Foot Locker UK Limited

Directors' report and consolidated financial statements

Registered number 2568406

31 December 2001

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2001.

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. During the financial year the company's investment in Freedom Sportsline Limited was increased by £6,000,000.

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 year a new shareholder, Foot Locker Europe BV, acquired 6,000,000 new shares in the company.

Results and dividends

The directors do not recommend the payment of a dividend for the year (2000: £Nil).

Directors and directors' interests

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

S Rider
MD Serra
PD Galvin

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 these 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

KPMG resigned as auditors during the year and KPMG LLP were appointed to fill a casual vacancy.

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

PD Galvin
Director

20-22 Bedford Row
London
WC1R 4JS

3 September 2002

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.

KPMG
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 14.

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 2001 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

3 September 2002

Consolidated profit and loss account
for the year ended 31 December 2001

	Note	**2001**		2000	
		£000	**£000**	£000	£000
Turnover	*1*				
Continuing		**69,927**		41,803	
Discontinued		**-**		1,080	
			69,927		42,883
Cost of sales			**(59,733)**		(36,087)
Gross profit			**10,194**		6,796
Administrative expenses			**(3,392)**		(3,148)
Operating profit:					
Continuing		**6,802**		3,621	
Discontinued		**-**		27	
			6,802		3,468
Interest receivable and similar income	*3*		**13**		199
Interest payable and similar charges	*4*		**(562)**		(922)
Profit on ordinary activities before taxation	*2*		**6,253**		2,925
Tax on profit on ordinary activities	*5*		**(1,323)**		2
Profit on ordinary activities after taxation and retained profit for the financial year	*16*		**4,930**		2,927

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.

Consolidated balance sheet
at 31 December 2001

	Note	2001		2000	
		£000	**£000**	£000	£000
Fixed assets					
Tangible assets	*9*		**12,314**		10,050
Current assets					
Stocks	*11*	**8,648**		5,505	
Debtors	*12*	**5,198**		5,314	
Cash at bank and in hand		**3,167**		5,286	
		17,013		16,105	
Creditors: amounts falling due within one year	*13*	**(5,140)**		(6,142)	
Net current assets			**11,873**		9,963
Total assets less current liabilities			**24,817**		20,013
Creditors: amounts falling due after more than one year	*14*		**(7,626)**		(15,053)
Provisions for liabilities and charges	*15*		**(671)**		-
Net assets			**15,890**		4,960
Capital and reserves					
Called up share capital	*16*		**18,250**		12,250
Profit and loss account	*17*		**(2,360)**		(7,290)
Equity shareholders' funds	*18*		**15,890**		4,960

The financial statements were approved by the board of directors on 3 September 2002 and were signed on its behalf by:

PD Galvin
Director

Company balance sheet
at 31 December 2001

	Note	2001 £000	2000 £000
Fixed assets			
Investments	*10*	**15,168**	9,168
Creditors: amounts falling due within one year	*13*	**(368)**	(367)
Net assets		**14,800**	8,801
Capital and reserves			
Called up share capital	*16*	**18,250**	12,250
Profit and loss account	*17*	**(3,450)**	(3,449)
Equity shareholders' funds	*18*	**14,800**	8,801

These financial statements were approved by the board of directors on 3 September 2002 and were signed on its behalf by:

PD Galvin
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 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. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

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

	2001	2000
	£000	£000
Group		
Profit on ordinary activities before taxation is stated after charging/(crediting)		
Auditors' remuneration:		
Audit	**26**	28
Other services	**-**	14
Depreciation	**1,434**	993
Exchange (gains)/losses	**(642)**	25
Operating leases:		
Land and buildings	**7,417**	4,307
Other	**40**	26

Auditors' remuneration in respect of the audit of Foot Locker UK Limited financial statements amounted to £1,000 *(2000: £1,000)*.

3 Interest receivable and similar income

	2001	2000
	£000	£000
Interest receivable from group undertakings	**-**	143
Bank interest	**13**	56
	13	199

4 Interest payable

	2001	2000
	£000	£000
Intra-group interest	**550**	908
Other interest	**12**	14
	562	922

Notes *(continued)*

5 Tax on profit on ordinary activities

	2001	2000
	£000	£000
Current tax		
UK Corporation tax at 30% *(2000:30%)*	**652**	2
Deferred tax (see note 15)	**671**	-
	1,323	2

6 Directors' remuneration

	2001	2000
	£000	£000
Directors' emoluments	-	27
	-	27

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	
	2001	2000
Sales	**483**	309
Administration	**35**	20
	518	329

The aggregate payroll costs of these persons were as follows:

	£000	£000
Wages and salaries	**6,327**	4,820
Social security costs	**444**	347
Other pension costs	-	10
	6,771	5,177

Notes *(continued)*

8 Profit for the financial year

Of the profit for the financial year, a loss of £1,000 *(2000: £Nil)* has been dealt with in the financial statements of the parent company.

