

Registered Number: 06400760

**Annual report and
Statutory Financial Statements
for the year ended 31 December 2016
for
Farfetch UK Limited**

FARFETCH

THE WORLD'S GREATEST SELECTION OF LUXURY



Farfetch UK Limited
Contents of the Statutory Financial Statements
for the year ended 31 December 2016

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Farfetch UK Limited
Company information
for the year ended 31 December 2016

| | |
|------------------------------|--|
| Directors: | A Robb E G Jordan J M F Neves |
| Secretary: | Wilton Corporate Service Limited |
| Registered office: | The Bower 211 Old Street London EC1V 9NR |
| Registered number: | 06400760 |
| Independent auditors: | PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH |

Farfetch UK Limited
Strategic report
for the year ended 31 December 2016

The directors present their strategic report for the year ended 31 December 2016 for Farfetch UK Limited ("the Company"). The Company is a wholly owned subsidiary of Farfetch.com Limited (the "Group").

Principal activity and review of business

The net loss for the year, after taxation, amounted to £34,042,320 (2015: loss of £28,677,037). In 2016, gross merchandise value ("GMV") increased by 81% to £547,998,334. (See note 2 for definition of GMV). Revenue increased by 74% to £151,346,322. Net cash increased by £58,839,278 to £102,703,594 as at 31 December 2016. We delivered an underlying operating loss of £(24,919,331) and negative EBITDA¹ of £(21,771,710) as shown below:

| | 2016 | 2015 |
|---------------------------|---------------------|---------------------|
| | £ | £ |
| Underlying operating loss | (24,919,331) | (23,085,049) |
| Depreciation | 465,861 | 10,739 |
| Amortisation | 2,681,760 | 177,013 |
| EBITDA¹ | (21,771,710) | (22,897,297) |

¹ EBITDA is operating loss before, exceptional items, share based payment expense, depreciation and amortisation

The principal activity of the Company was providing an online portal at Farfetch.com (and related suffixes) for fashion retailers, designers and brands to be able to offer their products for sale to the public (including associated services such as production, logistics, customer services and payment processing). Research and development activities continued with respect to the development of the portal. The directors anticipate this activity to continue.

Key performance indicators (KPIs)

The Company now has over 21 million visits to the websites each month. At the end of the year over 500 partner boutiques offered a range of over 115,000 unique products and 200 brands for sale on the platform.

The directors, monitor revenue and profits or losses as set out in the statement of profit or loss on page 10. The directors are of the opinion that disclosing additional key performance indicators, other than those above, is not necessary to understand the development, performance and position of the business.

Business environment

The Company is a subsidiary of Farfetch.com limited (the "Group") and operates in the fashion industry. The principal territories that that Company operates within are set out in note 3.

The Company met the challenges of a dynamic business environment in 2016 and performed well with strong growth in GMV and associated income.

Strategy

The Company's current strategy is to:

- Act as a global ecommerce platform for fashion boutiques and brands
- Provide consumers with revolutionary ways to buy fashion
- Develop omni-channel solutions for the retail community

Future outlook

The Company is showing strong growth in both demand for, and supply of, products through the Farfetch platform. The Company is confident in its future outlook.

Farfetch UK Limited
Strategic report (continued)
for the year ended 31 December 2016

Events after the reporting year

Subsequent events are disclosed in note 25 to the financial statements.

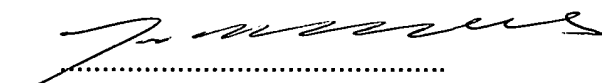
Principal risks and uncertainties

The principal risks and uncertainties faced by the Company are:

- The ongoing change in the online fashion market including potential emergence of new competitors and increased activity from existing competitors, including offline retailers moving online. This is mitigated by strong marketing, understanding of emerging fashion trends and changes in demand, plus strong relationships with our boutique network.
- The impact of changing foreign exchange rates as the Company operates in a number of countries that expose the Company to currency movements. This is partially offset by diversifying supply and demand across a number of different markets, and hedging against short-term movements in currencies.
- The disruption caused by technology failures over the Company's website and associated software which is key to the business. IT failures could disrupt the business leading to increased lost trade and loss of customers. The Company takes adequate precautions and security measures to mitigate against this risk by taking regular backups of the system, safe guarding against computer viruses, and putting in place a backup server at a different location to host the website in case of emergencies.
- The ability of partner boutiques to be able to fulfill orders given the expansive customer network in relation to the size of boutiques. This risk is mitigated through us increasing the amount of partner boutiques we have which in turn increases our supply base. We have also strengthened our relationships with the boutique network by providing them with sales analysis and financing opportunities through our associate Farfetch Finance Limited.
- The retention of employees and attracting top talent to support growth. The Company's success depends on its ability to attract, motivate and retain key employees. This is mitigated through various financial and non-financial measures including long and short-term incentive plans (including share options) and other employee benefits including career development opportunities.

Financial risk management is detailed in note 23 and forms part of this report by cross reference.

Approved by the Board and signed on its behalf by:


.....
J M F Neves- Director

17th August 2017

Farfetch UK Limited
Report of the directors
for the year ended 31 December 2016

The directors present their report and the audited financial statements for the year ended 31 December 2016. Further information on the Company can be found in the Strategic report and in note 1 to the financial statements, forming part of this report by cross reference.

Directors

The directors of the Company, who served throughout the financial period and up until the date of this report, are listed on page 2.

Changes in directorship during the year

There were no changes to the directors who held office during the period from 1 January 2016 to the date of this report.

Directors' interest in shares in the company

According to the register kept under section 808 of the Companies Act 2006, no director had any beneficial interest in the shares of the Company either at the beginning or end of the year. There were no changes in directors' interests during the year.

Employees

The Company continued its policy of providing regular information on Company performance, business activities and related matters to all employees. Smaller groups of employees, including senior employee representatives, attend regular business reviews, at which opportunity is given to question the company on business performance, plans and strategies.

Employees are encouraged to participate in the Group's performance via an employee share options given to senior employees.

The Company's policy with regard to disabled people is to provide equal employment opportunity by giving full and fair consideration to their applications for employment and the continued employment, wherever possible, of employees who became disabled and providing suitable opportunities for their training, career development and promotion.

Financial risk management

The Company's financial risk management policy has been considered in note 23 to the financial statements and forms part of this report by cross reference.

Dividends

The board do not recommend a dividend (2015: None).

Future outlook

Further details on the Company's future outlook can be found in the Strategic Report which forms part of this report by cross reference.

Existence of branches outside the UK

The Company has one branch, as defined by section 1046(3) of the Companies Act 2006, outside the UK in the Russian Federation.

Farfetch UK Limited
Report of the directors (continued)
for the year ended 31 December 2016

Going concern

The directors are required to consider the appropriateness of the going concern basis when preparing the financial statements. The directors confirm that they consider that the going concern basis remains appropriate.

During the year, the Group undertook its Series F round of funding led by new investors Temasek, IDG Capital Partners and Eurazeo with existing investor Vitruvian Partners also participating. Taking both this combined with the board approved budgets in forming their view, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Company has therefore continued to adopt the going concern basis of accounting in preparing the annual financial statements based upon its current forecasts and cash and financing facilities.

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of the directors which were made during the year and remain in force at the date of this report.

Events after the reporting year

Events after the reporting year can be found in note 25 to the financial statements and forms part of this report by cross reference.

