

AFH Stores UK Limited

Annual Report and Financial Statements
For the period ended February 2, 2019

Registered Number: 06423604



AFH Stores UK Limited

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AFH Stores UK Limited

Company information

DIRECTORS

Anna Mollerstrom
Gregory Henchel

INDEPENDENT AUDITORS

Arram Berlyn Gardner LLP
30 City Road
London
EC1Y 2AB

REGISTERED OFFICE

1 Old Burlington Street
2nd Floor
London
W1S 3AD

AFH Stores UK Limited

Strategic Report

For the period ended 2 February 2019

The Directors present their Strategic Report and financial statements of AFH Stores UK Limited (the "Company") for the period ended February 2, 2019. The Company's fiscal year ends on the Saturday closest to January 31, typically resulting in a fifty-two week year, but occasionally giving rise to an additional week, resulting in a fifty-three week year, as was the case for the period ended February 3, 2018. These financial statements represent the period February 4, 2018 to February 2, 2019. The comparative period is January 29, 2017 to February 3, 2018.

Principal activities and review of business

The Company is a specialty retailer that operates 34 stores and direct-to-consumer operations, offering a broad assortment of apparel, personal care products and accessories for men, women and kids under the Abercrombie & Fitch, abercrombie kids and Hollister brands. The brands share a commitment to offering products of enduring quality and exceptional comfort that allows customers around the world to express their own individuality and style.

Key performance indicators & Future developments

The Directors consider sales growth as key performance indicators. For the period ended February 2, 2019, net sales decreased 2.5%. This decrease reflects the reduction in traffic throughout the year.

The Company began its trading operations in late October 2008 and in fiscal 2018, its tenth year of retail operations, realized an operating profit equal to £ 4,696,000.

Principal risks and uncertainties

Forward-looking statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. The following factors, categorized by the primary nature of the associated risk, could affect our financial performance and cause actual results to differ materially from those expressed or implied in any of the forward-looking statements.

Macroeconomic and industry risks include:

- Changes in global economic and financial conditions, and the resulting impact on consumer confidence and consumer spending, as well as other changes in consumer discretionary spending habits, could have a material adverse effect on our business, results of operations and liquidity;
- Failure to anticipate customer demand and changing fashion trends and to manage our inventory commensurately could adversely impact our sales levels and profitability;
- Our market share may be negatively impacted by increasing competition and pricing pressures from companies with brands or merchandise competitive with ours;
- Our ability to attract customers to our stores depends, in part, on the success of the shopping malls or area attractions that our stores are located in or around; and,
- The impact of war, acts of terrorism or civil unrest could have a material adverse effect on our operating results and financial condition.

Strategic risks include:

- The expansion of our direct-to-consumer sales channels and omnichannel initiatives are significant components of our growth strategy, and the failure to successfully develop our position across all channels could have an adverse impact on our results of operations;
- Our growth strategy and ability to conduct business may be adversely affected by legal, regulatory, political and economic risks; and,
- Failure to successfully implement our strategic plans could have a negative impact on our growth and profitability.

AFH Stores UK Limited

Strategic Report (continued)

For the period ended 2 February 2019

Principal risks and uncertainties (continued)

Operational risks include:

- Failure to protect our reputation could have a material adverse effect on our brands;
- Our business could suffer if our information technology systems are disrupted or cease to operate effectively;
- We may be exposed to risks and costs associated with cyber-attacks, credit card fraud and identity theft that would cause us to incur unexpected expenses and reputation loss;
- Our reliance on the Abercrombie & Fitch Co. group's distribution centers makes us susceptible to disruptions or adverse conditions affecting our supply chain;
- Changes in cost, availability and quality of raw materials, labor, transportation and trade relations could cause manufacturing delays and increase our costs;
- We depend upon independent third parties for the manufacture and delivery of all our merchandise, and a disruption of the manufacture or delivery of our merchandise could result in lost sales;
- We rely on the experience and skills of Abercrombie & Fitch Co.'s senior executive officers and associates, the loss of whom could have a material adverse effect on our business; and,
- Extreme weather conditions, including natural disasters, pandemic disease and other unexpected events, could negatively impact our facilities, systems and stores, as well as Abercrombie & Fitch Co. group's facilities and systems of our vendors and manufacturers, which could result in an interruption to our business and adversely affect our operating results.

