

FOSSIL (UK) LIMITED

Report and Financial Statements

5 January 2002

Deloitte & Touche
Verulam Point
Station Way
St Albans AL1 5HE
United Kingdom



REPORT AND FINANCIAL STATEMENTS 2002

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REPORT AND FINANCIAL STATEMENTS 2002

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

T R Tunnell
A L Stone-Wigg
M W Barnes

SECRETARY

G M Bushby

REGISTERED OFFICE

24 Alston Drive
Bradwell Abbey
Milton Keynes
Buckinghamshire
MK13 9HA

BANKERS

HSBC
Silbury Court
406 Silbury Boulevard
Saxon Gate West
Milton Keynes
MK9 2ND

SOLICITORS

Richard Nixon & Co
102 Queensway
Bletchley
Milton Keynes

AUDITORS

Deloitte & Touche
Chartered Accountants
Verulam Point
Station Way
St Albans AL1 5HE
United Kingdom

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the period ended 5 January 2002.

ACTIVITIES

The principal activity of the company continues to be the importation, sales and distribution of watches and other fashion accessories.

The company has had a successful period during which it experienced difficult trading conditions due to the strength of the dollar. This has had a negative effect on profit margins and expenses for the period.

DIVIDENDS

The trading results for the period, and the company's financial position at the end of the period are shown in the attached financial statements.

The directors have not recommended a dividend.

DIRECTORS AND THEIR INTERESTS

The directors who held office at the balance sheet date and throughout the period were as follows:

T R Tunnell
A L Stone-Wigg
M W Barnes

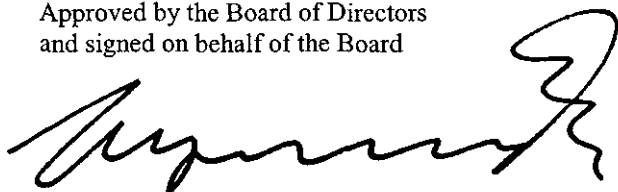
The company is a wholly owned subsidiary and the interests of group directors are disclosed in the accounts of the ultimate parent company.

The company is a wholly owned subsidiary of Fossil (UK) Holdings Limited which is a wholly owned subsidiary of the ultimate parent company, Fossil Inc., a company incorporated in the United States of America.

AUDITORS

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

Approved by the Board of Directors
and signed on behalf of the Board



G M Bushby
Secretary

27 March 2002

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company as at the end of the financial period 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 accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to 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.

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**Deloitte
& Touche**

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FOSSIL (UK) LIMITED

We have audited the financial statements of Fossil (UK) Limited for the period ended 5 January 2002 which comprise the profit and loss account, the balance sheet, and the related notes 1 to 21. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 5 January 2002 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Chartered Accountants and Registered Auditors

17 May 2002

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**Deloitte
& Touche
Tohmatsu**

Aberdeen, Belfast, Birmingham, Bracknell, Bristol, Cambridge, Cardiff, Crawley, Edinburgh, Glasgow, Leeds, Leicester, Liverpool, London, Manchester, Milton Keynes, Newcastle upon Tyne, Nottingham, St Albans and Southampton.

Principal place of business at which a list of partners' names is available: Stonecutter Court, 1 Stonecutter Street, London EC4A 4TR.

Authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.

PROFIT AND LOSS ACCOUNT

Period ended 5 January 2002

	Note	Period from 31 Dec 2000 to 5 Jan 2002 £	Period from 2 Jan to 30 Dec 2000 £
TURNOVER	2	15,611,041	9,483,628
Cost of sales		(11,787,086)	(6,902,270)
Gross profit		3,823,955	2,581,358
Administrative expenses		(3,613,793)	(2,334,995)
Other operating income	3	-	681
OPERATING PROFIT	4	210,162	247,044
Interest receivable		68,874	19,995
Interest payable and similar charges	7	(55,835)	(16,358)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		223,201	250,681
Tax on profit on ordinary activities	8	-	91,502
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL PERIOD		223,201	159,179
Retained profit/ (loss) brought forward		56,735	(102,444)
Retained profit carried forward		279,936	56,735

None of the company's activities were acquired or discontinued during the above financial period.

