 respectively.

Company details

The Company is domiciled and incorporated in the United Kingdom under registration number 198168. The registered office is Nike Office, Camberwell Way, Doxford International Business Park, Sunderland, England SR3 3XN.

2. Loss before income tax

	2016 £'000	2015 £'000
Loss before tax is stated after charging:		
Staff costs	-	-
Audit fees in respect of statutory audit	16	20
Non-audit services – fees payable to the Company's auditors for other services:		
Tax services	167	16

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.

3. Other income

In 2015 the Company received a final dividend in specie by Nike Mercurial Licensing Limited (formerly Umbro Licensing Limited) in the form of a receivable of £65,000,000 owned from the Company.

4. Finance costs

	2016 £'000	2015 £'000
Interest on pension plan liabilities	1,185	1,224
Interest payable to group undertaking	-	88
	1,185	1,312

5. Finance income

	2016 £'000	2015 £'000
Interest receivable from group undertaking	3	5
Expected return on plan assets	1,008	977
	1,011	982

6. Income tax

	2016 £'000	2015 £'000
Foreign tax		
Corporation taxes	-	-
Total current tax charge/(credit)	-	-
Deferred tax		
Origination and reversal of timing differences	-	-
Adjustments in respect of prior years	-	-
Effect of changes in rate of tax	-	-
Tax charge on loss on ordinary activities	-	-

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

	2016 £'000	2015 £'000
Loss on ordinary activities before tax	(696)	(410)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.00% (2015: 20.83%)	(139)	(85)
Effects of:		
Items not assessable for tax purposes:		
Other potentially disallowable costs	-	-
Withholding tax suffered	-	-
Expenses not deductible	65	67
Effects of group relief	-	25
Deferred tax not recognised on losses	394	318
Deferred tax not recognised on pensions	(320)	(325)
Tax charge on loss on ordinary activities	-	-

The standard rate of corporation tax in the United Kingdom changed from 21% to 20% effective 1 April 2015. Accordingly, in fiscal years 2016 and 2015, the Company's taxable loss was calculated at the effective rate of 20.00% and at 20.83% (blended rate used), respectively.

In addition to the change in rate of Corporate Tax identified above, further reductions in the rate to 19% from 1 April 2017 and 18% from 1 April 2020 were substantively enacted to the balance sheet date and have been applied to the company's unrecognised deferred tax balance at the balance sheet date.

An announcement in the 2016 Budget also noted the intention to amend the rate from 1 April 2020 to 17%. As no deferred tax balances are recognised, this change would have had no effect on these financial statements.

Unrecognised deferred tax	2016 £'000	2015 £'000
Miscellaneous tax losses	984	698
Pensions	770	1,156
	1,754	1,854

7. Investments in subsidiaries

	2016 £'000	2015 £'000
At 1 June	-	65,001
At 31 May	-	-

	Proportion of ordinary share capital held	Country of incorporation and operation	Nature of business
Nike Mercurial Hong Kong Limited *(Formerly: Umbro Hong Kong Limited)*	100%	Hong Kong	Management company
Nike Mercurial Licensing Limited *(Formerly: Umbro Licensing Limited)*	100%	UK	Dormant company
Umbro Asia Sourcing Limited *	100%	Hong Kong	Inactive Company
Umbro Sports Commercial Shanghai Co. Ltd.	100%	PRC of China	Dormant company

* At 15 April 2016 Umbro Asia Sourcing Limited was legally dissolved.

The registered address of each subsidiary is as follows:

Nike Mercurial Hong Kong Limited - 31/F., Exchange Tower, 33 Wang Chiu Road, Kowloon Bay, Hong Kong
Nike Mercurial Licensing Limited – The Shard, 32 London Bridge Street, London, United Kingdom
Umbro Asia Sourcing Limited - 1401 Hutchison House, 10 Harcourt Road, Hong Kong
Umbro Sports Commercial Shanghai Co. Ltd - Room 2501B, 2502, 2503, Level 25, 1266 West Nanjing Road, Jing An District, Shanghai

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 financial statements.

