

Nike Chelsea Merchandising Limited

Registered number: 10586258

Annual report

For the year ended 31 May 2020



NIKE CHELSEA MERCHANDISING LIMITED

COMPANY INFORMATION

Directors

A G Tamsma
J C G Bonington
R K Milham
C R Evans
G J Laurence
C J Tyler
D Atkinson

Company secretary

C R Evans

Registered number

10586258

Registered office

5 Fleet Place
London
England
EC4M 7RD

Independent auditors

PricewaterhouseCoopers LLP
Central Square South
Orchard Street
Newcastle Upon Tyne
NE1 3AZ

CONTENTS

	Page
Directors' report	1 - 4
Statement of directors' responsibilities in respect of the financial statements	5
Independent auditors' report	6 - 7
Statement of comprehensive income	8
Statement of financial position	9
Statement of changes in equity	10
Notes to the financial statements	11 - 26

NIKE CHELSEA MERCHANDISING LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MAY 2020

The directors present their report and the audited financial statements for the year ended 31 May 2020.

Principal activities

In extension of the sponsorship terms between Nike and Chelsea FC, Nike has obtained the exclusive rights to use and sub-license the (a) Retail operations (manage the Chelsea FC Megastore) and (b) licensing business for certain product categories. For these purposes, Nike has set up a new legal entity, Nike Chelsea Merchandising Limited to operate these rights, with main offices and activities based at Stamford Bridge.

Directors

The directors who served during the year and to the date of this report were:

M A Keane (resigned 1 December 2019)
A G Tamsma
J C G Bonington
R K Milham
C P Townsend (resigned 31 March 2020)
B B Zeihlund (resigned 16 July 2020)
C R Evans (appointed 1 December 2019)
G J Laurence (appointed 9 July 2020)
C J Tyler (appointed 20 July 2020)
D Atkinson (appointed 20 July 2020)

Going concern

The directors have reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future and that there are no material uncertainties that lead to significant doubt upon the company's ability to continue as a going concern. Thus the directors have continued to adopt the going concern basis of accounting in preparing these financial statements.

In respect of COVID-19, as the situation is still developing, management considers it impracticable to provide a quantitative estimate of the potential impact of this outbreak on the company. Management is closely monitoring the situation and seeking ways to minimise the impact on the company. Additionally, the Company has received a letter of financial support from NIKE, Inc. to fund the Company in case needed to settle its liabilities for the foreseeable future. For these reasons, we continue to adopt the going concern basis in preparing the financial statements.

The withdrawal of the United Kingdom from the European Union

The United Kingdom withdrew from the European Union on 31 January 2020 and entered into an implementation period which is scheduled to end on 31 December 2020. During this period, the trading relationship between the UK and the EU is expected to remain unchanged, however the terms of the future relationship between the UK and the EU from 1 January 2021 onwards are still unknown. At the date of this report it is therefore impossible to assess in detail the opportunities and threats that this future relationship could present. The directors are managing these risks by closely monitoring developments, and are confident that the company will be able to amend and modify its procedures to remain fully compliant with any future rules and regulations, and to maintain its standing and reputation in the marketplace throughout Europe and worldwide.

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 MAY 2020**

COVID-19

A novel strain of coronavirus (COVID-19) was first identified in Wuhan, China in December 2019, and subsequently declared a pandemic by the World Health Organization. To date, COVID-19 has surfaced in nearly all regions where our branches and fully owned investments are located and resulted in travel restrictions and business slowdowns or shutdowns in affected areas. As a result, COVID-19 has impacted our conduct sourcing, factory liaison and other permissible activities.

COVID-19 has impacted our third party manufacturing partners, with who we work closely, and other vendors, including through the effects of facility closures, reductions in operating hours, labour shortages, and real time changes in operating procedures to accommodate social distancing guidelines and additional cleaning and disinfection procedures.

We continue to monitor the rapidly evolving situation and guidance from international and domestic authorities and local public health authorities and may take additional actions based on their recommendations. In these circumstances, there may be developments outside our control requiring us to adjust our operating plan. As such, given the dynamic nature of this situation, the Company cannot reasonably estimate the impacts of COVID-19 on our financial condition, results of operations or cash flows in the future. We do expect that it will have an adverse impact on our future revenue growth as well as our overall profitability due to lower operations. Operations will impact our costs (such as lower travel expenses and other wage related expenses) and as a result decrease our revenue.

