Shoe Zone Group Limited

Financial statements

for the 52 weeks ended 30 December 2006

Registered Number 5570073

Shoe Zone Group Limited

Financial statements
for the 52 weeks ended 30 December 2006

Shoe Zone Group Limited

Directors and advisers

Directors

M J Smith
A E P Smith
J C P Smith

Secretary

K R Phillips

Directors of trading subsidiaries

M J Smith
A E P Smith
J C P Smith
C A Howes
W Lewis
N J Davis

Registered office

Haramead Business Centre
Humberstone Road
Leicester
LE1 2LH

Auditors

PricewaterhouseCoopers LLP
Donington Court
Pegasus Business Park
Castle Donington
East Midlands
DE74 2UZ

Principal Bankers

Bank of Scotland
1 Bede Island Road
Bede Island Business Park
Leicester
LE2 7EA

HSBC Bank plc
31 Granby Street
Leicester
LE1 6EP

Solicitors

Harvey Ingram LLP
20 New Walk
Leicester
LE1 6TX

Directors' report for the 52 weeks ended 30 December 2006

The dırectors have pleasure ın presentıng theır report together wıth the audıted financıal statements of the company and the group for the 52 weeks ended 30 December 2006

Busıness revıew and prıncıpal actıvıties

The prıncıpal actıvıty of the group contınues to be footwear retaılıng ın the Unıted Kıngdom and the Republıc of Ireland The company ıs the ultımate parent undertakıng of the group

On 1 January 2006 thıs company, formerly called No 588 Leıcester Lımıted (renamed Shoe Zone Group Lımıted) acquıred the entıre ıssued share capıtal of the exıstıng parent company of Shoe Zone group by way of a share for share exchange The shareholders and dırectors of the new holdıng company are the same as those of the prevıous holdıng company ımmedıately prıor to the transactıon Merger accountıng prıncıples have been used and the results for the 52-week perıod to 30 December 2006 have been presented as ıf the new Group had been establıshed throughout the current and prıor years

The company was ıncorporated on 21 September 2005 and prepares ıts accounts for the perıod from ıncorporatıon to 30 December 2006

The dırectors are delıghted to report on a successful perıod for the group wıth a profit before tax of £8m (31 December 2005 £7 7m) The group generated an encouragıng level of cash flow, maıntaınıng a strong balance sheet

A dıvıdend of 140 pence per ordınary share was paıd on the 28 November 2006 gıvıng total dıvıdends paıd of £1,231,332 (31 December 2005 £2,902,425)

The group has net assets of £23 3m at 30 December 2006 (31 December 2005 £19 1m)

The group made contınued progress durıng 2006 ın the executıon of our strategy ın what was a tougher clımate than the prevıous perıod We contınue to strengthen our posıtıon as the leadıng value footwear retaıler ın the UK and the Republıc of Ireland Durıng the perıod 11 stores were closed, 29 new stores opened and over 35 stores were refitted takıng the total number of stores to 395 at the end of 2006

Research and development

The group contınues to ınvest ın the desıgn and layout of ıts stores and seeks to ımprove systems and processes ınlıne wıth the latest technology

Future outlook

We remaın optımıstıc for the comıng year Our contınuıng abılıty to delıver hıgh volumes of qualıty shoes means that we are benefitıng from better commercıal terms than all of our maın competıtors, allowıng us to prıce competıtıvely whıle maıntaınıng our margıns Over the next year we ıntend to further strengthen our posıtıon as the leadıng value footwear retaıler and delıver further profitable growth through our exıstıng busıness and new opportunıtıes

Tradıng ın the first half of 2007 ıs ahead of the same perıod last year We are contınuıng our organıc growth strategy wıth over 25 store openıngs planned for 2007 Group profitabılıty ıs expected to ımprove as the full ımpact of new and re-fitted stores takes effect

Shoe Zone Group has been buılt on the foundatıons of strong relatıonshıps wıth our employees Our contınued success ıs thanks to the dedıcatıon, expertıse and outstandıng contrıbutıon of all our employees We wıll contınue to ınvest ın recruıtment, traınıng and development to strengthen and extend our customer servıce proposıtıon Our busıness ıs also ındebted to our strong management team and our supplıers and contractors

Directors' report for the 52 weeks ended 30 December 2006 (continued)

Financial risk management

The group's operations expose it to a variety of financial risks that include the effects of liquidity risk, foreign currency risk and interest rate risk The group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the group by monitoring the management of net cash, and the related finance income and costs As the company has both interest bearing assets and interest bearing liabilities, management maintain a close monitoring of the respective balances to ensure any interest rate risk is managed

The group does not make significant use of derivative financial instruments but does use forward currency contracts when management consider this to be appropriate External expert advice is sought on the suitability of these currency contracts in respect of the timings and rate The group has no exposure to equity securities Limited credit risk exposure exists given the high level of cash transactions through the store network Where credit risk arises management have procedures in place to assess the level of risk to be taken, with approval by the directors for significant credit transactions

Principal risks and uncertainties

The management of the business and the execution of the group's strategy are subject to a number of risks

The key business risks affecting the group are considered to relate to competition from both national and independent retailers, employee retention, and product availability

Key performance indicators ("KPIs")

Given the straightforward nature of the business, the group's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business

Employee involvement

The group places significant emphasis on its employees involvement in the business at all levels All employees are kept informed of issues affecting the group through formal and informal meetings and through the group's internal "headlines" publication Members of the management board regularly visit all group locations and discuss matters of current interest and concern with employees

Diversity and inclusion

The group recognises the importance of diversity and inclusion and has systems in place to recruit employees of different genders, ages, disabilities and ethnic origins In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the group continues and the appropriate training is arranged

