Canterbury Europe Limited

(Registered Number 00295777)

Directors' report and accounts

30 June 2006

Canterbury Europe Limited

Directors report and accounts for the year ended 30 June 2006

Contents

Directors and advisors for the year ended 30 June 2006

Directors
Anthony Hannon (resigned 1 July 2006)
Paul Mercer (appointed 1 July 2006)
Joe Middleton

Secretary
Gordon Cameron

Auditors
PricewaterhouseCoopers LLP
101 Barbirolli Square
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Manchester
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Solicitors
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Registered number
00295777

Directors' report for the year ended 30 June 2006

The directors present their annual report and the audited accounts for the year ended 30 June 2006

Principal activity

The principal activity of the company is marketing and distribution of sporting and leisure apparel, footwear and accessories

Review of business and future developments

The Board's strategic objective is to grow the business by building on the heritage and reputation of the Canterbury Brand Europe is seen as the most important growth driver in the Canterbury Group, and significant further resources have been and will continue to be invested to achieve the targeted growth The turnover of the European business has grown significantly in the year to 30 June 2006, increasing by 30% from £13 7 million to £17 8 million Although margin on this turnover has increased from 30% to 38%, investment in new offices, permanent staff numbers (increased by 40% from 42 to 59), and European Sales resources (new French office and appointment of sales agents in Italy, Germany, Spain and the Netherlands) has resulted in the Company sustaining an Operating loss for the year of £3 5 million, excluding the cost of closing our South African manufacturing operations (£2 2 million shown as exceptional item (Note 3))

Following an external review of the European business's commercial strategy, a financial restructuring process, involving the conversion of a significant amount of Group external debt, and further equity injection, was completed in August The Group is now controlled by an Middle Eastern investment Bank who are committed to continuing the growth strategy pursued by the Board

Results and dividends

The loss of £5,529,000 year (2005 loss of £2,600,000) was transferred to accumulated losses The directors do not recommend the payment of a dividend (2005 £Nil)

Directors and their interests

The directors of the company at the date of this report are set out on page 1

The directors who served during the year are as follows

Joe Middleton
Anthony Hannon

The interests of the directors in the shares of Canterbury Limited (the company's ultimate holding company) are disclosed in the accounts of that company

Mr J Middleton holds 2006 2,819,827 (2005 2,819,827) growth shares of £0 0025 each in Canterbury Europe Limited and has no other interests in the company's shares

No other director had any interest in the shares of the company or any other subsidiary of the ultimate parent company as at 30 June 2006

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that 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 The directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors confirm that suitable accounting policies have been used and applied consistently They also confirm that reasonable and prudent judgments and estimates have been made in preparing the financial statements for the year ended 30 June 2006 and that applicable accounting standards have been followed

The directors are responsible for keeping proper accounting records that 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

Financing

Canterbury Limited has received considerable investment from existing shareholders during the last twelve months and has indicated that the ongoing support for Canterbury Europe Ltd will continue for a period beyond the next twelve months Having given due consideration to the Group situation, the Directors are satisfied that the accounts should be prepared on a going concern basis

Statement of disclosure of information to auditors

For all persons who are directors at the time of the approval of the annual report

a) so far as each director is aware, there is no relevant audit information of which the companies auditors are unaware, and

b) each director has taken all the steps necessary as a director in order to make himself aware of any relevant audit information and to establish that the companys auditors are aware of that information

Auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the forthcoming Annual General Meeting

For and on behalf of the Board

Joe Middleton
Director
30 April 2007

We have audited the financial statements of Canterbury Europe Limited for the year ended 30 June 2006, which comprise the Profit and Loss Account, the Balance Sheet, 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 United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 are 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 judgments 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 United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 June 2006 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

Emphasis of matter – Going concern
In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1 (subsection, going concern) to the financial statements concerning the company's ability to continue as a going concern The company incurred a net loss of £5,529 during the year ended 30 June 2006 and, at that date, the company's current liabilities exceeded its total assets by £6,316 These conditions, along with the other matters explained in note 1 (subsection, going concern) to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Manchester
30 April 2007