Legal, tax, regulatory and compliance risks include:

- Fluctuations in our tax obligations and effective tax rate may result in volatility in our results of operations;
- Our litigation exposure could have a material adverse effect on our financial condition and results of operations;
- Failure to adequately protect Abercrombie & Fitch Co.'s trademarks could have a negative impact on our brand image; and,
- Changes in the regulatory or compliance landscape and compliance with changing regulations for accounting, corporate governance and public disclosure could adversely affect our business, results of operations and reported financial results.

The June 2016 decision by the United Kingdom to leave the European Union continues to result in uncertainty related to the free movement of goods, services, people and capital between the United Kingdom and the European Union, consumer behavior, economic conditions and foreign currency exchange rates. The potential impacts of United Kingdom's withdrawal from the European Union remain unclear and could adversely impact certain areas of our business, including, but not limited to, an increase in duties and delays in the delivery of merchandise from our Netherlands DC to our stores and direct-to customers in the United Kingdom if trade barriers materialize at ports of entry and departure. The potential impacts of United Kingdom's withdrawal from the European Union could also adversely impact the operations of our vendors.

To mitigate this risk, the Company has begun to proactively prepare for potential adverse impacts by working with external partners to develop the necessary contingency plans. We have also taken actions to reduce, to the extent possible, the potential material impact of any incremental duty exposure.

The Company does not use hedging as the majority of its transactions, especially the purchase and sale of its merchandise, are performed in its local currency. Furthermore, the Company functions as a limited-risk distributor with a formalized trade contract with Abercrombie & Fitch Europe Sagl (the "Sole Shareholder") based on the Organization for Economic and Cooperation Development (OECD) transfer pricing guidelines (the Agreement). Pursuant to the Agreement, the parties agree that the Company will purchase all necessary inventory from the Sole Shareholder. The Company is not exposed to inventory risk as the Agreement includes price protection and the right to return inventory to the Sole Shareholder for full reimbursement. Furthermore, the Sole Shareholder guarantees the Company's ordinary profits before taxes, pursuant to the Agreement. Accordingly, any losses incurred by the Company on the sale of inventory would be recoverable under the terms of the Agreement.

AFH Stores UK Limited

Strategic Report (continued)

For the period ended 2 February 2019

Principal risks and uncertainties (continued)

As the Company's sales are all executed in cash or credit card, the Company is not exposed to significant credit risk. The credit card receivables on the Company sales are usually settled within a few days after the sale transaction.

In the Directors' view the Company's financial risk is mitigated due to the limited risk distributorship model under which it operates.

On behalf of the board,



Anna Mollerstrom
Director

15 July 2019

AFH Stores UK Limited

Directors' Report

For the period ended 2 February 2019

The Directors present their annual report and the audited financial statements of the Company for the period ended February 2, 2019.

Results and dividends

The Company's profit for the financial period, after taxation, amounted to £2,792,000 (2018: profit of £2,459,000).

The Directors do not recommend the payment of a dividend (2018: nil).

Directors

The Directors, who served during the period ended February 2, 2019, are given below:

Robert Bostrom (resigned on 1 October 2018)

Jennifer Wangler (resigned on 25 January 2019)

Gregory Henchel (appointed on 1 October 2018)

Anna Mollerstrom (appointed on 25 January 2019)

Research and development

The Company is currently undertaking no research and development activities.

Employees

Management and associate development is considered vital to the future success of the Company. The Company aims to provide training relevant to individuals and their role in the business.

The Company has a policy of providing associates with information about the Company's performance and future plans within the business. Meetings are held between managers and associates to discuss the Company's daily and weekly targets and goals. Associates are also encouraged to present suggestions on how to improve procedures in their area.

The Company has a good safety performance record and places a high priority on ensuring that health and safety standards are maintained.

The Company gives every consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

Where existing associates become disabled, it is the Company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training, career development and promotion to disabled associates wherever appropriate.

Suppliers Policy

It is the Company's policy to pay suppliers in accordance with our normal terms and conditions of trading.