Charitable and political donations

Employees raised £30,000 for The Caron Keating Foundation and £38,600 for The Meningitis Trust during 2006 The group made a charitable donation of £80,000 to The Shoe Zone Trust (31 December 2005 £70,000) During 2006 the trust allocated £97,565 to various charities including two children's educational projects in the Philippines the Meningitis Trust, Rainbows Hospice, Wishes 4 Kids, a children's home in India and disaster relief in the Philippines and India Regular updates are available via the Shoe Zone website (www shoezone net) The group made no other charitable donations during 2006 (31 December 2005 £nil) No political contributions were made during the current or previous period

Directors' report for the 52 weeks ended 30 December 2006 (continued)

Environment

The vast majority of our stores in England, Wales and Scotland have a requirement to ensure that all packaging and store waste is returned to our warehouse to be recycled and re-used

Corporate responsibility

The group is committed to responsible growth By putting customers first and through its relationship with its employees, the group has developed effective ways of making positive contributions to society and the environment

Repurchase of shares

On 29 December 2006, 33,229 preference shares in issue were re-purchased by the company for a cash consideration of £53,166 (note 17)

Directors

The directors of the company during the period through to 30 December 2006 were

M J Smith
A E P Smith
J C P Smith

Statement of directors' responsibilities

The directors are responsible for preparing the Annual 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) 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 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 UK 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 company will continue in business, in which case there should be supporting assumptions or qualifications as necessary

The directors confirm that they have complied with the above requirements in preparing the financial statements

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 the financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Statement of directors' responsibilities (continued)

The directors are responsible for the maintenance and integrity of the company's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Auditors and disclosure of information

So far as the directors are aware there is no relevant audit information (that is, information needed by the company's auditors in connection with preparing their report) of which the company's auditors are unaware

Each director has taken all the steps he ought to have taken as a director in order to make himself aware of relevant audit information and to establish that the company's auditors are aware of that information

Auditors

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the annual general meeting

By order of the board

K R Phillips
Secretary
Date 2 July 2007

Independent auditors' report to the members of Shoe Zone Group Limited

We have audited the group and parent company financial statements (the financial statements ') of Shoe Zone Group Limited for the 52 weeks ended 30 December 2006 which comprise the Consolidated Profit and Loss Account, the Consolidated Balance Sheet, the Company Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses and the related notes These financial statements have been prepared under the accounting policies set out therein

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

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 report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, 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 other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements This other information comprises only the Directors' Report We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any other information

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

Independent auditors' report to the members of Shoe Zone Group Limited (continued)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 30 December 2006 and of the group's profit and cash flows for the period then ended,
- the financial statements 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

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
East Midlands
Date 5 July 2007

Shoe Zone Group Limited

Consolidated profit and loss account for the 52 weeks ended 30 December 2006

	Notes	**52 weeks ended 30 December 2006**	52 weeks ended 31 December 2005
		£'000	£'000
Turnover	2	**127,062**	115,590
Cost of sales		**(109,020)**	(98,016)
Gross profit		**18,042**	17,574
Distribution costs		**(3,928)**	(3,619)
Administration expenses		**(7,230)**	(6,735)
Operating profit	3	**6,884**	7,220
Profit on disposal of fixed assets		**452**	217
Net interest receivable/(payable)	6	**38**	(82)
Other finance income	21	**635**	368
Profit on ordinary activities before taxation	2	**8,009**	7,723
Taxation on profit on ordinary activities	7	**(1,725)**	(265)
Profit for the financial period		**6,284**	7,458
Dividends	8	**(1,231)**	(2,902)
Retained profit for the period	18	**5,053**	4,556

All amounts relate to continuing activities

There is no difference between the profit on ordinary activities before taxation and the retained profit for the period stated above and their historical cost equivalents

Shoe Zone Group Limited

Statement of group total recognised gains and losses for the 52 weeks ended 30 December 2006

	52 weeks ended 30 December 2006	52 weeks ended 31 December 2005
	£'000	£'000
Profit for the financial period	**6,284**	7,458
Actuarial (loss)/gain on pension scheme (note 21)	**(1,221)**	848
Movement on deferred tax relating to pension scheme	**367**	(254)
Total recognised gains and losses relating to the period	**5,430**	8,052

Reconciliation of movements in group shareholders' funds for the 52 weeks ended 30 December 2006

	52 weeks ended 30 December 2006	52 weeks ended 31 December 2005
	£'000	£'000
Profit for the financial period	**6,284**	7,458
Dividends (note 8)	**(1,231)**	(2,902)
	5,053	4,556
Actuarial (loss)/gain on pension scheme (note 21)	**(1,221)**	848
Movement on deferred tax relating to pension asset	**367**	(254)
Re-purchase/redemption of shares	**-**	(58)
Preference shares transferred to debt (notes 13 and 14)	**-**	(113)
Net addition to shareholders' funds	**4,199**	4,979
Opening shareholders' funds	**19,109**	14.130
Closing shareholders' funds	**23,308**	19,109

