Foot Locker UK Limited

Directors' report and consolidated financial statements

Registered number 2568406

31 December 2005

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2005.

Principal activities

The company holds an investment in (and provides management services to) Freedom Sportsline Limited. Freedom Sportsline Limited sells sport and leisure clothing, footwear and accessories through retail outlets.

Business review

The state of the group's affairs and its result for the year are as shown in the accompanying financial statements. Future developments are likely to be in the same field. During the prior year the company's share capital was increased by issuing 161,383 new ordinary shares of £1 each at par.

Results and dividends

The directors do not recommend the payment of a dividend for the year *(2004: £Nil)*.

Directors and directors' interests

The directors who held office during the year were as follows:

MD Serra	(American)
TJ Slover	(American, resigned 6 July 2005)
AAM Verwijmeren	(The Netherlands, resigned 6 July 2005)
MG Zawoysly	(American)
K Daly	(American, appointed 6 July 2005)

The directors had no beneficial interest in the shares of the company or any other group undertaking at the year end.

Employees

The company and group give equal consideration to applications for employment from disabled people having regard to their particular aptitudes and abilities. It is group and company policy wherever practicable to continue to employ, train and promote the career development of existing employees who become disabled.

Employee participation and involvement in matters which affect their interest continues to be developed through regular communications and meetings.

Charitable and political donations

During the year, no charitable or political donations were made by the company *(2004: £Nil)*.

Auditors

In accordance with section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming annual general meeting.

On behalf of the board

K Daly
Director

Lovell House
271-273 High Street
Uxbridge
Middlesex
UB8 1LQ

30 August 2006

Statement of directors' responsibilities in respect of the directors' report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards.

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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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; 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Under applicable law the directors are also responsible for preparing a directors' report that complies with that law.

KPMG LLP
2 Cornwall Street
Birmingham
B3 2DL

Independent auditors' report to the members of Foot Locker UK Limited

We have audited the group and parent company financial statements (the "financial statements") of Foot Locker UK Limited for the year ended 31 December 2005 which comprise the consolidated profit and loss account, the consolidated balance sheet, the company balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditor's 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' responsibilities for preparing the directors' report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities on page 2.

Our responsibility 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 and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if 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 group's and 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 UK Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2005 and of the group's profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

30 August 2006

Consolidated profit and loss account
for the year ended 31 December 2005

	Note	**2005**	2004
		£000	£000
Turnover	*1*	**89,384**	99,038
Cost of sales		**(85,807)**	(95,082)
Gross profit		**3,577**	3,956
Administrative expenses		**(346)**	(2,643)
Operating profit		**3,231**	1,313
Interest receivable and similar income	*3*	**212**	131
Interest payable and similar charges	*4*	**(350)**	(418)
Profit on ordinary activities before taxation	*2*	**3,093**	1,026
Tax on profit on ordinary activities	*5*	**(1,133)**	(474)
Profit on ordinary activities after taxation and retained profit for the financial year	*16*	**1,960**	552

The group has no recognised gains or losses other than those reflected in its consolidated profit and loss account for either the current or preceding financial year.

There is no difference between the results as disclosed and the results on an unmodified historical cost basis.

A reconciliation of the movements in shareholders' funds is shown in note 17 to the financial statements.

Turnover and operating profit are derived solely from continuing operations.

Consolidated balance sheet
at 31 December 2005

	Note	**2005**		2004	
		£000	**£000**	£000	£000
Fixed assets					
Tangible assets	*9*		**12,707**		13,735
Current assets					
Stocks	*11*	**13,607**		15,200	
Debtors	*12*	**11,747**		5,448	
Cash at bank and in hand		**3,912**		4,801	
		29,266		25,449	
Creditors: amounts falling due within one year	*13*	**(15,042)**		(14,224)	
Net current assets			**14,224**		11,225
Total assets less current liabilities			**26,931**		24,960
Provisions for liabilities and charges	*14*		**(955)**		(944)
Net assets			**25,976**		24,016
Capital and reserves					
Called up share capital	*15*		**18,412**		18,412
Profit and loss account	*16*		**7,564**		5,604
Equity shareholders' funds	*17*		**25,976**		24,016

The financial statements were approved by the board of directors on 30 August 2006 and were signed on its behalf by:

K Daly
Director

Company balance sheet
at 31 December 2005

	Note	**2005**	2004
		£000	£000
Fixed assets			
Investments	*10*	**15,239**	15,329
Creditors: amounts falling due within one year	*13*	**(360)**	(360)
Net assets		**14,969**	14,969
Capital and reserves			
Called up share capital	*15*	**18,412**	18,412
Profit and loss account	*16*	**(3,443)**	(3,443)
Equity shareholders' funds	*17*	**14,969**	14,969

These financial statements were approved by the board of directors on 30 August 2006 and were signed on its behalf by:

K Daly
Director

Notes
(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements except as noted below:

In these financial statements the following new standards have been adopted for the first time:

- FRS 21 'Events after the balance sheet date';
- The presentation requirements of FRS 25 'Financial instruments presentation and disclosure'; and
- FRS 28 'Corresponding amounts'

FRS 21 and FRS 25 have had no material effect on the financial statements.

