

Foot Locker UK Limited

**Directors' report and consolidated
financial statements**

Registered number 2568406

31 December 2003



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2003.

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 of Foot Locker UK Limited owned by Foot Locker Inc.

Results and dividends

The directors do not recommend the payment of a dividend for the year (2002: £Nil).

Directors and directors' interests

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

SCD Rider	(resigned 1 May 2003)
MD Serra	(appointed 1 May 2003)
TL Talley	(resigned 5 April 2004)
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.

Charitable and political donations

During the year, no charitable or political donations were made by the company (2002: £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

TJ Slover
Director



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

13 September 2004

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 4 to 14.

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 2, 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 2003 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

13 September 2004

Consolidated profit and loss account
for the year ended 31 December 2003

	<i>Note</i>	2003 £'000	2002 £'000
Turnover	<i>1</i>	100,246	84,274
Cost of sales		(91,890)	(75,146)
Gross profit		8,356	9,128
Administrative expenses		(1,324)	(4,432)
Operating profit		7,032	4,696
Interest receivable and similar income	<i>3</i>	133	111
Interest payable and similar charges	<i>4</i>	(405)	(519)
Profit on ordinary activities before taxation	<i>2</i>	6,760	4,288
Tax on profit on ordinary activities	<i>5</i>	(2,234)	(1,402)
Profit on ordinary activities after taxation and retained profit for the financial year	<i>17</i>	4,526	2,886

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 18 to the financial statements.

Turnover and operating profit are derived solely from continuing operations.

Consolidated balance sheet
at 31 December 2003

	<i>Note</i>	2003	2002
		£'000	£'000
Fixed assets			
Tangible assets	9	14,638	13,527
Current assets			
Stocks	11	16,443	9,979
Debtors	12	5,864	6,320
Cash at bank and in hand		2,955	4,670
		<u>25,262</u>	<u>20,969</u>
Creditors: amounts falling due within one year	13	<u>(15,570)</u>	<u>(14,857)</u>
Net current assets		9,692	6,112
Total assets less current liabilities		<u>24,330</u>	<u>19,639</u>
Creditors: amounts falling due after more than one year	14	(155)	(175)
Provisions for liabilities and charges	15	(873)	(688)
Net assets		<u>23,302</u>	<u>18,776</u>
Capital and reserves			
Called up share capital	16	18,250	18,250
Profit and loss account	17	5,052	526
Equity shareholders' funds	18	<u>23,302</u>	<u>18,776</u>

The financial statements were approved by the board of directors on 13 September 2004 and were signed on its behalf by:


TJ Slover
 Director

Company balance sheet
at 31 December 2003

	<i>Note</i>	2003 £'000	2002 £'000
Fixed assets			
Investments	<i>10</i>	15,168	15,168
Creditors: amounts falling due within one year	<i>13</i>	(363)	(363)
Net assets		14,805	14,805
Capital and reserves			
Called up share capital	<i>16</i>	18,250	18,250
Profit and loss account	<i>17</i>	(3,445)	(3,445)
Equity shareholders' funds	<i>18</i>	14,805	14,805

These financial statements were approved by the board of directors on 13 September 2004 and were signed on its behalf by:



TJ Sloyer
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.

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 2003. 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. Premiums paid to take on certain leases are capitalised and written off over the term of the lease on a straight line basis.

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 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

	2003 £'000	2002 £'000
Group		
<i>Profit on ordinary activities before taxation is stated after charging/(crediting)</i>		
Auditors' remuneration:		
Audit	20	21
Other services	105	158
Depreciation	2,002	1,990
Exchange gains	(2,484)	(194)
Operating leases:		
Land and buildings	10,710	9,798
Hire of plant and machinery	76	70
	10,710	9,798

Auditors' remuneration in respect of the audit of Foot Locker UK Limited financial statements amounted to £Nil (2002: £1,000).

3 Interest receivable and similar income

	2003 £'000	2002 £'000
Bank interest	131	111
Other interest	2	-
	133	111

Notes (continued)

4 Interest payable and similar charges

	2003 £'000	2002 £'000
Bank interest	6	-
Intra-group interest	399	507
Other interest	-	12
	405	519
	405	519

5 Tax on profit on ordinary activities

Analysis of charge in period

	2003 £'000	2003 £'000	2002 £'000	2002 £'000
<i>UK corporation tax</i>				
Current tax on income for the period	2,039		1,343	
Adjustments in respect of prior periods	10		42	
	2,049		1,385	
<i>Deferred tax (see note 15)</i>				
Origination of timing differences	191		144	
Adjustments in respect of prior periods	(6)		(127)	
	185		17	
	2,234		1,402	