Statement as to disclosure of information

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

- So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the group's auditors are unaware; and
- each 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 auditors are aware of that information.

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

Independent auditors

The auditors, PricewaterhouseCoopers LLP were proposed for re-appointment.

The financial statements on page 10 to 41 were approved by the board of directors on 17th Aug 2017 and signed on its behalf by J M F Neves.

On behalf of the board:


.....
J M F Neves- Director

Farfetch UK Limited
Statement of the directors' responsibilities
for the year ended 31 December 2016

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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.

The directors 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.

Farfetch UK Limited
Independent auditors' report to the members of Farfetch UK Limited
for the year ended 31 December 2016

Report on the financial statements

Our opinion

In our opinion, Farfetch UK Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual report and Statutory Financial Statements (the "Annual Report"), comprise:

- the statement of financial position as at 31 December 2016;
- the statement of profit or loss and statement of comprehensive income for the year then ended;
- the statement of cash flows for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter 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 Report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and

the Strategic Report and the Report of the directors have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Report of the directors. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Farfetch UK Limited
Independent auditors' report to the members of Farfetch UK Limited
statements (continued)
for the year ended 31 December 2016

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of the directors' responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Report of the directors, we consider whether those reports include the disclosures required by applicable legal requirements.



Brian Henderson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

17 August 2017

Farfetch UK Limited
Statement of profit or loss
For the year ended 31 December 2016

| | | 2016 | 2015 |
|---|------|---------------------|---------------------|
| | Note | £ | £ |
| Gross merchandise value | 3 | 547,998,334 | 302,080,932 |
| Continuing operations | | | |
| Sale of goods | | 113,990 | 19,413 |
| Rendering of services | | 151,232,332 | 87,102,929 |
| Revenue | 3 | 151,346,322 | 87,122,342 |
| Cost of sales | | (64,562,169) | (37,223,289) |
| Gross profit | | 86,784,153 | 49,899,053 |
| Other operating income | | 217 | 297 |
| Administrative expenses | | (120,290,139) | (76,413,622) |
| Operating Loss | | (33,505,769) | (26,514,272) |
| Comprising: | | | |
| Underlying operating loss | | (24,919,331) | (23,085,049) |
| Exceptional items | 5 | (1,506,180) | (976,431) |
| Share based payment expense | | (7,080,258) | (2,452,792) |
| | | (33,505,769) | (26,514,272) |
| Finance costs | 6 | (9,287,846) | (2,242,133) |
| Finance income | 6 | 7,382,230 | 79,368 |
| Loss before tax from continuing operations | 7 | (35,411,385) | (28,677,037) |
| Taxation | 8 | 1,369,065 | - |
| Loss for the financial year | | (34,042,320) | (28,677,037) |

The notes on pages 15 to 41 form part of these financial statements

Farfetch UK Limited
Statement of comprehensive income
For the year ended 31 December 2016

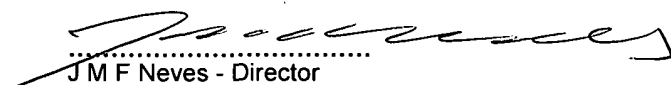
| | 2016 | 2015 |
|---|---------------------|---------------------|
| | £ | £ |
| Loss for the financial year | (34,042,320) | (28,677,037) |
| Other comprehensive expense that may be reclassified to profit or loss in subsequent periods (net of tax): | | |
| Exchange differences on translation of foreign branch | (514,744) | - |
| Other comprehensive expense for the year, net of tax | (514,744) | - |
| Total comprehensive expense for the year, net of tax | (34,557,064) | (28,677,037) |

The notes on pages 15 to 41 form part of these financial statements

Farfetch UK Limited
(Registered number: 06400760)
Statement of financial position
As at 31 December 2016

| | | 2016 | 2015 |
|-------------------------------------|------|---------------------|---------------------|
| | Note | £ | £ |
| Assets | | | |
| Non-current assets | | | |
| Intangible assets | 9 | 10,442,835 | 4,168,037 |
| Property, plant and equipment | 10 | 4,701,515 | 4,248,174 |
| Investments | 11 | 34,262,975 | 24,285,581 |
| Trade and other receivables | 12 | 61,170,654 | 28,312,745 |
| | | <u>110,577,979</u> | <u>61,014,537</u> |
| Current assets | | | |
| Inventories | 13 | 193,977 | 25,402 |
| Trade and other receivables | 12 | 11,112,936 | 4,761,221 |
| Cash and cash equivalents | 14 | 102,703,594 | 36,879,740 |
| | | <u>114,010,507</u> | <u>41,666,363</u> |
| Total Assets | | <u>224,588,486</u> | <u>102,680,900</u> |
| Equity and liabilities | | | |
| Equity | | | |
| Share capital | 15 | 1 | 1 |
| Foreign exchange reserve | 16 | (514,744) | - |
| Other reserves | 16 | 19,291,062 | 5,377,528 |
| Accumulated losses | 16 | (87,712,258) | (53,669,938) |
| Total equity | | <u>(68,935,939)</u> | <u>(48,292,409)</u> |
| Non-current liabilities | | | |
| Trade and other payables | 17 | 227,619,686 | 115,784,947 |
| Borrowings | 18 | 14,365,505 | - |
| | | <u>241,985,191</u> | <u>115,784,947</u> |
| Current liabilities | | | |
| Trade and other payables | 17 | 49,692,422 | 35,188,362 |
| Borrowings | 18 | 1,846,812 | - |
| | | <u>51,539,234</u> | <u>35,188,362</u> |
| Total liabilities | | <u>293,524,425</u> | <u>150,973,309</u> |
| Total equity and liabilities | | <u>224,588,486</u> | <u>102,680,900</u> |

The financial statements on pages 10 to 41 were approved by the Board of directors on 17th August 2017 and were signed on its behalf by:


J M F Neves - Director

The notes on pages 15 to 41 form part of these financial statements

Farfetch UK Limited
Statement of changes in equity
For the year ended 31 December 2016

| | Share capital | Foreign exchange reserve | Other reserves | Accumulated losses | Total equity |
|--|---------------|--------------------------------|-------------------|-----------------------|--------------|
| | £ | £ | £ | £ | £ |
| As at 1 January 2015 | 1 | - | 2,924,736 | (24,992,901) | (22,068,164) |
| Changes in equity | | | | | |
| Total comprehensive expense | - | - | - | (28,677,037) | (28,677,037) |
| Share based payment- equity settled | - | - | 2,452,792 | - | 2,452,792 |
| As at 31 December 2015 | 1 | - | 5,377,528 | (53,669,938) | (48,292,409) |
| Changes in equity | | | | | |
| Total comprehensive expense | - | (514,744) | - | (34,042,320) | (34,557,064) |
| Warrant charge | - | - | 297,198 | - | 297,198 |
| Share based payment- equity settled | - | - | 7,029,493 | - | 7,029,493 |
| Capital contribution from parent | - | - | 6,586,843 | - | 6,586,843 |
| As at 31 December 2016 | 1 | (514,744) | 19,291,062 | (87,712,258) | (68,935,939) |

