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# ***Pandora Int. ApS***

Havneholmen 17-19, DK-1561 Copenhagen V.

## **Annual Report for 1 January - 31 December 2022**

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CVR No 21 41 02 76

The Annual Report was  
presented and adopted at  
the Annual General  
Meeting of the Company on

22/6 2022

DocuSigned by:

 Pernille Bregendahl Jensen

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Meeting

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## Management's Statement

The Executive Board has today considered and adopted the Annual Report of Pandora Int. ApS for the financial year 1 January - 31 December 2022.

The Annual Report is prepared in accordance with the Danish Financial Statements Act.

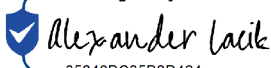
In our opinion, the Financial Statements give a true and fair view of the financial position at 31 December 2022 of the Company and of the results of the Company's operations for 2022.

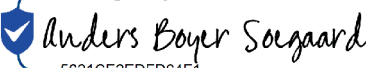
Further, in our opinion, the Management's review gives a fair view of the development in the Company's operations and financial matters and the results of the Company's operations and its financial position.

We recommend that the Annual Report be approved at the annual general meeting.

Copenhagen, 23 June 2023

### Executive Board

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Executive Officer

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Executive Officer

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Executive Officer

# Independent Auditor's Report

To the Shareholder of Pandora Int. ApS

## Opinion

We have audited the financial statements of Pandora Int. ApS for the financial year 1 January – 31 December 2022, which comprise income statement, balance sheet, statement of changes in equity, and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2022 and of the results of the Company's operations for the financial year 1 January – 31 December 2022 in accordance with the Danish Financial Statements Act.

## Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

## Management's responsibilities for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is 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 in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance as to 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 and additional requirements applicable in Denmark 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

## **Independent Auditor's Report**

the economic decisions of users taken on the basis of the financial statements.

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

### **Statement on Management's Review**

Management is responsible for Management's Review.

Our opinion on the financial statements does not cover the Management's review, and 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 Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the

## **Independent Auditor's Report**

financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 23 June 2023

**EY Godkendt Revisionspartnerselskab**

*CVR No 30 70 02 28*



Mads Vinding

State Authorised Public Accountant

mne42792

## **Company Information**

### **The Company**

Pandora Int. ApS  
Havneholmen 17-19  
DK-1561 Copenhagen V.  
Website: [www.pandora.net](http://www.pandora.net)

CVR No: 21 41 02 76  
Financial period: 1 January - 31 December  
Municipality of reg. office: Copenhagen municipality

### **Executive Board**

Alexander Lacik  
Anders Boyer  
Peter Ring

### **Auditors**

EY Godkendt Revisionspartnerselskab  
Dirch Passers Allé 36, P.O. Box 250  
DK-2000 Frederiksberg

## Financial Highlights

	<u>2022</u> TDKK	<u>2021</u> TDKK	<u>2020</u> TDKK	<u>2019</u> TDKK	<u>2018</u> TDKK
<b>Key figures</b>					
<b>Profit/loss</b>					
Revenue	171,036	184,468	165,104	266,098	345,832
Gross profit/loss	16,301	15,565	61,372	113,091	101,833
Profit/loss before financial income and expenses	7,840	5,449	7,400	5,164	6,917
Net financials	317	-76	-477	618	-393
Net profit/loss for the year	8,068	6,373	2,923	4,647	4,524
<b>Balance sheet</b>					
Balance sheet total	39,112	45,091	56,049	92,029	91,551
Equity	20,959	12,891	6,518	8,595	8,947
Investment in property, plant and equipment	114	0	0	52	1,873
Number of employees	18	23	68	144	135
<b>Ratios</b>					
Gross margin	9.5%	8.4%	37.2%	42.5%	29.4%
Profit margin	4.6%	3.0%	4.5%	1.9%	2.00%



## **Management's Review**

### **Business review**

The Company's main activity is to sell jewelries through owned and operated Concept Stores, Online Store and to wholesale partners in Denmark and distribution of jewelries to markets in Europe.

