

Registration number: 03062442

Fossil (UK) Limited

Annual Report and Financial Statements

for the Period from 31 December 2017 to 29 December 2018



Fossil (UK) Limited
Registration number: 03062442
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Fossil (UK) Limited

Registration number: 03062442

Company Information

Directors

R Collins

C Matt (resigned 29 January 2019)

A Nigro

A Panter (appointed 29 August 2019)

Company secretary

D McAllister (resigned 16 July 2019)

D Richardson (appointed 16 July 2019)

Registered office

Featherstone House

Featherstone Road

Wolverton Mill

Milton Keynes

Bucks

MK12 5TH

Auditor

Deloitte LLP

Statutory Auditor

St Albans

United Kingdom

Fossil (UK) Limited

Registration number: 03062442

Strategic Report for the Period from 31 December 2017 to 29 December 2018

The directors present their strategic report for the period from 31 December 2017 to 29 December 2018.

Principal activity

The principal activity of Fossil (UK) Limited ("the Company") is the wholesale distribution of fashion accessories in the UK and Ireland and the retailing of those accessories in concessions, online and owned boutiques.

The Company is a wholly owned subsidiary of Fossil (UK) Holdings Limited and operates as part of Fossil Group Inc. (the Company's ultimate parent company) retail and distribution network.

Fair review of the business

During the period, the Company made a profit for the financial period of £3.2m (2017: £2.6m) which includes the impact of reversing £1.0m of impairment charges which had been over-recognised in error in previous periods. The directors have considered the impact of this error and concluded that it is not material to the financial statements and have therefore corrected this error in the current year. If it had been corrected retrospectively it would have increased profit before tax in the year to 30 December 2017 by £0.3m and increased retained earnings at 31 December 2016 by £0.7m.

The amount also appears as a 'Correction of prior period impairment error' in the PPE table in Note 12.

The results of the Company for the period are set out in the Statement of Comprehensive Income on page 10. Total assets were £35m (2017: £66.5m) with cash £3.6m (2017: £23.2m). Liabilities were £13.3m (2017: £47.6m).

Markets and customer behaviour is changing, and along with increasing competition and complexity in the market that can have an effect on revenue and profit. As a result of these changes during the period we closed one store as well as our House of Fraser concessions business in October 2018.

The Company's products continue to be in demand and the directors anticipate that this trend will continue for the foreseeable future. The Company will continue with its globalisation process to bring consistency and automation to processes which will control overheads. Over recent years we've centralised processes within our Shared Service Centre in Germany, such as Accounts Payable, Banking, Credit Control and Stores Administration. This has allowed us to standardise processes as well as investing in technology (for example AP Automation, Auto-Bank, RPA) which increases efficiency and reduces overheads in terms of staff levels. The directors consider the position of the Company to be satisfactory at the period end.

During the year, further work has been performed to assess the expected level of markdown allowances which are, in certain circumstances, agreed with wholesale customers subsequent to the point in time when the revenue is recognized. As a result, management have refined the current revenue recognition policy to reflect an estimate of the expected markdown when the revenue is recognized. Further details are included in the accounting policy note on page 14. The impact in 2018 is a reduction in revenue by £0.6m. In addition, management has refined its accounting policy relating to marketing cost recharged by the cooperative stores. As the marketing cost is not separable from sales, it is considered appropriate to treat the current year cost of £1.8m as a reduction to turnover. The prior year comparatives have not been restated as the Directors are satisfied that the equivalent adjustment (£2.1m reduction to administrative expenses and turnover) is not material to the financial statements including no impact on key metrics including operative profit, profit before tax or net assets.

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Strategic Report for the Period from 31 December 2017 to 29 December 2018 (continued)

Key performance indicators

Fossil Group Inc. manages its operations on a divisional basis. For this reason the directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the international divisions of Fossil Group Inc., which includes the Company, is discussed in the group's Annual Report, which does not form part of this report.

Principal risks and uncertainties

Competitive pressure in the UK is a continuing risk for the Company as well as continuing uncertainty around the Brexit process affecting consumer confidence. The Company manages this risk by providing a wide portfolio of products, added value services to its customers, having fast response times not only in supply of goods but in handling all customer queries and by maintaining close relationships with customers.

As the wearable technology industry expands we face competition from technology brands, as well as from established traditional watch manufacturers that have launched wearable technology products. However we believe our design, branding, significant scale and distribution are strong competitive advantages. Our ability to identify and respond to changing fashion trends and consumer preferences, to maintain existing relationships and develop new relationships, to deliver quality merchandise in a timely manner, to manage the retail sales process, and to continue to integrate technology into our business model are important factors in our ability to compete.