The notes on pages 15 to 41 form part of these financial statements

Farfetch UK Limited
Statement of cash flows
For the year ended 31 December 2016

| | | 2016 | 2015 |
|--|------|---------------------|---------------------|
| | Note | £ | £ |
| Cash flows from operating activities | | | |
| Cash used in operations | 21 | (54,300,528) | (29,410,457) |
| Interest paid | | (912,616) | (1,553,942) |
| Net cash outflow from operating activities | | (55,213,144) | (30,964,399) |
| Cash flows from investing activities | | | |
| Payment for acquisition of subsidiary, net of cash acquired | | - | (7,285,269) |
| Purchase of non-controlling interest | | (3,868,700) | - |
| Payments for intangible assets | | (953,489) | (4,037,914) |
| Payment of software development costs | | (8,956,558) | (4,214,552) |
| Interest received | | 95,711 | 79,368 |
| Net cash outflow from investing activities | | (13,683,036) | (15,458,367) |
| Cash flows from financing activities | | | |
| Proceeds from borrowings | | 127,735,458 | 66,973,910 |
| Repayment of borrowings | | - | (194,635) |
| Net cash inflow from financing activities | | 127,735,458 | 66,779,275 |
| Net increase in cash and cash equivalents | | 58,839,278 | 20,356,509 |
| Cash and cash equivalents at the beginning of the financial year | | 36,879,740 | 17,211,422 |
| Effects of exchange rate changes on cash and cash equivalents | | 6,984,576 | (688,191) |
| Cash and cash equivalents at end of year | 14 | 102,703,594 | 36,879,740 |

The notes on pages 15 to 41 form part of these financial statements

Farfetch UK Limited
Notes to the financial statements
For the year ended 31 December 2016

1. Company information

Farfetch UK Limited is a private company incorporated in England & Wales under the Companies Act 2006 limited by shares. The Company's registered office is The Bower, 211 Old Street, London, EC1V 9NR. The registration number of the Company is 06400760. The principal activity of the Company is that of marketing and providing editorial and merchant facilities. The Board of directors have authorised the issue of these financial statements on the date of the statement as set out in page 12. 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 years presented, unless otherwise stated.

2. Significant accounting policies

2.1 Basis of preparation

The financial statements of the Company have been prepared in accordance International Financial Reporting Standards ("IFRS") and IFRS Interpretation Committee interpretations ("IFRIC") as adopted by the European Union. The financial statements have been prepared on a historical cost basis convention, unless otherwise stated.

The financial statements are presented in British pound sterling and all values are rounded to the nearest pound, except where otherwise indicated.

The financial statements provide comparative information in respect of the previous period.

The Company is itself a subsidiary company which is consolidated into its parent's group financial statements. Further detail can be found in note 20. As such, the Company is exempt from the requirement to prepare group financial statements by virtue of section 401 of the Companies Act 2006. These financial statements therefore present information about the Company as an individual undertaking.

2.2 Going concern

The directors considered the appropriateness of the going concern basis when preparing the financial statements. The directors confirm that they consider that the going concern basis remains appropriate.

During the year, the parent undertook Series F round of funding led by new investors Temasek, IDG Capital Partners and Eurazeo with existing investor Vitruvian Partners also participating. Taking both this combined with the board approved budgets in forming their view, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook and have continued to adopt the going concern basis of accounting in preparing the annual financial statements based upon its current forecasts and cash and financing facilities.

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2016

2.3 Summary of significant accounting policies

a) Investment in subsidiaries

Investments in subsidiaries are held at cost less accumulated impairment losses.

b) Current versus non-current classification

The Company presents assets and liabilities in statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

c) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs.

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2016

2.3 Summary of significant accounting policies (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

d) Gross merchandise value

Gross merchandise value ("GMV") is the value of confirmed orders of products and services. It is stated gross of value added tax and shipping.

e) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

The specific recognition criteria described below must also be met before revenue is recognised.

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the purchaser. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

Rendering of service

When the Company acts as a commercial intermediary between boutiques, brands and final customers, revenue recognised represents commission earned on the rendering of services by the Company. The services rendered are comprised principally of e-commerce platform services as well as shipping and payment services provided by the Company. The Company recognises commissions and other service revenue when the goods are dispatched to the final customer. Promotional incentives may be periodically offered to final customers to drive traffic to the platform and hence increase our commission. Where the costs of promotional incentives are borne by the Company, these costs are recognised as marketing expenses (included in administrative expenses) within the statement of profit or loss.

f) Current and deferred tax

Current tax is the expected tax payable based on the taxable profit for the period, and the tax laws that have been enacted or substantively enacted by the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2016

2.3 Summary of significant accounting policies (continued)

g) Current and deferred tax (continued)

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit. Current and deferred tax is charged or credited in the statement of profit or loss, except when it relates to items charged or credited directly to equity, in which case the current or deferred tax is also recognised directly in equity.

Deferred tax assets are recorded only to the extent that it is probable that future taxable profit will be available against which the deferred tax assets, including temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates and in accordance with laws that are expected to apply in the period/jurisdiction when/where the liability is settled or the asset is realised.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities and where there is an intention to settle the balances on a net basis.

g) Foreign currencies

The Company's financial statements are presented in British pound sterling, which is also the functional currency. The Company also has a Russian branch whose functional currency is Russian Ruble. The assets and liabilities of branch operations are translated into British pound sterling at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at average exchange rates. The exchange differences arising on translation are recognised in other comprehensive income.

h) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2016

2.3 Summary of significant accounting policies (continued)

i) Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. All repair and maintenance costs are recognised in profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Items of property, plant and equipment are depreciated in the statement of profit and loss on a straight-line basis over their useful life. The financial and technical useful lives of these items are assessed as follows:

| | |
|------------------------|-------|
| Leasehold improvements | 2-10% |
| Fixtures and fittings | 25% |
| Computer equipment | 33% |

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate. property, plant and equipment are also assessed for indicators of impairment. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss if its carrying amount is greater than its recoverable amount. Further detail can be found in section "n" below.

j) Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

k) Intangible assets

Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2016

2.3 Summary of significant accounting policies (continued)

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Company can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- Its intention to complete and its ability and intention to use or sell the asset;
- How the asset will generate future economic benefits;
- The availability of resources to complete the asset; and
- The ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in administrative expenses. During the period of development, the asset is tested for impairment annually.

Capitalised development expenses are booked at cost, net of accumulated amortisation and impairment losses. Development projects are split into phases. When a project's phase is still under development it is entered at cost under "Intangible assets under development" until the project's phase is completed. When the project's phase is completed, the cost is entered under the relevant category and is subject to amortisation.

Subsequent costs

Subsequent costs are only capitalised when there is an increase in the anticipated future economic benefit attributable to the assets in question. All other subsequent costs are entered in the statement of profit and loss for the year in which they are incurred.

Amortisation

Amortisation is charged to the statement of profit and loss on a straight-line basis over the estimated useful life of the intangible assets, from the time that the assets are available for use. The financial and technical useful lives of these items are assessed as follows:

| | |
|-------------------|-----|
| Development costs | 33% |
|-------------------|-----|

I) Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial Assets

The Company's financial assets comprise receivables and derivative financial instruments. Derivative financial instruments comprise of forward exchange contracts, which are measured at fair value through profit and loss.

Trade receivables are held at amortised cost. The Company reviews indicators of impairment on an ongoing basis and where such indicators exist, the Company makes an estimate of the asset's recoverable amount.

Financial assets through profit or loss are measured initially at fair value with transaction costs taken directly to the consolidated statement of profit and loss. Subsequently, the financial assets are remeasured, and gains and losses are recognised in the consolidated statement of profit and loss.

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2016

2.3 Summary of significant accounting policies (continued)

Financial liabilities

The Company's financial liabilities comprise trade and other payables and interest bearing loans and borrowings.

