

Foot Locker UK Limited

**Directors' report and consolidated
financial statements**

Registered number 2568406

31 December 2002



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2002.

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. On 23 January 2003, FLE Holdings B.V. a company incorporated in the Netherlands, acquired the 12,250,462 shares owned by Foot Locker Inc.

Results and dividends

The directors do not recommend the payment of a dividend for the year (2001: £Nil).

Directors and directors' interests

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

S Rider	(resigned 1 May 2003)
MD Serra	
PD Galvin	(resigned 31 October 2002)
TL Talley	(appointed 31 October 2002)
TJ Slover	(appointed 1 May 2003)

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.

Introduction of the Euro

The directors believe that the introduction of the single currency had little effect on the immediate trading conditions of the group. The group's major customers have indicated that there will be no immediate change to invoicing in local currency. Ongoing monitoring of customers and suppliers will continue and any change of view will be acted on accordingly.

Directors' report *(continued)*

Charitable and political donations

During the year, no charitable or political donations were made by the company.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution for the appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the board



TL Tolley
Director

20-22 Bedford Row
London
WC1R 4JS

8 October 2003

Statement of directors' responsibilities

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 for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the 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.



2 Cornwall Street
Birmingham
B3 2DL

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

We have audited the financial statements on pages 5 to 15.

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 are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 transactions with the company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards 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 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 of the state of affairs of the company and the group as at 31 December 2002 and of the profit of the group 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

8 October 2003

Consolidated profit and loss account
for the year ended 31 December 2002

	<i>Note</i>	2002 £000	2001 £000
Turnover	<i>1</i>	84,274	69,927
Cost of sales		<u>(75,378)</u>	<u>(59,733)</u>
Gross profit		8,896	10,194
Administrative expenses		<u>(4,200)</u>	<u>(3,392)</u>
Operating profit		4,696	6,802
Interest receivable and similar income	<i>3</i>	111	13
Interest payable and similar charges	<i>4</i>	<u>(519)</u>	<u>(562)</u>
Profit on ordinary activities before taxation	<i>2</i>	4,288	6,253
Tax on profit on ordinary activities	<i>5</i>	<u>(1,402)</u>	<u>(1,323)</u>
Profit on ordinary activities after taxation and retained profit for the financial year	<i>17</i>	<u>2,886</u>	<u>4,930</u>

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 2002

	<i>Note</i>	2002		2001	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	9		13,527		12,314
Current assets					
Stocks	11	9,979		8,648	
Debtors	12	6,320		5,198	
Cash at bank and in hand		4,670		3,167	
			<hr/>		<hr/>
			20,969		17,013
Creditors: amounts falling due within one year	13	(14,857)		(5,140)	
			<hr/>		<hr/>
Net current assets			6,112		11,873
			<hr/>		<hr/>
Total assets less current liabilities			19,639		24,187
Creditors: amounts falling due after more than one year	14		(175)		(7,626)
Provisions for liabilities and charges	15		(688)		(671)
			<hr/>		<hr/>
Net assets			18,776		15,890
			<hr/>		<hr/>
Capital and reserves					
Called up share capital	16		18,250		18,250
Profit and loss account	17		526		(2,360)
			<hr/>		<hr/>
Equity shareholders' funds	18		18,776		15,890
			<hr/>		<hr/>


The financial statements were approved by the board of directors on 8 October 2003 and were signed on its behalf by:


TL Talley
Director

Company balance sheet
at 31 December 2002

	<i>Note</i>	2002 £000	2001 £000
Fixed assets			
Investments	<i>10</i>	15,168	15,168
Creditors: amounts falling due within one year	<i>13</i>	(363)	(368)
Net assets		14,805	14,800
Capital and reserves			
Called up share capital	<i>16</i>	18,250	18,250
Profit and loss account	<i>17</i>	(3,445)	(3,450)
Equity shareholders' funds	<i>18</i>	14,805	14,800

These financial statements were approved by the board of directors on 8 October 2003 and were signed on its behalf by:



TL Talley
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 group's and the company's financial statements. The company has adopted FRS 19 'Deferred Tax' in these financial statements. A restatement of the comparative figures has not been required upon adoption of the standard.

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 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. 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.

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

Leases

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

Notes (continued)

1 Accounting policies (continued)

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 against profits represents the contributions payable to the scheme in respect of the accounting period.

2 Profit on ordinary activities before taxation

	2002 £000	2001 £000
Group		
<i>Profit on ordinary activities before taxation is stated after charging/(crediting)</i>		
Auditors' remuneration:		
Audit	21	26
Other services	158	-
Depreciation	1,990	1,434
Exchange (gains)/losses	(194)	(642)
Operating leases:		
Hire of plant and machinery	70	40
Other	9,798	7,417
	9,798	7,417

Auditors' remuneration in respect of the audit of Foot Locker UK Limited financial statements amounted to £1,000 (2001: £1,000).