The Company does not use derivative financial instruments for speculative purposes.

Cash flow risk

The Company's sales in Ireland are made in Euros and it is therefore exposed to the movement in the Euro to British Pound exchange rate. The levels of risk associated with these sales in Euros are not material. The Company purchases all of its inventory needs from FGE (Fossil Group Europe) in sterling and is not exposed to exchange rate movements.

Credit risk

The Company's principal financial assets are bank balances and cash and debtors. Since the Company became a limited risk distributor, its credit risk is borne by FGE.

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Company uses short-term debt finance funded by a European group cash pool.

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Strategic Report for the Period from 31 December 2017 to 29 December 2018 (continued)

Future developments

The future developments of the Company are in line with the Fossil Group Inc. global strategy as a whole and details can be found on the Fossil Group Inc. website (www.fossilgroup.com). The directors expect the Company to continue with a consistent and stable performance for the foreseeable future.

Approved by the Board on 26/11/2019, and signed on its behalf by:

A handwritten signature in black ink, appearing to be 'R Collins', written over a dotted line.

R Collins
Director

Fossil (UK) Limited

Registration number: 03062442

Directors' Report for the Period from 31 December 2017 to 29 December 2018

The directors present their report and the audited financial statements for the period from 31 December 2017 to 29 December 2018.

Future developments

Details of future developments can be found in the Strategic Report on page 3 and form part of this report by cross-reference.

Results and Dividends

The profit for the period, after taxation, is £3.2m compared with the 2017 profit of £2.6m. There was an interim dividend of £nil (2017: £16m) during the period. The directors recommend a final dividend payment of £Nil (2017: £Nil) in respect of the financial period ended 29 December 2018.

Directors of the Company

The directors who held office during the period and to the date of this report were as follows:

R Collins

C Matt (resigned 29 January 2019)

A Nigro

A Panter (appointed 29 August 2019)

Charitable and Political donations

During the period the Company made charitable donations of £1k (2017: £1k), principally to local charities serving the communities in which the Company operates.

Employment of disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Climate change

Climate change is not seen as a principal risk to the business, although the Company recognises that all individuals and organisations have a role to play in addressing this important issue. Over recent years we have taken such steps as reduce the number and frequency of business trips including flights, instead investing in video technology for meetings and conferencing. We've also recently initiated a working from home policy, thereby reducing commuting and in turn carbon emissions.

Going Concern

The Company has a well-established position in the market place backed by a considerable portfolio of recognised and diversified brands.

The Company has obtained support from Fossil Group Inc. confirming that they will guarantee that Fossil (UK) Limited will be able to meet all obligations as they fall due for at least 12 months from the date of signing these financial statements.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue to adopt the going concern basis in preparing the financial statements.

Fossil (UK) Limited

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Directors' Report for the Period from 31 December 2017 to 29 December 2018 (continued)

Employee Consultation

The Company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting the performance of Fossil Group Inc., FGE and the Company. This is achieved through formal and informal meetings and the intranet. Employee representatives are consulted regularly on a range of matters affecting their current and future interests. This framework of employee information and consultation complies with the requirements of the Information and Consultation of Employees Regulations 2004.

Details of the number of employees and related costs can be found at note 7 on the financial statements.

Matters covered in the strategic report

The Company has chosen in accordance with Companies Act 2006, s414C (11) to set out in the Company's strategic report information required by Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and reports) Regulations 2008 certain matters which are required to be disclosed in the directors' report have been omitted as they are included in the strategic report on pages 2 and 3. These matters relate to the principal activity, fair review of the Company's business, key performance indicators and principal risks and uncertainties.

Disclosure of information to the auditor

Each of the persons who is a director at the date of approval of this report confirms that:

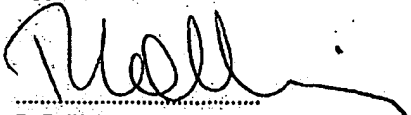
- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Reappointment of auditor

Deloitte LLP have expressed their willingness to continue in office as an auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board on 26/11/2019 and signed on its behalf by:


.....
R Collins
Director

Fossil (UK) Limited

Registration number: 03062442

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), including FRS 102 "the Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they 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 apply them consistently;
- make judgements and accounting 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 adequate accounting records that are sufficient to show and explain the Company's transactions and 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 2006. 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.