Auditors

The auditors Arram Berlyn Gardner LLP, are deemed to be reappointed as auditors under Section 487 (2) of the Companies Act 2006.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial period. Under that law the Directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102).

AFH Stores UK Limited

Directors' Report (continued)

For the period ended 2 February 2019

Statement of Directors' responsibilities (continued)

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors

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

- (1) so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- (2) the Director has taken all the steps that he/she ought to have taken as a Director in order to make him/her-self 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 provisions of s418 of the Companies Act 2006.

On behalf of the board,


Anna Mollerstrom
Director

15 July 2019

AFH Stores UK Limited

Independent Auditor's Report to the Members of AFH Stores UK Limited

Opinion

We have audited the financial statements of AFH Stores UK Limited (the "Company") for the period ended February 2, 2019 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at February 2, 2019 and of its profit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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

Other information

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

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

We have nothing to report in this regard.

Opinion on other matter prescribed by the Companies Act 2006

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

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

**Independent Auditor's Report
to the Members of AFH Stores UK Limited (continued)**

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Directors' Report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

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

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

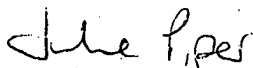
Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Julie Piper FCA (Senior Statutory Auditor)
for and on behalf of Arram Berlyn Gardner LLP

**Chartered Accountants
Statutory Auditor**

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30 City Road
London
EC1Y 2AB

AFH Stores UK Limited

Statement of total comprehensive income

For the period ended 2 February 2019

| | Note | 2019 £'000 | 2018 £'000 |
|--|------|---------------------|---------------------|
| Turnover | 5 | 160,478 | 164,558 |
| Cost of sales | | <u>(90,204)</u> | <u>(92,633)</u> |
| Gross profit | | 70,274 | 71,925 |
| Administrative expenses | | (4,948) | (4,873) |
| Selling and distribution expenses | | <u>(60,630)</u> | <u>(62,242)</u> |
| Operating profit | 6 | 4,696 | 4,810 |
| Interest receivable and similar income | | 32 | 43 |
| Interest payable and similar charges | | <u>(354)</u> | <u>(361)</u> |
| Net interest expense | 8 | (322) | (318) |
| Profit on ordinary activities before taxation | | 4,374 | 4,492 |
| Tax on profit on ordinary activities | 9 | <u>(1,582)</u> | <u>(2,033)</u> |
| Profit for the financial period | | 2,792 | 2,459 |
| Total comprehensive income for the financial period | | <u>2,792</u> | <u>2,459</u> |

The notes on pages 12 to 23 form an integral part of these financial statements.

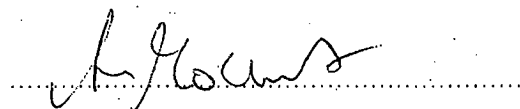
AFH Stores UK Limited

Statement of financial position As at 2 February 2019

| | Note | 2019 £'000 | 2018 £'000 |
|--|------|-----------------|-----------------|
| Fixed assets | | | |
| Tangible assets | 10 | 23,239 | 27,091 |
| Current assets | | | |
| Stocks | 11 | 38,925 | 39,740 |
| Debtors | 12 | 19,247 | 9,093 |
| Cash at bank and in hand | | 2,496 | 5,882 |
| | | <u>60,668</u> | <u>54,715</u> |
| Creditors: amounts falling due within one year | 13 | <u>(32,225)</u> | <u>(30,914)</u> |
| Net current assets | | <u>28,443</u> | <u>23,801</u> |
| Total assets less current liabilities | | 51,682 | 50,892 |
| Provisions for liabilities | 14 | <u>(12,116)</u> | <u>(14,118)</u> |
| Net assets | | <u>39,566</u> | <u>36,774</u> |
| Capital and reserves | | | |
| Called up share capital | 16 | 23,901 | 23,901 |
| Share premium | 16 | — | — |
| Profit and Loss account | 16 | <u>15,665</u> | <u>12,873</u> |
| Total equity | | <u>39,566</u> | <u>36,774</u> |

The notes on pages 12 to 23 form an integral part of these financial statements.