In 2015 the Company, as sole shareholder of Nike Mercurial Licensing Limited (formerly Umbro Licensing Limited), decided to voluntarily wound up Nike Mercurial Licensing Limited (formerly Umbro Licensing Limited). At 26 August 2016 (events after reporting period) Nike Mercurial Licensing Limited was legally dissolved.

In 2015 the Company impaired its investment in Nike Mercurial Hong Kong and Nike Mercurial Licensing Limited, valuing both investment at £ nil.

8. Trade and other receivables

	2016 £'000	2015 £'000
Amount due from intermediate parent undertakings	-	2,343
Amount due from subsidiary undertakings	14	14
Amounts due from affiliated group undertakings	-	-
Other debtors	-	-
Prepayments and accrued income	-	-
	14	2,357

As of 31 May 2016 no trade receivables were impaired (2015: £nil).

As of 31 May 2016 no trade receivables were past due but not impaired (2015: £nil).

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

NOTES TO THE FINANCIAL STATEMENTS - 31 MAY 2016 (CONTINUED)

8. Trade and other receivables (continued)

	2016 £'000	2015 £'000
Pounds	**14**	2,343
US Dollar	**-**	14
	14	2,357

9. Cash and cash equivalents

Cash and cash equivalents comprise cash at banks.

10. Trade and other payables

	2016 £'000	2015 £'000
Amounts owed to ultimate parent undertaking	**2,772**	2,744
Amounts owed to affiliated group undertakings	**127**	-
Amounts owed to subsidiary undertakings	**-**	-
Other tax and social security	**112**	113
Accruals	**-**	-
	3,011	2,857

In 2015 the Company received a final dividend in specie by Nike Mercurial Licensing Limited (formerly Umbro Licensing Limited) in the form of a receivable of £65,000,000 owned from the Company. As agreed between both parties, the receivable will be netted with the amount owed to Nike Mercurial Licensing Limited (formerly Umbro Licensing Limited).

The amounts owed to affiliated group undertakings attract interest at LIBOR plus 30 basis points (2015: LIBOR plus 30 basis points) and fall within the remit of the loan facilities provided by Nike, Inc.

11. Financial instruments

The Company did not have, nor entered into any forward foreign currency contracts in fiscal year 2016. It is, and has been through the year under review, the Company's policy that no trading in financial instruments shall be undertaken.

Fair values of financial assets and financial liabilities

The book value of the Company's financial assets and liabilities approximates their fair value.

The company has the following financial assets and liabilities:

	2016 £'000	2015 £'000
Loans and receivables	**14**	2,357
Financial liabilities at amortised cost	**3,011**	2,857

All loans and receivables are due from subsidiary undertakings, and are considered to be repayable on demand, therefore no impairment is required.

NOTES TO THE FINANCIAL STATEMENTS - 31 MAY 2016 (CONTINUED)

12. Equity share capital and reserves

	2016		2015	
	Number	**£**	Number	£
Issued:				
Ordinary shares of £1 each	**199,750**	**199,750**	199,750	199,750
Allotted, called up and fully paid:				
Ordinary shares of £1 each	**160,002**	**160,002**	160,002	160,002

Analysis of reserves

	Capital reserve £'000	Share premium £'000	Retained earnings £'000	Total £'000
At 1 June 2015	47,800	74,312	(128,268)	(6,156)
Loss for financial year	-	-	(696)	(696)
Actuarial loss on pension fund	-	-	(93)	(93)
At 31 May 2016	**47,800**	**74,312**	**(129,057)**	**(6,945)**

13. Statement of changes in equity

	Equity share capital £'000	Capital reserve £'000	Share Premium £'000	Retained earnings £'000	Total equity £'000
At 1 June 2014	160	35,000	74,312	(125,852)	(16,380)
Loss for financial year	-	-	-	(410)	(410)
Actuarial loss on pension fund	-	-	-	(2,006)	(2,006)
Capital Contribution	-	12,800	-	-	12,800
At 31 May 2015	160	47,800	74,312	(128,268)	(5,996)
At 1 June 2015	160	47,800	74,312	(128,268)	(5,996)
Loss for financial year	-	-	-	(696)	(696)
Actuarial loss on pension fund	-	-	-	(93)	(93)
At 31 May 2016	**160**	**47,800**	**74,312**	**(129,057)**	**(6,785)**