Shoe Zone Group Limited

Consolidated balance sheet as at 30 December 2006

	Notes	30 December 2006	31 December 2005
		£'000	£'000
Fixed assets			
Tangible assets	9	15,301	13,010
		15,301	13,010
Current assets			
Properties held for re-sale	9	-	379
Stocks	11	15,755	12,153
Debtors	12	7,708	8,587
Bank and cash		4,472	4,952
		27,935	26,071
Creditors amounts falling due within one year	13	(17,045)	(17,653)
Net current assets		10,890	8,418
Total assets less current liabilities		26,191	21,428
Creditors. amounts falling due after one year	14	(92)	(133)
Provisions for liabilities and charges	15	(3,289)	(2,863)
Net assets excluding pension surplus		22,810	18,432
Pension surplus	21	498	677
Net assets including pension surplus		23,308	19,109
Capital and reserves			
Called up share capital	17	9	9
Share premium account	18	-	2,023
Capital redemption reserve	18	-	1,130
Merger reserve	18	3,153	-
Profit and loss account	18	20,146	15,947
Total shareholders' funds		23,308	19,109

The financial statements on page 8 to 38 were approved by the board of directors and signed on its behalf by

M J Smith
Director
Date 2 July 2007

Shoe Zone Group Limited

Company balance sheet as at 30 December 2006

	Notes	30 December 2006
		£'000
Fixed assets		
Investments	10	9,970
Creditors amounts falling due within one year	13	(8,769)
Total assets less current liabilities		1,201
Creditors: amounts falling due after one year	14	(37)
Net assets		1,164
Capital and reserves		
Called up share capital	17	9
Profit and loss account	18	1,155
Total shareholders' funds		1,164

The financial statements on pages 8 to 38 were approved by the board of directors and signed on its behalf by

M J Smith
Director
Date 2 July 2007

Shoe Zone Group Limited

Consolidated cash flow statement for the 52 weeks ended 30 December 2006

	52 weeks ended 30 December 2006	52 weeks ended 30 December 2006	52 weeks ended 31 December 2005	52 weeks ended 31 December 2005
	£'000	**£'000**	£'000	£'000
Net cash inflow from operating activities		**6,118**		9 050
Returns on investment and servicing of finance				
Interest received	**213**		140	
Interest paid	**(145)**		(205)	
Net cash outflow from returns on investment and servicing of finance		**68**		(65)
Taxation		**(29)**		(6)
Capital expenditure and financial investment				
Purchase of tangible fixed assets	**(4,949)**		(6,683)	
Sale of tangible fixed assets	**936**		1,330	
Net cash outflow for capital expenditure and financial investment		**(4,013)**		(5,353)
Equity dividends paid		**(1,935)**		(2,198)
Net cash inflow before financing		**209**		1,428
Financing				
Capital element of finance lease payments	**-**		(4)	
Re-purchase of preference share capital	**(53)**		(106)	
Repayment of unsecured loans	**(3,132)**		(2,641)	
Additional unsecured loans	**2,496**		2,846	
Net cash (outflow) /inflow from financing		**(689)**		95
(Decrease)/increase in net cash		**(480)**		1 523

Further analysis of the consolidated cash flow statement is included in note 22

Notes to the financial statements for the 52 weeks ended 30 December 2006

1 Accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom A summary of the more important accounting policies all of which have been applied consistently throughout the period and the preceding period, is set out below

Accounting convention

The financial statements have been prepared under the historical cost convention and in accordance with applicable Accounting Standards Where a choice of treatment is available the directors apply the most appropriate policy and estimation technique in accordance with FRS 18

Turnover

Turnover, which excludes valued added tax and sales between group companies, represents the invoiced value of goods and services supplied

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Shoe Zone Group Limited and its subsidiary undertakings all made up to 30 December 2006 During the period, the company acquired the entire share capital of Zone Group Limited (formerly Shoe Zone Group Limited) in a share for share exchange This transaction has been accounted for using merger accounting The results of the subsidiary companies are consolidated using the acquisition method of accounting

The company has taken advantage of the exemption under Section 230 of the Companies Act 1985 and has not presented its own profit and loss account

The retained profit arising in the accounts of the parent company for the period from incorporation on 21 September 2005 to 30 December 2006 was £1 2 million (52 weeks ended 31December 2005 £nil)

Tangible fixed assets

All assets are held at cost (purchase cost together with any incidental costs) or the value prevailing at the time of their acquisition

Freehold and long leasehold properties

No depreciation is provided against freehold and long leasehold land, including freehold shop properties, as it is believed that any depreciation charge and accumulated depreciation would not be material Provision is made for any diminution in value of these properties, based on the values prevailing at the time of their acquisition or subsequent valuation In addition a full annual impairment review is performed by the directors for all properties, in accordance with FRS 11

Long leasehold properties are depreciated over the period to the next rent review where the period remaining to that date is less than fifty years Depreciation is provided on a straight-line basis

Shoe Zone Group Limited

Notes to the financial statements for the 52 weeks ended 30 December 2006 (continued)

1 Accounting policies (continued)

Leasehold improvements, fixtures and fittings and motor vehicles

Leasehold improvements and fixtures and fittings are depreciated over 8 years on a straight-line basis Motor vehicles are depreciated over 3 to 5 years on a straight-line basis This fairly reflects the useful economic lives of these assets

Impairment of fixed assets

Impairment of value is recognised where the higher of the post-tax realisable value and continuing use value are less than the net book value of the asset Any impairment loss is recognised in the profit and loss account

Investments

Investments held as fixed assets are stated at cost, less any provision for impairment

Stocks

Stocks are valued at the lower of cost and net realisable value Cost is based on the cost of purchase on a first in, first out basis Net realisable value is based on estimated selling price, with a provision made for any goods selling below cost

Deferred taxation

As required by FRS 19, deferred taxation has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in the future, or a right to pay less taxation in the future Deferred tax assets are recognised to the extent that they are "more likely than not" to be recovered Deferred tax assets and liabilities recognised have not been discounted