Fossil (UK) Limited

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Independent auditor's report to the members of Fossil (UK) Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements Fossil (UK) Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 29 December 2018 and of its profit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the related notes 1 to 27.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Fossil (UK) Limited

Registration number: 03062442

Independent auditor's report to the members of Fossil (UK) Limited (continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Fossil (UK) Limited

Registration number: 03062442

Independent auditor's report to the members of Fossil (UK) Limited (continued)

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit

- the information given in the strategic report and the directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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.

Kate Waite

.....
Kate Waite FCA (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

St Albans

United Kingdom

26 November 2019

Date:

Fossil (UK) Limited

Registration number: 03062442

Statement of Comprehensive Income for the Period from 31 December 2017 to 29 December 2018

	Note	31 December 2017 to 29 December 2018 £ 000	1 January 2017 to 30 December 2017 £ 000
Turnover	3	91,419	115,237
Cost of sales		<u>(53,204)</u>	<u>(71,096)</u>
Gross profit		38,215	44,141
Distribution costs		<u>(3,190)</u>	<u>(5,005)</u>
Administrative expenses		<u>(30,973)</u>	<u>(35,736)</u>
Operating profit		<u>4,052</u>	<u>3,400</u>
Other interest receivable and similar income	5	24	27
Interest payable and similar charges	6	<u>(4)</u>	<u>(2)</u>
		<u>20</u>	<u>25</u>
Profit before tax	4	4,072	3,425
Taxation	10	<u>(895)</u>	<u>(787)</u>
Profit for the financial period		<u>3,177</u>	<u>2,638</u>

The above results were derived from continuing operations.

Accordingly, no separate statement of other comprehensive income has been presented.

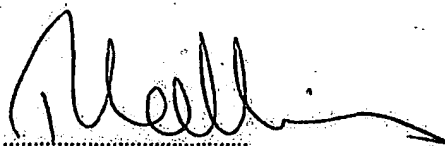
Fossil (UK) Limited

Registration number: 03062442

Statement of Financial Position as at 29 December 2018

	Note	29 December 2018 £ 000	30 December 2017 £ 000
Fixed assets			
Intangible assets	11	5	33
Tangible assets	12	<u>5,044</u>	<u>6,606</u>
		5,049	6,639
Current assets			
Stocks	13	6,952	9,539
Debtors	14	19,403	27,153
Cash at bank and in hand		<u>3,611</u>	<u>23,183</u>
		29,966	59,875
Creditors: Amounts falling due within one year	15	<u>(13,259)</u>	<u>(47,649)</u>
Net current assets		<u>16,707</u>	<u>12,226</u>
Total assets less current liabilities		<u>21,756</u>	<u>18,865</u>
Creditors: Amounts falling due after more than one year	15	(490)	(812)
Net assets		<u>21,266</u>	<u>18,053</u>
Capital and reserves			
Share capital	19	50	50
Profit and loss account	20	<u>21,216</u>	<u>18,003</u>
Total equity		<u>21,266</u>	<u>18,053</u>

Approved and authorised by the Board on 26/11/2019 and signed on its behalf by:



R Collins
Director

Fossil (UK) Limited

Registration number: 03062442

Statement of Changes in Equity for the Period from 31 December 2017 to 29 December 2018

	Note	Share capital £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2017		50	31,339	31,389
Profit for the period		-	2,638	2,638
Total comprehensive income		-	2,638	2,638
Dividends paid	23	-	(15,988)	(15,988)
Share based payment transactions	22	-	14	14
At 30 December 2017		50	18,003	18,053
		Share capital £ 000	Retained earnings £ 000	Total £ 000
At 31 December 2017		50	18,003	18,053
Profit for the period		-	3,177	3,177
Total comprehensive income		-	3,177	3,177
Share based payment transactions	22	-	36	36
At 29 December 2018		50	21,216	21,266

The notes on pages 14 to 31 form an integral part of these financial statements.

Fossil (UK) Limited

Notes to the Financial Statements for the Period from 31 December 2017 to 29 December 2018

1 General information

The Company is a private company limited by share capital incorporated in the United Kingdom under the Companies Act 2006 and registered in England and Wales, United Kingdom.

The address of its registered office is:

Featherstone House
Featherstone Road
Wolverton Mill
Milton Keynes
Buckinghamshire
MK12 5TH

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Statement of compliance

These financial statements were prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 4 'Statement of Financial Position' to present a reconciliation of the number of shares outstanding at the beginning and at the end of the period;
- the requirements of Section 7 'Statement of Cash Flows' and Section 3 'Financial Statement Presentation' to present a cash flow and related notes;
- the disclosure requirements of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues'; and
- the requirement of Section 33 'Related Party Disclosures' Paragraph to disclose the total remuneration of key management personnel.

