Freedom Sportslıne Limited

Directors' report and financial statements

Registered number 1779106

31 December 2007

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2007

Principal activities and business review

The principal activity of the company during the year was the sale of sports and leisure clothing, footwear and accessories through retail outlets in the UK The objective is to grow the company's market share by "providing the most compelling performance and lifestyle fashion branded athletic footwear and apparel" This is both for the shorter and longer term and with the support of the Foot Locker World Wide brand

During the year the company closed four stores For the year the turnover decreased 0 53% while the operating profit increased 31 4% compared to 2006 The actual operating profit percentage is slightly above the targeted operating profit rate

For the year 2008 the company is planning to close one store and is anticipating a sales gain of 2 0% and expense control programs to allow the operating profit to be at the targeted rate under the Limited Risk Distribution agreement signed with Foot Locker Europe B V

Exchange rate fluctuations could distort reported profits as a result of the product sourcing being based in EURO In order to manage the risk currency hedges are entered into to allow the exchange rate to be controlled and forecasted

Its subsidiary, Foot Locker Realty Europe Limited, does not trade

The state of the company'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 for the retail outlets

Results and dividends

On 15 August 2008, the directors recommended the payment of a dividend for the year of £10,000,000 *(2006 £Nil)* This has not been recognised in these financial statements

Directors

The directors who held office during the year were as follows

RA Johnson	(American, appointed 16 August 2007)
K Daly	(American, resigned 16 August 2007)
TP Mabbett	(British)
MD Serra	(American, resigned 16 July 2007)

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

Employees

The company gives 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

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information

Directors' report *(continued)*

Charitable and political donations

During the year, no charitable or political donations were made by the Company *(2006 £Nil)*

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the reappointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting

On behalf of the board

RA Johnson
Director

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

24 September 2008

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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

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 Freedom Sportsline Limited

We have audited the financial statements of Freedom Sportsline Limited for the year ended 31 December 2007 which comprise the Profit and loss account, the 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

As described in the statement of directors' responsibilities on page 3, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

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 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 company's affairs as at 31 December 2007 and of its profit for the year then ended,
- have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

24 September 2008

Profit and loss account
for the year ended 31 December 2007

	Note	2007 £000	2006 £000
Turnover	*1*	78,686	79,102
Cost of sales		(74,503)	(75,223)
Gross profit		4,183	3,879
Administrative expenses		(696)	(1,220)
Operating profit		3,487	2,659
Interest receivable and similar income	*3*	321	143
Interest payable and similar charges	*4*	(385)	(363)
Profit on ordinary activities before taxation	*2*	3,423	2,439
Tax on profit on ordinary activities	*5*	(1,188)	(974)
Profit on ordinary activities after taxation and profit for the financial year	*15*	2,235	1,465

The company has no recognised gains or losses other than those reflected in its profit and loss account for either the current or preceding financial year and all results are derived from continuing operations

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

Movements in shareholders' funds are shown in note 16 to the financial statements

Balance sheet
at 31 December 2007

	Note	2007		2006	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	8		11,433		13,126
Current assets					
Stocks	10	14,695		12,762	
Debtors	11	20,625		12,074	
Cash at bank and in hand		5,454		4,040	
		40,774		28,876	
Creditors amounts falling due within one year	12	(21,345)		(13,258)	
Net current assets			19,429		15,618
Total assets less current liabilities			30,862		28,744
Provisions for liabilities and charges	13		(776)		(893)
Net assets			30,086		27,851
Capital and reserves					
Called up share capital	14		16,998		16,998
Share premium account	15		424		424
Profit and loss account	15		12,664		10,429
Shareholders' funds	16		30,086		27 851

These financial statements were approved by the board of directors on 24 September 2008 and were signed on its behalf by

RA Johnson
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

Basis of preparation

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

Under Financial Reporting Standard 1 (Revised), the company is exempt from the requirement to prepare a cash flow statement as 90% or more of the voting rights of the company's shares are controlled by Foot Locker Inc The consolidated financial statements of Foot Locker Inc, which include the company, are publicly available

The company has taken advantage of the exemption conferred by s228 of the Companies Act 1985 from the requirement to prepare group accounts These financial statements present information about the company as an individual undertaking and not about its group

Advantage has been taken of the exemption in paragraph 3(c) of Financial Reporting Standard 8 in respect of the disclosure of transactions with other group undertakings

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods to customers during the year through retail outlets and relates wholly to the UK

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

Leasehold property	-	life of lease
Fixtures and fittings		
Expenditure on the acquisition of leasehold premises	-	life of lease
Other	-	20% per annum

Leases

Operating lease costs 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

Notes *(continued)*

1 Accounting policies *(continued)*

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 Financial Reporting Standard 19

Pension costs

The company operates a defined contribution pension scheme The assets of the scheme are held separately from those of the company in an independently administered fund The amounts charged in the profit and loss account represent 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

	2007	2006
	£000	£000
Profit on ordinary activities before taxation is stated		
after charging		
Depreciation	2,199	2,683
Exchange (losses)/gains	(361)	281
Payments under operating leases		
Land and buildings	14,175	13,659
Auditors' remuneration		
Audit of these financial statements	9	9

3 Interest receivable and similar income

	2007	2006
	£000	£000
Bank interest	321	143

4 Interest payable and similar charges

	2007	2006
	£000	£000
Bank interest	3	5
Interest payable to group undertakings	382	358
	385	363