Operating leases

Annual rentals under operating leases are charged to the profit and loss account on a straight-line basis over the term of the lease Incentives received at the inception of a lease are released on a straight-line basis to the profit and loss account over the lease term or the period to the next rent review, if shorter

Onerous leases and dilapidations

Provision is made for onerous leases to reflect the future lease costs associated with vacant properties These lease costs are provided for over the remaining lease periods or until the point the asset is expected to be utilised internally/sub-let or disposed of, if shorter

Provision is made for dilapidations on self repairing leases as they arise, based on a detailed branch by branch review This includes an assessment of the constructive obligations which exist based on a review of anticipated branch repairs

Customer returns

Provision is made for the anticipated cost of post year-end customer returns This assessment is based on recent historical trends of customer return levels

Shoe Zone Group Limited

Notes to the financial statements for the 52 weeks ended 30 December 2006 (continued)

1 Accounting policies (continued)

Pension costs

The group operates both defined benefit and defined contribution funded pension schemes The schemes are administered by trustees and are independent of the group finances

For the group's defined benefit schemes the contributions are paid in accordance with the recommendations of independent actuaries to enable the trustees to meet from the schemes the benefits accruing in respect of current and future service

Pension scheme assets are measured using market value Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability The increase in the present value of the liabilities of the group's defined benefit pension schemes expected to arise from employee service in the period is charged to operating profit The expected return on the schemes' assets and the increase during the period in the present value of the schemes' liabilities arising from the passage of time are included in other finance income Actuarial gains and losses are recognised in the consolidated statement of total recognised gains and losses

The pension schemes' surpluses to the extent that they are considered recoverable, or deficits are recognised in full and presented on the face of the balance sheet net of the related deferred tax

Contributions to the group's defined contribution pension schemes are charged to the profit and loss account in the year in which they become payable

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and all such gains and losses arising are included in the profit and loss account

As the foreign operations are closely interlinked with those in the United Kingdom all exchange gains or losses are dealt with through the profit and loss account Profit and loss account transactions are translated at the average rate of exchange prevailing during the period and the balance sheet is transacted at the period-end exchange rate Fixed assets denominated in foreign currencies are translated into sterling at the rates ruling at the date of purchase

Finance costs for non-equity shares

In accordance with Financial Reporting Standard 4, finance costs of non-equity shares, including dividends and premium on redemption, are charged in the profit and loss account as an interest expense

Notes to the financial statements for the 52 weeks ended 30 December 2006 (continued)

2 Turnover and geographical analysis

The turnover is attributable to the principal activity of the group The geographical analysis of the group s turnover (by location of customer), profit before tax and net assets is as follows

	Turnover 52 weeks ended 30 December 2006	Turnover 52 weeks ended 31 December 2005	**Profit before tax 52 weeks ended 30 December 2006**	Profit before tax 52 weeks ended 31 December 2005	**Net assets 30 December 2006**	Net assets 31 December 2005
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
United Kingdom	**115,969**	105,152	**8,097**	7,564	**21,576**	17,986
Republic of Ireland	**11,093**	10,438	**(88)**	159	**1,518**	1,123
	127,062	115,590	**8,009**	7,723	**23,094**	19 109

There are no differences between turnover by origin and by sales destination

3 Operating profit

	52 weeks ended 30 December 2006	52 weeks ended 31 December 2005
	£'000	£'000
Operating profit is stated after charging		
Depreciation on owned assets	**2,454**	1,954
Depreciation on leased assets	**7**	9
Operating lease rentals		
Plant and machinery	**506**	460
Land and buildings	**19,971**	18,013
Auditors' remuneration		
Audit services	**35**	32
Non-audit services - tax planning and compliance	**65**	30

Notes to the financial statements for the 52 weeks ended 30 December 2006 (continued)

4 Employees

The average monthly number of employees including directors, during the period was as follows

	52 weeks ended 30 December 2006	52 weeks ended 31 December 2005
	No	No
Sales and distribution	**2,851**	2,586
Administration	**112**	100
	2,963	2,686

Staff costs, including directors, consist of

	£'000	£'000
Wages and salaries	**22,416**	20,448
Social security costs	**1,475**	1,293
Pension costs (note 21)	**636**	355
	24,527	22,096

5 Directors' emoluments

	52 weeks ended 30 December 2006	52 weeks ended 31 December 2005
	£'000	£'000
Remuneration for management services	**452**	407
Contributions to defined contributions schemes	**306**	63
	758	470

The highest paid director received remuneration for management services of £199,000 (31 December 2005 £184,000) and contributions to a defined contribution scheme of £153,000 (31 December 2005 £31,000)

No directors are accruing benefits under defined benefit pension schemes (31 December 2005 none)

Notes to the financial statements for the 52 weeks ended 30 December 2006 (continued)

5 Directors' emoluments (continued)

The directors are members of the following group pension schemes

	52 weeks ended 30 December 2006	52 weeks ended 31 December 2005
	No.	No.
Defined contribution scheme	**3**	2

6 Net interest receivable/(payable)

	52 weeks ended 30 December 2006	52 weeks ended 31 December 2005
	£'000	£'000
Bank loans and overdraft	**(4)**	(15)
Other loans	**(133)**	(159)
Other interest payable	**(17)**	(18)
Preference shares dividends paid and redemption premiums	**(21)**	(30)
	(175)	(222)
Interest receivable	**213**	140
Net interest receivable/(payable)	**38**	(82)

Notes to the financial statements for the 52 weeks ended 30 December 2006 (continued)