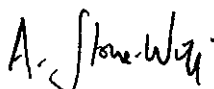
There have been no recognised gains and losses attributable to the shareholders other than the profit for the current and preceding financial period and accordingly, no Statement of Total Recognised gains and losses is shown.

BALANCE SHEET
5 January 2002

	Note	2002		2000	
		£	£	£	£
FIXED ASSETS					
Intangible assets	9		355,757		375,893
Tangible assets	10		131,164		79,222
Investments	11		-		1,000
			<u>486,921</u>		<u>456,115</u>
CURRENT ASSETS					
Stocks	12	2,914,200		1,662,997	
Debtors	13	10,346,533		5,063,869	
Cash at bank and in hand		<u>5,005,809</u>		<u>2,309,562</u>	
			18,266,542		9,036,428
CREDITORS: amounts falling due within one year	14	<u>(16,306,808)</u>		<u>(7,258,617)</u>	
NET CURRENT ASSETS			<u>1,959,734</u>		<u>1,777,811</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			2,446,655		2,233,926
CREDITORS: Amounts falling due after more than one year	15		<u>(1,922,454)</u>		<u>(1,922,454)</u>
			524,201		311,472
PROVISIONS FOR LIABILITIES AND CHARGES					
Other provisions	16		<u>(194,265)</u>		<u>(204,737)</u>
			<u>329,936</u>		<u>106,735</u>
CAPITAL AND RESERVES					
Called up share capital	19		50,000		50,000
Profit and loss account			<u>279,936</u>		<u>56,735</u>
TOTAL EQUITY SHAREHOLDERS' FUNDS	20		<u>329,936</u>		<u>106,735</u>

These financial statements were approved by the Board of Directors on 27 March 2002

Signed on behalf of the Board of Directors



Alan L Stone-Wigg

Director

NOTES TO THE ACCOUNTS**Period ended 5 January 2002****1. ACCOUNTING POLICIES**

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Consolidation

In accordance with the Financial Reporting Standard No 2 the company has not prepared consolidated financial statements since it is a wholly owned subsidiary undertaking and its immediate parent company is incorporated within the European Union.

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its ultimate parent publishes a consolidated cashflow statement.

Turnover

The turnover shown in the profit and loss account represents amounts invoiced during the period, exclusive of Value Added Tax.

Goodwill

Goodwill is reviewed for impairment if events or changes in circumstances indicate that the carrying value of the goodwill may not be recoverable. If the carrying amount exceeds the recoverable amount, the asset is written down accordingly.

Amortisation

Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Goodwill - 20 years straight line

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Leasehold property - over the life of the lease
Motor vehicles and equipment - 3-5 years straight line

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

Point of sale materials which have not been issued to retailers and are not held for re-sale are included at cost in stock.

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits as incurred.

NOTES TO THE ACCOUNTS

Period ended 5 January 2002

ACCOUNTING POLICIES (continued)

Pension costs

The company contributes directly to each individual's own money purchase pension scheme. The annual contributions payable are charged to the profit and loss account.

Deferred taxation

Provision is made, under the liability method, to take account of timing differences between the treatment of certain items for accounts purposes and their treatment for tax purposes. Tax deferred or accelerated is accounted for in respect of all material timing differences to the extent that it is considered that a net liability may arise.

Foreign exchange

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

2. TURNOVER

The turnover and profit before tax are attributable to the one principal activity of the company.