The Directors have an expectation that the Company has adequate resources to continue in operational existence for the foreseeable future to meet ongoing obligations. Whilst uncertain, we do not believe that the impact of the COVID-19 would have a material adverse effect on our financial condition or liquidity. Additionally, the Company has received a letter of financial support from NIKE, Inc. to fund the Company in case needed to settle its liabilities for the foreseeable future. For these reasons, we continue to adopt the going concern basis in preparing the financial statements.

Subsequent to the end of the third quarter of fiscal 2020, nearly all Nike-owned stores outside of Greater China and Korea are closed to reduce the spread of COVID-19 which indirectly impacts our conduct sourcing, factory liaison and other permissible activities and at this time we cannot reasonably estimate the length of time these closures will remain in effect. Certain NIKE, Inc. wholesale partners, have also closed, or reduced operating hours, which indirectly impacts our conduct sourcing, factory liaison and other permissible activities. Furthermore, even after reopening there can be no assurance as to the time required to regain operations and sales at prior levels.

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 MAY 2020**

COVID-19 (continued)

To date, this outbreak and preventative measures have caused, and are continuing to cause, business slowdown or shutdown in affected areas and significant disruption in the financial markets globally, which could lead to a decline in discretionary spending by consumers, and which could in turn impact business, sales, financial condition and results of operations. We cannot predict the degree to, or the time period over, which our liaison office services will be affected by this outbreak and preventative measures, and the effects could be material. The impacts may include, but are not limited to:

- NIKE, Inc. retail store closures or reduced operating hours and/or decreased retail traffic, which indirectly impacts our conduct sourcing, factory liaison and other permissible activities;
- Disruption to NIKE, Inc. distribution centers and our third party manufacturing partners, with who we work closely, and other vendors, including through the effects of facility closures, reductions in operating hours, labour shortages, and real time changes in operating procedures, including for additional cleaning and disinfection procedures; and
- Impacts to NIKE, Inc. distribution and logistics providers' ability to operate or increases in their operating costs. These supply chain effects may have an adverse effect on our conduct sourcing, factory liaison and other permissible activities.

The further spread of COVID-19, and the requirements to take action to limit the spread of the illness, will impact our ability to carry out our business as usual and may adversely impact economic conditions, our business, results of operations, cash flows and financial condition. Even in those regions where we are beginning to experience business recovery, should those regions fail to fully contain COVID-19 or suffer a COVID-19 relapse, those liaison offices may not recover as quickly or at all, which could have an adverse effect on our business and results of operations.

Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Post balance sheet events

There were no material events or circumstances having an effect on the financial position of the company that occurred between 31 May 2020 and the date of this report.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

NIKE CHELSEA MERCHANDISING LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 MAY 2020**

Small companies note

In preparing this report, the directors have taken advantage of the small companies exemptions provided by section 415A of the Companies Act 2006.

This report was approved by the board and signed on its behalf by:

D. Atkinson

D Atkinson
Director

Date: Feb 11, 2021

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MAY 2020**

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

Company law requires the directors to prepare audited financial statements for each financial year. Under that law the directors have elected to prepare the audited financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the audited 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 audited 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 United Kingdom Accounting Standards 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 to 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.

Independent auditors' report to the members of Nike Chelsea Merchandising Limited

Report on the audit of the financial statements

Opinion

In our opinion, Nike Chelsea Merchandising Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 May 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the statement of financial position as at 31 May 2020; the statement of comprehensive income and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report for the year ended 31 May 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in Respect of the Financial Statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

Other required reporting

Companies Act 2006 exception reporting

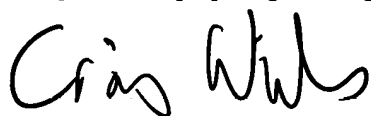
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

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.



Craig Willis (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
11th February 2021

NIKE CHELSEA MERCHANDISING LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MAY 2020**

	Note	2020 £	2019 £
Turnover	4	7,071,108	8,601,366
Cost of sales		(4,078,489)	(4,293,505)
Gross profit		<u>2,992,619</u>	<u>4,307,861</u>
Administrative expenses		(2,709,773)	(3,963,806)
Operating profit	5	<u>282,846</u>	<u>344,055</u>
Tax on profit	7	22,412	13,572
Profit for the financial year		<u>305,258</u>	<u>357,627</u>
Other comprehensive income		-	-
Total comprehensive income for the year		<u>305,258</u>	<u>357,627</u>

The statement of comprehensive income has been prepared on the basis that all operations are continuing operations.