Trade and other payables are held at amortised cost.

All interest bearing loans and borrowings are initially recognised at fair value net of issue costs associated with the borrowing. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

m) Inventories

Inventories are carried at the lower of cost and net realisable value. The cost of inventories, calculated according to the average cost method for each category of goods, includes purchase costs and costs incurred to bring the inventories to their present location and condition.

In order to represent the value of inventories appropriately in the statement of financial position, and to take into account impairment losses due to obsolete materials and slow inventory movement, obsolescence provisions have been directly deducted from the carrying amount of the inventories.

n) Impairment of non-financial assets

The Company assesses at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows

that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account.

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the asset's recoverable amount.

o) Share based payments

Employees (including senior executives) of the Company receive remuneration in the form of share based payments, whereby employees render services as consideration. The consideration is either equity or cash settled depending on the scheme. Share options granted are over the parent's equity and are accounted for in the Company's individual financial statements as an expense in profit or loss and a capital contribution from the Company's parent.

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2016

2.3 Summary of significant accounting policies (continued)

Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model. The transactions are recognized at group level and are charged to the Company based on the allocation of employees to the entity of employment. That cost is recognised, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefits expense. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The statement of profit or loss expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions for which vesting is conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Cash-settled transactions

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At each balance sheet date until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

p) Exceptional items

Exceptional items are non-recurring items which are outside the normal scope of the Company's ordinary activities such as costs arising from a fundamental restructuring of the Company's operations, or are considered to be one-off in nature. Such items are disclosed separately within the statement of profit and loss.

2.4 Changes in accounting policies and disclosures

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Company has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2016 which are listed below. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

IFRS 11 Accounting for Acquisitions of Interests in Joint Operations

IAS 1 Disclosure Initiative

IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

IAS 16 and IAS 41 Agriculture: Bearer Plants

IAS 27 Equity Method in Separate Financial Statements

Annual Improvements to IFRSs 2012-2014 Cycle

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2016

2.3 Summary of significant accounting policies (continued)

New and revised IFRSs in issue but not yet effective

At the date of authorisation of these financial statements, The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases had not yet been adopted by the EU:

| | |
|---------------------------------|---|
| IFRS 9 | Financial Instruments |
| IFRS 15 | Revenue from Contracts with Customers |
| IFRS 16 | Leases |
| IFRS 2 (amendments) | Classification and Measurement of Share-based Payment Transactions |
| IAS 7 (amendments) | Disclosure Initiative |
| IAS 12 (amendments) | Recognition of Deferred Tax Assets for Unrealised Losses |
| IFRS 10 and IAS 28 (amendments) | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture |

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Company in future periods, except as noted below:

- IFRS 9 will impact both the measurement and disclosures of financial instruments;
- IFRS 15 may have an impact on revenue recognition and related disclosures; and
- IFRS 16 will have a material impact on the reported assets, liabilities, income statement and cash flows of the Company. Furthermore, extensive disclosures will be required by IFRS 16.

2.5 Critical accounting estimates and judgments

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Below is a summary of the critical measurement processes and the key assumptions used by management in applying accounting policies with regard to the future, and which could have significant effects on carrying amounts stated in the financial statements, or for which there is a risk that significant adjustments may be made to the carrying amount of assets and liabilities in the year following that under review.

Share based payments

Estimating fair value for share based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The share based payment charge is calculated at the group level and charged down to the Company based on each employees company of employment.

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2016

2.3 Summary of significant accounting policies (continued)

Intangible assets — development costs

a) Cost capitalisation

Amounts capitalised include the total cost of any external products or services and internal labour costs directly attributable to development of the asset. Management judgement is involved in determining the appropriate internal costs to capitalise and the amounts involved.

b) Useful life

The useful life is determined by management at the time the asset is brought into its intended use and is regularly reviewed for appropriateness. The useful life represents management's view of the expected period over which the Company will receive benefits.

Exceptional items

The Group applies judgment in identifying the significant non-recurring items of expense that are recognised as exceptional to help provide an indication of the Group's underlying performance.

3. Revenue

Total revenue can be analysed by geographical location as follows:

| | 2016 | 2015 |
|---------------|--------------------|-------------------|
| | £ | £ |
| UK | 12,446,415 | 9,125,670 |
| EU | 40,168,009 | 19,391,734 |
| Rest of World | 98,731,898 | 58,604,938 |
| | 151,346,322 | 87,122,342 |

4. Employees and directors

| | 2016 | 2015 |
|--------------------------------------|-------------------|-------------------|
| | £ | £ |
| Wages and salaries | 17,129,989 | 11,787,369 |
| Social security costs | 3,018,454 | 1,077,389 |
| Share based payments- equity settled | 6,996,271 | 2,452,792 |
| Share based payments- cash settled | 50,765 | - |
| Other pension costs | 183,056 | - |
| | 27,378,535 | 15,317,550 |

The average monthly number of employees during the year was as follows:

| | 2016 | 2015 |
|----------------|------------|------------|
| Technology | 20 | 16 |
| Administration | 74 | 60 |
| Commercial | 139 | 113 |
| | 233 | 189 |

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2016

4. Employees and directors (continued)

Directors

The directors' emoluments were as follows:

| | 2016 £ | 2015 £ |
|---|-----------|-----------|
| Aggregate amounts | 795,456 | 673,798 |
| Company contributions to money purchase schemes | 68,400 | - |

Highest paid director

The highest paid director's emoluments were as follows:

| | 2016 £ | 2015 £ |
|--|-----------|-----------|
| | 272,044 | 250,609 |

Three directors (2015: three) are a money purchase pension scheme and also have awards receivable in the form of shares in the parent company under a long-term incentive scheme. No directors (2015: none) exercised share options during the year.

5. Exceptional items

The Company incurred the following costs during the years presented which are considered to be exceptional.

| | 2016 £ | 2015 £ |
|-----------------------------------|-------------|-----------|
| Acquisition and integration costs | - | (976,431) |
| Non-recurring staff expense | (1,506,180) | - |
| Total | (1,506,180) | (976,431) |

Acquisitions and integration costs relate to acquisitions. There were no acquisitions in the 2016.

Non-recurring staff expense represents one-off payments made to certain staff members during the year as a result of changes made to their reward package.

6. Finance income and costs

| | 2016 £ | 2015 £ |
|--------------------------|------------------|------------------|
| Deposit account interest | 309,539 | 73,114 |
| Other interest income | 95,712 | 6,254 |
| Exchange gains | 6,976,979 | - |
| Finance income | 7,382,230 | 79,368 |
| Exchange losses | - | 688,191 |
| Bank loan interest | 8,990,648 | 1,553,942 |
| Warrants issued | 297,198 | - |
| Finance costs | 9,287,846 | 2,242,133 |

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2016

7. Loss before tax from continuing operations

| | 2016 £ | 2015 £ |
|---|-----------|-----------|
| Operating leases | 2,797,877 | 2,358,175 |
| Research and development costs expensed | 7,161,143 | 171,886 |
| Depreciation - owned assets | 465,861 | 10,739 |
| Amortisation- Intangible assets | 2,681,760 | 177,013 |
| Loss on disposal of assets | 34,287 | - |
| Auditors' remuneration - Audit fees | 58,000 | 40,000 |
| Auditors' remuneration - Tax services | 3,000 | 38,700 |
| Auditors' remuneration - Other services | 20,550 | 155,600 |

8. Taxation

Reconciliation of income tax expense to tax payable

| | 2016 £ | 2015 £ |
|---|--------------|--------------|
| Loss before tax | (35,411,385) | (28,677,037) |
| Tax at the UK tax rate of 20.00% (2015: 20.25%) | (7,082,277) | (5,807,100) |
| Tax effects of: | | |
| Sundry permanent differences | 416,000 | 35,845 |
| Entertaining | 179,078 | 80,421 |
| Losses surrendered to group companies | - | 180,348 |
| Unrecognised deferred tax asset arising from timing differences relating to: | | |
| Share based payment | 933,114 | 496,690 |
| Fixed assets | 94,300 | 2,175 |
| Losses carried forward | 4,090,720 | 5,011,621 |
| Tax credit | (1,369,065) | - |

The standard rate of UK Corporation Tax was reduced from 21% from 1 April 2014 to 20% from April 2015. The Finance (No.2) Bill 2015 included legislation to reduce the main rate of corporation tax of 18% with effect from 1 April 2020.

