

**REPORTS AND FINANCIAL STATEMENTS
CHAMPION PRODUCTS EUROPE LIMITED
FOR THE YEAR ENDED 30 JUNE 2006**

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CHAMPION PRODUCTS EUROPE LIMITED

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

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CHAMPION PRODUCTS EUROPE LIMITED

DIRECTORS AND OTHER INFORMATION

CURRENT DIRECTORS

Sauro Mambrini
Gigetto Furlotti
Luca Padula (Managing)
Enrico Verneti
Chris Haggarty

SECRETARY

Matsack Trust Limited

REGISTERED OFFICE

Unit 4B, Block 2
Blanchardstown Corporate Park
Blanchardstown
Dublin 15.

AUDITORS

Deloitte & Touche
Chartered Accountants
Deloitte & Touche House
Earlsfort Terrace
Dublin 2.

BANKERS

Bank of Ireland
Main Street
Blanchardstown
Dublin 15.

SOLICITORS

Matheson Ormsby Prentice
30 Herbert Street
Dublin 2.

CHAMPION PRODUCTS EUROPE LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 June 2006.

PRINCIPAL ACTIVITIES

The principal activities of the company are the sourcing and development of footwear products, the sale of footwear to affiliate group companies, the sale of sporting goods in Ireland and the UK to retailers, the management and protection of the Champion trademark and the charging of royalties for the use of the Champion trademark to affiliate group companies and third party distributors, and the marketing activity related to sponsorship agreements that allow the company to reach new business opportunities.

BUSINESS REVIEW

The profit and loss account for the year and the statement of affairs as at 30 June 2006 are set out on pages 10 and 12 respectively.

FUTURE DEVELOPMENTS

During the year the directors agreed that the organisation of the business in the UK is no longer profitable and a new business model and opportunities have to be sought.

On the other side, the domestic market in Ireland has showed good performance and the prospects for the future are for a constant increase of sales and profitability.

Moreover, the other activities of footwear development and sales, the administration of trademark and the marketing activity still continue to be very important for the actual and future prospects of the company.

RISKS AND UNCERTAINTIES

The current year has been a difficult year for the company especially in relation to the UK market. At the same time several companies of the group have showed a small decline on sales that has caused the reduction in income on royalties for Champion Product Europe. Nevertheless the prospects of the company are for a little but constant increase of the profit based on one side on the reorganisation of the business in the UK and, on the other side, on the increase of sales in Ireland and a possible increase of income from group royalties.

DIRECTORS

The current directors are set out on page 2.

Jonathan Lyons resigned as a director on 27 January 2006. Luca Padula and Chris Haggarty were appointed as directors on 27 January 2006.

CHAMPION PRODUCTS EUROPE LIMITED

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' AND SECRETARY'S INTERESTS

The directors and secretary of the company who held office at 30 June 2006:

- had no interests in the shares and debentures of the company
- had the following beneficial interests in the share capital of Champion Europe SPA, the ultimate parent:

	30 June 2006	1 July 2005
	%	%
Sauro Mambrini	65.3	64.3
Gigetto Furlotti	3.9	3.9
Enrico Vernetti	0.3	0.2

The directors had no other beneficial interests in the share capital of any other parent or related companies at 30 June 2006, or at any time in the year ended on that date.

BOOKS OF ACCOUNT

To ensure that proper books and accounting records are kept in accordance with Section 202 of the Companies Act, 1990, the directors have employed appropriately qualified accounting personnel and have maintained appropriate computerised accounting systems. The books of account are located at the company's office at Unit 4B, Block 2, Blanchardstown Corporate Park, Blanchardstown, Dublin 15.

POST BALANCE SHEET EVENTS

There have been no significant events since the balance sheet date other than the planned closure of the UK branch.

AUDITORS

Deloitte & Touche, Chartered Accountants, will continue in office as auditors in accordance with Section 160(2) of the Companies Act 1963.