14. Employee costs and Directors' remuneration

	2016 £'000	2015 £'000
Staff costs (including Directors' remuneration) for the Company during the year were as follows:		
Wages and salaries	-	-
Social security costs	-	-
	-	-
Average monthly number of people (including executive Directors) employed	**number**	number
United Kingdom	**nil**	nil

14. Employee costs and Directors' remuneration (continued)

	2016 £'000	2015 £'000
Key management compensation		
Salaries and short term employee benefits	-	-
Post-employment benefits	-	-
	-	-

	2016 £'000	2015 £'000
Directors' remuneration		
Salaries and short term employee benefits	-	-
Compensation for loss of office	-	-
Post-employment benefits	-	-
	-	-

In the year, no retirement benefits were accrued (2015: nil) under defined contribution pension schemes.

	2016 £'000	2015 £'000
The amounts in respect of the highest paid Director are:		
Emoluments	-	-
Compensation for loss of office	-	-
Company contributions to defined contribution pension schemes	-	-

15. 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 and closed to future accrual on 6 April 2010.

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.

A full actuarial valuation was carried out at 5 April 2014 and updated to 31 May 2016 by a qualified actuary, independent of the scheme's sponsoring employer. The major assumptions used by the actuary are shown below.

The pension charge for the year for all defined contribution schemes was £nil (2015: £nil). The creditor at the end of the year was £nil (2015: £nil).

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

	2016 £'000	2015 £'000
Defined benefit obligation at start of year	**33,213**	28,097
Interest cost	**1,185**	1,224
Experience (gains)/losses	**-**	-
Actuarial (gain)/loss arising from changes in financial assumptions	**(819)**	3,861
Actuarial (gain)/loss arising from changes in demographic assumptions		
Benefits paid, death in service premiums and expenses	**(313)**	590
	(795)	(559)
Defined benefit obligation at end of year	**32,471**	33,213

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

	2016 £'000	2015 £'000
Fair value of assets at start of year	**27,431**	22,760
Interest Income	**1,008**	1,047
Return on plan assets (excluding interest income)	**(1,225)**	2,445
Contributions by employer	**1,809**	1,808
Benefits paid, death in service premiums and expenses	**(795)**	(629)
Fair value of assets at end of year	**28,228**	27,431

Total expense recognised in income statement

	2016 £'000	2015 £'000
Interest on pension plan liabilities	**1,185**	1,224
Interest (income) on plan assets	**(1,008)**	(1,047)
Administrative expenses	**-**	70
Total included in employee benefit expense	**177**	247

The £177,000 charge (2015: £247,000 charge) has been recognised within administrative expenses within the statement of income. The administrative expenses are in fiscal year 2016 paid by the Company and not via the Plan.

15. Pension commitments (continued)

Allocation of plan assets

	2016	2015
Equities	**26%**	28%
Bonds	**27%**	27%
Cash	**0%**	0%
Diversified Growth Fund	**47%**	45%

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.

Assumptions

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

	2016	2015
Inflation (RPI)	**2.95%**	3.20%
Inflation (CPI)	**2.05%**	2.30%
Salary increases	**n/a**	n/a
Discount rate	**3.60%**	3.60%
Revaluation of deferred pensions of CPI or 5% if less	**2.05%**	2.30%
Pension in payment increases of RPI or 5.0% if less	**2.90%**	3.10%
Pension in payment increases of CPI or 3.0% if less	**1.85%**	2.00%
Pension in payment increases of RPI or 2.5% if less	**2.10%**	2.20%
Pension in payment increases of RPI or 5.0% if less, minimum 3%	**3.55%**	3.60%

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

	2016	2015
Male currently age 45	**23.9**	24.2
Female currently age 45	**26.1**	26.3
Male currently age 65	**22.2**	22.4
Female currently age 65	**24.2**	24.4