Trading losses as at 31 December 2016 of approximately £70m (2015: £48m) are available to be carried forward indefinitely. New legislation is being introduced with effect from 6 April 2017 whereby the utilisation of UK trading losses carried forward will be restricted to 50% on UK Group profits exceeding £5m. A deferred tax asset is only recognised where it can be shown that it is more than probable that future taxable profits will be available against which the Company can utilise the asset. Subject to specific legislation regarding changes in ownership and the nature of trade, trading losses are available to be either carried forward indefinitely or for a significant time period.

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2016

9. Intangible assets

| | Development costs £ | Total £ |
|-----------------------|------------------------|-------------|
| Cost | | |
| At 1 January 2016 | 4,519,007 | 4,519,007 |
| Additions | 8,956,558 | 8,956,558 |
| At 31 December 2016 | 13,475,565 | 13,475,565 |
| Amortisation | | |
| At 1 January 2016 | (350,970) | (350,970) |
| Amortisation for year | (2,681,760) | (2,681,760) |
| At 31 December 2016 | (3,032,730) | (3,032,730) |
| Net book value | | |
| At 31 December 2016 | 10,442,835 | 10,442,835 |
| At 31 December 2015 | 4,168,037 | 4,168,037 |

Included within Development costs is £119,700 of assets that are under the course of construction. Amortisation of this will commence once they have been brought into use.

| | Development costs £ | Total £ |
|-----------------------|------------------------|------------|
| Cost | | |
| At 1 January 2015 | 304,456 | 304,456 |
| Additions | 4,214,551 | 4,214,551 |
| At 31 December 2015 | 4,519,007 | 4,519,007 |
| Amortisation | | |
| At 1 January 2015 | (173,957) | (173,957) |
| Amortisation for year | (177,013) | (177,013) |
| At 31 December 2015 | (350,970) | (350,970) |
| Net book value | | |
| At 31 December 2015 | 4,168,037 | 4,168,037 |
| At 31 December 2014 | 130,498 | 130,498 |

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2016

10. Property, plant and equipment

| | Leasehold improvements £ | Fixtures and fittings £ | Computer equipment £ | Totals £ |
|-----------------------|--------------------------------|-------------------------------|----------------------------|-------------|
| Cost | | | | |
| At 1 January 2016 | 4,083,835 | 86,158 | 258,331 | 4,428,324 |
| Additions | 753,347 | 128,346 | 71,796 | 953,489 |
| Disposals | (48,443) | (67,753) | (17,450) | (133,646) |
| At 31 December 2016 | 4,788,739 | 146,751 | 312,677 | 5,248,167 |
| Depreciation | | | | |
| At 1 January 2016 | (24,047) | (39,170) | (116,933) | (180,150) |
| Charge for year | (351,471) | (54,264) | (60,126) | (465,861) |
| Disposals | 18,225 | 64,420 | 16,714 | 99,359 |
| At 31 December 2016 | (357,293) | (29,014) | (160,345) | (546,652) |
| Net book value | | | | |
| At 31 December 2016 | 4,431,446 | 117,737 | 152,332 | 4,701,515 |
| At 31 December 2015 | 4,059,788 | 46,988 | 141,398 | 4,248,174 |

Included within leasehold improvements is £382,411 of assets that are under the course of construction. Depreciation of this will commence once they have been brought into use.

| | Leasehold improvements £ | Fixtures and fittings £ | Computer equipment £ | Totals £ |
|-----------------------|--------------------------------|-------------------------------|----------------------------|-------------|
| Cost | | | | |
| At 1 January 2015 | 195,677 | 76,377 | 118,356 | 390,410 |
| Additions | 3,888,158 | 9,781 | 139,975 | 4,037,914 |
| At 31 December 2015 | 4,083,835 | 86,158 | 258,331 | 4,428,324 |
| Depreciation | | | | |
| At 1 January 2015 | (86,905) | (19,057) | (63,449) | (169,411) |
| Charge for year | 62,858 | (20,113) | (53,484) | (10,739) |
| At 31 December 2015 | (24,047) | (39,170) | (116,933) | (180,150) |
| Net book value | | | | |
| At 31 December 2015 | 4,059,788 | 46,988 | 141,398 | 4,248,174 |
| At 31 December 2014 | 108,772 | 57,320 | 54,907 | 220,999 |

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2016

11. Investments

Cost

At 1 January 2016

Additions

Net book value at 31 December 2016

Shares in group
undertakings

£

24,285,581

9,977,394

34,262,975

Cost

At 1 January 2015

Additions

Net book value at 31 December 2015

2,121,211

22,164,370

24,285,581

Direct Holdings

| Number | Name | Country of incorporation | % equity interest | | Principal activities |
|--------|--------------------------------------|-----------------------------|----------------------|-------|-----------------------------|
| | | | 2016 | 2015 | |
| 1 | Farfetch Portugal Unipessoal Lda | Portugal | 100 | 100 | Back office support |
| 2 | Farfetch HK Holdings Limited | Hong Kong | 100 | 100 | E-commerce and marketing |
| 3 | Browns (South Molton Street) Limited | England & Wales | 100 | 100 | Retail |
| 4 | Farfetch Japan Co. Limited | Japan | 100 | 50.01 | E-commerce and marketing |
| 5 | Farfetch Store of the Future Limited | England & Wales | 100 | - | E-commerce and marketing |
| 6 | Gleam, S.A | Portugal | 100 | - | In liquidation |
| 7 | Farfetch Finance Limited | England & Wales | 25 | 25 | Finance |

Indirect Holdings

| Number | Name | Country of incorporation | % equity interest | | Principal activities |
|--------|--|-----------------------------|----------------------|-------|-----------------------------|
| | | | 2016 | 2015 | |
| 8 | LASO Co Limited (subsidiary of Farfetch Japan Co. Limited) | Japan | 100 | 50.01 | E-commerce and marketing |
| 9 | Ikishia Japan Ltd (subsidiary of LASO Co Limited) | Japan | 100 | 50.01 | In liquidation |
| 10 | Ikishia UK Ltd (subsidiary of LASO Co Limited) | England & Wales | 100 | 50.01 | In liquidation |
| 11 | Farfetch China (HK Holdings) Limited (subsidiary of Farfetch HK Holdings Limited) | Hong Kong | 100 | 100 | Holding company |
| 12 | Farfetch HK Production Limited (subsidiary of Farfetch HK Holdings Limited) | Hong Kong | 100 | 100 | E-commerce and marketing |
| 13 | Farfetch (Shanghai) E-Commerce Co., Limited (subsidiary of Farfetch China (HK Holdings) Limited) | China | 100 | 100 | Marketing |

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2016

11. Investments (continued)

Farfetch UK Limited incorporated Farfetch Japan Co. Limited on 8 December 2014. The entity is subsidiary with a non-controlling interest. Farfetch UK Limited has a 50.01% shareholding.