7 Taxation

	52 weeks ended 30 December 2006	52 weeks ended 31 December 2005
	£'000	£'000
United Kingdom tax		
Corporation tax at 30% (31 December 2005 30%)	**-**	88
Adjustment to corporation tax in respect of prior periods	**3**	(47)
Double tax relief	**-**	(26)
Foreign tax		
Corporation tax	**19**	26
Adjustment to corporation taxes in respect of prior periods	**-**	-
Total current tax charge	**22**	41
UK deferred tax		
Deferred tax – current period	**2,335**	-
Deferred tax – prior period	**(921)**	-
Pension cost relief in excess of pension cost charge	**289**	224
Total deferred tax charge	**1,703**	224
Tax charge on profit on ordinary activities	**1,725**	265

Notes to the financial statements for the 52 weeks ended 30 December 2006 (continued)

7 Taxation (continued)

The tax for the period is lower than the standard rate of corporation tax in the UK (30%) The differences are explained below

	52 weeks ended 30 December 2006	52 weeks ended 31 December 2005
	£'000	£'000
Profit on ordinary activities before tax	**8,009**	7,723
Profit on ordinary activities multiplied by standard rate in the UK 30% (31 December 2005 30%)	**2,403**	2.317
Effects of		
Expenses not deductible for tax purposes	**237**	175
Accelerated capital allowances & other timing differences not recognised	**(726)**	(703)
Utilisation of losses not recognised	**(1,895)**	(1 701)
Adjustments to tax charge in respect of previous period	**3**	(47)
	22	41

8 Dividends

	52 weeks ended 30 December 2006	52 weeks ended 31 December 2005
	£'000	£'000
Equity shares		
Ordinary dividend of 140 pence per share (2005 250 pence per share) paid on 879,523 shares (A and B Ordinary)	**1,231**	2.198
Ordinary dividend of 80 pence per share approved for payment on 879,523 shares (A and B Ordinary)	**-**	704
	1,231	2.902

Notes to the financial statements for the 52 weeks ended 30 December 2006 (continued)

9 Tangible fixed assets and properties for resale

	Freehold properties	Long leasehold properties	Leasehold improve-ments	Motor vehicles	Fixtures and fittings	Total fixed assets	Properties for resale
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost							
At 1 January 2006	2,403	77	4,938	31	13,482	20,931	395
Additions	110	-	2 074	-	2 672	4 856	-
Disposals	-	-	(537)	-	(904)	(1,441)	(395)
At 30 December 2006	**2,513**	**77**	**6,475**	**31**	**15,250**	**24,346**	**-**
Depreciation							
At 1 January 2006	-	51	2,158	10	5,702	7,921	16
Charge for the period	-	7	589	6	1,859	2,461	-
Disposals	-	-	(527)	-	(810)	(1 337)	(16)
At 30 December 2006	**-**	**58**	**2,220**	**16**	**6,751**	**9,045**	**-**
Net book value							
At 30 December 2006	**2,513**	**19**	**4,255**	**15**	**8,499**	**15,301**	**-**
At 31 December 2005	2,403	26	2,780	21	7,780	13.010	379

All fixed assets are reviewed annually by the directors to ascertain the extent to which the value has become impaired The review during the current year did not result in any adjustment to the carrying value of fixed assets

The Company has no tangible fixed assets

Notes to the financial statements for the 52 weeks ended 30 December 2006 (continued)

10 Fixed asset investments - Company

	Shares in subsidiary undertakings
	£'000
Cost	
At 1 January 2006	-
Additions in the period	9,970
At 30 December 2006	**9,970**

The principal subsidiary undertakings, all of which are incorporated in the United Kingdom, are

Name of investment	Nature of business	Class of share	% owned by the Company	% owned by subsidiaries
Shoe Zone Limited	Footwear retailer	Ordinary Preference	100%	-
Shoe Zone (Ireland) Limited	Footwear retailer	Ordinary	-	100%
Zone Property Limited	Property owner/ Manager	Ordinary	100%	-

11 Stocks

	30 December 2006	31 December 2005
	Group	Group
	£'000	£'000
Goods for resale	15,639	12,027
Shop-fitting materials and other consumables	116	126
	15,755	12,153

The company has no stocks

Notes to the financial statements for the 52 weeks ended 30 December 2006 (continued)

12 Debtors

	30 December 2006		31 December 2005
	Group	Company	Group
	£'000	£'000	£'000
Trade debtors	980	-	1,173
Other debtors	154	-	108
Prepayments and accrued income	5,888	-	5,206
Deferred taxation (note 15)	686	-	2,100
	7,708	-	8,587

13 Creditors: amounts falling due within one year

	30 December 2006		31 December 2005
	Group	Company	Group
	£'000	£'000	£'000
Other loans (note 16)	3,105	-	3 741
Trade creditors	7,769	-	7,687
Amounts owing to group undertakings	-	8,746	-
Other creditors, including taxation and social security	2,460	-	2,207
Corporation tax	50	-	48
Ordinary dividends	-	-	704
Preference share capital and premium	28	-	28
Preference share redemption reserve	23	23	22
Accruals and deferred income	3,610	-	3,216
	17,045	8,769	17 653

Notes to the financial statements for the 52 weeks ended 30 December 2006 (continued)

14 Creditors: amounts falling due after more than one year

	30 December 2006		31 December 2005
	Group	Company	Group
	£'000	£'000	£'000
Preference share capital and premium	56	1	85
Preference share redemption reserve	36	36	48
	92	37	133

15 Provisions for liabilities & charges

Provisions - Group

	Property	Other	Total
	£'000	£'000	£'000
At 31 December 2005	2,600	263	2,863
Charged to profit and loss account	1,662	169	1,831
Utilised in period	(1,263)	(142)	(1,405)
At 30 December 2006	**2,999**	**290**	**3,289**