### **Uncertainty in recognizing and measuring**

There is no significant uncertainty in recognition and measurement.

### **Unusual events**

The military aggression on Ukraine has triggered uncertainty in economic developments worldwide followed by significant increase in interests and inflation rates. Trading bans of gas imports from Russia led to energy crisis in Europe. Although decline of consumer confidence and reduced discretionary spending was expected, the core business of Pandora was not affected and was able to grow in line with the Phoenix strategy. The financial position at 31 December 2022 of the Company and the results of the activities of the Company for the financial year for 2022 have not been affected by this event.

### **Development in the year**

In 2022 the Company's revenues declined from DKK 184 million in 2021 to DKK 171 million in the reporting period. The revenue growth in domestic market Denmark and with distributors in markets abroad was higher than expected and could partially offset the revenue loss from the transfer of the distribution business in Portugal to newly established Pandora owned and operated operations in Portugal in the mid of 2022.

Despite the decrease in revenues the gross profit remained flat versus 2021 with DKK 16 million. The gross margin has benefited from higher share of domestic business and increased from 8.4% in 2021 to 9.5% in 2022.

With the closing of one Concept Store the number of employees were reduced by 5 to 18 in 2022. Nonetheless the staff expenses increased by 10% driven by salary increase and the full employment in the reporting year while in 2021 staff was on short working during the Covid-19 lockdown in the first quarter.

The income statement of the Company for 2022 shows a net profit of DKK 8.1 million (2021: DKK 6.4 million).

The revenues and net profit in the Company was higher than the expectations set in 2021.

## **Management's Review**

### **Subsequent events and outlook**

The economic situation is expected to remain volatile but governments and economic experts expect a soft rebound of the economy with reduced price inflation and small growth rates in the gross domestic products for 2024.

While no subsequent events have to be reported the Company is planning on opening one additional Concept Store and decent like for like growth in the own operated retail channels online and physical stores.

With the transfer of the distribution business in Portugal in mid of 2022 the Company loses revenues in size of DKK 33 million from the first half year in 2022.

Altogether the Company is expecting to reach revenue between 135 and 150 million DKK and Net Profit between 5 and 6 million DKK.

### **Particular risks**

As mentioned in the outlook and subsequent events section, The Company's revenue is highly vulnerable to the general economic developments and consumer confidence in Europe and in the other markets where it operates, as well as potential recession caused by pandemic and military aggression on the Ukraine.

On February 24th 2022, Pandora suspended all business with Russia and Belarus. The military conflict in the Ukraine has no further direct impact on the business of Pandora Int. ApS than the economic downturn and increased inflation in many countries globally.

## Income Statement 1 January - 31 December

	Note	2022 TDKK	2021 TDKK
<b>Revenue</b>		<b>171,036</b>	<b>184,468</b>
Cost of sales		-132,990	-150,818
Other external expenses		-21,745	-18,085
<b>Gross profit/loss</b>		<b>16,301</b>	<b>15,565</b>
Staff expenses	1	-8,092	-7,342
Amortisation and depreciation	2	-369	-2,774
<b>Earnings before interest and taxes (EBIT)</b>		<b>7,840</b>	<b>5,449</b>
Financial income	3	1,887	508
Financial expenses	4	-1,570	-584
<b>Profit/loss before tax</b>		<b>8,157</b>	<b>5,373</b>
Tax on profit/loss for the year	5	-89	1,000
<b>Net profit/loss for the year</b>		<b>8,068</b>	<b>6,373</b>
 <b>Proposed distribution of profit</b>			
Proposed dividend for the year		10,000	0
Retained earnings		-1,932	6,373
		<b>8,068</b>	<b>6,373</b>