The notes on pages 11 to 26 form part of these financial statements.

NIKE CHELSEA MERCHANDISING LIMITED
REGISTERED NUMBER: 10586258

STATEMENT OF FINANCIAL POSITION
AS AT 31 MAY 2020

	Note	2020 £	2019 £
Fixed assets			
Tangible assets	8	126,445	554,248
		<u>126,445</u>	<u>554,248</u>
Current assets			
Stocks	9	678,214	789,053
Debtors: Amounts falling due within one year	10	1,045,545	714,748
Cash at bank and in hand		385,295	537,803
		<u>2,109,054</u>	<u>2,041,604</u>
Creditors: Amounts falling due within one year	11	(1,253,860)	(1,919,471)
Net current assets		<u>855,194</u>	<u>122,133</u>
Total assets less current liabilities		<u>981,639</u>	<u>676,381</u>
Net assets		<u>981,639</u>	<u>676,381</u>
Capital and reserves			
Called up share capital	13	100,000	100,000
Retained earnings		881,639	576,381
Total equity		<u>981,639</u>	<u>676,381</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

D. Atkinson

D Atkinson
 Director

Date: Feb 11, 2021

The notes on pages 11 to 26 form part of these financial statements.

NIKE CHELSEA MERCHANDISING LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MAY 2020**

	Called up share capital £	Retained earnings £	Total equity £
At 1 June 2018	100,000	218,754	318,754
Comprehensive income for the year			
Profit for the year	-	357,627	357,627
Other comprehensive income for the year	-	-	-
Total comprehensive income for the year	-	357,627	357,627
At 31 May 2019 and 1 June 2019	100,000	576,381	676,381
Comprehensive income for the year			
Profit for the year	-	305,258	305,258
Other comprehensive income for the year	-	-	-
Total comprehensive income for the year	-	305,258	305,258
At 31 May 2020	100,000	881,639	981,639

The notes on pages 11 to 26 form part of these financial statements.

NIKE CHELSEA MERCHANDISING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MAY 2020

1. General information

Nike Chelsea Merchandising Limited is a private company limited by shares incorporated in England and Wales. The address of its registered office is 5 Fleet Place, London, England, EC4M 7RD.

In extension of the sponsorship terms between Nike and Chelsea FC, Nike has obtained the exclusive rights to use and sub-license the (a) Retail operations (manage the Chelsea FC Megastore) and (b) licensing business for certain product categories. For these purposes, Nike has set up a new legal entity, Nike Chelsea Merchandising Limited to operate these rights, with main offices and activities based at Stamford Bridge.

The financial statements have been prepared in Pound Sterling as this is the currency of the primary economic environment in which the company operates and is rounded to the nearest pound.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the company's accounting policies.

The following principal accounting policies have been applied:

2.2 Financial reporting standard 102 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.41(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44 to 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.27, 12.29(a), 12.29(b) and 12.29A;
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of NIKE, Inc. (United States) for the year ended 31 May 2020 and these financial statements may be obtained from One Bowerman Drive - JM2 Beaverton, OR 97005-6453.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MAY 2020**

2. Accounting policies (continued)

2.3 Going concern

The directors have reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future and that there are no material uncertainties that lead to significant doubt upon the company's ability to continue as a going concern. Thus the directors have continued to adopt the going concern basis of accounting in preparing these financial statements.

In respect of COVID-19, as the situation is still developing, management considers it impracticable to provide a quantitative estimate of the potential impact of this outbreak on the company. Management is closely monitoring the situation and seeking ways to minimise the impact on the company. Additionally, the Company has received a letter of financial support from NIKE, Inc. to fund the Company in case needed to settle its liabilities for the foreseeable future. For these reasons, we continue to adopt the going concern basis in preparing the financial statements.