Notes *(continued)*

5 Tax on profit on ordinary activities

(a) Analysis of charge in period

	2007		2006	
	£000	**£000**	£000	£000
UK corporation tax				
Current tax on income for the period		**1,308**		1,047
Adjustments in respect of prior periods		**(3)**		(11)
Total current tax		**1,305**		1,036
Deferred tax (see note 13)				
Origination of timing differences	**(62)**		(56)	
Adjustments in respect of prior period	**-**		(6)	
Effect of change in tax rate	**(55)**		-	
		(117)		(62)
		1,188		974

(b) Factors affecting the tax charge for the current period

The current tax charge for the period is higher *(2006 higher)* than the standard rate of corporation tax in the UK of 30% *(2006 30%)* The differences are explained below

	2007	2006
	£000	£000
Current tax reconciliation		
Profit on ordinary activities before tax	**3,423**	2,439
Tax thereon at 30% *(2006 30%)*	**1,027**	732
Effects of		
Capital allowances less than depreciation	**62**	56
Depreciation on ineligibles	**190**	234
Expenses not deductible for tax purposes	**29**	25
Adjustments to tax charge in respect of previous periods	**(3)**	(11)
Total current tax charge (see above)	**1,305**	1,036

(c) Factors that may affect future current and total tax charges

The Finance Act 2007 substantively enacted a change in the standard rate of UK corporation tax from 30% to 28% from 1 April 2008 The deferred tax liability has been calculated at 28% as it is expected that it will reverse after 1 April 2008

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 company (including directors) during the year, analysed by category, was as follows

	Number of employees 2007	2006
Sales	**838**	914
Administration	**88**	89
	926	1,003

The aggregate payroll costs of these persons were as follows

	£000	£000
Wages and salaries	**9,377**	9,321
Social security costs	**660**	725
	10,037	10,046

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 Tangible fixed assets

	Short leasehold property £000	Fixtures and fittings £000	Total £000
Cost			
At beginning of year	3,535	23,738	27,273
Additions	-	754	754
Disposals	-	(461)	(461)
At end of year	3,535	24,031	27,566
Depreciation			
At beginning of year	1,679	12,468	14,147
Charge for year	265	1,934	2,199
On disposals	-	(213)	(213)
At end of year	1,944	14,189	16,133
Net book value			
At 31 December 2007	**1,591**	**9,842**	**11,433**
At 31 December 2006	1,856	11,270	13,126

Notes *(continued)*

9 Investments

	Shares in subsidiary undertaking £000
Cost	
At beginning and end of year	161
Provision for impairment	
At beginning and end of year	(161)
Net book value	
At beginning and end of year	-

The company owns 100% of the issued share capital of Foot Locker Realty Europe Limited which is incorporated in Great Britain The principal activity of the company until 3 February 2001 was the purchase and management of the European Real Estate of Foot Locker Inc Since that date, the company's activities have ceased

10 Stocks

	2007 £000	2006 £000
Goods for resale	**14,695**	12,762

11 Debtors

	2007 £000	2006 £000
Trade debtors	**269**	272
Amounts owed by group undertakings	**15,044**	7,193
Other debtors	**132**	30
Prepayments and accrued income	**5,180**	4,579
	20,625	12,074

12 Creditors: amounts falling due within one year

	2007 £000	2006 £000
Trade creditors	**250**	244
Amounts owed to group undertakings	**15,263**	7,756
Corporation tax	**816**	527
Other taxes and social security	**1,529**	1,436
Accruals and deferred income	**3,487**	3,295
	21,345	13,258

Notes *(continued)*

13 Provisions for liabilities and charges

	Deferred taxation £000
At beginning of year	893
Credited to the profit and loss for the year	(62)
Effect of reduction in tax rate	(55)
At the end of year	776

Amounts provided for deferred taxation are as follows

	2007 £000	2006 £000
Accelerated capital allowances	**776**	893

14 Share capital

	2007 £000	2006 £000
Authorised		
17,036,477 *(2006 17,036,477)* ordinary shares of £1 each	**17,036**	17,036
Allotted, called up and fully paid		
16,997,860 *(2006 16,997,860)* ordinary shares of £1 each	**16,998**	16,998

15 Reserves

	Share premium account £000	**Profit and loss account £000**
At beginning of year	424	10,429
Profit for the financial year	-	2,235
At end of year	**424**	**12,664**

16 Reconciliation of movements in shareholders' funds

	2007 £000	2006 £000
Opening shareholders' funds	**27,851**	26,386
Profit for the financial year	**2,235**	1,465
Closing shareholders' funds	**30,086**	27,851

Notes *(contınued)*

17 Commıtments

Annual commıtments under non-cancellable operatıng leases are as follows

	Land and buıldıngs	
	2007	2006
	£000	£000
Operatıng leases whıch expıre		
Wıthın two to five years	**2,922**	1,152
After five years	**13,597**	14,679
	16,519	15,831

Contıngent lıabılıty

The company has guaranteed certaın lease commıtments for stores owned by Foot Locker Inc group companıes The total lease commıtments at 31 December 2007 were £33,440,797 *(2006 £32,625,000)*

18 Post balance sheet events

Dıvıdends

On 15 August 2008, the dırectors proposed a dıvıdend of £10,000,000 Thıs has not been recognısed ın these financıal statements

19 Parent undertakıngs

The company's ımmedıate parent undertakıng ıs Foot Locker UK Lımıted, a company ıncorporated ın England and Wales The results of the company are ıncluded ın the group financıal statements of Foot Locker UK Lımıted, copıes of whıch may be obtaıned from 20-22 Bedford Row, London, WC1R 4JS

The company's ultımate parent undertakıng and ultımate controllıng party ıs Foot Locker Inc, a company ıncorporated ın the USA The consolıdated financıal statements of Foot Locker Inc can be obtaıned from

112 West 34th Street
New York
10279
USA

The consolıdated financıal statements are also avaılable on www footlocker com