The financial statements on pages 9 to 23 were approved and authorised for issue by the Board on 15 July 2019 and were signed on their behalf by:



Anna Mollerstrom
Director

Registered Number: 06423604

AFH Stores UK Limited

Statement of changes in equity

As at 2 February 2019

| | Notes | Called-up share capital £'000 | Share premium £'000 | Retained earnings £'000 | Total £'000 |
|--|-----------|--|---------------------------|-------------------------------|----------------|
| Balance as at January 29, 2017 | | 23,901 | 10,000 | 10,414 | 44,315 |
| Profit for the period | | — | — | 2,459 | 2,459 |
| Total comprehensive income for the period | | — | — | 2,459 | 2,459 |
| Capital distribution | | — | (10,000) | — | (10,000) |
| Total transaction with owners, recognised directly in equity | | — | (10,000) | — | (10,000) |
| Balance as at February 3, 2018 | | 23,901 | — | 12,873 | 36,774 |
| Balance as at February 4, 2018 | | 23,901 | — | 12,873 | 36,774 |
| Profit for the period | | — | — | 2,792 | 2,792 |
| Total comprehensive income for the period | | — | — | 2,792 | 2,792 |
| Total transaction with owners, recognised directly in equity | | — | — | — | — |
| Balance as at February 2, 2019 | 16 | 23,901 | — | 15,665 | 39,566 |

The notes on pages 12 to 23 form an integral part of these financial statements.

AFH Stores UK Limited

Notes to the financial statements

For the period ended 2 February 2019

1. General Information

The Company is a private company limited by shares and is incorporated and domiciled in England. The address of its registered office is 1 Old Burlington Street, 2nd floor, London, W1S 3AD.

The Company is a wholly owned subsidiary of Abercrombie & Fitch Europe Sagl (the "Parent"), member of a group (the "Group") headed by Abercrombie & Fitch Co. (the "Ultimate Parent"), a Delaware company incorporated in the United States of America.

The address of the principal place of business is the address of the Ultimate Parent, 6301 Fitch Path, New Albany, Ohio 43054, U.S.A..

2. Statements of compliance

The individual financial statements of AFH Stores UK Ltd have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

3. Summary of significant accounting policies

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.

a) Basis of Preparation

These financial statements are prepared on the going concern basis, under the historical cost convention.

The Company's functional and presentation currency is the pound sterling.

The financial statements are presented rounded to the nearest £'000.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

b) Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

c) Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions. The Company has taken advantage of the following:

i) a reconciliation of the number of shares outstanding at the beginning and end of the period (FRS 102 para 4.12(a)(iv));

ii) the requirement to prepare a statement of cash flows (Section 7 of FRS 102 and para 3.17(d)), on the basis that its ultimate parent company, Abercrombie & Fitch Co. ("The Ultimate Parent"), includes the company's cash flows in its own consolidated financial statements;

AFH Stores UK Limited

Notes to the financial statements (continued)

For the period ended 2 February 2019

3. Summary of significant accounting policies (continued)

c) Exemptions for qualifying entities under FRS 102 (continued)

iii) the requirements of Section 11 (FRS 102 paras 11.41(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44, 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c) and Section 12 paras 12.26 (in relation to those cross-referenced paragraphs from which a disclosure exemption is available), 12.27 and 12.29);

iv) the requirements of Section 26 Share-based Payment (FRS 102 paras 26.18(b), 26.19 - 26.21, 26.23);

v) the non-disclosure of key management personnel compensation in total (FRS 102 para 33.7).

Furthermore, the Company is included in the consolidated financial statements of the Ultimate Parent, which are publicly available. A copy of the group financial statements can be obtained from Investor Relations Department, 6301 Fitch Path, New Albany, Ohio 43054, U.S.A. or at www.abercrombie.com/investors. The Parent is therefore exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

d) Foreign currency

Transactions in foreign currencies are translated into sterling at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

e) Revenue recognition

The Company recognizes revenue from product sales when control of the good is transferred to the customer, generally upon pickup at, or shipment from, a Company location.

The Company also sells goods via its website for delivery to the customer or "click and collect" at its retail shops. Revenue is recognised when the risk and rewards of the inventory is passed to the customer. For deliveries to the customer this is the point of acceptance of the goods by the customer and for "click and collect" this is the time of collection. Transactions are primarily settled by credit or payment card.