2.4 Turnover

Turnover is recognised to the extent that it is probable that the economic benefits will flow to the company and the turnover can be reliably measured. Turnover is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before turnover is recognised:

Sale of goods

Turnover from the sale of goods is recognised when all of the following conditions are satisfied:

- the company has transferred the significant risks and rewards of ownership to the buyer;
- the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of turnover can be measured reliably;
- it is probable that the company will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

2.5 Tangible assets

Tangible assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

At each reporting date the company assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MAY 2020**

2. Accounting policies (continued)

2.5 Tangible assets (continued)

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Leasehold improvements	- 3 years
Plant and machinery	- 3 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of comprehensive income.

2.6 Stock

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a weighted average basis.

At each reporting date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in statement of comprehensive income.

2.7 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.8 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MAY 2020**

2. Accounting policies (continued)

2.9 Financial instruments

The company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in the case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the statement of comprehensive income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the company would receive for the asset if it were to be sold at the reporting date.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.10 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MAY 2020

2. Accounting policies (continued)

2.11 Foreign currency translation

Functional and presentation currency

The company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of comprehensive income except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Statement of comprehensive income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the Statement of comprehensive income within 'administrative expenses'.

2.12 Operating leases: the company as lessee

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

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MAY 2020

2. Accounting policies (continued)

2.13 Finance leases

Leases of assets that transfer substantially all the risks and rewards incidental to ownership are classified as finance leases.

Finance leases are capitalised at commencement of the lease as assets at the fair value of the leased asset or, if lower, the present value of the minimum lease payments calculated using the interest rate implicit in the lease. Where the implicit rate cannot be determined, the group's incremental borrowing rate is used. Incremental direct costs, incurred in negotiating and arranging the lease, are included in the cost of the asset.

Assets are depreciated over the shorter of the lease term and the estimated useful life of the asset. Assets are assessed for impairment at each reporting date.

The capital element of lease obligations is recorded as a liability on inception of the arrangement. Lease payments are apportioned between capital repayment and finance charge, using the effective interest rate method, to produce a constant rate of charge on the balance of the capital repayments outstanding.

2.14 Employee benefits

The company provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and defined benefit and defined contribution pension plans. Short term benefits, including holiday pay and other similar non-monetary benefits,

2.15 Pensions

Defined contribution pension plan

The company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. Once the contributions have been paid the company has no further payment obligations.

The contributions are recognised as an expense in the Statement of comprehensive income when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of financial position. The assets of the plan are held separately from the company in independently administered funds.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MAY 2020**

2. Accounting policies (continued)

2.16 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Statement of comprehensive income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Statement of financial position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

2.17 Share capital

Ordinary shares are classified as equity liabilities.

2.18 Distributions to equity holders

Dividends and other distributions to the group's shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the shareholders. These amounts are recognised in the statement of changes in equity.

2.19 Related parties

The company discloses transactions with related parties which are not wholly owned within the same group. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the directors, separate disclosure is necessary to understand the effect of the transactions on the group financial statements

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MAY 2020**

3. Judgements in applying accounting policies and key sources of estimation uncertainty

Critical judgements in applying the company's accounting policies

The critical judgements that the directors have made in the process of applying the company's accounting policies that have the most significant effect on the amounts recognised in the statutory financial statements are discussed below.

Assessing indicators of impairment

In assessing whether there have been any indicators of impairment of assets, the directors have considered both external and internal sources of information such as market conditions, counterparty credit ratings and experience of recoverability. There have been no indicators of impairments identified during the current financial year.

Key sources of estimation uncertainty

Recoverability of receivables

The company establishes a provision for receivables that are estimated not to be recoverable. When assessing the recoverability the directors consider factors such as the ageing of the receivables, and the credit profile of individual or group of customers. The company have a deferred tax asset of £142,950 (2019: £99,003) which relates to fixed asset timing differences. This is deemed to be recoverable by the directors as they expect the business to be making taxable income going forward.

Assessing indicators of stock impairment

In assessing whether there have been any indicators of stock impairment, the directors have considered if the events or circumstances have changed which indicate that the carrying amounts of the stock may not be recoverable. The directors have assessed whether the carrying value of the stock can be supported by its net realisable value. Nike Chelsea Merchandising Limited generally includes a provision for the stock in the year end inventory that wont be sold during the immediate year after. Due to the COVID-19 pandemic and the national lockdown in England, the store remained closed from the 17 March to 31 May 2020, affecting our ability to liquidate our liable inventory before the launch of the 2020/2021 line. Therefore the provision for the obsolete stock was significantly increased to £675,752 (2019: £46,941).