Provisions for property include

a) the directors' assessment of branch repairs required on self-repairing leases These are expected to be utilised within 3 years

b) lease incentives that represent the spreading of incentives received at the inception of leases over the respective lease terms or the period to the next rent review, if shorter The provisions will be utilised within 5 years

c) provision for onerous leases that reflect the future lease costs associated with vacant properties which are expected to be utilised within 10 years

Other provisions include

a) provisions for customer returns that represent the directors' assessment of the anticipated future costs of customer returns in the post year-end period which are expected to be utilised within one year

b) provisions for holiday pay that reflect the assessment of expected future payments to employees in respect of holiday pay accrued but not yet paid This provision will be utilised when individual employees cease employment with the group,

15 Provisions for liabilities & charges (continued)

The company has no provisions for liabilities and charges

Deferred tax - Group

	£'000
At 1 January 2006	2 100
Charged to the profit and loss account	(1,414)
At 30 December 2006	**686**

	30 December 2006	31 December 2005
	£'000	£'000
Deferred tax asset excluding that relating to pension asset (note 12)	**686**	2,100
Pension scheme asset (note 21)	**(214)**	(290)
Net deferred tax asset	**472**	1,810

The asset in respect of trading losses has been recognised as it is considered that a transfer of economic benefit is "more likely than not" The unprovided amounts, which represent a deferred tax asset, are as follows

	30 December 2006	31 December 2005
	£'000	£'000
Accelerated capital allowances	-	689
Short term timing differences	-	61
Interest losses	**834**	979
	834	1,729

There is no provided or unprovided deferred tax in the company (31 December 2005 £ nil)

Notes to the financial statements for the 52 weeks ended 30 December 2006 (continued)

16 Borrowings

Analysis of maturity of loans is as follows

	30 December 2006		31 December 2005
	Group	**Company**	Group
	£'000	**£'000**	£'000
Within one year	**3,105**	-	3,741
	3,105	-	3,741

Details of borrowings are as follows.

	30 December 2006		31 December 2005
	Group	**Company**	Group
	£'000	**£'000**	£'000
Directors loans (note 23)	**1,802**	-	2,277
Other related party loans (note 23)	**638**	-	799
Loan notes (LIBOR less 3/4%)	**665**	-	665
	3,105	-	3,741

An amount of £665,000 (31 December 2005 £665,000) included in bank and cash, is held on deposit with the guarantor of the loan notes

Notes to the financial statements for the 52 weeks ended 30 December 2006 (continued)

17 Share capital

Company and Group	30 December 2006	31 December 2005
	£'000	£'000
Authorised·		
677,053 (31 December 2005 677,053) ordinary shares of 1p each	7	7
1,437,496 (31 December 2005 1,437,496) A ordinary shares of 1p each	14	14
87,952 (31 December 2005 87,952) B ordinary shares of 1p each	1	1
797,499 (31 December 2005 797,499) preference shares of 1p each	8	8
1,315,000 (31 December 2005 1,315,000) redeemable shares of £1 each	1,315	1 315
	1,345	1,345
Allotted, called up and fully paid:		
791,571 (31 December 2005 791,571) A ordinary shares of 1p each (equity)	8	8
87,952 (31 December 2005 87,952) B ordinary shares of 1p each (non-voting)	1	1
99,687 (31 December 2005 132,916) preference shares of 1p each (non-equity)	1	1
Less Preference shares reallocated to debt under FRS 25 (note 13 and 14)	(1)	(1)
	9	9

On 29 December 2006, 33,229 preference shares with a nominal value of £332 were repurchased by the company for cash at a premium of £1 59 per share The aggregate amount paid was £53,166

The preference shares are entitled to be paid, out of the profits of the company available for dividend, a fixed preferential dividend of one half percent above Bank of Scotland base rate prevailing on the first day of the six month period in respect of which payment is made multiplied by 128 The preference shares rank for dividend in priority to any other shares or stocks of the company and dividends are payable half yearly on 30 June and 31 December in respect of the half years then ended

On a winding up or other return of capital (excluding redemption) the balance of assets is applied firstly in repaying the preference shareholders a sum of £1 60 per share with the remainder of assets being distributable amongst the A ordinary shareholders pro rata to the amounts paid up or credited as paid up

B ordinary shares rank pari-passu with the A ordinary shares but they do not carry any voting rights

Notes to the financial statements for the 52 weeks ended 30 December 2006 (continued)

17 Share capital (continued)

As a result of the group restructuring on 1 January 2006 Shoe Zone Group Limited agreed to honour the 2001 agreement that Zone Group Limited granted to the holders of the preference shares The agreement gave an option to sell in each of the six years commencing 1 July 2003 The options granted on the remaining preference shares are exercisable as follows

	Number of preference shares
30 June 2007	33,229
30 June 2008	33,229
30 June 2009	33,229

18 Reserves

	Share premium account	Merger reserve	Capital redemption reserve	Profit and loss account
Group	**£'000**	**£'000**	**£'000**	**£'000**
At 1 January 2006	2,023	-	1,130	15,947
Retained profit for the period	-	-	-	5,053
Actuarial loss on pension scheme (note 21)	-	-	-	(1,221)
Movement on deferred tax relating to pension scheme (note 21)	-	-	-	367
Merger reserve adjustments	(2,023)	3,153	(1,130)	-
At 30 December 2006	-	3,153	-	20,146

The merger reserve adjustment reflects differences arising on consolidation reflecting that the former Group parent company's non-distributable reserves are eliminated on consolidation, with these non-distributable reserves effectively becoming a merger reserve within the consolidated accounts

