
Pandora Int. ApS

Havneholmen 17-19, DK-1561 Copenhagen V.

Annual Report for 1 January - 31 December 2021

CVR No 21 41 02 76

The Annual Report was
presented and adopted at
the Annual General
Meeting of the Company on
1 /7 2022

Pernille Bregendahl
Chairman of the General
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 2021.

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 2021 of the Company and of the results of the Company operations for 2021.

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, 1 July 2022

Executive Board

Alexander Lacik
Executive Officer

Anders Boyer
Executive Officer

Martino Giuseppe Mauro
Pessina
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 2021, 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 2021 and of the results of the Company's operations for the financial year 1 January – 31 December 2021 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, 1 July 2022

EY

Godkendt Revisionspartnerselskab

CVR No 30 70 02 28

Jens Thordahl Nøhr

State Authorised Public Accountant

mne32212

Company Information

The Company

Pandora Int. ApS
Havneholmen 17-19
DK-1561 Copenhagen V.
Website: 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
Martino Giuseppe Mauro Pessina

Auditors

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

Financial Highlights

	2021 TDKK	2020 TDKK	2019 TDKK	2018 TDKK	2017 TDKK
Key figures					
Profit/loss					
Revenue	184,468	165,104	266,098	345,832	627,373
Gross profit/loss	15,565	61,372	113,091	101,833	102,229
Profit/loss before financial income and expenses	5,449	7,400	5,164	6,917	12,548
Net financials	-76	-477	618	-393	-919
Net profit/loss for the year	6,373	2,923	4,647	4,524	11,629
Balance sheet					
Balance sheet total	45,091	56,049	92,029	91,551	165,006
Equity	12,891	6,518	8,595	8,947	14,423
Investment in property, plant and equipment	0	0	52	1,873	319
Number of employees	23	68	144	135	132
Ratios					
Gross margin	8.4%	37.2%	42.5%	29.4%	16.3%
Profit margin	3.0%	4.5%	1.9%	2.0%	2.00%

Management's Review

Business review

The Company's main activity is to sell jewelries through owned and operated concept stores 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 financial position at 31 December 2021 of the Company and the results of the activities of the Company for the financial year for 2021 have been partially affected by the COVID-19 pandemic.

Development in the year

In 2021 the Company's revenue was DKK 184 million (2020: DKK 165 million) and the gross profit was DKK 16 million (2020: DKK 61 million). The Gross profit has decreased from DKK 61 million to DKK 16 million due to higher value of intercompany transactions (TP postings). The staff expenses decreased significantly, mainly due to the changed management structure of the EMEA region, which resulted in reduction of FTEs. The number of FTEs has decreased from 68 in 2020 to 23 in 2021.

Furthermore the income statement of the Company for 2021 shows a net profit of DKK 7 million (2020: DKK 3 million).

The net profit in the Company was higher than the expectations set in 2020. The company in general generates revenue from wholesale/distributor channel and from owned and operated stores.

Subsequent events and outlook

Volatile economic situation and military aggression on the Ukraine might impact the commercial results by suppressed consumer confidence and less spending. The Company is expecting to reach revenue between 110 and 120 million DKK and Net Profit between 5 and 6 million DKK. This significant decrease of revenue results from change of ownership structure in Portugal.

Pandora Group took over the distribution and sales network of Visão do Tempo, Pandora's distributor in Portugal. Visão do Tempo introduced Pandora on the Portuguese market 16 years ago and today operates 25 concept stores and nine shop-in-shops in the country. All 34 locations will open as Pandora owned and operated stores on the 20th of July 2022. As a result, revenue for sales to the Portuguese market will not be attributable to Pandora Int. ApS.

The acquisition is in support of our Phoenix strategy that aims to drive growth through a number of initiatives including strategic network expansion. By acquiring the network in Portugal, we will also get better control of our brand development and be able to build a superior omni-channel journey and improve our product offering.