In addition, FRS 28 'Corresponding amounts' has had no material effect as it imposes the same requirements for comparatives hitherto required by the Companies Act 1985.

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable Accounting Standards.

Advantage has been taken of the exemption in paragraph 3(c) of Financial Reporting Standard No 8 in respect of the disclosure of transactions with other group companies.

The company is exempt from the requirement of Financial Reporting Statement No 1 (Revised) to prepare a cashflow statement as 90% or more of the voting rights of the company's shares are controlled by other group companies. The consolidated financial statements of the ultimate holding company, Foot Locker Inc, which include the company, are publicly available.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 31 December 2005. The acquisition method of accounting has been adopted. Under this method, the results of the subsidiary undertaking are included in the consolidated profit and loss account from the date of acquisition up to the date of disposal.

Under Section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account. The loss dealt with by the parent company is shown in note 8.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers wholly within the UK during the year.

Foreign currencies

Transactions 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 translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Fixed assets and depreciation

Depreciation is provided on the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Short leasehold land and buildings	-	life of lease
Fixtures and fittings:		
Expenditure on the acquisition of leasehold premises	-	life of lease
Other	-	20% per annum

Notes *(continued)*

1 Accounting policies *(continued)*

Leases

Operating leases rentals are charged to the profit and loss account on a straight line basis over the lease term. Premiums paid to take on certain leases are capitalised and written off over the term of the lease on a straight line basis.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Taxation

The charge for taxation is based on the profit or loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Pension costs

The group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the group in an independently administered fund. The amount charged in the profit and loss account represents the contributions payable to the scheme in respect of the accounting period. Employees may make contributions into the scheme. Under the terms of the scheme, the company does not make any contributions.

2 Profit on ordinary activities before taxation

Group

	2005	2004
	£000	£000
Profit on ordinary activities before taxation is stated		
after charging		
Auditors' remuneration:		
Audit	**11**	11
Depreciation	**2,231**	2,270
Exchange losses	**74**	657
Operating leases:		
Land and buildings	**12,466**	12,311
Hire of plant and machinery	**32**	75

Auditors' remuneration in respect of the audit of Foot Locker UK Limited financial statements amounted to £Nil *(2004: £Nil)*.

3 Interest receivable and similar income

	2005	2004
	£000	£000
Bank interest	**209**	131
Other interest	**3**	-
	212	131

Notes *(continued)*

4 Interest payable and similar charges

	2005	2004
	£000	£000
Bank interest	**53**	16
Intra-group interest	**297**	402
	350	418

5 Tax on profit on ordinary activities

Analysis of charge in period

	2005		2004	
	£000	**£000**	£000	£000
UK corporation tax				
Current tax on income for the period	**1,126**		452	
Adjustments in respect of prior periods	**(4)**		(49)	
Total current tax		**1,122**		403
Deferred tax (see note 14)				
Origination of timing differences	**12**		66	
Adjustments in respect of prior periods	**(1)**		5	
		11		71
		1,133		474

Factors affecting the tax charge for the current period

The current tax charge for the period is higher *(2004: higher)* than the standard rate of corporation tax in the UK of 30% *(2004: 30%)*. The differences are explained below:

	2005	2004
	£000	£000
Current tax reconciliation		
Profit on ordinary activities before tax	**3,093**	1,029
Tax thereon at 30% *(2004: 30%)*	**928**	309
Effects of:		
Capital allowances less than depreciation	**181**	133
Expenses not deductible for tax purposes (primarily depreciation on ineligibles)	**19**	10
Adjustments to tax charge in respect of prior periods	**(4)**	(49)
Tax losses utilised	**(2)**	-
	1,122	403

6 Directors' remuneration

No director received any remuneration in respect of his services to the company in either the current or preceding financial year.

Notes *(continued)*

7 Staff numbers and costs

The average number of persons employed by the group (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2005	2004
Sales	**922**	898
Administration	**88**	93
	1,010	991

The aggregate payroll costs of these persons were as follows:

	£000	£000
Wages and salaries	**9,520**	8,973
Social security costs	**811**	696
	10,331	9,669

The company operates a defined contribution scheme into which employees may make contributions. Under the terms of the scheme the company does not make any contributions.