Farfetch UK Limited incorporated Farfetch Store of the Future Limited on 13 April 2016. Farfetch UK Limited owns 100% of the entity.

On 12 August 2016 Farfetch UK Limited acquired 100% of Gleam, S.A. The Company was liquidated post year end.

On 15 August 2016, Farfetch UK Limited acquired the remaining shares in Farfetch Japan Co Limited. Farfetch UK limited owns 100% of Farfetch Japan Co Limited, 100% Ikishia Japan Ltd and 100% Ikishia UK Ltd. As at 31 December 2016, Ikishia UK Ltd are currently in the process of being liquidated and was dissolved on 3 January 2017. Ikishia Japan Limited has ceased to exist having been merged into LASO Co Limited.

Registered addresses of subsidiary undertakings by company number:

| Company number | Registered address |
|----------------|---|
| 3, 5, 10 | The Bower, 211 Old Street, London EC1V 9NR, United Kingdom |
| 7 | Monmouth House, Westbourne Grove, London, W2 4UL, United Kingdom |
| 1 | Rua da Lionesa, nr. 446, Edificio G124465-671 Leça do Balio, Portugal |
| 2, 11, 12 | 402 Jardine House, 1 Connaught Place, Central, Hong Kong |
| 13 | Room 302-09, 3rd floor, No 211, North Fute Road, Shanghai, China |
| 4 | 404 Barbizon104, 5-4-27 Minami-aoyama, Minato-ku, Tokyo, Japan |
| 8, 9 | 6th Floor, Akasaka FS Building, 7-10-7 Akasaka Minato-ku, Tokyo, Japan |
| 6 | Incubadora do Parque Tecnologico de Obidos, Convento de S. Miguel das Gaeiras, Obidos, Portugal |

12. Trade and other receivables

| | 2016 £ | 2015 £ |
|------------------------------------|-------------------|-------------------|
| Non-current | | |
| Other receivables | 3,139,998 | - |
| Amounts owed by group undertakings | 58,030,656 | 28,312,745 |
| | 61,170,654 | 28,312,745 |
| Current | | |
| Trade receivables | 8,992,303 | 2,691,961 |
| Prepayments and accrued income | 1,085,018 | 1,115,750 |
| VAT | 878,070 | 953,511 |
| Derivative financial instruments | 157,545 | - |
| | 11,112,936 | 4,761,221 |

Amount owed by Company undertakings are repayable on demand and non-interest bearing.

The directors consider that the carrying amount of trade and other receivables approximates to their fair value. The directors consider the maximum credit risk at the balance sheet date is equivalent to the carrying value of trade and other receivables.

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2016

12. Trade and other receivables (continued)

Trade receivables are recognised and carried at the lower of their original invoiced value and their recoverable amount. As at 31 December 2016, 46 per cent (2015: 38 per cent) of the trade receivables were less than 30 days old, 22 per cent (2015: 45 per cent) were between 30 and 60 days old, 16 per cent (2015: 11 per cent) were between 60 and 90 days old and 16 per cent (2015: 6 per cent) were over 90 days old. The Company has reviewed all balances and has made an allowance for debts which are considered unlikely to be collectable based on past default experience and an analysis of the counterparty's current financial position.

Allowances against doubtful debts are recognised against trade receivables. Trade receivables disclosed above include amounts which are past due at the reporting date but against which the Company has not recognised an allowance for doubtful receivables because there has not been a significant change in credit quality and the amounts are still considered recoverable. At 31 December 2016, there was no allowance for doubtful debts (2015: £nil).

13. Inventories

| | 2016 | 2015 |
|----------------|---------|--------|
| | £ | £ |
| Finished goods | 193,977 | 25,402 |

The total cost of inventory recognised as an expense was £113,989 (2015: £19,413). The total provision against inventory in order to write down the balance to the net recoverable amount was £nil (2015: £nil).

14. Cash and cash equivalents

| | 31-Dec-16 | 31-Dec-15 |
|---------------------------|-------------|------------|
| | £ | £ |
| Cash and cash equivalents | 102,703,594 | 36,879,740 |

15. Share capital

Ordinary shares issued and fully paid

| | Class | Par value | 2016 | 2015 |
|------------------|----------|-----------|------|------|
| | | £ | £ | £ |
| 1 ordinary share | Ordinary | 1 | 1 | 1 |

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2016

16. Reserves

| | Foreign exchange reserve £ | Warrant reserve £ | Share based payments £ | Accumulated losses £ |
|--------------------------------------|-------------------------------------|-------------------------|------------------------------|----------------------------|
| At 1 January 2016 | - | 213,231 | 5,164,297 | (53,669,938) |
| Loss for the year | (514,744) | - | - | (34,042,320) |
| Share-based payments- equity settled | - | - | 7,029,493 | - |
| Issue of warrants | - | 297,198 | - | - |
| Capital contribution from parent | - | - | 6,586,843 | - |
| At 31 December 2016 | (514,744) | 510,429 | 18,780,633 | (87,712,258) |

| | Warrant reserve £ | Share based payments £ | Accumulated losses £ |
|--------------------------------------|-------------------------|------------------------------|----------------------------|
| At 1 January 2015 | 213,231 | 3,500,663 | (24,992,901) |
| Loss for the year | - | - | (28,677,037) |
| Share-based payments- equity settled | - | 1,633,634 | - |
| At 31 December 2015 | 213,231 | 5,164,297 | (53,669,938) |

17. Trade and other payables

| | 2016 £ | 2015 £ |
|------------------------------------|--------------------|--------------------|
| Non-current | | |
| Amounts owed to group undertakings | 227,619,686 | 115,784,947 |
| Borrowings | 14,365,505 | - |
| | <u>241,985,191</u> | <u>115,784,947</u> |
| Current | | |
| Trade payables | 16,961,105 | 9,525,153 |
| Other payables | 25,561,512 | 20,419,330 |
| Social security and other taxes | 740,616 | 375,324 |
| Accruals and deferred income | 6,429,189 | 4,868,555 |
| Trade and other payables | <u>49,692,422</u> | <u>35,188,362</u> |
| Borrowings | 1,846,812 | - |
| | <u>293,524,425</u> | <u>150,973,309</u> |

The amounts owed to Company undertakings is an intercompany loan with an interest rate of 4% above London interbank offered rates (LIBOR).

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2016

18. Borrowings

| | Interest rate | Maturity | 2016 £ | 2015 £ |
|---|---------------|----------|------------|-----------|
| Current and non-current secured borrowings at amortised cost | | | | |
| Promissory notes | 10.8% | 2020 | 16,212,317 | - |
| Amounts due for settlement within 12 months | | | 1,846,812 | - |
| Amounts due for settlement after 12 months | | | 14,365,505 | - |

Promissory notes of \$20 million carrying interest at 10.8% were issued in 2016 at principal value. Issue costs of \$620,731 were incurred. The promissory notes are secured by fixed and floating charges over certain group assets.