For the disclosure exemption in Section 11 and Section 12, the equivalent disclosures are included in the consolidated financial statements of Fossil Group Inc. and these financial statements may be obtained from 901 S. Central Expressway, Richardson, Texas 75080, USA.

Fossil (UK) Limited

Notes to the Financial Statements for the Period from 31 December 2017 to 29 December 2018

2 Accounting Policies (continued)

Basis of preparation

These financial statements have been prepared using the historical cost convention.

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies.

The functional currency of the Company is considered to be pounds sterling because that is the currency of the primary economic environment in which it operates. Foreign operations are included in accordance with the policies set out below.

Going concern

The Company has a well-established position in the marketplace backed by a considerable portfolio of recognised and diversified brands. The Company's activities are described above. Despite the current uncertain macro-economic conditions, the directors believe that the Company is well positioned to manage and control the business risks which it faces. The Company trades on an LRD (Limited Risk Distributor) concept and therefore has a stable income stream due to the guaranteed margin from Fossil Group Europe GmbH (FGE). The Company manages its liquidity needs through a bank pooling facility.

Fossil (UK) Limited has obtained support from Fossil Group Inc. confirming that they will guarantee that Fossil (UK) Limited will be able to meet all obligations as they fall due for at least 12 months from the date of signing these financial statements.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Revenue recognition

Wholesale income

The Company operates in the wholesale market with independent customers of all size, and sales of goods are recognized according to the trading terms (Incoterms included) agreed with each of them. In general, and even when these conditions are not standard, Fossil applies the CIP Incoterm as much as possible, meaning that Fossil bears the costs of delivery, and transfer of risks takes place when goods are handed over to carrier and Fossil has obligation to insure goods in case of transportation. Customers have the right of return of goods as per terms and conditions and markdowns can be offered to allow customers to lower the price of old or stale stock to increase inventory turnover and make space for new products. These costs are offset against revenue.

Sale of goods – retail

The Company operates retail shops for the sale of a range of own branded and licenced products. Sales of goods are recognised on sale to the customer, which is considered the point of delivery. Retail sales are usually by cash, credit or payment card. Sales are made to retail customers with a right to return within 28 days, subject to certain conditions regarding the usage. Accumulated experience is used to estimate and provide for such returns at the time of sale.

Fossil (UK) Limited

Notes to the Financial Statements for the Period from 31 December 2017 to 29 December 2018

2 Accounting Policies (continued)

Sale of goods – concessions

The Company has an arrangement whereby it operates concessions in a number of 3rd party stores including House of Fraser where it sells a range of branded and own branded products. The Company pays a fixed percentage commission based on the concessions revenue.

Refinement of revenue accounting policy

During the year, the entity has refined its accounting policy relating to marketing cost recharged by the cooperative stores and markdown allowances. The impact of this is detailed on page 2 of the financial statements.

Finance income and costs policy

Interest income is recognised in the statement of comprehensive income using the effective interest method.

Foreign currency transactions and balances

The Company's functional and presentational currency is GBP.

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash equivalents are presented in the statement of comprehensive income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the statement of comprehensive income within 'other operating income'.

Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates taxable income.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the Company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

Fossil (UK) Limited

Notes to the Financial Statements for the Period from 31 December 2017 to 29 December 2018

2 Accounting Policies (continued)

Tangible assets

Tangible assets are stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of tangible assets includes directly attributable incremental costs incurred in their acquisition and installation.

Depreciation

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives, as follows:

Asset class	Depreciation method and rate
Freehold buildings	30 years
Short leasehold property	over the life of the lease
Leasehold property & improvements	over the life of the lease
Equipment	3-5 years straight line

Impairment of fixed assets

Where an indication of impairment exists the directors will carry out an impairment review to determine the recoverable amount, which is the higher of fair value less costs to sell and value in use. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the asset or the cash generating unit and a suitable discount rate in order to calculate present value.

Intangible assets

Computer software is included at cost, net of amortisation and any provision for impairment. Amortisation is calculated so as to write off the cost of the assets, less its estimated residual value, over the useful economic life.

Amortisation

Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, over their useful life as follows:

Asset class	Amortisation method and rate
Computer software	3 years straight line

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Fossil (UK) Limited

Notes to the Financial Statements for the Period from 31 December 2017 to 29 December 2018

2 Accounting Policies (continued)

Trade debtors

Trade debtors are amounts due from customers for merchandise sold or services performed in the ordinary course of business.

