Canterbury Europe Limited

Annual report

for the year ended 30 June 2007

Registered Number 00295777

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Contents

Directors and advisors for the year ended 30 June 2007

Directors
Joe Middleton
Paul Mercer

Secretary
Gordon Cameron

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Registered number
00295777

Directors report for the year ended 30 June 2007

The directors present their annual report and the audited accounts for the year ended 30 June 2007

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 2007, increasing by 63% from £17 9 million to £29 0 million Although margin on this turnover has increased from 39% to 46%, investment in new offices, permanent staff numbers (increased by 31% from 59 to 77), and European sales resources (new French office and ongoing support of sales agents in Italy, Germany, Spain and the Netherlands) has resulted in the company sustaining an operating loss for the year of £535,000 (2006 Operating loss of £5,359,000) Return on invested capital has improved significantly to -15% from the previous year of -88%

Following an external review of the European business 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 continues to be controlled by an Middle Eastern investment bank who are committed to continuing the growth strategy pursued by the board

The business has continued to invest in partnerships to develop its product portfolio and so differentiate itself from the competition Key risks exist on quality product being delivered in full and on time The board are focusing on this particular driver to improve return on sales and retain the brand's image in the market place

On 1 July 2007, Canterbury Europe Limited entered into a contract with Deportivo La Coruna This represents significant investment for the business that will allow it to establish a further presence within this sector of the sportswear industry

Research and development has seen the introduction of two market leading products which we believe will raise the bar in terms of sporting product performance Both will be sold through the distribution channels during the course of the next 12 months

Sourcing from new alternative channels has not only spread the supply chain risk but enabled margins to continue to improve This will continue to provide a market leading product giving value for money to the customer

The business has now established its key senior personnel and with its ongoing growth strategy will pursue further management to take on the growth drivers and recruit best in class candidates to deliver the results

Results and dividends
The loss of £1,122,000 for the year (2006 loss of £5,529,000) was transferred to accumulated losses The directors do not recommend the payment of a dividend (2006 £nil)

Directors
The directors who served during the year and up to the date of signing the accounts are as follows

Joe Middleton
Paul Mercer

Statement of directors' responsibilities

The directors are responsible for preparing the Annual 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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) 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 financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements 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 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

Disclosure of information to Auditors

Each of the persons who is a director at the date of approval of this report confirms that

(1) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
(2) each director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985

Auditors

The 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
12 March 2008

Independent auditors report to the members of Canterbury Europe Limited

We have audited the financial statements of Canterbury Europe Limited for the year ended 30 June 2007, 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 2007 and of its loss 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 £1,122,000 during the year ended 30 June 2007 and, at that date, the company's current liabilities exceeded its total assets by £7,438,000 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
12 March 2008

Profit and loss account for the year ended 30 June 2007

	Note	*2007* *£'000*	*2006* *£'000*
Turnover from continuing operations	**2**	**29,045**	17,856
Cost of sales		**(15,631)**	(10,928)
Gross profit		**13,414**	6,928
Administrative expenses – exceptional item	**3**	**-**	(2,189)
Administrative expenses – other		**(11,797)**	(8,650)
Distribution costs		**(2,152)**	(1,448)
Operating loss	**4**	**(535)**	(5,359)
Net interest (payable)	**7**	**(587)**	(170)
Loss on ordinary activities before taxation		**(1,122)**	(5,529)
Tax on loss on ordinary activities	**8**	**-**	-
Loss for the financial year	**16**	**(1,122)**	(5,529)

All amounts relate to continuing operations

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 financial loss for the year stated above and their historical cost equivalents

Balance sheet as at 30 June 2007

	Note	2007 £'000	2006 £'000
Fixed assets			
Tangible assets	9	575	344
Current assets			
Stock	10	7,064	4,897
Debtors	11	8,820	3,892
Cash at bank and in hand		744	1,423
		16,628	10,212
Creditors: amounts falling due within one year	13	(24,641)	(16,872)
Net current liabilities		(8,013)	(6,660)
Total assets less current liabilities		(7,438)	(6,316)
Net liabilities		(7,438)	(6,316)
Capital and Reserves			
Called up share capital	14	11,392	11,392
Profit and loss account	15	(18,830)	(17,708)
Total shareholders' deficit	16	(7,438)	(6,316)

The financial statements on pages 7 to 14 were approved by the board of directors on 12 March 2008 and were signed on its behalf by

Joe Middleton
Director

1 Accounting policies

Basis of preparation
These financial statements are prepared on the going concern basis, and in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom The principal accounting policies, which

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 19) The directors have received confirmation that Canterbury Limited intends to support the company for at least one year after these financial statements are signed 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 value added tax) 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 loss

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
Corporation tax payable is provided on taxable profits at the current rate

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 include brands in the balance sheet

1 Accounting policies (continued)

Tangible 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	4
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 Limited, a company incorporated in New Zealand, whose accounts are publicly available Canterbury Limited includes Canterbury Europe Limited in its consolidated accounts