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

	2016 £'000	2015 £'000
Present value of funded obligations	**(32,471)**	(33,213)
Fair value of plan assets	**28,228**	27,431
Deficit in the scheme	**(4,243)**	(5,782)

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

	2016 £'000	2015 £'000
Deficit in scheme at beginning of year	**(5,782)**	**(5,337)**
Total employee benefit (expense)	**(177)**	**(247)**
Actuarial (losses)/gains taken to reserves	**(93)**	**(2,006)**
Contributions	**1,809**	**1,808**
Deficit in scheme at end of year	**(4,243)**	**(5,782)**

15. Pension commitments (continued)

Estimate of contributions to be paid to the plan for the year ending 31 May 2016

The estimated total contribution to be paid to the plan by the Company for the year ending 31 May 2016 is £1,908,000.

Sensitivity analysis

	2016 £
Present value of defined benefit obligations	
Discount rate - 25 basis points	34,146
Discount rate + 25 basis points	30,902
Inflation rate - 25 basis points	31,093
Inflation rate + 25 basis points	33,925
Mortality -1 year Age Rating	33,338
Weighted average duration of defined benefit obligation (in years)	
Discount rate - 25 basis points	20.1
Discount rate + 25 basis points 21.0	19.8

	2016 £
Expected cash flows for following year	
1. Expected employer contributions	1,908
2. Expected contributions to reimbursement rights	-
3. Expected total benefit payments	
Year 1	817
Year 2	840
Year 3	863
Year 4	888
Year 5	912
Next 5 years	4,961

No formal asset liability matching was in place during fiscal year 2016, however an interactive investment strategy review was conducted.

16. Operating leases

The Company has no lease agreements.

17. Related party transactions

Related party transactions with ultimate parent undertaking

The balance owed to Nike, Inc. as at 31 May 2016 was £2,771,748 (2015: £2,743,794). Nike Mercurial I Limited made no payments to Nike, Inc. (2015: £nil).

Related party transactions with subsidiary undertakings

Nike Mercurial I Limited is owed £13,873 from its subsidiary Nike Mercurial Hong Kong Limited (formerly Umbro Hong Kong Limited) at 31 May 2016 (2015: £13,873).

Related party transactions with affiliated group undertakings

Nike Mercurial I Limited incurred £40,000 (2015: £56,723) payable to Nike European Operations Netherlands B.V., an affiliated undertaking. Nike Mercurial I Limited received payments from Nike European Operations Netherlands B.V. of £2,500,000 (2015: £1,858,743). The balance owed to Nike European Operations Netherlands B.V. as at 31 May 2016 was £126,758 (2015: owed from Nike European Operations Netherlands £2,343,418).

18. Ultimate holding company

The immediate holding company is Nike Vapor Limited whose registered office is at Nike Camberwell Way, Doxford International Park, Sunderland, SR3 3XN.

The ultimate parent undertaking and controlling party is Nike, Inc. a company incorporated in the United States of America.

Nike, Inc. is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 31 May 2016. The consolidated financial statements of Nike, Inc. may be obtained from 1 Bowerman Drive, Beaverton, Portland, Oregon, USA

Nike, Inc. is the parent undertaking of the smallest group of undertakings to consolidate these financial statements. The consolidated financial statements of Nike, Inc. can be obtained from 1 Bowerman Drive, Beaverton, Portland, Oregon, USA

19. Cash outflow from operations

Reconciliation of net loss to net cash flow from operations

	2016 £'000	2015 £'000
Loss for the financial year	**(696)**	(410)
Adjustments for:		
Interest income	**(1,011)**	(982)
Interest expense	**1,185**	1,312
Dividend in specie	**-**	65,000
Impairment of subsidiary investment	**-**	1
Changes in working capital		
(Increase)/decrease in debtors	**2,343**	(103)
Decrease in operating creditors	**154**	(75,828)
Movement on pension creditor and reserves	**(1,632)**	(1,560)
Net cash inflow / (outflow) from operations	**343**	(12,570)