19. Related party disclosures

During the year, the Company made sales totaling £8,343 to ASAP54.com Limited. This is a related party of J N F Neves. The Company has £1,490 outstanding at the end of year.

The Company has taken advantage of the exemption given by IAS 24 not to disclose transactions between two or more members of the Group as the Company is under control of Farfetch.com Limited (the Company's parent) which is the ultimate parent to which it is party to the transactions. Further details are given in note 20.

20. Ultimate controlling party

The Company is a 100% subsidiary of Farfetch.com Limited. Farfetch.com Limited is a company registered in Isle of Man and is considered to be the ultimate controlling party and ultimate parent company of Farfetch UK Limited. Farfetch.com Limited is the parent undertaking of also the smallest and largest group in which the results of the company are consolidated.

Farfetch.com Limited prepares consolidated financial statements and copies can be obtained from Farfetch.com Limited, Grosvenor House, 66-67 Athol Street, Douglas, Isle of Man, IM1 1JE.
The Company has taken advantage of the exemption available under section 401 of the Companies Act 2006 not to prepare group financial statements on the basis that the Company is included in non-EEA financial statements of a larger group.

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2016

21. Reconciliation of loss before tax to cash used in operations

| | 2016 | 2015 |
|---|---------------------|---------------------|
| | £ | £ |
| Loss before tax | (35,411,385) | (28,677,037) |
| Adjustments for: | | |
| Amortisation | 2,681,760 | 177,013 |
| Depreciation | 465,861 | 10,739 |
| Loss on disposal of non-current assets | 34,287 | - |
| Non-cash employee benefits expense-share based payments | 6,996,271 | 2,452,792 |
| Issue of warrants | 297,198 | - |
| Net finance costs | 8,894,935 | 1,474,575 |
| Net exchange differences | (6,677,881) | 688,191 |
| Increase in receivables | (37,840,658) | (18,035,706) |
| Increase in inventories | (168,574) | (21,163) |
| Increase in payables | 6,427,658 | 12,520,139 |
| Cash used in operations | (54,300,528) | (29,410,457) |

22. Operating lease commitments

Future minimum lease payments under non-cancellable operating leases as at the year-end are as follows:

| | 2016 | 2015 |
|---|-------------------|-------------------|
| | £ | £ |
| No later than one year | 1,873,523 | - |
| Later than one year not later than five years | 7,494,090 | 7,025,709 |
| Later than five years | 11,078,275 | 12,490,150 |
| | 20,445,888 | 19,515,859 |

23. Financial instruments and financial risk management

The Company manages its capital to ensure that it will be able to continue as a going concern whilst optimising the debt and equity balance. The Company's overall strategy remains unchanged from 2015. The capital structure of the Company consists of net debt (borrowings disclosed in note 18 after deducting cash and bank balances) and equity of the Company (comprising issued capital, reserves, accumulated losses and non-controlling interests). The Company is not subject to any externally imposed capital requirements.

The Company is exposed to risks which arises from the probability of changes in the fair value of the future cash flows deriving from a financial instrument due to fluctuations in market prices. The Company has identified two principal risks being market risk (foreign exchange and interest rates) and liquidity risk. The parent's risks are in line with the Company risks.

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the bases for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in note 2.

Financial risk management objectives

The Company's Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyses exposures by degree and magnitude of risks. These risks

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2016

23. Financial instruments and financial risk management (continued)

include market risk (including currency risk, interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Company seeks to minimise the effects of these risks, where appropriate, by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Company's policies approved by the board of directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of derivatives. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Market risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates (see below). The Company enters into a derivative financial instruments to manage its exposure to foreign currency risk. Interest rate risk is not hedged.

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates.

The Company uses forward currency contracts to hedge its foreign currency risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value with movements recorded to the Statement of profit and loss. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Outstanding forward foreign exchange contracts

| | Average exchange rate | | Foreign currency | | Notional value | | Fair value | |
|-----------------------------------|-----------------------|--------|------------------|--------------|----------------|------------|------------|-----------|
| | 2016 | 2015 | 2016 | 2015 | 2016 £ | 2015 £ | 2016 £ | 2015 £ |
| Buy Euros | | | | | | | | |
| Less than 3 months | 1.18 | 1.39 | €26,000,000 | €17,265,000 | 21,966,803 | 12,419,482 | 210,000 | 287,959 |
| 3 to 6 months | 1.16 | - | €1,870,000 | - | 1,607,911 | - | (691) | - |
| Sell United States Dollars | | | | | | | | |
| Less than 3 months | 1.24 | 1.52 | \$7,600,000 | \$16,205,000 | 6,119,163 | 10,690,263 | (47,818) | (286,504) |
| Sell Australian Dollars | | | | | | | | |
| Less than 3 months | 1.70 | 2.10 | \$1,000,000 | \$3,590,000 | 589,275 | 1,717,798 | 3,488 | (55,917) |
| Sell Japanese Yen | | | | | | | | |
| Less than 3 months | 147.11 | 184.30 | ¥52,000,000 | ¥121,700,000 | 353,477 | 659,865 | (7,434) | (25,340) |
| | | | | | 30,636,629 | 25,487,408 | 157,545 | (79,802) |

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2016

23. Financial instruments and financial risk management (continued)

Liquidity risk

The Company monitors its liquidity risks to maintain a balance between continuity of funding and flexibility. This helps the Company achieve timely fulfilment of its obligations while sustaining the growth of the business.

The Company seeks to invest its surplus funds in stable and secure financial institutions while maximising returns on surplus cash.

The table below analyses the Company's financial liabilities into relevant groupings based on the remaining period from the reporting date to the contractual maturity date. Amounts due within 12 months equal their carrying balances, as the impact of discounting is not significant.

| | Less than one year 2016 £ | Less than one year 2015 £ |
|--|------------------------------------|------------------------------------|
| Trade and other payables (excluding social security and other taxes) | 42,522,617 | 29,944,483 |
| Borrowings | 1,846,812 | - |
| Total | 44,369,429 | 29,944,483 |

| | More than one year 2016 £ | More than one year 2015 £ |
|--|------------------------------------|------------------------------------|
| Trade and other payables (excluding social security and other taxes) | 227,619,686 | 115,784,947 |
| Borrowings | 14,365,505 | - |
| Total | 241,985,191 | 115,784,947 |

Credit risk

Credit risk is the risk that financial loss arises from the failure of a customer to meet its obligations under a contract. It arises from the sale of products to a customer. The Company assesses the creditworthiness of new customers before commencing trade with them. Receivables are monitored on a weekly basis and a pro-active approach to the identification and control of bad and doubtful debts is maintained. At present the Company does not insure against this risk but this situation will be regularly reviewed by the board of directors as the Company grows to ensure that the Company is not unnecessarily exposed to the risk of failure of a customer or group of customers.

Capital risk management

The Company's objective when managing capital are to safeguard the Company's ability to provide returns for members and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Company is not subject to any externally imposed capital requirements.

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2016

23. Financial instruments and financial risk management (continued)

The capital structure is as follows:

| | 2016 £ | 2015 £ |
|---------------------------------|----------------------|---------------------|
| Borrowings | 16,212,317 | - |
| Less: cash and cash equivalents | (102,703,594) | (36,879,740) |
| Net Debt | (86,491,277) | (36,879,740) |
| Total equity | (68,935,939) | (48,292,409) |
| Total capital | (155,427,216) | (85,172,149) |

Fair value hierarchy

Financial instruments carried at fair value are categorised into the below levels, reflecting the significance of the inputs used in estimating the fair values:

Level 1: Quoted prices (unadjusted) in active markets for identical instruments;

Level 2: Valuation techniques based on observable inputs, other than quoted prices included within level 1, that are observable either directly or indirectly from market data;

Level 3: Valuation techniques using significant unobservable inputs, this category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

The Company recognises derivative financial instruments at fair value. The derivative financial instruments have been measured using a level 1 valuation method.