Trade debtors are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade debtors is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the debts.

Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is determined using the first-in, first-out (FIFO) method.

Trade creditors

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if the Company does not have an unconditional right, at the end of the reporting period, to defer settlement of the creditor for at least twelve months after the reporting date. If there is an unconditional right to defer settlement for at least twelve months after the reporting date, they are presented as non-current liabilities.

Trade creditors are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Provisions

Provisions are recognised when the Company has an obligation at the reporting date as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Defined contribution pension obligation

A defined contribution plan is a pension plan under which fixed contributions are paid into a pension fund and the Company has no legal or constructive obligation to pay further contributions even if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Contributions to defined contribution plans are recognised as employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as a prepayment.

Fossil (UK) Limited

Notes to the Financial Statements for the Period from 31 December 2017 to 29 December 2018

2 Accounting Policies (continued)

Share based payments

The Company has applied the requirements of section 26 'Share-based payment' in these financial statements.

The Company's ultimate parent company issues equity-settled share-based payments to certain of the Company's employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on the Company's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Fair value is measured by use of the Black Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Financial instruments

Classification

The Company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Recognition and measurement

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade payables or receivables, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration, expected to be paid or received. However if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Impairment

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the income statement.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate, which is an approximation of the amount that the Company would receive for the asset if it were to be sold at the reporting date.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Fossil (UK) Limited

Notes to the Financial Statements for the Period from 31 December 2017 to 29 December 2018

2 Accounting Policies (continued)

Judgements in applying accounting policies and key sources of estimation uncertainty

In applying the Company's accounting policies, the directors are required to make judgements, estimates and assumptions in determining the carrying amounts of assets and liabilities. The directors' judgements, estimates and assumptions are based on the best and most reliable evidence available at the time when the decisions are made, and are based on historical experience and other factors that are considered to be applicable. Due to the inherent subjectivity involved in making such judgements, estimates and assumptions, the actual results and outcomes may differ.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised, if the revision affects only that year, or in the year of the revision and future years, if the revision affects both current and future years.

Critical judgements in applying the Company's accounting policies

The critical judgements that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the statutory financial statements are discussed below.

Impairment of fixed assets

Where an indication of impairment exists the directors will carry out an impairment review to determine the recoverable amount, which is the higher of fair value less costs to sell and value in use. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the asset or the cash generating unit and a suitable discount rate in order to calculate present value.

Key sources of estimation uncertainty

There are no material key sources of estimation uncertainty.

Fossil (UK) Limited

Notes to the Financial Statements for the Period from 31 December 2017 to 29 December 2018

3 Revenue

The entity has refined its accounting policy relating to marketing cost recharged by the cooperative stores and markdown allowances. The impact of these are disclosed on page 2 of the financial statements.

Revenue is derived from sales of goods. The analysis of the Company's turnover for the period by class of business is as follows:

	31 December 2017 to 29 December 2018 £ 000	1 January 2017 to 30 December 2017 £ 000
Wholesale	46,645	62,914
Retail	33,360	36,270
Concession & e-Commerce	11,414	16,053
	<u>91,419</u>	<u>115,237</u>

The analysis of the Company's turnover for the period by market is as follows:

	31 December 2017 to 29 December 2018 £ 000	1 January 2017 to 30 December 2017 £ 000
UK	84,727	107,920
Ireland	6,692	7,317
	<u>91,419</u>	<u>115,237</u>

4 Profit before tax

Arrived at after charging / (crediting)

	31 December 2017 to 29 December 2018 £ 000	1 January 2017 to 30 December 2017 £ 000
Note		
Depreciation expense	1,417	2,423
Amortisation expense	28	31
Foreign exchange losses / (gains)	34	(43)
Operating lease expense - other	7,527	7,904
Correction of prior period impairment error	12 (1,000)	-
Impairment	572	686
Loss on disposal of property, plant and equipment	214	120

Fossil (UK) Limited

Notes to the Financial Statements for the Period from 31 December 2017 to 29 December 2018

5 Other interest receivable and similar income

	31 December 2017 to 29 December 2018 £ 000	1 January 2017 to 30 December 2017 £ 000
Interest income on financial assets	<u>24</u>	<u>27</u>

6 Interest payable and similar charges

	31 December 2017 to 29 December 2018 £ 000	1 January 2017 to 30 December 2017 £ 000
Interest on bank overdrafts and borrowings	<u>4</u>	<u>2</u>