NIKE CHELSEA MERCHANDISING LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MAY 2020**

4. Turnover

The company derives its turnover from its retail operations and licensing business for certain product categories (refer to note 1 for further information).

An analysis of turnover by the above is as follows:

	2020 £	2019 £
Sales of goods	6,786,297	8,295,921
Licensee revenue	284,811	305,445
	<u>7,071,108</u>	<u>8,601,366</u>

Analysis of turnover by country of destination:

	2020 £	2019 £
United Kingdom	7,060,926	8,570,150
Rest of the world	10,182	31,216
	<u>7,071,108</u>	<u>8,601,366</u>

5. Operating profit

The operating profit is stated after charging/(crediting):

	2020 £	2019 £
Depreciation charge	530,161	497,290
Exchange (gains)/losses	(1,692)	545
Operating lease rentals	625,667	624,450
Audit fee	26,000	26,000
Chelsea FC plc endorsee (income)/expenditure	(190,664)	338,441
	<u></u>	<u></u>

NIKE CHELSEA MERCHANDISING LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MAY 2020**

6. Employees

The average monthly number of employees, including the directors, during the year was as follows:

	2020	2019
	No.	No.
Employees	69	67

Staff costs were as follows:

	2020	2019
	£	£
Wages and salaries	1,619,560	1,430,606
Social security costs	145,858	148,162
Other pension costs	55,297	61,957
	<u>1,820,715</u>	<u>1,640,725</u>

During the current and prior year, all directors were remunerated by Nike European Operations Netherlands B.V., the immediate parent company. The remuneration attributable to the services carried out within the UK cannot be reliably estimated.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MAY 2020

7. Tax on profit

	2020 £	2019 £
Corporation tax		
Current tax on profits for the year	85,534	134,083
Adjustments in respect of previous periods	(63,999)	(74,213)
Total current tax	<u>21,535</u>	<u>59,870</u>
Deferred tax		
Origination and reversal of timing differences	(55,931)	(67,942)
Effects of changes in the tax rate	(9,160)	7,152
Adjustments in respect of previous periods	21,144	(12,652)
Total deferred tax	<u>(43,947)</u>	<u>(73,442)</u>
Tax on profit	<u>(22,412)</u>	<u>(13,572)</u>

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2019: lower than) the standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are explained below:

	2020 £	2019 £
Profit before tax	<u>282,846</u>	<u>344,055</u>
Profit multiplied by standard rate of corporation tax in the UK of 19% (2019: 19%)	53,741	65,370
Effects of:		
Expenses not deductible for tax purposes	5,285	771
Tax rate changes	(9,160)	7,152
Adjustments in respect of previous periods	(42,855)	(86,865)
Share options	(29,423)	-
Total tax credit for the year	<u>(22,412)</u>	<u>(13,572)</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MAY 2020

7. Tax on profit (continued)

Factors that may affect future tax charges

The standard rate of UK corporation tax is 19% and this took effect from 1 April 2017. The 2016 Finance Act introduced a UK corporation tax rate of 17% from 1 April 2020. The UK Budget which took place on 11 March 2020 confirmed the rate of corporation tax will remain at 19% from 1 April 2020, cancelling the enacted rate reduction to 17%. The rate reduction reversal was substantively enacted on 17 March 2020 by way of a special resolution. Accordingly, deferred tax has been provided at 19% being the rate at which temporary differences are expected to reverse.

8. Tangible assets

	Leasehold improvements £	Plant and machinery £	Total £
Cost			
At 1 June 2019	653,471	849,466	1,502,937
Additions	52,966	49,392	102,358
At 31 May 2020	706,437	898,858	1,605,295
Accumulated Depreciation			
At 1 June 2019	414,991	533,698	948,689
Charge for the year	231,979	298,182	530,161
At 31 May 2020	646,970	831,880	1,478,850
Net book value			
At 31 May 2020	59,467	66,978	126,445
At 31 May 2019	238,480	315,768	554,248

NIKE CHELSEA MERCHANDISING LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MAY 2020**

9. Stocks

	2020 £	2019 £
Finished goods and goods for resale	678,214	789,053
	<u>678,214</u>	<u>789,053</u>

During the year, a stock provision of £675,752 (2019: £46,941) was recognised.