An analysis of turnover is given below:

	Period from 31 Dec 2000 to 5 Jan 2002 £	Period from 2 Jan to 30 Dec 2000 £
United Kingdom	15,611,041	9,483,628

3. OTHER OPERATING INCOME

	Period from 31 Dec 2000 to 5 Jan 2002 £	Period from 2 Jan to 30 Dec 2000 £
Other operating income	-	681

NOTES TO THE ACCOUNTS

Period ended 5 January 2002

4. OPERATING PROFIT

Operating profit is stated after charging:

	Period from 31 Dec 2000 to 5 Jan 2002 £	Period from 2 Jan to 30 Dec 2000 £
Amortisation	20,136	20,136
Depreciation	50,138	35,960
Loss on disposal of fixed assets	244	1,585
Auditors' remuneration		
- as auditors	10,300	12,000
Operating lease costs:		
Land and buildings	42,976	44,439
Vehicles	85,092	51,195
Net loss on foreign currency translation	274,897	153,709

5. PARTICULARS OF EMPLOYEES

The average number of staff employed by the company during the financial period amounted to:

	Period from 31 Dec 2000 to Jan 5 2002	Period from 2 Jan to 30 Dec 2000
Number of administrative staff	24	20
Number of management staff	7	6
	31	26

The aggregate payroll costs of the above were:

	Period from 31 Dec 2000 to Jan 5 2002 £	Period from 2 Jan to 30 Dec 2000 £
Wages and salaries	1,029,615	640,289
Social security costs	109,167	67,261
Other pension costs	48,134	71,300
	1,186,916	778,850

NOTES TO THE ACCOUNTS

Period ended 5 January 2002

6. DIRECTORS' EMOLUMENTS

The directors' aggregate emoluments in respect of qualifying services were:

	Period from 31 Dec 2000 to Jan 5 2002 £	Period from 2 Jan to 30 Dec 2000 £
Emoluments receivable	108,177	98,517
Value of company pension contributions to money purchase schemes	12,000	11,988
	<u>120,177</u>	<u>110,505</u>

The number of directors who are accruing benefits under company pension schemes were as follows:

	Period from 31 Dec 2000 to 5 Jan 2002	Period from 2 Jan to 30 Dec 2000
Money purchase schemes	<u>1</u>	<u>1</u>

7. INTEREST PAYABLE AND SIMILAR CHARGES

	Period from 31 Dec 2000 to 5 Jan 2002 £	Period from 2 Jan to 30 Dec 2000 £
Other similar charges payable	<u>55,835</u>	<u>16,358</u>

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	Period from 31 Dec 2000 to 5 Jan 2002 £	Period from 2 Jan to 30 Dec 2000 £
Corporation tax based on the results for the period at 30% (to December 2000 30%)	<u>-</u>	<u>91,502</u>

At the period end, the company took advantage of corporation tax losses available in other group companies.

NOTES TO THE ACCOUNTS
Period ended 5 January 2002

9. INTANGIBLE FIXED ASSETS

	Goodwill
	£
Cost	
At 31 December 2000 and 5 January 2002	402,741
Amortisation	
At 31 December 2000	26,848
Charge for the period	20,136
At 5 January 2002	46,984
Net book value	
At 5 January 2002	355,757
At 31 December 2000	375,893

10. TANGIBLE FIXED ASSETS

	Leasehold property	Motor vehicle	Equipment	Total
	£	£	£	£
Cost				
At 31 December 2000	35,752	-	87,381	123,133
Additions	8,973	19,255	74,096	102,324
Disposals	-	-	(4,911)	(4,911)
At 5 January 2002	44,725	19,255	156,566	220,546
Accumulated depreciation				
At 31 December 2000	11,380		32,531	43,911
Charge for the period	11,344	4,413	34,381	50,138
Disposals			(4,667)	(4,667)
At 5 January 2002	22,724	4,413	62,245	89,382
Net book value				
At 5 January 2002	22,001	14,842	94,321	131,164
At 31 December 2000	24,372	-	54,850	79,222

NOTES TO THE ACCOUNTS

Period ended 5 January 2002

11. INVESTMENTS

Unlisted investments in subsidiary undertaking

	£
Cost	
At 31 December 2000	1,000
Disposal	(1,000)
	<u> </u>
At 5 January 2002	<u> </u>
	-
	<u> </u>
Net Book Value	
At 5 January 2002	<u> </u>
	-
	<u> </u>
At 31 December 2000	<u> </u>
	1,000

During the period, the company disposed of the investment in Fossil (UK) Stores Limited to its immediate parent undertaking at cost.