Notes to the financial statements for the 52 weeks ended 30 December 2006 (continued)

18 Reserves (continued)

	Profit and loss account
	£'000
Company	
At 1 January 2006	-
Retained profit for the period	1,155
At 30 December 2006	**1,155**

19 Commitments under operating leases

	Land and buildings	Land and buildings	**Other**	Other
	30 December 2006	31 December 2005	**30 December 2006**	31 December 2005
	£'000	£'000	**£'000**	£'000
Operating leases which expire				
Within one year	**840**	1,206	**30**	101
In one to five years	**5,740**	3,951	**400**	366
After five years	**14,259**	13,358	**-**	-
	20,839	18,515	**430**	467

Notes to the financial statements for the 52 weeks ended 30 December 2006 (continued)

20 Financial commitments - group

At the period end foreign exchange contracts to the value of $12,223,000 were in existence with maturity dates between 3 January 2007 and 15 October 2007 at exchange rates between 1 8610 and 1 9683 The spot rate at the period end was 1 9599

At the period end, authorised and committed capital expenditure amounted to £129,000 (31 December 2005 £63,000)

A subsidiary undertaking has given a guarantee amounting to £600,000 in favour of HM Customs and Excise (31 December 2005 £400,000)

The company has no financial commitments at 30 December 2006

21 Pension costs

The pension scheme in the UK is the Shoe Zone Pension Scheme This arrangement provided benefits on a defined benefit basis for service up to 30 September 2001 For service after that date, benefits are provided on a defined contribution basis The pension scheme in the Republic of Ireland is the Shoe Zone (Ireland) Pension Scheme The assets of all schemes are held in separate trustee administered funds The pension contributions to the UK defined contribution scheme element was £348 000 (to 31 December 2005 £327,000)

There is another UK defined contribution scheme which had contributions amounting to £241,000 (31 December 2005 £'nil)

UK defined benefit scheme (Shoe Zone Pension Scheme)

The figures below are based on a full actuarial valuation performed in April 2004 which was carried out by a qualified independent actuary This actuarial valuation has been updated to 30 December 2006 for the purposes of calculating the current period pension surplus and disclosures in the current period

Notes to the financial statements for the 52 weeks ended 30 December 2006 (continued)

21 Pension costs (continued)

Financial assumptions

	30 December 2006		31 December 2005		1 January 2005	
	£'000	**%**	£'000	%	£'000	%
Deferred pension revaluation		**3.2**		2 9		2 9
Pension increases		**3.2**		3 0		3 0
Discount rate		**5 20**		4 80		5 35
Retail Price Index		**3.2**		2 9		2 9

The assets of the scheme and expected return on assets were

	30 December 2006 £'000	%	31 December 2005 £'000	%	1 January 2005 £'000	%
Equities	**26,077**	**7 5**	25,202	7 5	22,008	7 5
Bonds	**30,137**	**5 0**	29,447	4 5	26,446	5 0
Cash	**104**	**4 0**	254	4 0	253	4 0
Fair value of scheme assets	**56,318**		54,903		48,707	
Present value of scheme liabilities	**(55,606)**		(53 936)		(49,336)	
Surplus/(deficit) in the scheme	**712**		967		(629)	
Related deferred tax (liability)/asset	**(214)**		(290)		189	
Net pension asset/(liability)	**498**		677		(440)	

The scheme is closed to the accrual of future benefits and accordingly there are no amounts charged to operating profit

Notes to the financial statements for the 52 weeks ended 30 December 2006 (continued)

21 Pension costs (continued)

	30 December 2006	31 December 2005
	£000	£000
Analysis of the amount credited to other finance income		
Expected return on pension scheme assets	**3,162**	2,952
Interest on pension scheme liabilities	**92,528)**	(2,584)
Net return	**634**	368

	30 December 2006	31 December 2005	1 January 2005
	£'000	£'000	£'000
Difference between the expected and actual return on scheme assets			
Amount	**422**	4,964	2,080
Percentage of scheme assets	**0 8%**	9 0%	4 1%
Experience gains and losses on scheme liabilities:			
Amount	**-**	-	1,813
Percentage of the present value of scheme liabilities	**-**	-	3 6%
Total amount recognised in Statement of Total Recognised Gains and Losses.			
Amount	**(1,268)**	848	1,427
Percentage of the present value of scheme liabilities	**(2.3)%**	1 6%	2 8%

Notes to the financial statements for the 52 weeks ended 30 December 2006 (continued)

21 Pension costs (continued)

	30 December 2006	31 December 2005
	£'000	£'000
Amount recognised in the Statement of Total Recognised Gains & Losses (STRGL)		
Changes in assumptions underlying the present value of the scheme liabilities	(1,690)	(4,116)
Actual return less expected return on scheme assets	422	4,964
Experience gains and losses on scheme liabilities	-	-
Actuarial (loss)/gain recognised in STRGL	(1,268)	848
Movement in surplus/(deficit) during the period		
Surplus/(deficit) at 31 December	967	(629)
Contributions	380	380
Net return	634	368
Actuarial (loss)/gain recognised in STRGL	(1,268)	848
Surplus at 30 December	713	967

Shoe Zone (Ireland) Limited Pension Scheme

Shoe Zone (Ireland) Limited operates a defined benefit scheme The assets of the scheme are held in separate trustee administered funds

The figures below are based on a full actuarial valuation performed as 1 January 2006 by a qualified independent actuary This actuarial valuation has been reassessed as at 30 December 2006 for the purposes of calculating the current year pension position and disclosures in the current period