3 Interest receivable and similar income

	2002 £000	2001 £000
Bank interest	111	13
	111	13

4 Interest payable

	2002 £000	2001 £000
Intra-group interest	507	550
Other interest	12	12
	519	562

Notes (continued)

5 Tax on profit on ordinary activities

Analysis of charge in period

	2002		2001	
	£000	£000	£000	£000
UK Corporation tax				
Current tax on income for the period		1,343		516
Adjustments in respect of prior periods		42		136
		1,385		652
Deferred tax (see note 15)				
Origination of timing differences	144		168	
Adjustments in respect of prior years	(127)		503	
		17		671
		1,402		1,323

Factors affecting the tax charge for the current period

	2002	2001
	£000	£000
Current tax reconciliation		
Profit on ordinary activities before tax	4,283	6,254
	1,285	1,876
Effects of		
Capital allowances in excess of depreciation	(151)	(170)
Expenses not deductible for tax purposes (primarily depreciation on ineligible)	208	123
Adjustments to tax charge in respect of previous periods	43	136
Tax losses utilised	-	(1,313)
	1,385	652

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	
	2002	2001
Sales	860	483
Administration	67	35
	927	518
	927	518

The aggregate payroll costs of these persons were as follows:

	£000	£000
Wages and salaries	7,486	6,327
Social security costs	564	444
	8,050	6,771
	8,050	6,771

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 Foot Locker B.V.

8 Profit for the financial year

Of the profit for the financial year, a loss of £5,000 (2001: £1,000) has been dealt with in the financial statements of the parent company.

9 Tangible fixed assets

Group	Short leasehold property £000	Fixtures and fittings £000	Total £000
Cost			
At beginning of year	2,625	13,545	16,170
Additions	372	2,857	3,229
Disposals	-	(88)	(88)
	2,997	16,314	19,311
	2,997	16,314	19,311
Depreciation			
At beginning of year	374	3,482	3,856
Charge for year	285	1,705	1,990
Disposals	-	(62)	(62)
	659	5,125	5,784
	659	5,125	5,784
Net book value			
At 31 December 2002	2,338	11,189	13,527
At 31 December 2001	2,251	10,063	12,314

Notes (continued)

10 Investments

Company	Shares in subsidiary undertaking £000
<i>Cost</i>	
At beginning and end of year	18,318
<i>Provision</i>	
At beginning and end of year	3,150
<i>Net book value</i>	
At beginning and end of year	15,168

Subsidiary undertakings	Country of incorporation	Proportion held	Nature of business
<i>Held directly</i>			
Freedom Sportsline Limited	Great Britain	100%	Sale of sports and leisure clothing, footwear and accessories.
<i>Held indirectly</i>			
Foot Locker Realty Europe Limited	Great Britain	100%	Management of the European Real Estate of Foot Locker Inc. until 3 February 2000, then non trading.

11 Stocks

	2002 £000	2001 £000
Group		
Finished goods and goods for resale	9,979	8,648

12 Debtors

	2002 £000	2001 £000
Group		
Trade debtors	67	-
Amounts owed by group undertakings	2,945	2,641
Corporation tax recoverable	53	53
Other debtors	17	15
Prepayments and accrued income	3,238	2,489
	<u>6,320</u>	<u>5,198</u>

Notes (continued)

13 Creditors: amounts falling due within one year

	Group		Company	
	2002	2001	2002	2001
	£000	£000	£000	£000
Trade creditors	61	281	-	-
Amounts owed to group undertakings	9,762	587	358	358
Corporation tax	311	315	-	-
Other taxation and social security	2,159	1,834	-	-
Other creditors	596	878	-	-
Accruals and deferred income	1,968	1,245	5	10
	<u>14,857</u>	<u>5,140</u>	<u>363</u>	<u>368</u>

14 Creditors: amounts falling due after more than one year

	2002	2001
	£000	£000
Group		
Amounts owed to group undertakings	175	7,626
	<u>175</u>	<u>7,626</u>

15 Provision for liabilities and charges

	Deferred Taxation £000
At beginning of year	671
Charged to the profit and loss for the year	17
	<u>688</u>
At the end of year	<u>688</u>

Amounts provided for deferred taxation calculated under the liability method at 30% are as follows:

	2002	2001
	£000	£000
Accelerated capital allowance	702	671
Other short term timing differences	(14)	-
	<u>688</u>	<u>671</u>

Notes (continued)

16 Called up share capital

	2002 £000	2001 £000
<i>Company</i>		
<i>Authorised</i>		
18,250,462 (2001: 18,250,462) ordinary shares of £1 each	18,250	18,250
<hr/>		
<i>Allotted, called up and fully paid</i>		
18,250,462 (2001: 18,250,462) ordinary shares of £1 each	18,250	18,250
<hr/>		

17 Reserves

	Group £000	Company £000
At beginning of year	(2,360)	(3,450)
Retained profit for the financial year	2,886	5
<hr/>		
At end of year	526	(3,445)
<hr/>		

18 Reconciliation of movements in shareholders' funds

	Group		Company	
	2002 £000	2001 £000	2002 £000	2001 £000
Retained profit/(loss) for the financial year	2,886	4,930	5	(1)
New share capital subscribed	-	6,000	-	6,000
<hr/>				
Net addition to shareholders' funds	2,886	10,930	5	5,999
Opening shareholders' funds	15,890	4,960	14,800	8,801
<hr/>				
Shareholders' funds at end of year	18,776	15,890	14,805	14,800
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Notes (continued)

19 Commitments under operating leases

Group

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

	Land and buildings	
	2002	2001
	£000	£000
Operating leases which expire:		
Within two to five years	180	24
After five years	10,350	8,805
	<hr/>	<hr/>
	10,530	8,829
	<hr/> <hr/>	<hr/> <hr/>

Company

The company had no commitments at 31 December 2002 (2001: £Nil).

20 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