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 Turnover

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

Turnover arises as follows

	2007	*2006*
	£'000	*£'000*
United Kingdom	11,038	9,812
Rest of the world	18,007	8,044
	29,045	17,856

3 Administrative expenses - exceptional items

The prior year exceptional item relates to the written off debts associated with the disposal of the South African business

4 *Operating loss*

	2007 £'000	2006 £'000
Operating loss is stated after charging :		
Depreciation of tangible fixed assets		
- owned assets	179	128
Loss on disposal of fixed assets	1	-
Operating lease charges		
- plant and machinery	154	140
- other	122	76
Auditors' remuneration		
- audit services	29	24
- non-audit services	2	2

5 *Directors' emoluments*

	2007 £'000	2006 £'000
Aggregate emoluments	333	328

During the year none of the directors (2006 none) exercised options over their £0 0025 growth shares of Canterbury Europe Limited

	2007 £'000	2006 £'000
Total amount of emoluments and amounts (excluding shares) receivable under long term incentive schemes	333	328

6 *Wages and salaries*

The average number of persons employed by the company during the year was made up as follows

	2007 Number	2006 Number
Selling and distribution	**56**	43
Administration	**21**	16
	77	59

The aggregate payroll costs of these persons were as follows

	2007 £'000	2006 £'000
Wages and salaries	**2,272**	2,149
Social security costs	**291**	277
Other pension costs	**18**	19
	2,581	2,445

7 *Net interest payable*

	2007 *£'000*	*2006* *£'000*
Interest payable on other bank loans and overdrafts	**745**	214
Interest receivable	**(158)**	(44)
	587	170

8 *Tax on loss on ordinary activities*

There is no tax charge for the year (2006 £nil) as the company is in a loss making position

The differences are explained below

	2007 *£'000*	*2006* *£'000*
Loss on ordinary activities before tax	(1,122)	(5,529)
Loss on ordinary activities multiplied by standard rate in the UK 30% (2006 30%)	(337)	(1,659)
Effects of		
Unrelieved tax losses available to carry forward	297	1070
Expenses not deductible for tax purposes	47	594
Accelerated capital allowances and other timing differences	(7)	(5)
	-	-
Current tax charge for the year	-	-

9 *Tangible assets*

	fixtures &, fittings £'000
Cost	
At 1 July 2006	992
Additions	411
Disposals	(9)
At 30 June 2007	1,394
Depreciation	
At 1 July 2006	648
Charge for the year	179
Disposals	(8)
At 30 June 2007	819
Net book amount	575
At 30 June 2007	
At 30 June 2006	344

10 *Stock*

	2007 *£'000*	*2006* *£'000*
Finished goods and goods for resale	7,064	4,897

11 *Debtors*

	2007 *£'000*	*2006* *£'000*
Trade debtors	6,484	2,648
Amounts owed by group undertakings	1,190	517
Other debtors	565	356
Prepayments and accrued income	581	371
	8,820	3,892

12 *Creditors: amounts falling due within one year*

	2007 *£'000*	*2006* *£'000*
Bank overdraft	4,036	4,215
Trade creditors	3,084	2,979
Amounts due to group undertakings	14,190	8,456
Taxation and social security	103	72
Accruals and deferred income	3,228	1,150
	24,641	16,872

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$12 5m (£6,238,000) of shareholders' investment was made through Group undertakings during the year 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 19)

13 *Provisions for liabilities and charges*

	2007 *£'000*	*2006* *£'000*
Accelerated capital allowances	**(10)**	(17)
Short term timing differences	**(27)**	(36)
Tax losses carried forward	**(4,697)**	(4,513)
Deferred tax asset	**(4,734)**	(4,566)

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

14 *Called up Share capital*

	2007 £'000	2006 £'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

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

15 *Reserves*

Accumulated losses	*Profit and Loss Account £'000*
At 1 July 2006	(17,708)
Loss for the financial year	(1,122)
At 30 June 2007	(18,830)

16 *Reconciliation of movements in shareholders' deficit*

	2007 £'000	2006 £'000
Loss for the year	(1,122)	(5,529)
Opening shareholders' deficit	(6,316)	(787)
Closing shareholders' deficit	(7,438)	(6,316)

17 Commitments

	2007	*2006*
	£'000	*£'000*
Contracts placed for future revenue related expenditure not provided in the financial statements		
Sponsorship of rugby and football clubs	**15,126**	7,098

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

	Land and Buildings		***Other***	
	2007	*2006*	***2007***	*2006*
	£'000	*£'000*	***£'000***	*£'000*
Within one year	-	-	70	-
Within two to five years	127	121	72	133
	127	121	142	133

18 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

19 Subsequent events and financing

Subsequent to year end the business utilised a further US$12m of their supply chain funding line The finance line attracts interest at 11 5% pa

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

On 1 July 2007, Canterbury Europe Limited entered into a contract with Deportivo La Coruna This represents significant investment for the business that will allow it to establish a further presence within this sector of the sportswear industry