Management's Review

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, Pandora suspended all business with Russia and Belarus. Pandora has also instructed all its suppliers and business partners that no raw materials, products or services supplied to Pandora can come directly or indirectly from Russia or Belarus. This decision is binding for all Entities of PANDORA A/S. The military conflict in the Ukraine has no further direct impact on the business of Pandora Int. ApS, however an increase in energy and freight costs is to be expected.

Income Statement 1 January - 31 December

	Note	2021 TDKK	2020 TDKK
Revenue		184,468	165,104
Cost of sales		-150,818	-73,258
Other external expenses		-18,085	-30,474
Gross profit/loss		15,565	61,372
Staff expenses	1	-7,342	-52,143
Amortisation and depreciation	2	-2,774	-1,829
Earnings before interest and taxes (EBIT)		5,449	7,400
Financial income	3	508	533
Financial expenses	4	-584	-1,010
Profit/loss before tax		5,373	6,923
Tax on profit/loss for the year	5	1,000	-4,000
Net profit/loss for the year		6,373	2,923
Proposed distribution of profit			
Retained earnings		6,373	2,923
		6,373	2,923

Balance Sheet 31 December

Assets

	Note	2021 TDKK	2020 TDKK
Other intangible assets		0	1,939
Intangible assets	6	0	1,939
Other fixtures, fittings, tools and equipment		500	1,335
Property, plant and equipment	7	500	1,335
Investments in subsidiaries	8	122	122
Deposits		1,710	2,109
Deferred tax asset	9	4,000	3,000
Fixed asset investments		5,832	5,231
Fixed assets		6,332	8,505
Inventories		4,028	5,193
Trade receivables		16,621	12,741
Receivables from group entities		451	18,275
Other receivables		13,660	3,094
Prepayments		5	3
Receivables		30,737	34,113
Cash at bank and in hand		3,994	8,238
Total currents assets		38,759	47,544
Total assets		45,091	56,049

Balance Sheet 31 December

Liabilities and equity

	Note	2021 TDKK	2020 TDKK
Share capital	10	2,364	2,364
Retained earnings		10,527	4,154
Equity		12,891	6,518
Other provisions	12	1,251	1,181
Long-term debt		1,251	1,181
Other provisions	12	400	1,778
Trade payables		3,543	8,092
Payables to group enterprises		19,694	23,662
Other payables		7,312	14,818
Short-term debt		30,949	48,350
Debt		32,200	49,531
Liabilities and equity		45,091	56,049
Distribution of profit	11		
Contingent assets, liabilities and other financial obligations	13		
Related parties	14		
Accounting Policies	15		

Statement of Changes in Equity

	<u>Share capital</u> TDKK	<u>Retained earnings</u> TDKK	<u>Total</u> TDKK
Equity at 1 January	2,364	4,154	6,518
Net profit/loss for the year	0	6,373	6,373
Equity at 31 December	<u>2,364</u>	<u>10,527</u>	<u>12,891</u>

Notes to the Financial Statements

	2021 <u>TDKK</u>	2020 <u>TDKK</u>
1 Staff expenses		
Wages and salaries	5,455	46,061
Pensions	675	2,675
Other social security expenses	-201	617
Other staff expenses	1,413	2,790
	<u>7,342</u>	<u>52,143</u>
Average number of employees	<u>23</u>	<u>68</u>
No remuneration has been paid to the Executive Board.		
2 Amortisation and depreciation		
Amortisation of intangible assets	529	606
Depreciation of property, plant and equipment	835	1,223
Impairment of intangible assets	1,410	0
	<u>2,774</u>	<u>1,829</u>
3 Financial income		
Interest received from group enterprises	56	362
Other financial income	259	40
Exchange adjustments	193	131
	<u>508</u>	<u>533</u>
4 Financial expenses		
Interest paid to group entities	28	379
Other financial expenses	334	631
Exchange adjustments, expenses	222	0
	<u>584</u>	<u>1,010</u>