## Balance Sheet 31 December

### Assets

	Note	2022 TDKK	2021 TDKK
Other intangible assets		0	0
<b>Intangible assets</b>	6	<b>0</b>	<b>0</b>
Other fixtures, fittings, tools and equipment		131	500
Property, plant and equipment in progress		114	0
<b>Property, plant and equipment</b>	7	<b>245</b>	<b>500</b>
Investments in subsidiaries	8	122	122
Deposits		707	1,710
Deferred tax asset	9	4,000	4,000
<b>Fixed asset investments</b>		<b>4,829</b>	<b>5,832</b>
<b>Fixed assets</b>		<b>5,074</b>	<b>6,332</b>
<b>Inventories</b>		<b>3,761</b>	<b>4,028</b>
Trade receivables		14,529	16,621
Receivables from group entities		1,457	451
Other receivables		12,662	13,660
Prepayments		1	5
<b>Receivables</b>		<b>28,649</b>	<b>30,737</b>
<b>Cash at bank and in hand</b>		<b>1,628</b>	<b>3,994</b>
<b>Total currents assets</b>		<b>34,038</b>	<b>38,759</b>
<b>Total assets</b>		<b>39,112</b>	<b>45,091</b>

## Balance Sheet 31 December

### Liabilities and equity

	Note	2022 TDKK	2021 TDKK
Share capital	10	2,364	2,364
Retained earnings		8,595	10,527
Proposed dividend for the year		10,000	0
<b>Equity</b>		<b>20,959</b>	<b>12,891</b>
Other provisions	12	423	1,251
Other payables	13	5,403	5,292
<b>Long-term debt</b>		<b>5,826</b>	<b>6,543</b>
Other provisions	12	157	400
Trade payables		3,749	3,543
Payables to group enterprises		7,177	19,694
Corporation tax		70	0
Other payables	13	1,174	2,020
<b>Short-term debt</b>		<b>12,327</b>	<b>25,657</b>
<b>Debt</b>		<b>18,153</b>	<b>32,200</b>
<b>Liabilities and equity</b>		<b>39,112</b>	<b>45,091</b>
Distribution of profit	11		
Contingent assets, liabilities and other financial obligations	14		
Related parties	15		
Accounting Policies	16		

## Statement of Changes in Equity

	Share capital	Retained	Proposed	Total
	<u>TDKK</u>	<u>earnings</u>	<u>dividend for the</u>	<u>TDKK</u>
	<u>TDKK</u>	<u>TDKK</u>	<u>year</u>	<u>TDKK</u>
	<u>TDKK</u>	<u>TDKK</u>	<u>TDKK</u>	<u>TDKK</u>
Equity at 1 January	2,364	10,527	0	12,891
Net profit/loss for the year	0	-1,932	10,000	8,068
<b>Equity at 31 December</b>	<b><u>2,364</u></b>	<b><u>8,595</u></b>	<b><u>10,000</u></b>	<b><u>20,959</u></b>

## Notes to the Financial Statements

	2022	2021
	TDKK	TDKK
<b>1 Staff expenses</b>		
Wages and salaries	7,227	5,455
Pensions	499	675
Other social security expenses	119	-201
Other staff expenses	247	1,413
	<u>8,092</u>	<u>7,342</u>
<b>Average number of employees</b>	<u>18</u>	<u>23</u>
No remuneration has been paid to the Executive Board.		
<b>2 Amortisation and depreciation</b>		
Amortisation of intangible assets	0	529
Depreciation of property, plant and equipment	369	835
Impairment of intangible assets	0	1,410
	<u>369</u>	<u>2,774</u>
<b>3 Financial income</b>		
Interest received from group enterprises	303	56
Other financial income	39	259
Exchange adjustments	1,545	193
	<u>1,887</u>	<u>508</u>
<b>4 Financial expenses</b>		
Interest paid to group entities	0	28
Other financial expenses	85	334
Exchange adjustments, expenses	1,485	222
	<u>1,570</u>	<u>584</u>