The Company provides shipping and handling services to customers in certain direct-to-consumer transactions. Revenue associated with the related shipping and handling obligations is deferred until the obligation is fulfilled, typically upon the customer's receipt of the merchandise. The related shipping and handling costs are classified in selling and distribution expenses on the statement of total comprehensive income (loss).

The Company maintains loyalty programs in which customers primarily have the opportunity to earn points toward future merchandise discount rewards based on qualifying purchases. The Company will defer sales revenue equal to the relative selling price of the points issued to customers, taking into account expected future redemptions based on historical redemption patterns. Revenue associated with the issued points from the loyalty programs is recognized at the earlier of redemption or expiration, as net sales.

The Company accounts for gift cards sold to customers by recognizing an unearned revenue liability at the time of sale, which is recognized as turnover, at the earlier of redemption by the customer or when the Company determined the likelihood of redemption to be remote, referred to as gift card breakage. Gift card breakage is recognized proportionally with gift card redemptions. Gift cards sold to customers do not expire or lose value over periods of inactivity and the Company is not required by law to escheat the value of unredeemed gift cards to the jurisdictions in which it operates.

The Company makes a provision for sales returns through estimates based on historical experience and various other assumptions that management believes to be reasonable.

AFH Stores UK Limited

Notes to the financial statements (continued)

For the period ended 2 February 2019

3. Summary of significant accounting policies (continued)

f) Employee benefits

The Company provides a range of benefits to employees, including annual bonus arrangements and paid holiday arrangements.

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

The Company operates an annual bonus plan for some employees. An expense is recognised in the profit and loss account when the Company has a legal or constructive obligation to make payments under the plan as a result of past events and a reliable estimate of the obligation can be made.

g) Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account. Current and deferred taxation assets and liabilities are not discounted.

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in the 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.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax.

Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

h) Tangible assets

Tangible assets are stated at historic purchase cost less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. The Company records a construction in progress asset for tangible assets for which the work has not yet been completed. Upon completion of the work these assets are reclassified to the proper tangible asset category. Tangible assets are only depreciated once they have been put into use. The depreciation of tangible fixed assets is recognized on asset evenly over its expected useful economic life as follows:

| | |
|-----------------------------------|--|
| Furniture, fixtures and equipment | the useful life of the asset, which ranges from three to ten years |
| Leasehold Improvements | the lesser of the useful life of the asset, which ranges from three to fifteen years, or the term of the lease |
| Dilapidations | the term of the lease |
| Leasehold acquisitions | the shorter of the useful life and the term of the lease starting from possession date |

AFH Stores UK Limited

Notes to the financial statements (continued)

For the period ended 2 February 2019

3. Summary of significant accounting policies (continued)

h) Tangible assets (continued)

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in profit or loss and included in 'Selling and distribution expenses'.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Tangible fixed assets include also capitalized store supplies. These include, but are not limited to, hangers, frames, sign holders, security tags, back-room supplies, and construction materials. The Company develops an initial inventory of supplies necessary to support daily activities in stores. The portion of the initial inventory of supplies that is generally not readily consumed during normal store operations is capitalized. In lieu of amortizing the initial balances over their estimated useful lives, the Company expenses all subsequent replacements and adjusts the balance, as appropriate, for changes in quantities, cost, impairment or disposals. The list of qualifying items is periodically reviewed and revised as needed to support changing store operating practices.

Lastly, tangible fixed assets include items stored at a third party location. These items are expensed in the statement of total comprehensive income, when shipped to stores as replacements for damaged items.

i) Leases

Rentals paid under operating leases are charged to the statement of total comprehensive income on a straight-line basis in the period to which they relate.

Benefits received and receivable as an incentive under an operating lease are recognised on a straight-line basis over the term of the lease.

j) Inventory

The Company functions as a limited-risk distributor with a formalized trade contract with the Sole Shareholder based on the Organization for Economic and Cooperation Development ("OECD") transfer pricing guidelines (the "Agreement"). Pursuant to the Agreement, the parties agree that the Company will purchase all necessary inventory from the Sole Shareholder. The Company is not exposed to inventory risk as the Agreement includes price protection and the right to return inventory to the Sole Shareholder for full reimbursement. Furthermore, the Sole Shareholder guarantees the Company's ordinary profits before taxes, pursuant to the Agreement. Accordingly, any losses incurred by the Company on the sale of inventory would be recoverable under the terms of the Agreement.