9 Tangible fixed assets

Group	**Short leasehold property**	**Fixtures and fittings**	**Total**
	£000	£000	£000
Cost			
At beginning of year	2,367	10,341	12,708
Additions	277	3,508	3,785
Disposals	(19)	(304)	(323)
At end of year	2,625	13,545	16,170
Depreciation			
At beginning of year	236	2,422	2,658
Charge for year	146	1,288	1,434
Disposals	(8)	(228)	(236)
At end of year	374	3,482	3,856
Net book value			
At 31 December 2001	**2,251**	**10,063**	**12,314**
At 31 December 2000	2,131	7,919	10,050

10 Investments

Company	**Shares in subsidiary undertaking £000**
Cost	
At beginning of year	12,318
Additions, acquisitions of shares	6,000
At end of year	**18,318**
Provision	
At beginning and end of year	3,150
Net book value	
At beginning of year	9,168
At end of year	**15,168**

Notes *(continued)*

10 Investments *(continued)*

Subsidiary undertakings	Country of incorporation	Proportion held	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%	Management of the European Real Estate of Foot Locker Inc. until 3 February 2000, then non trading.

11 Stocks

	2001	2000
	£000	£000
Group		
Finished goods and goods for resale	**8,648**	5,505

12 Debtors

	2001	2000
	£000	£000
Group		
Trade debtors	-	12
Amounts due from group undertakings	**2,641**	3,383
Corporation tax recoverable	**53**	31
VAT recoverable	-	23
Other debtors	**15**	173
Prepayments and accrued income	**2,489**	1,692
	5,198	5,314

Notes *(continued)*

13 Creditors: amounts falling due within one year

	Group		Company	
	2001	2000	**2001**	2000
	£000	£000	**£000**	£000
Trade creditors	**281**	379	-	-
Amounts due to group undertakings	**587**	3,135	**9**	9
Corporation tax	**315**	2	**358**	358
Other taxation and social security	**1,834**	1,353	-	-
Other creditors	**878**	757	-	-
Accruals and deferred income	**1,245**	516	-	-
	5,140	6,142	**368**	367

14 Creditors: amounts falling due after more than one year

	2001	2000
	£000	£000
Group		
Amounts due to group undertakings	**7,626**	15,053

15 Provision for liabilities and charges

	Deferred Taxation £000
At beginning of year	-
Charged to the profit and loss for the year	671
At the end of year	**671**

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

	2001		2000	
	Provided	**Unprovided**	Provided	Unprovided
	£000	**£000**	£000	£000
Accelerated capital allowance	**671**	-	69	-
Other short term timing differences	-	-	(69)	(752)
	671	-	-	(752)

Notes *(continued)*

16 Called up share capital

	2001 £000	2000 £000
Company		
Authorised		
18,250,462 *(2000: 15,000,000)* ordinary shares of £1 each	**18,250**	15,000
Allotted, called up and fully paid		
18,250,462 *(2000: 12,250,462)* ordinary shares of £1 each	**18,250**	12,250

During the year a further 6,000,000 new ordinary shares of £1 each were issued at par in satisfaction of an amount owed to a group undertaking.

17 Reserves

	Group £000	**Company £000**
At beginning of year	(7,290)	(3,449)
Retained profit for the financial year	4,930	(1)
At end of year	**(2,360)**	**(3,450)**

18 Reconciliation of movements in shareholders' funds

	Group		**Company**	
	2001 £000	2000 £000	**2001 £000**	2000 £000
Retained profit/(loss) for the financial year	**4,930**	2,927	**(1)**	-
New share capital subscribed	**6,000**	-	**6,000**	-
Net addition to shareholders' funds	**10,930**	2,927	**5,999**	-
Opening shareholders' funds	**4,960**	2,033	**8,801**	8,801
Shareholders' funds at end of year	**15,890**	4,960	**14,800**	8,801

Notes *(continued)*

19 Commitments under operating leases

Group

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

	Land and buildings	
	2001	2000
	£000	£000
Operating leases which expire:		
Within two to five years	**24**	24
After five years	**8,805**	6,933
	8,829	6,957

Company

The company had no commitments at 31 December 2001 *(2000: £Nil)*.

20 Ultimate parent undertaking

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