12. STOCKS

	5 January 2002 £	30 December 2000 £
Finished goods	<u>2,914,200</u>	<u>1,662,997</u>

13. DEBTORS

	5 January 2002 £	30 December 2000 £
Trade debtors	3,053,138	2,804,192
Amounts owed by group undertakings	7,127,825	2,174,660
Other debtors	10,351	-
Prepayments and accrued income	<u>155,219</u>	<u>85,017</u>
	<u>10,346,533</u>	<u>5,063,869</u>

The debtors above include the following amounts falling due after more than one year:

	5 January 2002 £	30 December 2000 £
Amounts owed by group undertakings	<u>6,517,211</u>	<u>1,645,914</u>

NOTES TO THE ACCOUNTS

Period ended 5 January 2002

14. CREDITORS

	5 January 2002 £	30 December 2000 £
Trade creditors	618,612	438,184
Amounts owed to group undertakings	15,317,188	6,151,765
Corporation tax	109,225	186,684
Other taxation and social security	103,206	397,950
Accruals and deferred income	158,577	84,034
	<u>16,306,808</u>	<u>7,258,617</u>

15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	5 January 2002 £	30 December 2000 £
Amounts owed to group undertakings	<u>1,922,454</u>	<u>1,922,454</u>

The amount of £1,922,454 is due to the ultimate parent undertaking, Fossil Inc. The ultimate parent undertaking has provided written assurances that repayment of the loan balance will not be sought unless 12 months notice has been given to the company. In addition, repayment will not be sought unless cash flows of Fossil UK permit it or alternate acceptable financing is arranged through bank financing.

16. OTHER PROVISIONS

	5 January 2002 £	30 December 2000 £
Other provisions:		
Balance brought forward	204,737	77,017
Movement for period	(10,472)	127,720
	<u>194,265</u>	<u>204,737</u>

The company's products carry formal warranties of satisfactory performance for periods between one and two years following purchase by the customers. Provision is made for the estimated expected cost of honouring unexpired guarantees. This cost is estimated to be £83,498 at the year end.

The company allows customers to return purchases under certain circumstances. Provision is made for the estimate of the cost of the returns and is estimated to be £110,767 at the year end.

NOTES TO THE ACCOUNTS

Period ended 5 January 2002

17. COMMITMENTS UNDER OPERATING LEASES

At 5 January 2002 the company had annual commitments under non-cancellable operating leases as set out below.

	5 January 2002 £		30 December 2000 £	
	Land & Buildings £	Other £	Land & Buildings £	Other £
Operating leases which expire:				
Within 1 year	-	7,329	-	-
Within 2 to 5 years	36,636	54,846	36,636	59,984
	<u>36,636</u>	<u>62,175</u>	<u>36,636</u>	<u>59,984</u>

18. RELATED PARTY TRANSACTIONS

The ultimate controlling parent undertaking is Fossil Inc., a company incorporated 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 Inc., the company is exempt from the requirement to disclose details of transactions with companies within the Group.

No other transactions with related parties were undertaken such as are required to be disclosed under Financial Reporting Standard 8.

19. SHARE CAPITAL

	5 January 2002 £	30 December 2000 £
Authorised share capital:		
50,000 Ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>
Called up, allotted and fully paid		
Ordinary share capital	<u>50,000</u>	<u>50,000</u>

NOTES TO THE ACCOUNTS**Period ended 5 January 2002****20. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	5	30
	January	December
	2002	2000
	£	£
Profit for the financial year	223,201	159,179
Opening shareholders' equity funds / (deficit)	106,735	(52,444)
Closing shareholders' equity funds	329,936	106,735

21. IMMEDIATE PARENT COMPANY

The immediate parent undertaking of the company is Fossil (UK) Holdings Limited a company incorporated in England.

Consolidated accounts can be obtained from Fossil Inc, 2280 N. Greenville Avenue, Richardson, Texas 75082, USA.