Inventory is measured using the weighted average cost method. Cost includes all costs incurred in bringing each product to its present location and condition. The Company does not have an obsolescence reserve on its stocks due to its agreement with the Sole Shareholder that allows it to return obsolete inventory to it for a full refund.

k) Financial instruments

Basic financial assets, including trade and other receivables, cash and bank balances are recognised at transaction price.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party.

AFH Stores UK Limited

Notes to the financial statements (continued)

For the period ended 2 February 2019

3. Summary of significant accounting policies (continued)

k) Financial instruments (continued)

Basic financial liabilities, including trade and other payables and loans from fellow group companies are recognised at transaction price.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers or other group companies. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

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

l) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other non-restricted highly liquid investments.

m) Dilapidations

The Company provides for expected future costs related to debranding on locations upon lease expiration under the terms of the underlying lease agreements. The provision is calculated based on management's best estimate of the cost required to bring the property to the condition required at the end of the lease under the agreement.

n) Equity

Share capital comprises ordinary shares classified as equity.

Dividends and other distributions to the Company's shareholder are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the Company's shareholder. These amounts are recognised in the statement of changes in equity.

AFH Stores UK Limited

Notes to the financial statements (continued)

For the period ended 2 February 2019

4. Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The following are the critical judgments that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the accounts:

- classification of leases as operating leases;
- taxation;
- timing of revenue recognition;
- gift card breakage estimation and recognition;
- deferred revenues estimation related to loyalty programs;
- estimation for dilapidations;
- classification and estimation of employee benefits;
- classification of financial instruments as assets or liabilities.

For a more detailed explanation, please refer to note 3, regarding the summary of significant accounting policies.

5. Turnover

Turnover is attributable to the continuing activity and it is generated from the sale of goods through the stores or through the e-commerce website, as well as gift card breakage as follows:

| | 2019 £'000 | 2018 £'000 |
|--------------------|----------------|----------------|
| Store sales | 105,794 | 115,098 |
| Web sales | 52,947 | 48,091 |
| Gift card breakage | 244 | 212 |
| Other | 1,493 | 1,157 |
| | <u>160,478</u> | <u>164,558</u> |

All turnover is derived in the United Kingdom.

Other may include employee discounts, returns reserve, refunds for Tax Free Commissions received during the year and shipping and handling revenues.

AFH Stores UK Limited

Notes to the financial statements (continued)

For the period ended 2 February 2019

6. Operating profit

Operating profit is stated after charging:

| | 2019 £'000 | 2018 £'000 |
|--|---------------|---------------|
| Depreciation of tangible fixed assets | 7,630 | 8,168 |
| Foreign exchange loss | 29 | 29 |
| Services provided by the Company's auditor - fees payable for the audit | 75 | 84 |
| Operating leases | <u>30,952</u> | <u>32,397</u> |

Fees payable for the audit include fees related to the audit of the related company Abercrombie & Fitch (UK) Limited for an amount of £7,250 (2018: £9,000).

7. Staff costs

| | 2019 £'000 | 2018 £'000 |
|-----------------------|---------------|---------------|
| Wages and salaries | 15,708 | 15,317 |
| Social security costs | 955 | 881 |
| Pension costs | 234 | 90 |
| | <u>16,897</u> | <u>16,288</u> |

The average number of employees including Directors during the period was as follows:

| | 2019 | 2018 |
|----------------|--------------|--------------|
| Sales | 2,999 | 2,961 |
| Administration | 33 | 36 |
| | <u>3,032</u> | <u>2,997</u> |

The Directors of the Company are not remunerated for their services to the Company. In the opinion of the Directors, it is not possible to determine with reasonable accuracy a cost allocation relating to services provided to the Company.