7 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	31 December 2017 to 29 December 2018 £ 000	1 January 2017 to 30 December 2017 £ 000
Wages and salaries	10,524	12,283
Social security costs	863	969
Pension costs, defined contribution scheme	<u>209</u>	<u>228</u>
	<u>11,596</u>	<u>13,480</u>

The average number of persons employed by the Company (including directors) during the period, analysed by category was as follows:

	31 December 2017 to 29 December 2018 No.	1 January 2017 to 30 December 2017 No.
Administration and support	101	113
Sales	524	659
Managing Director	<u>1</u>	<u>1</u>
	<u>626</u>	<u>773</u>

Fossil (UK) Limited

Notes to the Financial Statements for the Period from 31 December 2017 to 29 December 2018

8 Directors' remuneration

The directors' remuneration for the period was as follows:

	31 December 2017 to 29 December 2018 £ 000	1 January 2017 to 30 December 2017 £ 000
Emoluments	199	190
Company contributions to money purchase pension scheme	14	14

During the period the number of directors who were receiving benefits and share incentives was as follows:

	31 December 2017 to 29 December 2018 No.	1 January 2017 to 30 December 2017 No.
Accruing benefits under money purchase pension scheme	1	1

9 Auditor's remuneration

The analysis of the auditor's remuneration is as follows:

	31 December 2017 to 29 December 2018 £ 000	1 January 2017 to 30 December 2017 £ 000
Fees payable to the company's auditor and its associates for the audit of the annual accounts of Fossil (UK) Limited	124	130
Fees payable to the company's auditor and its associates for the audit of the annual accounts of Fossil (UK) Holdings Limited	10	10
Total audit fees	134	140
Taxation compliance services for Fossil (UK) Limited	12	27
Taxation compliance services for Fossil (UK) Holdings Limited	2	3
Tax services	14	30

No services were provided pursuant to contingent fee arrangements

Fossil (UK) Limited

Notes to the Financial Statements for the Period from 31 December 2017 to 29 December 2018

10 Taxation

Tax charged in the income statement

	31 December 2017 to 29 December 2018 £ 000	1 January 2017 to 30 December 2017 £ 000
Current taxation		
UK corporation tax	879	1,193
UK corporation tax adjustment to prior periods	75	(144)
	<u>954</u>	<u>1,049</u>
Deferred taxation		
Arising from origination and reversal of timing differences	(59)	(262)
Tax expense in the income statement	<u>895</u>	<u>787</u>

The differences between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	31 December 2017 to 29 December 2018 £ 000	1 January 2017 to 30 December 2017 £ 000
Profit before tax	<u>4,072</u>	<u>3,425</u>
Corporation tax at standard rate 19% (2017: 19.25%)	774	659
Effect of expense not deductible in determining taxable profit	28	1
Income not taxable for tax purposes	(190)	-
Adjustments to tax charge in respect of previous periods	75	(144)
Transfer pricing adjustments	12	-
Adjust closing deferred tax to average rate of 19.00%	91	-
Adjust opening deferred tax to average rate of 19.00%	(85)	-
Deferred tax not recognised	(15)	-
Fixed asset differences	205	496
Tax increase from other short-term timing differences	-	34
Deferred taxation (decrease)	-	(262)
Tax increase from effect of exercise of employee share options	-	3
Total tax charge	<u>895</u>	<u>787</u>

The reduction in the UK corporation tax rate from 20% to 19% (effective 1 April 2017) and to 18% (effective 1 April 2020), were substantively enacted on 26 October 2015 and a further reduction to 17% was substantively enacted on 6 September 2016. The current tax rate used in the period ended 29 December 2018 is therefore 19% and the rate used for closing deferred tax balances is 17.00%.

Fossil (UK) Limited

Notes to the Financial Statements for the Period from 31 December 2017 to 29 December 2018

11 Intangible assets

	£ 000
Cost	
At 30 December 2017	374
Disposals	<u>(65)</u>
At 29 December 2018	<u>309</u>
Amortisation	
At 30 December 2017	341
Amortisation charge	28
Disposals	<u>(65)</u>
At 29 December 2018	<u>304</u>
Carrying amount	
At 29 December 2018	<u>5</u>
At 30 December 2017	<u>33</u>

The amortisation charge is accounted for in administrative expenses.