Signed on behalf of the Board:

Enrico Vernetti)
) DIRECTORS
Luca Padula)

29 September 2006

CHAMPION PRODUCTS EUROPE LIMITED

STATEMENT OF THE DIRECTORS' RESPONSIBILITIES

Irish company law requires the directors to prepare financial statements for each financial year which 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;
- 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 proper books of account which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements are prepared in accordance with accounting standards generally accepted in Ireland and comply with Irish statute comprising the Companies Acts, 1963 to 2005 and the European Communities (Companies: Group Accounts) Regulations, 1992. 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 CHAMPION PRODUCTS EUROPE LIMITED

We have audited the financial statements of Champion Products Europe Limited for the year ended 30 June 2006 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Statement of Accounting Policies and the related notes 1 to 23. These financial statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the company's members, as a body, in accordance with Section 193 of the Companies Act 1990. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the financial statements, as set out in the Statement of Directors' Responsibilities, in accordance with applicable law and accounting standards issued by the Accounting Standards Board and published by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland).

Our responsibility, as independent auditors, is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, and are properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2005 and the European Communities (Companies: Group Accounts) Regulations, 1992. We also report to you whether in our opinion: proper books of account have been kept by the company; whether, at the balance sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the company; and whether the information given in the directors' report is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit and whether the company's balance sheet and profit and loss account are in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law regarding directors' remuneration and directors' transactions is not disclosed and, where practicable, include such information in our report.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the financial statements. Our responsibilities do not extend to other information.

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CHAMPION PRODUCTS EUROPE LIMITED

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we 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 Generally Accepted Accounting Practice in Ireland, of the state of affairs of the company as at 30 June 2006 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies Acts, 1963 to 2005, and the European Communities (Companies: Group Accounts) Regulations, 1992.

We have obtained all the information and explanations we considered necessary for the purposes of our audit. In our opinion proper books of account have been kept by the company. The company's balance sheet and its profit and loss account are in agreement with the books of account.

In our opinion the information given in the Directors' Report is consistent with the financial statements.

The net assets of the company, as stated in the balance sheet, are more than half the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 30 June 2006 a financial situation which, under Section 40(1) of the Companies (Amendment) Act, 1983, would require the convening of an extraordinary general meeting of the company.

Deloitte & Touche
Chartered Accountants and Registered Auditors
Dublin

29 September 2006

CHAMPION PRODUCTS EUROPE LIMITED

STATEMENT OF ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements have been prepared in accordance with accounting standards generally accepted in Ireland and Irish statute comprising the Companies Acts, 1963 to 2005 and the European Communities (Companies: Group Accounts) Regulations, 1992.

ACCOUNTING CONVENTION

The financial statements are stated and prepared in Euro under the historical cost basis of accounting.

TURNOVER

Turnover comprises of royalties invoiced to affiliate group companies and the invoiced value, net of value added tax, of goods sold by the company.

FIXED ASSETS AND DEPRECIATION

Fixed assets are stated in the balance sheet at cost less accumulated depreciation.

Depreciation is calculated on a straight line basis to write off the assets over their estimated useful lives as follows:-

	Useful lives
Computer equipment	3 years
Fixtures and fittings	5 years
Motor vehicles	3 years

FINANCIAL FIXED ASSETS

Investments in subsidiary undertakings are carried at cost less provisions for impairments in value.

INTANGIBLE ASSETS AND AMORTISATION

Trade marks

Trade marks are stated at cost of registration and related costs and are amortised to the profit and loss account over their estimated useful life of 20 years.

Goodwill

Goodwill is amortised in the profit and loss account over 5 years.

STOCKS

Stocks are valued at the lower of cost and net realisable value. Cost is calculated on the FIFO basis.

CHAMPION PRODUCTS EUROPE LIMITED

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

FOREIGN CURRENCIES

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at a contracted rate.

The effect of these adjustments is reflected in the profit and loss account.

The resulting monetary assets and liabilities denominated in foreign currencies are translated to Euro at the exchange rates ruling at the balance sheet date.

PENSIONS

The company operates a defined contribution pension scheme. The cost of providing pensions to employees is charged to the profit and loss account as incurred over the period of employment of pensionable employees.