8. Net interest expense

| | 2019 £'000 | 2018 £'000 |
|-------------------------------|---------------|---------------|
| Bank interest | 32 | 43 |
| Interest on intercompany loan | (354) | (361) |
| Interest on capital leases | — | — |
| Net interest expense | <u>(322)</u> | <u>(318)</u> |

AFH Stores UK Limited

Notes to the financial statements (continued)

For the period ended 2 February 2019

9. Tax on profit on ordinary activities

| | 2019 £'000 | 2018 £'000 |
|--|---------------|----------------|
| Current tax | | |
| UK corporation tax on profits of the period | 1,464 | 2,523 |
| Adjustment in respect of previous periods | (24) | 698 |
| Total current tax | 1,440 | 3,221 |
| Deferred tax | | |
| Origination and reversal of timing differences | 164 | (637) |
| Adjustment in respect of previous period | (5) | (622) |
| Effect of changes in tax rates | (17) | 71 |
| Total deferred tax | 142 | (1,188) |
| Tax charge on profit on ordinary activities | 1,582 | 2,033 |

Factors affecting the tax charge for the financial period

The tax charge assessed for the period is higher (2018: higher) than the standard rate of corporation tax in the UK (19%) (2018: 19.17%). The differences are explained below:

| | 2019 £'000 | 2018 £'000 |
|---|---------------|---------------|
| Profit on ordinary activities before taxation | 4,374 | 4,492 |
| Profit on ordinary activities multiplied by standard rate of UK corporation tax of 19% (2018: 19.17%) | 831 | 861 |
| Effects of: | | |
| Expenses not deductible for tax purposes | 797 | 1,025 |
| Depreciation in excess of capital allowance | (155) | 641 |
| Movement in short term timing difference | (9) | (4) |
| Adjustment to tax charges in respect of previous periods | (24) | 698 |
| Tax on profit on ordinary activities | 1,440 | 3,221 |

Factors that may affect future tax charges

The tax rate for the current period was 19%. The tax rate for the prior period was 20% until 1 April 2017 and 19% thereafter.

Reductions to the UK Corporation tax rates were substantively enacted as part of the Finance Bill 2016 on 15 July 2015. These reduced the main rate to 19% from 1 April 2017 and to 17% from 1 April 2020.

AFH Stores UK Limited

Notes to the financial statements (continued)

For the period ended 2 February 2019

10. Tangible assets

| | Furniture fixtures and equipment | Leasehold improvements | Leasehold acquisition | Construction in progress | Dilapidations | Capitalized store supplies | Total |
|--------------------------------------|--|---------------------------|--------------------------|-----------------------------|---------------|----------------------------------|---------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Cost: | | | | | | | |
| At 4 February 2018 | 20,144 | 56,978 | 9,065 | 368 | 3,705 | 1,043 | 91,303 |
| Additions | — | — | — | 3,696 | 110 | — | 3,806 |
| Transfers | 1,396 | 2,111 | — | (3,507) | — | — | — |
| Disposals | (52) | — | — | (5) | — | (15) | (72) |
| At 2 February 2019 | 21,488 | 59,089 | 9,065 | 552 | 3,815 | 1,028 | 95,037 |
| Accumulated depreciation: | | | | | | | |
| At 4 February 2018 | 17,050 | 40,072 | 5,241 | — | 1,849 | — | 64,212 |
| Charge for the period | 1,163 | 5,151 | 824 | — | 492 | — | 7,630 |
| Disposals | (44) | — | — | — | — | — | (44) |
| At 2 February 2019 | 18,169 | 45,223 | 6,065 | — | 2,341 | — | 71,798 |
| Net book value: | | | | | | | |
| At 4 February 2018 | 3,094 | 16,906 | 3,824 | 368 | 1,856 | 1,043 | 27,091 |
| At 2 February 2019 | 3,319 | 13,866 | 3,000 | 552 | 1,474 | 1,028 | 23,239 |

11. Stocks

| | 2019 £'000 | 2018 £'000 |
|-------------------------------------|---------------|---------------|
| Finished goods and goods for resale | 38,925 | 39,740 |

The cost of inventories recognised as an expense amounted to £87,041,030 (2018: £90,956,664).