2005 comparatives under FRS 17 have been included for information purposes only This pension scheme was not included in the 2005 consolidated accounts for Shoe Zone Group Limited as a defined benefit pension scheme on grounds of materiality and instead was treated in the prior year as a defined contribution scheme In the current period the directors consider that it is more appropriate for the scheme to be accounted for and disclosed in accordance with FRS 17 as a defined benefit pension scheme

Notes to the financial statements for the 52 weeks ended 30 December 2006 (continued)

21 Pension costs (continued)

Financial assumptions

	30 December 2006		31 December 2005		1 January 2005	
	£'000	%	£'000	%	£'000	%
Rate of increase in salaries		**4.00**		4 00		4 25
Rate of increase in pensions in payment		**0.00**		0 00		0 00
Discount rate		**4.50**		4 00		4 25
Retail Price Index		**2.25**		2 25		2 25
The assets of the scheme and expected return on assets were:						
Equities	**514**	**7.1**	440	6 6	322	6 7
Bonds	**471**	**4.1**	459	3 6	447	3 7
Other	**68**	**5 1**	54	4 6	46	4 7
Fair value of scheme assets	**1,053**		953		815	
Present value of scheme liabilities	**(1,054)**		(1,090)		(964)	
Deficit in the scheme	**(1)**		(137)		(149)	
Related deferred tax asset	-		41		45	
Net pension deficit	**(1)**		(96)		(104)	

	30 December 2006	31 December 2005
	£'000	£'000
Analysis of the amount charged to operating profit		
Current service cost	**44**	43
Death in service costs	**3**	3
Total operating charges	**47**	46

21 Pension costs (continued)

	30 December 2006	31 December 2005
	£'000	£'000
Analysis of the amount credited to other finance income		
Expected return on pension scheme assets	**48**	41
Interest on pension scheme liabilities	**(45)**	(43)
Net return/(expense)	**3**	(2)

	30 December 2006	31 December 2005
	£'000	£'000
Difference between expected and actual return on scheme assets:		
Amount	**44**	64
Percentage of scheme assets	**4.2%**	6 7%
Experience gains and losses on scheme liabilities:		
Amount	**(18)**	38
Percentage of present value of scheme liabilities	**(1.7)%**	3 5%
Total amount recognised in Statement of Total Recognised Gains and Losses:		
Amount	**157**	38
Percentage of present value of scheme liabilities	**14 9%**	3 5%

Notes to the financial statements for the 52 weeks ended 30 December 2006 (continued)

21 Pension costs (continued)

	30 December 2006	31 December 2005
	£'000	£'000
Amount recognised in the Statement of Total Recognised Gains and Losses (STRGL)		
Changes in assumptions underlying the present value of the scheme liabilities	**131**	(64)
Actual return less expected return on scheme assets	**44**	64
Experience (losses) and gains on scheme liabilities	**(18)**	38
Actuarial gain recognised in STRGL	**157**	38

	30 December 2006	31 December 2005
	£'000	£'000
Movement in pension deficit during year		
Deficit at 1 January	**(137)**	(149)
Exchange difference on opening deficit	**3**	-
Contributions	**17**	19
Net finance return/(expense)	**3**	(2)
Current service cost	**(44)**	(43)
Actuarial gain recognised in STRGL	**157**	38
Deficit at 30 December	**(1)**	(137)

22 Notes to the cash flow statement

a) Reconciliation of operating profit to net cash inflow from operating activities

	30 December 2006	31 December 2005
	£'000	£'000
Operating profit	6,884	7,220
Depreciation charges	2,461	1,963
Cash contribution to defined benefit schemes	(322)	(380)
Movement in provisions	426	503
(Increase)/decrease in stocks	(3,602)	636
(Increase)/decrease in debtors	(403)	34
Increase/(decrease) in creditors	674	(926)
Net cash inflow from operating activities	6,118	9,050

b) Analysis of net cash

	At 31 December 2005	Cash flow	At 30 December 2006
	£'000	£'000	£'000
Cash at bank and in hand and bank overdrafts	4,287	(480)	3,807
Other liquid resources	665	-	665
	4,952	(480)	4,472
Debt due after one year	-	-	-
Debt due within one year	(3,741)	636	(3,105)
Preference shares	(113)	54	(59)
	1,098	210	1,308

Notes to the financial statements for the 52 weeks ended 30 December 2006 (continued)

22 Notes to the cash flow statement (continued)

Liquid resources comprise an amount of £665,000 (31 December 2005 £665,000) included on the balance sheet as within bank and cash This balance is held on deposit with the guarantor of the loan notes and as such there are restrictions over the use of these funds

c) Reconciliation of net cash flow to movement in net debt

	30 December 2006	31 December 2005
	£'000	£'000
(Decrease)/increase in cash in the period	(480)	1 523
Cash outflow/(inflow) from movement in debt and lease financing	690	(314)
Change in debt arising from cash flows	210	1,209
Opening net cash/(debt) at 31 December 2005	1,098	(111)
Closing net cash at 30 December 2006	1,308	1,098

23 Related party transactions

During the period, Shoe Zone Limited, a wholly owned subsidiary of the company paid interest to the directors and other related parties of £103,000 (31 December 2005 £129,000) at commercially appropriate interest rates on unsecured loans made by these parties (note 16)

During the period rent was payable at appropriate commercial rates from a subsidiary company on two properties to the wives of certain directors of £26,000 (to 31 December 2005 £31,000)

Details of transactions relating to the repurchase of the share capital of the company are provided in note 17

The company has taken advantage of the exemption available under Financial Reporting Standard 8 not to disclose transactions with entities that are wholly owned subsidiaries of the group