Profit and Loss account for the year ended 30 June 2006

	Note	2006 £'000	2005 £'000
Turnover from continuing operations	2	**17,856**	13,742
Cost of sales		**(10,928)**	(9,623)
Gross profit		**6,928**	4,119
Distribution costs		**(1,448)**	(1,077)
Administrative expenses – exceptional item	3	**(2,189)**	-
Administrative expenses – other		**(8,650)**	(5,650)
Operating loss	4	**(5,359)**	(2,608)
Net interest (payable) / receivable	7	**(170)**	8
Loss on ordinary activities before taxation		**(5,529)**	(2,600)
Taxation on loss on ordinary activities	8	-	-
Loss for the financial year	17	**(5,529)**	(2,600)
Accumulated losses brought forward	17	**(12,179)**	(9,579)
Accumulated losses carried forward	17	**(17,708)**	(12,179)

The company has no recognised gains or losses other than its loss for the financial year, and therefore no separate statement of total gains or losses has been produced

There are no material differences between the loss on ordinary activities before taxation and the retained loss for the year stated above and their historical cost equivalents

Balance sheet as at 30 June 2006

	Note	2006 £'000	2005 £'000
Fixed assets			
Tangible assets	9	**344**	295
Current assets			
Stock	10	**4,897**	3,712
Debtors	11	**3,892**	2,949
Cash at bank and in hand		**1,423**	744
		10,212	7,405
Debtors due after one year	12	**-**	912
Creditors: amounts falling due within one year	13	**(16,872)**	(7,892)
Net current liabilities		**(6,660)**	(487)
Total assets less current liabilities		**(6,316)**	720
Creditors: amounts falling due after more than one year	14	**-**	(1,507)
Net liabilities		**(6,316)**	(787)
Capital and Reserves			
Called up share capital	16	**11,392**	11,392
Profit and loss account	17	**(17,708)**	(12,179)
Equity shareholders' deficit	18	**(6,316)**	(787)

The financial statements on pages 5 to 16 were approved by the board of directors on 30 April 2007 and were signed on its behalf by

Joe Middleton
Director

1 *Accounting policies*

Basis of preparation

The accounts have been prepared on the going concern basis under the historical cost convention and in accordance with the UK Companies Act 1985

Going concern

The Company is reliant on the ongoing financial support of its parent company Canterbury Limited which, itself has undertaken significant additional funding since the year end (see note 21) Canterbury Limited has indicated that this support will continue for a period beyond the next twelve months Having given due consideration to the Group situation the directors are satisfied that the accounts should be prepared on a going concern basis

Turnover

Turnover represents amounts (excluding VAT) derived from the sale of the company's products to third party customers, net of returns, trade allowances, duties and taxes paid Turnover is recognised on despatch

Foreign exchange transactions

Transactions denominated in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are converted into sterling at the rates ruling at the balance sheet date Gains or losses on exchange arising from trading operations are taken into account in arriving at the operating profit

Operating Leases

Costs in respect of operating leases are charged to the profit and loss account on a straight line basis over the lease term

Pension costs

Pension costs represent contributions made by the company to the personal pension schemes of senior management employees Contributions are recognised in the profit and loss account when they fall due

Taxation

Deferred tax is recognised on all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more, or a right to pay less, tax in future have occurred at the balance sheet date Deferred tax assets are recognised only to the extent that, based on all available evidence, it is considered more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws enacted or substantively enacted by the balance sheet date

Brands

The company owns and distributes a large range of branded products Although the business derives significant value from these brands it is not the policy of the company to value brands in the balance sheet

Fixed assets

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition Depreciation is calculated using rates which write down the historic cost of depreciable assets to their estimated residual values over their expected economic lives, on a straight line basis

The principal economic lives are	Years
Short leasehold improvements	Lease term
Plant and machinery	3
Motor vehicles	6
Computer equipment	3
Fixtures and fittings	5 – 10

Stock

Stock is valued at the lower of cost and net realisable value, on a weighted average basis Due allowance has been made for slow moving, obsolete and damaged stock

Debtors

Debtors are valued at expected realisable value Where a debt is considered on an individual basis to be irrecoverable, it has been written off An estimate has been made for doubtful debts, based on a review of all outstanding amounts at the year end

Cash flow statement

The company is a wholly owned subsidiary of Canterbury International Limited, a company incorporated in New Zealand, whose accounts are publicly available

The company has therefore taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (Revised 1996) Cash Flow Statements

Related party transactions

The company has taken advantage of the exemption under the terms of Financial Reporting Standard 8 Related Party Disclosures from disclosing transactions with its parent company and other group companies