LEASED ASSETS

Operating lease rentals are charged to the profit and loss account on a straight line basis over the lease term.

TAXATION

Corporation tax is provided on taxable profits at current rates.

Deferred taxation is recognised in respect of 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 tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average 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 that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets are recognised only to the extent that they are regarded as recoverable.

CONSOLIDATED FINANCIAL STATEMENTS

The company is exempt from the requirement to prepare consolidated financial statements in accordance with the European Communities (Companies : Group Accounts) Regulations, 1992. Consequently these financial statements deal with the results of the company as a single entity.

CHAMPION PRODUCTS EUROPE LIMITED

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE 2006**

	Notes	2006 €	2005 €
TURNOVER	1	15,373,014	21,789,861
Cost of sales		(4,778,826)	(7,256,425)
GROSS PROFIT		<u>10,594,188</u>	<u>14,533,436</u>
Administrative expenses		(6,044,589)	(8,157,993)
OPERATING PROFIT		<u>4,549,599</u>	<u>6,375,443</u>
Other income	3	2,910	20,620
Interest payable and similar charges	4	(67,808)	(53,306)
Gain/(loss) on disposal of fixed assets		1,244	(8,179)
Exceptional items	5	(75,000)	-
PROFIT BEFORE TAXATION	6	<u>4,410,945</u>	<u>6,334,578</u>
Taxation	7	(506,373)	(906,252)
PROFIT AFTER TAXATION	18	<u><u>3,904,572</u></u>	<u><u>5,428,326</u></u>

The results derive from continuing activities.

The financial statements were approved by the Board of Directors on 29 September 2006 and signed on its behalf by:

Enrico Verneti)
) DIRECTORS
 Luca Padula)

CHAMPION PRODUCTS EUROPE LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 30 JUNE 2006

	2006 €	2005 €
Profit for the year attributable to ordinary shareholders	3,904,572	5,428,326
Foreign exchange translation of UK Branch	47,747	43,652
Total recognised gains in the year	<u>3,952,319</u>	<u>5,471,978</u>

CHAMPION PRODUCTS EUROPE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

1. TURNOVER	2006	2005
	€	€
Italy	7,131,338	10,009,147
UK and Ireland	4,637,284	7,233,526
Other Europe	3,604,392	4,547,188
	<u>15,373,014</u>	<u>21,789,861</u>
	<u><u>15,373,014</u></u>	<u><u>21,789,861</u></u>
 2. STAFF COSTS	 2006	 2005
	€	€
Wages and salaries	579,194	1,083,847
Social welfare costs	68,485	101,501
Other pension costs	23,226	59,430
	<u>670,905</u>	<u>1,244,778</u>
	<u><u>670,905</u></u>	<u><u>1,244,778</u></u>

The average number of persons employed by the company was 10 and is analysed into the following categories:

	Number	Number
Management	5	7
Administration	5	8
	<u>10</u>	<u>15</u>
	<u><u>10</u></u>	<u><u>15</u></u>

3. OTHER INCOME	2006	2005
	€	€
Interest receivable	1,904	19,423
Dividend income	1,006	1,197
	<u>2,910</u>	<u>20,620</u>
	<u><u>2,910</u></u>	<u><u>20,620</u></u>
 4. INTEREST PAYABLE AND SIMILAR CHARGES	 2006	 2005
	€	€
Interest payable in respect of parent company loan	46,229	39,192
Other charges	21,579	14,114
	<u>67,808</u>	<u>53,306</u>
	<u><u>67,808</u></u>	<u><u>53,306</u></u>

CHAMPION PRODUCTS EUROPE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)**

5. EXCEPTIONAL ITEM

The company's directors have made a decision to close the UK branch.

In the current year they have made a provision of €75,000 for estimated redundancy payments relating to the closure.