## Notes to the Financial Statements

	2022 <u>TDKK</u>	2021 <u>TDKK</u>
<b>5 Tax on profit/loss for the year</b>		
Current tax for the year	89	0
Change in deferred tax	<u>0</u>	<u>-1,000</u>
	<b><u>89</u></b>	<b><u>-1,000</u></b>
 <b>6 Intangible assets</b>		Other intangible assets <u>TDKK</u>
Cost at 1 January		<u>5,506</u>
Cost at 31 December		<u>5,506</u>
Impairment losses and amortisation at 1 January		<u>5,506</u>
Impairment losses and amortisation at 31 December		<u>5,506</u>
 <b>Carrying amount at 31 December</b>		<b><u>0</u></b>



## Notes to the Financial Statements

### 7 Property, plant and equipment

	Other fixtures, fittings, tools and equipment TDKK	Property, plant and equipment in progress TDKK
Cost at 1 January	10,229	0
Additions for the year	0	114
Disposals for the year	-5,181	0
Cost at 31 December	<u>5,048</u>	<u>114</u>
Impairment losses and depreciation at 1 January	9,729	0
Depreciation for the year	369	0
Reversal of impairment and depreciation of sold assets	-5,181	0
Impairment losses and depreciation at 31 December	<u>4,917</u>	<u>0</u>
<b>Carrying amount at 31 December</b>	<b><u>131</u></b>	<b><u>114</u></b>

### 8 Investments in subsidiaries

	2022 TDKK	2021 TDKK
Cost at 1 January	<u>122</u>	<u>122</u>
<b>Carrying amount at 31 December</b>	<b><u>122</u></b>	<b><u>122</u></b>

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Votes and ownership	Equity	Net profit/loss for the year
Pandora Norge AS	Norway	100%	1,148	69

Equity and profit for the year (TDKK) have been translated using the exchange rate at the end of the year (70.73) and the average exchange rate (73.69), respectively.

## Notes to the Financial Statements

	2022 TDKK	2021 TDKK
<b>9 Deferred tax asset</b>		
Deferred tax asset at 1 January	4,000	3,000
Amounts recognised in the income statement for the year	0	1,000
<b>Deferred tax asset at 31 December</b>	<b>4,000</b>	<b>4,000</b>

The company has recognised a deferred tax asset of DKK 4 million related to tax losses carry forwards. The deferred tax asset is valued on basis of the estimated taxable income for the following 3-year period in which the tax losses carry forwards can be offset.

### 10 Share capital

The share capital consists of 2,364,000 shares of a nominal value of DKK 1. No shares carry any special rights.

There have been no changes in the share capital during the last 5 years.

### 11 Distribution of profit

Proposed dividend for the year	10,000	0
Retained earnings	-1,932	6,373
	<b>8,068</b>	<b>6,373</b>

### 12 Other provisions

Balance at beginning of year	1,651	2,959
Provision in year	-1,071	-1,308
	<b>580</b>	<b>1,651</b>

The provisions are expected to mature as follows:

Within 1 year	157	400
Between 1 and 5 years	423	1,251
	<b>580</b>	<b>1,651</b>

Provisions include obligations to restore leased property as well as refund and warranty liability related to return right provided to customers.

## Notes to the Financial Statements

### 13 Long-term debt

Payments due within 1 year are recognised in short-term debt. Other debt is recognised in long-term debt.

The debt falls due for payment as specified below:

#### Other payables

Between 1 and 5 years	5,403	5,292
Long-term part	<u>5,403</u>	<u>5,292</u>
Other short-term payables	<u>1,174</u>	<u>2,020</u>
	<u><b>6,577</b></u>	<u><b>7,312</b></u>

### 14 Contingent assets, liabilities and other financial obligations

#### Contingent liabilities

The Company is jointly taxed with Pandora A/S and other Danish group entities. The Company is jointly and severally liable with other jointly taxed group entities for payment of income taxes as well as withholding taxes on interest, royalties and dividends in the group of jointly taxed entities. Any subsequent adjustments of corporation taxes and withholding taxes may increase the Company's liability.

The rent and lease liabilities include a rent obligation totaling DKK 1.3 mill (2021: DKK 5.7 mill) in non-cancelable rent agreements with remaining contract terms of 1-5 years. A bank guarantee of DKK 1.8 mill related to the rent agreements has been set up.