2 *Analysis of turnover and loss on ordinary activities before taxation*

The turnover and loss on ordinary activities before taxation relate to the company's principal activity

Turnover arises as follows

	2006 *£'000*	*2005* *£'000*
United Kingdom	9,812	7,889
Rest of the world	8,044	5,853
	17,856	13,742

3 *Exceptional items*

The exceptional item relates to intercompany debt which was fully provided against due to the manufacturing business in South Africa being sold at the end of the financial year

4 *Operating loss*

	2006 *£'000*	*2005* *£'000*
Operating loss is stated after charging :		
Depreciation of tangible fixed assets		
- owned assets	128	87
Loss on disposal of fixed assets	-	2
Operating lease charges		
- plant and machinery	140	102
- other	76	36
Auditors' remuneration		
- audit services	24	18
- non-audit services	2	2

5 *Directors' emoluments*

	2006 *£'000*	*2005* *£'000*
Aggregate Emoluments	328	344

During the year no (2005 none) director exercised options over their £0 0025 growth shares of Canterbury Europe Limited

Highest paid director

	2006 **£'000**	2005 £'000
Total amount of emoluments and amounts (excluding shares) receivable under long term incentive schemes	328	344

6 *Wages and salaries*

The average monthly number of persons (including directors) employed by the company during the period was 59 (2005 42)

The aggregate payroll costs of these persons were as follows

	2006 **£'000**	2005 £'000
Wages and salaries	2,149	1,659
Social security costs	277	206
Other pension costs	19	13
Total staff costs	2,445	1,878

7 *Net interest payable*

	2006 **£'000**	2005 £'000
Interest payable on other bank loans and overdrafts	214	15
Interest receivable	(44)	(23)
	170	(8)

8 *Tax on profit on ordinary activities*

	2006 **£'000**	2005 £'000
Tax on loss on ordinary activities	-	-

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (30%)

The differences are explained below

	2006 £'000	2005 £'000
Loss on ordinary activities before tax	(5,529)	(2,600)
Loss on ordinary activities multiplied by standard rate in the UK 30% (2005 30%)	(1,659)	(780)
Effects of		
Unrelieved tax losses available to carry forward	1070	762
Expenses not deductible for tax purposes	594	16
Depreciation in excess of capital allowances	(5)	(12)
Other timing differences	-	14
Current tax charge for the year	-	-

9 *Tangible fixed assets*

	Fixtures, Fittings & Equipment £'000
Cost	
At 1 July 2005	815
Additions	177
Disposals	-
At 30 June 2006	992
Depreciation	
At 1 July 2005	520
Charge for the period	128
Disposals	-
At 30 June 2006	648
Net book value	
At 30 June 2006	344
At 30 June 2005	295

10 *Stock*

	2006 £'000	2005 £'000
Finished goods and goods for resale	4,897	3,712
	4,897	3,712

11 Debtors

	2006 **£'000**	2005 £'000
Trade debtors	2,648	2,485
Amounts owed by group undertakings	517	-
Other debtors	356	298
Prepayments and accrued income	371	166
	3,892	2,949

12 Debtors due after one year

	2006 **£'000**	2005 £'000
Amounts due from group undertakings	-	912
	-	912

The loan to Canterbury International South Africa was unsecured and carried an interest rate of 7 75% pa and becomes repayable through 16 quarterly instalments from 1 November 2006 This loan was fully provided against during the trading period to 30 June 2006 (see note 3)

13 Creditors: amounts falling due within one year

	2006 **£'000**	2005 £'000
Bank Overdraft	4,215	3,800
Trade creditors	2,979	2,253
Amounts due to group undertakings	8,456	938
Taxation and social security	72	64
Accruals and deferred income	1,150	837
	16,872	7,892

The amount due under the bank overdraft is US$6 5m The overdraft is secured under a fixed charge over the company's assets, carries interest at a base rate + 1 25% and is repayable on demand The overdraft facility is on an aggregate of both UK and US funding at any one time US$11m of Shareholders' investment was made through Group undertakings during the year (£5,908,000) This will form the basis of a restructuring of the Balance Sheet with an issue of share capital at par during the following financial trading year (See note 21)

14 Creditors: Amounts falling due after one year

	2006 *£'000*	*2005* *£'000*
Amounts due to group undertakings	-	1,507

The loan due to Canterbury International Limited is non-interest bearing, unsecured, and repayable on demand