6. PROFIT BEFORE TAXATION	2006	2005
	€	€
The profit before taxation is stated after charging/(crediting):		
Auditors' remuneration	14,500	13,500
Amortisation of trademarks	574,739	571,665
Amortisation of negative goodwill	(31,046)	(651)
Depreciation of tangible assets	36,337	44,442
Translation (gain)/loss on loan from parent company	(1,006)	6,858
Directors' remuneration – for management	80,150	141,101
Directors' compensation for loss of office	-	200,000
Rentals payable under operating leases:		
Hire of motor vehicles	9,908	24,504
Rental of premises	164,246	145,580
	506,373	906,252

The remuneration of the managing director is partly borne by a group company.

7. TAXATION	2006	2005
	€	€
Corporation tax on the profit for the year	530,000	905,318
(Over)/under provision in prior year	(23,627)	934
	506,373	906,252
Factors affecting tax charge for the year:		
Profit on ordinary activities before taxation	4,410,945	6,334,578
	551,368	791,822
Taxation effects of:		
Items disallowed for tax purposes	80,755	67,687
Tax rate differences	478	(88,723)
Tax incurred on overseas earnings	-	134,532
Tax already deducted	(102,271)	-
Other	(330)	-
	530,000	905,318

There are no material deferred tax assets or liabilities as at 30 June 2006.

CHAMPION PRODUCTS EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

8.	DIVIDENDS	2006	2005
		€	€
	Interim dividend paid of €4 (2005: €6.50) per ordinary share	4,000,000	6,500,000
		<u> </u>	<u> </u>

9. TANGIBLE ASSETS

	Computer Equipment €	Fixtures & Fittings €	Motor Vehicles €	Total €
Cost				
At 1 July 2005	84,278	97,223	27,011	208,512
Additions	3,803	921	-	4,724
Disposals	-	(4,451)	(27,011)	(31,462)
At 30 June 2006	<u>88,081</u>	<u>93,693</u>	<u>-</u>	<u>181,774</u>
Depreciation				
At 1 July 2005	54,967	61,298	27,011	143,276
Charge for year	13,335	23,002	-	36,337
Disposals	-	(4,451)	(27,011)	(31,462)
At 30 June 2006	<u>68,302</u>	<u>79,849</u>	<u>-</u>	<u>148,151</u>
Net book value				
At 30 June 2006	<u>19,779</u>	<u>13,844</u>	<u>-</u>	<u>33,623</u>
At 30 June 2005	<u>29,311</u>	<u>35,925</u>	<u>-</u>	<u>65,236</u>

10.	FINANCIAL ASSETS	2006	2005
		€	€
	Unlisted – at cost		
	Shares in subsidiary undertakings:		
	Champion International Trademarks Sàrl	19,500	19,500
	Advances	42,276	8,044
		<u>61,776</u>	<u>27,544</u>
	Share in Affiliated Company:		
	Champion Benelux NV	4,810	4,810
		<u>66,586</u>	<u>32,354</u>

CHAMPION PRODUCTS EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

10. FINANCIAL ASSETS (CONTINUED)

The company owns 100% of the issued ordinary share capital of Champion International Trademarks Sàrl, a company incorporated in Switzerland. The registered office is located at 14 Avenue Man Repos, Lausanne, Switzerland. The company holds Champion International trademark registrations. At 30 June 2006, un-audited management accounts show the assets for the subsidiary were €31,178 (2005: € 20,204) and the net loss for the year ended 30 June 2006 was €5,489 (2005: Loss €2,327).

11. INTANGIBLE ASSETS

	Trademarks €	Negative Goodwill €	Total €
Cost			
At 1 July 2005	11,457,232	(186,464)	11,270,768
Additions	91,087	-	91,087
At 30 June 2006	<u>11,548,319</u>	<u>(186,464)</u>	<u>11,361,855</u>
Amortisation			
At 1 July 2005	(2,360,021)	155,417	(2,204,604)
Charge for the year	(574,741)	31,047	(543,694)
At 30 June 2006	<u>(2,934,762)</u>	<u>186,464</u>	<u>(2,748,298)</u>
Net book value			
At 30 June 2006	<u>8,613,557</u>	<u>-</u>	<u>8,613,557</u>
At 30 June 2005	<u>9,097,211</u>	<u>(31,047)</u>	<u>9,066,164</u>

12. STOCKS

	2006 €	2005 €
Finished goods for resale	<u>280,919</u>	<u>445,127</u>

The replacement cost of stock does not differ materially from the amounts stated above.