Fossil (UK) Limited

Notes to the Financial Statements for the Period from 31 December 2017 to 29 December 2018

12 Tangible assets

	Freehold Land and Buildings £000	Short Leaschold Property £000	Leaschold Improvements £000	Equipment £000	Total £ 000
Cost					
At 31 December 2017	4,124	885	3,532	8,172	16,713
Impairment	-	(705)	(1,189)	(435)	(2,329)
Correction of prior period impairment error	-	(180)	1,770	952	2,542
Additions	-	-	11	46	57
Disposals	-	-	-	(3,106)	(3,106)
At 29 December 2018	<u>4,124</u>	<u>-</u>	<u>4,124</u>	<u>5,629</u>	<u>13,877</u>
Depreciation					
At 31 December 2017	1,321	686	2,064	6,036	10,107
Charge for the period	115	15	437	850	1,417
Impairment	-	(535)	(890)	(332)	(1,757)
Correction of prior period impairment error	-	(166)	800	908	1,542
Disposals	-	-	-	(2,476)	(2,476)
At 29 December 2018	<u>1,436</u>	<u>-</u>	<u>2,411</u>	<u>4,986</u>	<u>8,833</u>
Carrying amount					
At 29 December 2018	<u>2,688</u>	<u>-</u>	<u>1,713</u>	<u>643</u>	<u>5,044</u>
At 31 December 2017	<u>2,803</u>	<u>199</u>	<u>1,468</u>	<u>2,136</u>	<u>6,606</u>

The current year results include the reversal of impairment charges totaling £1.0m which had been over-recognised in error in previous periods. The directors have considered the impact of this error and concluded that it is not material to the financial statements and have therefore corrected this error in the current year. If it had been corrected retrospectively it would have increased profit before tax in the year to 30 December 2017 by £0.3m and increased retained earnings at 31 December 2016 by £0.7m.

Impairment adjustments for the period relate to a review of the ongoing profitability of a number of retail stores and the likelihood of future cash flow being able to cover the related assets and liabilities of these individual stores. Where these are deemed to be insufficient, a charge is booked to the statement of comprehensive income. The impairment charges for the period were included in the statement of comprehensive income within administrative expenses.

13 Stocks

	29 December 2018 £ 000	30 December 2017 £ 000
Finished goods and goods for resale	<u>6,952</u>	<u>9,539</u>

The amount expensed to cost of sales relating to inventory in 2018 was £51.4m (2017: £69m) which includes wholesale & e-commerce channels of £29.4m (2017: £46m) for which Fossil UK does not hold inventory.

Fossil (UK) Limited

Notes to the Financial Statements for the Period from 31 December 2017 to 29 December 2018

14 Debtors

	Note	29 December 2018 £ 000	30 December 2017 £ 000
Current assets			
Trade debtors		15,802	24,308
Amounts owed by other group companies	24	1,880	650
Other debtors		-	369
Returns Provision	16	(624)	(897)
Prepayments		1,585	2,022
Deferred tax assets		760	701
Total current trade and other debtors		<u>19,403</u>	<u>27,153</u>

The amounts owed by related parties are interest free, unsecured and repayable on demand.

15 Creditors

	Note	29 December 2018 £ 000	30 December 2017 £ 000
Due within one year			
Trade creditors		107	396
Amounts due to related parties	24	4,283	34,697
Other payables		305	-
Social security and other taxes		3,616	5,996
Accrued expenses		4,948	6,560
		<u>13,259</u>	<u>47,649</u>
Amounts falling due after more than one year			
Deferred rent		<u>490</u>	<u>812</u>

The amounts due to related parties are interest free, unsecured and repayable on demand.

16 Provisions

	Other provisions £ 000	Total £ 000
At 31 December 2017	897	897
Charge for the period	<u>(273)</u>	<u>(273)</u>
At 29 December 2018	<u>624</u>	<u>624</u>

The Company allows customers to return purchases under certain circumstances. Provision is made for the estimated cost of the returns which is £624,000 (2017: £897,000) at the period end.

Fossil (UK) Limited

Notes to the Financial Statements for the Period from 31 December 2017 to 29 December 2018

17 Deferred Tax

Deferred tax assets and liabilities are offset only where the Group has a legally enforceable right to do so and where the assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity or another entity within the Group.

	Fixed asset timing differences £ 000	Short term timing differences £ 000	Total £ 000
Deferred tax assets			
At 31 December 2016	(439)	-	(439)
Credit to profit or loss	(262)	-	(262)
At 30 December 2017	<u>(701)</u>	<u>-</u>	<u>(701)</u>
Credit to profit or loss	<u>19</u>	<u>(78)</u>	<u>(59)</u>
At 29 December 2018	<u>(682)</u>	<u>(78)</u>	<u>(760)</u>

18 Pension scheme

Defined contribution pension scheme

The Company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the Company to the scheme and amounted to £209,000 (2017: £228,000).