AFH Stores UK Limited

Notes to the financial statements (continued)

For the period ended 2 February 2019

12. Debtors

| | 2019 £'000 | 2018 £'000 |
|------------------------------------|---------------|---------------|
| Trade debtors | 1,083 | 787 |
| Amounts owed by group undertakings | 10,235 | 1,124 |
| Other debtors | 960 | 68 |
| Prepayments | 5,460 | 5,463 |
| Deferred tax (note 15) | 1,509 | 1,651 |
| | <u>19,247</u> | <u>9,093</u> |

Amounts owed to group undertakings for trade are interest free, unsecured and repayable on demand.

13. Creditors: amounts falling due within one year

| | 2019 £'000 | 2018 £'000 |
|------------------------------------|---------------|---------------|
| Trade creditors | 346 | 225 |
| Amounts owed to group undertakings | 17,314 | 16,585 |
| Corporation tax | 167 | 1,154 |
| Other taxation and social security | 4,556 | 4,320 |
| Accruals and deferred income | 9,842 | 8,630 |
| | <u>32,225</u> | <u>30,914</u> |

Amounts owed to group undertakings, other than the loan due to Abercrombie & Fitch (UK) Limited, are interest free, unsecured and repayable on demand. The loan bears interest at 2.5% per annum (2018: 2.5% per annum) and the Company has recognized an expense of £354,028 as interest payable in the statement of total comprehensive income for the financial period ended February 2, 2019 (2018: £360,836).

AFH Stores UK Limited

Notes to the financial statements (continued)

For the period ended 2 February 2019

14. Provisions for liabilities

| | Dilapidation provision | Deferred lease credits | 2019 |
|---------------------------------|---------------------------|---------------------------|---------------|
| | £'000 | £'000 | £'000 |
| At 4 February 2018 | 4,878 | 9,240 | 14,118 |
| Additions | 363 | 223 | 586 |
| Reclassifications to short term | — | (2,588) | (2,588) |
| At 2 February 2019 | 5,241 | 6,875 | 12,116 |

The dilapidation provision relates to amounts for the cost of restoring the store site at the end of the lease. Benefits received and receivable as an incentive under an operating lease are recognised on a straight-line basis over the term of the lease.

15. Deferred tax

| | Provided 2019 £'000 | Provided 2018 £'000 |
|--|---------------------------|---------------------------|
| Short term timing differences | 1,509 | 1,651 |
| Total deferred tax | 1,509 | 1,651 |
| | £'000 | £'000 |
| At the beginning of the period | 1,651 | 463 |
| Deferred tax asset in profit and loss | (164) | 637 |
| Adjustment in respect of previous period | 5 | 622 |
| Effect of changes in tax rates | 17 | (71) |
| At the end of the period | 1,509 | 1,651 |

16. Equity

Share capital comprises 23,901,000 ordinary shares with value of £1 each, allotted and fully paid.

Retained earnings represents accumulated comprehensive income for the period and prior periods less dividends paid.

In this financial period the Directors of the Company do not recommend the distribution of any profits.

AFH Stores UK Limited

Notes to the financial statements (continued)

For the period ended 2 February 2019

17. Financial commitments

At February 2, 2019 the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | 2019 £'000 | 2018 £'000 |
|----------------------|---------------|---------------|
| Less than one year | 16,755 | 16,801 |
| Two to five years | 36,346 | 41,071 |
| More than five years | 5,409 | 12,060 |
| | <u>58,510</u> | <u>69,932</u> |

18. Related party transactions disclosure exemption

The Company has taken advantage of the exemption available in FRS102 Section 33 'Related Party disclosures' whereby it has not disclosed transactions with the Ultimate Parent or any wholly owned subsidiary.

19. Ultimate parent undertaking and controlling party

The Company's immediate parent is Abercrombie & Fitch Europe Sgl incorporated in Switzerland. The Company's ultimate parent undertaking and controlling party is Abercrombie & Fitch Co., a Delaware company incorporated in the United States of America. This is the parent of the largest and smallest group, which includes the results of the Company and for which group accounts are prepared. A copy of the group financial statements can be obtained from Investor Relations Department, 6301 Fitch Path, New Albany, Ohio 43054, U.S.A. or at <http://corporate.abercrombie.com/investors>.