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2016

23. Financial instruments and financial risk management (continued)

Financial instruments sensitivity analysis

In managing currency risks the Company aims to reduce the impact of short term fluctuations on its earnings. At the end of each reporting year, the effects of hypothetical changes in currency rates are as follows:

Foreign exchange rate sensitivity analysis

The table below shows the Company's sensitivity to pounds sterling strengthening/weakening by 10%:

| | Increase/ (decrease) in profit or loss 2016 £ | Increase/ (decrease) in profit or loss 2015 £ |
|-------------------------------------|---|---|
| 10% appreciation of pounds sterling | 3,548,049 | (13,149) |
| 10% depreciation of pounds sterling | (4,336,504) | (152,084) |

| | Increase/ (decrease) in loss 2016 £ | Increase/ (decrease) in loss 2015 £ |
|------------------------------|--|--|
| 2% increase in US Prime Rate | 372,981 | - |
| 2% decrease in US Prime Rate | (396,578) | - |

Categories of financial instruments

Financial assets

| | Loans and receivables 2016 £ | Loans and receivables 2015 £ |
|---------------------------|---------------------------------------|---------------------------------------|
| Trade receivables | 8,992,303 | 31,004,706 |
| Other receivables | 62,048,723 | 29,266,256 |
| Cash and cash equivalents | 102,703,594 | 36,879,740 |
| Total | 173,744,620 | 97,150,702 |

| | Financial assets at fair value through profit or loss 2016 £ | Financial assets at fair value through profit or loss 2015 £ | Financial liabilities at fair value through profit or loss 2016 £ | Financial liabilities at fair value through profit or loss 2015 £ |
|--|---|---|--|--|
| Derivative financial asset/ (liability) | 213,488 | 287,959 | (55,942) | (367,761) |

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2016

23. Financial instruments and financial risk management (continued)

| Financial liabilities | Amortised cost 2016 £ | Amortised cost 2015 £ |
|---------------------------------------|-----------------------------|-----------------------------|
| Trade and other payables- Non current | 227,619,685 | 115,784,947 |
| Trade and other payables- Current | 16,961,105 | 9,525,153 |
| Other payables | 25,561,512 | 20,419,330 |
| Borrowings | 16,212,317 | - |
| Total | 286,354,619 | 145,729,430 |

24. Share options- equity and cash settled

The Company continues to participate in its parent's equity settled share option plans (section a). The parent has also introduced a cash settled share option plan in 2016 (section b) which the Company also participates in.

a) Equity settled

Certain employees of the Company participate in the parent company's equity settled share based payment scheme. This is accounted for as equity-settled in the Company's individual financial statements. The scheme/ plans are administered by the parent company which grants the rights to the Company's employees as part of the scheme. The management of the Company do not have the power to grant rights under the scheme autonomously without approval by the parent company.

The share based payments as at 31 December 2016 are described below:

| Type of arrangement | EMI approved share option plan | LTIP approved share option plan |
|---------------------|---|---|
| Date of first grant | 01 Nov 2011 | 09 Sept 2015 |
| Number granted | 1,101,120 | 1,546,907 |
| Contractual life | 10 years | 10 years |
| Vesting conditions | Varying tranches of options vesting upon defined years of service | Varying tranches of options vesting upon defined years of service |

Movements on the share options were as follows:

| | 2016 units | 2015 units |
|---------------------------------|------------------|------------------|
| Options at beginning of year | 2,311,313 | 1,752,676 |
| Options granted | 804,020 | 632,637 |
| Options exercised | (252,575) | (74,000) |
| Options forfeited | (250,484) | - |
| | 2,612,274 | 2,311,313 |
| Options exercisable at year end | 1,677,898 | 1,384,090 |

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2016

24. Share options (continued)

| | 2016 | 2015 |
|--|------------------|------------------|
| Weighted average exercise prices were as follows: | | |
| Options at beginning of year | £3.29 | £0.69 |
| Options granted | £14.61 | £11.00 |
| Options forfeited | £0.30 | - |
| Options exercised | £2.79 | - |
| Options at end of year | £9.39 | £3.29 |
| Options exercisable at year end | £11.67 | £5.33 |
| Weighted average exercise price of options exercised during the year | £0.34 | £0.32 |
| Weighted average remaining contracted life of options outstanding at year end | 5.7 years | 6.3 years |

Exercise price of options outstanding at year end

| | 2016 | 2015 |
|--|------------------|------------------|
| | No of options | No of options |
| 0.32 | 729,684 | 1,118,586 |
| 0.51 | 5,469 | 30,000 |
| 0.85 | 419,840 | 419,840 |
| 3.75 | 157,500 | 160,250 |
| 6.08 | 135,637 | 211,262 |
| 9.08 | 267,233 | - |
| 10.57 | 35,584 | - |
| 13.70 | 656,860 | 371,375 |
| 18.70 | 5,000 | - |
| 26.79 | 169,468 | - |
| | <u>2,582,275</u> | <u>2,311,313</u> |
| Weighted Average Fair Value of Options Granted in year | <u>£ 10.70</u> | <u>£ 9.50</u> |

Inputs in the Black Scholes model for share options granted during the year and prior year were as follows:

| Black Scholes Model | 2016 | 2015 |
|---------------------------------|-------------|-------------|
| Weighted average share price | 23.39 | 11.005 |
| Weighted average exercise price | £4.612 | £0.324 |
| Average expected volatility | 20% | 40% |
| Average option life | 4.0 | 6.5 years |
| Average risk free rate | 1.40% | 1.61% |
| Expected dividends | £nil | £nil |

During 2016, the Group has revised expected volatility and life assumptions. Expected volatility was determined by calculating the historic volatility of the Group's share price. The expected life in the model has been adjusted

Farfetch UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2016

24. Share options (continued)

based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioral considerations.

The Company recognised total expenses of £6,996,271 and £2,452,792 related to equity-settled share based payment transactions in 2016 and 2015 respectively.

b) Cash settled

Certain employees of the Company participate in the parent's cash settled share based payment scheme where they are granted share appreciation rights ("SAR"s) that require the Company to pay the intrinsic value of the SAR to the employee at the date of exercise. The Company has recorded liabilities of £50,765 in 2016 and (£nil in 2015).

The fair value of the SARs is determined by using the Black Scholes model using the same assumptions noted in the above table for the Company's equity-settled share based payments. There was no movement in fair value in 2016 or 2015. The total intrinsic value at 31 December 2016 was £144,961.

25. Events after the reporting year

On 13 June 2017, the Company, acquired certain business assets of Style.com which met the definition of a business combination. Consideration was \$12,500,000 (£9,812,000) which was settled through the issue of ordinary shares in the Company's ultimate parent with the Company receiving a capital contribution from its parent. On 30th June 2017, the Company fully repaid the promissory notes in issue (note 18) which was ahead of their originally scheduled maturity. This resulted in a cash outflow of \$21,955,483.32 (£16,916,159). There were no other subsequent events.