The directors' pension schemes are funded by fellow members of the Foot Locker Group.

8 Loss for the financial year

The loss for the financial year dealt with in the financial statements of the parent company was £Nil *(2004: £2,000)*.

9 Tangible fixed assets

Group

	Short leasehold property £000	Fixtures and fittings £000	Total £000
Cost			
At beginning of year	3,421	20,361	23,782
Additions	55	1,148	1,203
At end of year	3,476	21,509	24,985
Depreciation			
At beginning of year	1,181	8,866	10,047
Charge for year	281	1,950	2,231
At end of year	1,462	10,816	12,278
Net book value			
At 31 December 2005	**2,014**	**10,693**	**12,707**
At 31 December 2004	2,240	11,495	13,735

Notes *(continued)*

10 Investments

Company

	Shares in subsidiary undertaking £000
Cost	
At beginning and end of year	18,479
Provision	
At beginning and end of year	3,150
Net book value	
At 31 December 2005	**15,329**
At 31 December 2004	15,329

Subsidiary undertakings	Country of incorporation	Holding (ordinary shares)	Nature of business
Held directly			
Freedom Sportsline Limited	Great Britain	100%	Sale of sports and leisure clothing, footwear and accessories.
Held indirectly			
Foot Locker Realty Europe Limited	Great Britain	100%	Non-trading

Both of the above subsidiaries are included in these consolidated financial statements.

11 Stocks

Group

	2005 £000	2004 £000
Finished goods and goods for resale	**13,607**	15,200

Notes *(continued)*

12 Debtors

Group

	2005 £000	2004 £000
Trade debtors	280	95
Amounts owed by group undertakings	6,668	1,172
Other debtors	111	22
Prepayments and accrued income	4,478	4,159
Corporation tax debtor	210	-
	11,747	5,448

13 Creditors: amounts falling due within one year

	Group		Company	
	2005 £000	2004 £000	2005 £000	2004 £000
Trade creditors	431	139	-	-
Amounts owed to group undertakings	9,585	9,653	360	360
Corporation tax	-	388	-	-
Other taxation and social security	2,014	2,019	-	-
Other creditors	-	144	-	-
Accruals and deferred income	3,012	1,881	-	-
	15,042	14,224	360	360

14 Provision for liabilities and charges

	Deferred taxation £000
At beginning of year	944
Charged to the profit and loss for the year	11
At the end of year	**955**

Amounts provided for deferred taxation are as follows:

	2005 £000	2004 £000
Accelerated capital allowances	955	944

Notes *(continued)*

15 Called up share capital

Company

	2005	2004
	£000	£000
Authorised:		
Ordinary shares of £1 each	**18,450**	18,450
Allotted, called up and fully paid:		
Ordinary shares of £1 each	**18,412**	18,412

In the prior year, the company increased its authorised nominal capital by £200,000 on 24 November 2004. The company also allotted 161,383 shares at a par value of £1 each during the prior year.

16 Reserves

	Profit and loss account	
	Group	**Company**
	£000	**£000**
At beginning of year	5,604	(3,443)
Retained profit for the financial year	1,960	-
At end of year	**7,564**	**(3,443)**

17 Reconciliation of movements in shareholders' funds

	Group		**Company**	
	2005	2004	**2005**	2004
	£000	£000	**£000**	£000
Retained profit for the financial year	**1,960**	552	-	2
Shares allotted	-	162	-	162
Net addition to shareholders' funds	**1,960**	714	-	164
Shareholders' funds at beginning of year	**24,016**	23,302	**14,969**	14,805
Shareholders' funds at end of year	**25,976**	24,016	**14,969**	14,969

Notes *(continued)*

18 Commitments under operating leases

Group

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

	Land and buildings	
	2005	2004
	£000	£000
Operating leases which expire:		
Within two to five years	**1,344**	1,080
After five years	**12,385**	12,257
	13,729	13,337

Contingent liability

The group has guaranteed the lease commitments for stores owned by fellow group companies within the FLE Holding B.V. group. The total lease commitments at 31 December 2005 were £33,371,000.

Company

The company had no commitments at 31 December 2005 *(2004: £Nil).*

19 Parent undertakings

The immediate parent company is FLE Holdings B.V., a company incorporated in the Netherlands.

The company's ultimate parent undertaking and ultimate controlling party is Foot Locker Inc, a company incorporated in the USA. Copies of the group financial statements are available from:

112 West 34th Street
New York
NY 10120
USA

The group financial statements are also available on www.footlocker.com