## Notes to the Financial Statements

### 15 Related parties

#### Transactions

Cost of sales TDKK -132,990 (2021: TDKK -150,818)

Other external expenses TDKK -6,834 (2021: TDKK -7,608)

Interest income from group entities TDKK 303 (2021: TDKK 56)

Interest expenses to group entities TDKK 0 (2021: TDKK -28)

Receivables from group entities TDKK 1,457 (2021: TDKK 451)

Payables to group entities TDKK -7,177 (2021: TDKK -19,694)

Paid dividends TDKK 0 (2021: TDKK -0)

#### Ownership

The following shareholder is recorded in the Company's register of shareholders as holding at least 5% of the votes or at least 5% of the share capital:

Pandora A/S, Havneholmen 17-19, DK-1561 Copenhagen V, owns 100% of the shares in Pandora Int. ApS. and holds the majority of the share capital in the company.

#### Consolidated Financial Statements

Pandora Int. ApS is included in the Group Annual Report of the parent company of the largest and smallest group:

Name	Place of registered office
Pandora A/S	Havneholmen 17-19, DK-1561 Copenhagen V

The Group Annual Report of Pandora A/S can be obtained in the following link:

<https://pandoragroup.com/staticcontent?url=http://pandoragroup.gcs-web.com/static-files/874fca0b-69d5-4368-a00f-4a98e8f0bde0&format=pdf&title=Annual%20Report%202022>

## Notes to the Financial Statements

### 16 Accounting Policies

The Annual Report of Pandora Int. ApS for 2022 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to medium-sized enterprises of reporting class C.

The accounting policies applied remain unchanged from last year apart from a reclassification of other payables between short- and long-term debt.

The Financial Statements for 2022 are presented in TDKK.

### Consolidated financial statements

With reference to section 112 of the Danish Financial Statements Act and to the consolidated financial statements of , the Company has not prepared consolidated financial statements. The financial statements of Pandora Int. ApS and its subsidiary are included in the consolidated financial statement of Pandora A/S.

### Cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act and to the cash flow statement included in the consolidated financial statements of Pandora A/S, the Company has not prepared a cash flow statement.

### Recognition and measurement

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Company, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

### Translation policies

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Exchange differences arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement.

## **Notes to the Financial Statements**

### **16 Accounting Policies** (continued)

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the rates at the time when the receivable or the debt arose are recognised in financial income and expenses in the income statement.

Fixed assets acquired in foreign currencies are measured at the transaction date rates.

## **Income Statement**

### **Revenue**

Revenue from the sale of goods is recognised when the risks and rewards relating to the goods sold have been transferred to the purchaser, the revenue can be measured reliably and it is probable that the economic benefits relating to the sale will flow to the Company.

Revenue is measured at the consideration received and is recognised exclusive of VAT and net of discounts relating to sales.

A refund liability is recognised for products expected to be returned. The estimate for returned products is based on historical experience and expectations. Please refer to provision section for details.

### **Cost of sales**

Cost of sales comprise the goods consumed to achieve revenue for the year.

### **Other external expenses**

Other external expenses comprise the year's expenses relating to the entity's core activities, including expenses relating to distribution, sale, advertising, administration, premises, bad debts, payments under operating leases, etc.

### **Staff expenses**

Staff expenses comprise wages and salaries as well as payroll expenses net of refunds made by public authorities.

### **Amortisation, depreciation and impairment losses**

Amortisation, depreciation and impairment losses comprise amortisation, depreciation and impairment of intangible assets and property, plant and equipment.

## Notes to the Financial Statements

### 16 Accounting Policies (continued)

#### Other operating income and expenses

Other operating income and other operating expenses comprise items of a secondary nature to the main activities of the Company, including gains and losses on the sale of intangible assets and property, plant and equipment.

#### Income from investments in subsidiaries

Dividends from subsidiaries are recognised as income in the income statement when adopted at the General Meeting of the subsidiary. However, dividends relating to earnings in the subsidiary before it was acquired by the Parent Company are set off against the cost of the subsidiary.

#### Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year.

#### Tax on profit/loss for the year

Tax for the year consists of current tax for the year and changes in deferred tax for the year. The tax attributable to the profit for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly on equity.

Current tax are computed on the basis of the pretax profit/loss for the year adjusted for non-taxable income expenditure. Taxes paid on account are offset against taxes at year end.

The Company is jointly taxed with the parent company and its Danish subsidiaries. The tax effect of the joint taxation is allocated to enterprises in proportion to their taxable incomes (full allocation with reimbursement of tax losses).

## Balance Sheet

#### Intangible assets

Intangible assets consist of key money and software. Intangible assets are measured at cost less accumulated amortisation. Intangible assets are amortised on a straight-line basis over its useful life, which is assessed at 5 years.

#### Property, plant and equipment

Property, plant and equipment consists of other fixtures, fittings, tools and equipment. Property, plant and equipment are measured at cost less accumulated depreciation and less any accumulated impairment losses.

Depreciation based on cost reduced by any residual value is calculated on a straight-line basis over the

## **Notes to the Financial Statements**

### **16 Accounting Policies** (continued)

expected useful lives of the assets, which is 5 years.

The fixed assets' residual values are determined at nil.

#### **Impairment of fixed assets**

The carrying amounts of intangible assets and property, plant and equipment and investments in subsidiaries are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by amortisation and depreciation.

Impairment tests are conducted on assets or groups of assets when there is evidence of impairment. The carrying amount of impaired assets is reduced to the higher of the net selling price and the value in use (recoverable amount).

The recoverable amount is the higher of the net selling price of an asset and its value in use. The value in use is calculated as the present value of the expected net cash flows from the use of the asset or the group of assets and the expected net cash flow from the disposal of the asset or the group of assets after the end of the useful life.

#### **Investments in subsidiaries**

Investments in subsidiaries are measured at cost. Where cost exceeds the recoverable amount, write-down is made to this lower value.

#### **Inventories**

Inventories (comprising of finished goods) are measured at the lower of cost using the FIFO method and net realisable value. The cost of goods for resale includes the purchase price as well as other costs directly attributable to the acquisition.

#### **Receivables**

Receivables are measured in the balance sheet at amortised cost, which usually corresponds to nominal value. An impairment loss is recognised if there is objective evidence that a receivable or a group of receivables is impaired, in which case the carrying amount is reduced to the net realisable value.

#### **Prepayments**

Prepayments comprise incurred costs relating to subsequent financial years. Prepayments are measured at cost.

#### **Equity - dividend**

Dividend distribution proposed by Management for the year is disclosed as a separate equity item.



## Notes to the Financial Statements

### 16 Accounting Policies (continued)

#### Corporation tax and deferred tax

Deferred income tax is measured using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets, including the tax base of tax loss carry-forwards, are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity. Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to be applied as current tax. Any changes in deferred tax due to changes to tax rates are recognised in the income statement.

The current tax liability and receivable is recognised in the balance sheet as the tax calculated on this year's taxable income, adjusted for prior years' taxable income and prepaid taxes.

#### Provisions

Provisions are recognised when the company has a legal or constructive obligation as a result of a past event at the balance sheet date and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions comprise primary return provisions and restoration costs for relocation of leases.

The company recognises a refund and warranty liability related to return rights provided to customers. The return provision for estimated sales returns is recognised when there is historical experience or when a reasonably accurate estimate of expected future returns can otherwise be made. Refund liability to cover warranty claims is based on expected replacements provided for products still covered by warranty at the end of the period.

#### Other payables

Other payables are measured at a net realisable value.

## Notes to the Financial Statements

### 16 Accounting Policies (continued)

#### Financial Highlights

##### Explanation of financial ratios

Gross margin

$$\frac{\text{Gross profit x 100}}{\text{Revenue}}$$

Profit margin

$$\frac{\text{Profit before financials x 100}}{\text{Revenue}}$$