CHAMPION PRODUCTS EUROPE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)**

13. DEBTORS: (Amounts due within one year)	2006	2005
	€	€
Trade debtors	821,429	1,573,855
Prepaid expenses	180,911	332,045
Amounts due from group companies	1,973,923	802,597
Corporation tax recoverable	79,000	-
	<u>3,055,263</u>	<u>2,708,497</u>
14. CREDITORS: (Amounts falling due within one year)	2006	2005
	€	€
Trade creditors	1,226,654	1,473,304
VAT	188,629	368,861
Amounts due to group companies	4,950,751	2,973,805
Accrued expenses	927,018	494,087
Corporation tax	-	150,806
Bank overdraft	-	1,146,060
	<u>7,293,052</u>	<u>6,606,923</u>
15. CREDITORS: (Amounts falling due after more than one year)	2006	2005
	€	€
Loan from parent company	830,786	1,323,189
	<u>830,786</u>	<u>1,323,189</u>

Interest on loan from the parent company was charged at a rate of Libor plus .02%. The total loan outstanding at the 30 June 2006 is US\$1,000,000 (2005: US\$1,600,000). All interest payable at 30 June 2006 had been paid.

16. PROVISION FOR LIABILITIES AND CHARGES	2006	2005
	€	€
Restructuring provision (Note 5)	75,000	-
	<u>75,000</u>	<u>-</u>

CHAMPION PRODUCTS EUROPE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)**

17. CALLED-UP SHARE CAPITAL	2006 €	2005 €
Authorised:		
15,000,000 ordinary shares of €1 each	15,000,000	15,000,000
	<u> </u>	<u> </u>
Allotted, Called-Up and Fully Paid:		
1,000,000 ordinary shares of €1 each	1,000,000	1,000,000
	<u> </u>	<u> </u>
18. PROFIT AND LOSS ACCOUNT	2006 €	2005 €
Profit and loss account at beginning of year	3,447,915	4,475,937
Profit after taxation	3,904,572	5,428,326
Foreign exchange adjustment to branch	47,747	43,652
Dividends paid (Note 8)	(4,000,000)	(6,500,000)
	<u> </u>	<u> </u>
Profit and loss account at end of year	3,400,234	3,447,915
	<u> </u>	<u> </u>

19. PENSIONS

The company operates a defined contribution scheme for all of its employees. Total pension costs amounted to €23,226 (2005: €59,430). The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions paid by the company to the fund.

20. CASH FLOW STATEMENT

In accordance with FRS 1 a cash flow statement is not prepared as the cashflows of the company are disclosed in the consolidated financial statements of the parent company.

CHAMPION PRODUCTS EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

21. COMMITMENTS

Operating Lease Commitments:

Annual commitments exist under non-cancellable operating leases as follows:

	Land and Buildings €	Motor Vehicle €	Total €
Within 1 year	-	-	-
Within 2 – 5 years	124,000	-	124,000
Over 5 years	44,000	-	44,000
	<u> </u>	<u> </u>	<u> </u>

Other Commitments

Subsequent to the year end the company has signed a contract which commits it to pay €10,000,000 over a 10 year period for sponsorship.

22. RELATED PARTY TRANSACTIONS

The company has availed of the exemption under FRS 8 from disclosure of inter-group related party transactions.

23. GROUP MEMBERSHIP

Champion Products Europe Limited is a wholly owned (100%) subsidiary of Champion Europe SPA, a company registered in Italy. The ultimate parent company and ultimate controlling party is Champion Europe SPA. The parent company of the largest and smallest group for which group financial statements are prepared and of which the company is a member is Champion Europe SPA.

Copies of the consolidated financial statements may be obtained from Champion Europe SPA via Ferrari 2, 41011, Campogalliano (Modena) Italy.