19 Share capital

Allotted, called up and fully paid shares

	29 December 2018		30 December 2017	
	No. 000	£ 000	No. 000	£ 000
Ordinary of £1 each	<u>50</u>	<u>50</u>	<u>50</u>	<u>50</u>

20 Reserves

Retained earnings

This reserve represents cumulative profits and losses of £21,216,000 (2017: £18,003,000) net of dividends paid.

Fossil (UK) Limited

Notes to the Financial Statements for the Period from 31 December 2017 to 29 December 2018

21 Obligations under leases and hire purchase contracts

Operating leases - lessee

The total future minimum lease payments under non-cancellable operating leases are as follows:

	2018 £ 000	2017 £ 000
Property leases		
Within one year	6,741	6,757
Between one and five years	14,813	19,220
After five years	1,179	1,973
Total	<u>22,733</u>	<u>27,950</u>
Vehicle leases		
Within one year	136	145
Between one and five years	101	54
After five years	-	-
Total	<u>237</u>	<u>199</u>
Equipment leases		
Within one year	33	34
Between one and five years	46	11
After five years	-	-
Total	<u>79</u>	<u>45</u>
Total		
Within one year	6,910	6,936
Between one and five years	14,960	19,285
After five years	1,179	1,973
Total	<u>23,049</u>	<u>28,194</u>

22 Share-based payments

The group recognised total expense of £35,670, (2017: £13,759) related to equity-settled share-based payment transactions. No further disclosure is made as the directors do not consider the amounts to be material.

23 Dividends on equity shares

Amounts recognised as distributions to equity holders in the period:

	2018 £ 000	2017 £ 000
Interim dividend for the period ended 29 December 2018 of £nil (2017: £319.77) per ordinary share	-	15,988
	<u>-</u>	<u>15,988</u>

Fossil (UK) Limited

Notes to the Financial Statements for the Period from 31 December 2017 to 29 December 2018

24 Related party transactions

Debtors

Fellow subsidiaries	1,880	650
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Creditors

Fellow subsidiaries	2,228	(28,186)
Holdings company	(6,511)	(6,511)
	<u>(4,283)</u>	<u>(34,697)</u>

The ultimate controlling parent undertaking is Fossil Group Inc., a company incorporated in Delaware in the United States of America and listed under the NASDAQ exchange. As a wholly-owned subsidiary whose results are included in the consolidated financial statements of Fossil Group Inc., the Company has taken the exemption available from the requirement to disclose details of transactions with companies within the group.

25 Financial instruments

Financial assets measured at amortised cost

Financial assets measured at amortised cost comprise trade debtors, amounts owed by related parties and cash at bank and in hand.

Financial liabilities measured at amortised cost

Financial Liabilities measured at amortised cost comprise trade creditors and amounts due to related parties.

26 Parent and ultimate parent undertaking

Fossil (Europe) BV, incorporated in the Netherlands whose registered address is: Kalverstraat 196, 1012XH, Amsterdam, Netherlands, is the parent undertaking of the smallest group which includes the Company and for which group financial statements are prepared.

The ultimate parent company is Fossil Group Inc., a company incorporated in the United States of America whose registered address is: 901 S. Central Expressway, Richardson Texas 75080 USA. Fossil Group Inc. is the parent company of the largest group for which group financial statements are prepared. These financial statements are available upon request from Fossil Group Inc., 901 S. Central Expressway, Richardson Texas 75080 USA.

The Company's immediate parent is Fossil (UK) Holdings Limited, incorporated in the UK whose registered address is: Featherstone House, Featherstone Road, Wolverton Mill, Milton Keynes, Buckinghamshire, MK12 5TH.

Fossil (UK) Limited

Notes to the Financial Statements for the Period from 31 December 2017 to 29 December 2018

27 Post balance sheet date events

At the time of signing these financial statements the United Kingdom is scheduled to leave the European Union on 31st January 2020. A risk for the Company is the continuing uncertainty around the Brexit process which can affect consumer confidence. The Company manages this risk by providing a wide portfolio of products, added value services to its customers, having fast response times not only in supply of goods but in handling all customer queries and by maintaining close relationships with customers.

At the time of signing these financial statements we have closed four of our stores in 2019: Fossil Birmingham, Watch Station in Leeds, Fossil Outlet in Bicester and Skagen White City.