10. Debtors: Amounts falling due within one year

	2020 £	2019 £
Trade debtors	69,452	106,291
Amounts owed by group undertakings	525,701	347,187
Deferred taxation	142,950	99,003
Prepayments and accrued income	307,442	162,267
	<u>1,045,545</u>	<u>714,748</u>

Amounts owed by group undertakings are unsecured, interest free and payable on demand.

11. Creditors: Amounts falling due within one year

	2020 £	2019 £
Trade creditors	4,704	40,438
Amounts owed to group undertakings	531,862	921,590
Corporation tax	20,842	61,207
Other taxation and social security	309,197	235,306
Accruals and deferred income	387,255	660,930
	<u>1,253,860</u>	<u>1,919,471</u>

Amounts owed to group undertakings are unsecured, interest free and repayable on demand.

NIKE CHELSEA MERCHANDISING LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MAY 2020**

12. Deferred taxation

	2020 £	2019 £
At beginning of year	99,003	25,561
Credited to profit or loss	65,091	60,790
Adjustments in respect of previous periods	(21,144)	12,652
At end of year	142,950	99,003

The deferred tax asset is made up as follows:

	2020 £	2019 £
Fixed asset timing differences	142,120	83,244
Short term timing differences - trading	830	15,759
	142,950	99,003

13. Called up share capital

	2020 £	2019 £
Allotted, called up and unpaid		
100,000 (2019: 100,000) ordinary shares of £1 each (2019: £1)	100,000	100,000

The company has one class of ordinary shares; each share carries one voting right per share but no right to fixed income.

14. Pension commitments

The company operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £55,297 (2019: £61,957). Contributions payable to the fund at year end were £7,628 (2019: £8,776).

NIKE CHELSEA MERCHANDISING LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MAY 2020**

15. Commitments under operating leases

At 31 May the company had future minimum lease payments under non-cancellable operating leases as follows:

	2020 £	2019 £
Not later than 1 year	488,199	489,798
Later than 1 year and not later than 5 years	1,660,000	1,733,199
Later than 5 years	2,905,000	3,320,000
	<u>5,053,199</u>	<u>5,542,997</u>

16. Related party transactions

The company is a wholly owned subsidiary of NIKE, Inc (United States), and as such has taken advantage of the exemption permitted by FRS102 section 33 related party disclosure, not to provide disclosures of transaction entered into with other wholly owned members of the Nike group.

As at 31 May 2020, included within debtors is an amount of £247,187 (2019: £247,187) due from Nike Retail B.V., a fellow subsidiary.

As at 31 May 2020, included within debtors is an amount of £nil (2019: £100,000) due from Nike European Operations Netherlands B.V. (The Netherlands), the parent company.

As at 31 May 2020, included within creditors is an amount of £626,004 (2019: £921,590) due to Nike European Operations Netherlands B.V. (The Netherlands), the parent company.

As at 31 May 2020, included within prepayments and accrued income, is a balance of £190,664, which was credited against operating expenses, which relates to a loss/profit share given to Chelsea FC plc. In 2019, a balance within accruals and deferred income of £338,441 was included, which was debited against operating expenses.

During the year, sales of £50,491 (2019: £127,491) were made to Chelsea FC plc. As at 31 May 2020, included within trade debtors is an amount of £4,433 (2019: £53,643) due from Chelsea FC plc. During the year, expenses of £514,313 (2019: £725,854) were recharged. Mr J Bonington and Mr R Milham are both employees of Chelsea FC plc, as well as serving as directors of Nike Chelsea Merchandising Limited.

17. Post balance sheet events

There were no material events or circumstances having an effect on the financial position of the company that occurred between 31 May 2020 and the date of this report.

NIKE CHELSEA MERCHANDISING LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MAY 2020**

18. Controlling party

The immediate parent company is Nike European Operations Netherlands B.V. (The Netherlands), a company incorporated in The Netherlands.

The ultimate parent undertaking is NIKE, Inc (United States) a company incorporated in the United States of America.

NIKE, Inc. is the parent undertaking of the smallest and largest group which consolidates the financial information of the company. Copies of the group financial statements may be obtained from One Bowerman Drive - JM2 Beaverton, OR 97005-6453.