Factors affecting the tax charge for the current period

The current tax charge for the period is higher (2002: higher) than the standard rate of corporation tax in the UK of 30% (2002: 30%). The differences are explained below:

	2003 £'000	2002 £'000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	6,760	4,288
	6,760	4,288
Tax thereon at 30% (2002: 30%)	2,028	1,286
<i>Effects of:</i>		
Capital allowances in excess of depreciation	(183)	(151)
Expenses not deductible for tax purposes (primarily depreciation on ineligible)	186	208
Adjustments to tax charge in respect of prior periods	10	42
Tax losses utilised	8	-
	2,049	1,385
	2,049	1,385

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	
	2003	2002
Sales	1,035	860
Administration	92	67
	1,127	927

The aggregate payroll costs of these persons were as follows:

	£'000	£'000
Wages and salaries	8,807	7,486
Social security costs	679	564
	9,486	8,050

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

The profit for the financial year dealt with in the financial statements of the parent company was £Nil (2002 £5,000).

9 Tangible fixed assets

Group	Short leasehold property £'000	Fixtures and fittings £'000	Total £'000
<i>Cost</i>			
At beginning of year	2,997	16,314	19,311
Additions	348	2,779	3,127
Disposals	(3)	(20)	(23)
	3,342	19,073	22,415
<i>Depreciation</i>			
At beginning of year	659	5,125	5,784
Charge for year	246	1,756	2,002
Disposals	-	(9)	(9)
	905	6,872	7,777
<i>Net book value</i>			
At 31 December 2003	2,437	12,201	14,638
At 31 December 2002	2,338	11,189	13,527

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%	Non-trading.

11 Stocks

	2003 £'000	2002 £'000
Group		
Finished goods and goods for resale	16,443	9,979

12 Debtors

	2003 £'000	2002 £'000
Group		
Trade debtors	205	67
Amounts owed by group undertakings	1,783	2,945
Corporation tax recoverable	-	53
Other debtors	218	17
Prepayments and accrued income	3,658	3,238
	<u>5,864</u>	<u>6,320</u>

Notes *(continued)*

13 Creditors: amounts falling due within one year

	Group		Company	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Trade creditors	549	61	-	-
Amounts owed to group undertakings	9,503	9,762	363	358
Corporation tax	1,166	311	-	-
Other taxation and social security	2,160	2,159	-	-
Other creditors	161	596	-	-
Accruals and deferred income	2,031	1,968	-	5
	<u>15,570</u>	<u>14,857</u>	<u>363</u>	<u>363</u>

14 Creditors: amounts falling due after more than one year

	2003	2002
	£'000	£'000
Group		
Amounts owed to group undertakings	<u>155</u>	<u>175</u>

15 Provision for liabilities and charges

	Deferred taxation £'000
At beginning of year	688
Charged to the profit and loss for the year	185
At the end of year	<u>873</u>

Amounts provided for deferred taxation are as follows:

	2003	2002
	£'000	£'000
Accelerated capital allowances	885	702
Other short term timing differences	(12)	(14)
	<u>873</u>	<u>688</u>

Notes (continued)

16 Called up share capital

	2003 £'000	2002 £'000
Company		
<i>Authorised</i>		
18,250,462 (2002: 18,250,462) ordinary shares of £1 each	18,250	18,250
	<hr/>	<hr/>
<i>Allotted, called up and fully paid</i>		
18,250,462 (2002: 18,250,462) ordinary shares of £1 each	18,250	18,250
	<hr/>	<hr/>

17 Reserves

	Group £'000	Company £'000
At beginning of year	526	(3,445)
Retained profit for the financial year	4,526	-
	<hr/>	<hr/>
At end of year	5,052	(3,445)
	<hr/>	<hr/>

18 Reconciliation of movements in shareholders' funds

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Retained profit for the financial year	4,526	2,886	-	5
	<hr/>	<hr/>	<hr/>	<hr/>
Net addition to shareholders' funds	4,526	2,886	-	5
Shareholders' funds at beginning of year	18,776	15,890	14,805	14,800
	<hr/>	<hr/>	<hr/>	<hr/>
Shareholders' funds at end of year	23,302	18,776	14,805	14,805
	<hr/>	<hr/>	<hr/>	<hr/>

Notes *(continued)*

19 Commitments under operating leases

Group

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

	Land and buildings	
	2003	2002
	£'000	£'000
Operating leases which expire:		
Within two to five years	598	180
After five years	11,845	10,350
	<hr/>	<hr/>
	12,443	10,530
	<hr/>	<hr/>

Company

The company had no commitments at 31 December 2003 (2002: £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