15 Provisions for liabilities and charges

	2006 *£'000*	*2005* *£'000*
Accelerated capital allowances	(17)	(16)
Short term timing differences	(36)	(36)
Tax losses carried forward	(4,513)	(3,425)
Deferred tax asset unrecognised	(4,566)	(3,477)

A deferred tax asset has not been recognised in respect of these amounts since it is considered unlikely that the losses will be recovered within the foreseeable future

16 Share capital

	2006 *£'000*	*2005* *£'000*
Authorised		
20,000,000 ordinary shares of £1 each	20,000	20,000
2,819,827 growth shares of £0 0025 each	7	7
	20,007	20,007
Allotted, called up and fully paid		
11,384,981 ordinary shares of £1 each	11,385	11,385
2,819,827 growth shares of £0 0025 each	7	7
	11,392	11,392

On 1 November 2004, a special resolution was passed to increase the authorised share capital of Canterbury Europe Limited by £7,050 through the creation of 2,819,827 growth shares of £0 0025 each The nominal value of these shares was £7,050 and the consideration received was £7,050

The Growth Shares carry the following principal rights

- the growth shares are not entitled to participate in dividends, unless the rights under the Put Option have been exercised
- The growth shares are redeemable any time after 7 June 2011 The holder of the Growth Shares may put their shares to the Ordinary Share holders in Canterbury Europe Ltd, subject to a cap in value of shares being put of £300,000
- the growth shares rank in advance of the ordinary shares in the event of a return of capital or liquidation, and entitle the growth shareholder to a return of their capital only They do not participate in any surplus
- the growth shares entitle the holder to attend and vote at any general meeting of the company On a show of hands each Growth Shareholder shall have one vote, and on a poll
    - on a vote in relation to the winding up on the company, one vote per share
    - on a vote in relation to the issue of shares, the Growth Shares are deemed to carry such number of votes as equals one more than the number of votes cast in favour of such resolution
    - in all other occasions, a Growth Shareholder shall have one vote for every four hundred Growth Shares held

17 Reserves

Accumulated losses	***Profit and Loss Account £'000***
At 1 July 2005	(12,179)
Loss for the financial period	(5,529)
At 30 June 2006	(17,708)

18 Reconciliation of movements in shareholders' funds

	2006 £'000	***2005 £'000***
Loss for the period	(5,529)	(2,600)
Shares issued in the period	-	7
Net decrease in shareholders' funds	(5,529)	(2,593)
Shareholders' (deficit)/funds as at 1 July	(787)	1,806
Shareholders' deficit as at 30 June	(6,316)	(787)

19 Commitments

	2006	*2005*
	£'000	*£'000*
Contracts placed for future revenue related expenditure not provided in the financial statements		
Sponsorship of rugby clubs	7,098	6,582
	7,098	6,582

At 30 June the company had annual commitments under non-cancellable operating leases expiring as follows

	Land and Buildings		***Other***	
	2006	*2005*	***2006***	*2005*
	£'000	*£'000*	***£'000***	*£'000*
Within one year	-	-	-	14
Within two to five years	121	105	133	68
	121	105	133	82

20 Immediate and ultimate holding company

The immediate holding company is Canterbury International Limited, a company incorporated in New Zealand

The ultimate holding company is Canterbury Limited, a company incorporated in New Zealand

The largest set of accounts in which the results of the company are consolidated are those of Canterbury Limited Copies of these accounts can be obtained from the registered office at First Floor Houldsworth Mill, Houldsworth St,Reddish Cheshire SK5 6DS

21 *Subsequent events and financing*

Subsequent to the year end, the Group board has successfully completed a new capital raising programme combining debt conversion of $27 653 million and an additional capital injection of $7 232 million A further $ 2 65 million of funding has been provided to the Group by way of shareholder loans from Kuwait Finance House ($ 2 0 million) and DJ Teece ($0 65 million) These shareholder loans are repayable in four instalments commencing November 2006

Additionally the Group Board has initiated a process to consider a number of alternative options for raising additional funds to support the ongoing growth of the business These alternative options may take a number of forms, including raising additional equity as well as operational options within certain parts of the regional businesses The principal shareholders have indicated a willingness to provide additional funding support for the business for the foreseeable future