Notes to the Financial Statements

	2021 <u>TDKK</u>	2020 <u>TDKK</u>
5 Tax on profit/loss for the year		
Current tax for the year	0	0
Change in deferred tax	<u>-1,000</u>	<u>4,000</u>
	<u>-1,000</u>	<u>4,000</u>
 6 Intangible assets		
		<u>Other intangible assets</u> TDKK
Cost at 1 January		<u>5,506</u>
Cost at 31 December		<u>5,506</u>
Transfers for the year		<u>0</u>
Revaluations at 31 December		<u>0</u>
Impairment losses and amortisation at 1 January		3,567
Impairment losses for the year		1,410
Amortisation for the year		<u>529</u>
Impairment losses and amortisation at 31 December		<u>5,506</u>
 Carrying amount at 31 December		<u>0</u>

Notes to the Financial Statements

7 Property, plant and equipment

	Other fixtures, fittings, tools and equipment TDKK
Cost at 1 January	13,459
Disposals for the year	-3,230
Cost at 31 December	<u>10,229</u>
Impairment losses and depreciation at 1 January	12,124
Depreciation for the year	835
Reversal of impairment and depreciation of sold assets	-3,230
Impairment losses and depreciation at 31 December	<u>9,729</u>
Carrying amount at 31 December	<u>500</u>

8 Investments in subsidiaries

	2021 TDKK	2020 TDKK
Cost at 1 January	<u>122</u>	<u>122</u>
Cost at 31 December	<u>122</u>	<u>122</u>
Value adjustments at 1 January	<u>0</u>	<u>0</u>
Value adjustments at 31 December	<u>0</u>	<u>0</u>
Carrying amount at 31 December	<u>122</u>	<u>122</u>

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%	1,285	23

Equity and profit for the year have been translated using the exchange rate at the end of the year (74.59) and the average exchange rate (73.18), respectively.

Notes to the Financial Statements

	2021 <u>TDKK</u>	2020 <u>TDKK</u>
9 Deferred tax asset		
Deferred tax asset at 1 January	3,000	7,000
Amounts recognised in the income statement for the year	<u>1,000</u>	<u>-4,000</u>
Deferred tax asset at 31 December	<u>4,000</u>	<u>3,000</u>

The company has recognised a deferred tax asset of DKK 4 mill, which the company expects to utilize in earning and/or via group taxation.

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

Retained earnings	<u>6,373</u>	<u>2,923</u>
	<u>6,373</u>	<u>2,923</u>

12 Other provisions

Balance at beginning of year	2,959	3,514
Provision in year	<u>-1,308</u>	<u>-555</u>
	<u>1,651</u>	<u>2,959</u>

The provisions are expected to mature as follows:

Within 1 year	400	1,778
Between 1 and 5 years	<u>1,251</u>	<u>1,181</u>
	<u>1,651</u>	<u>2,959</u>

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 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 5.7 mill (2020: DKK 16 mill) in non-cancelable rent agreements with remaining contract terms of 1-5 years. Furthermore the Company has liabilities under operating leases for cars totaling DKK 0.4 mill (2020: DKK 1 mill) with remaining contract terms of 1 year.

14 Related parties

Transactions

Cost of sales TDKK --150,818 (2020: TDKK -73,258)

Other external expenses TDKK -7,608 (2020: TDKK -12,066)

Interest income from group entities TDKK 56 (2020: TDKK 362)

Interest expenses to group entities TDKK -28 (2020: TDKK -379)

Receivables from group entities TDKK 451 (2020: TDKK 18,275)

Payables to group entities TDKK -19,694 (2020: TDKK -23,662)

Paid dividends TDKK 0 (2020: TDKK -5,000)

Notes to the Financial Statements

14 Related parties (continued)

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:

<u>Name</u>	<u>Place of registered office</u>
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/f298ed02-3a4b-4bae-b1bf-c0598e03b450&format=pdf&title=Annual%20Report%202021>

Notes to the Financial Statements

15 Accounting Policies

The Annual Report of Pandora Int. ApS for 2021 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.

The Financial Statements for 2021 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

15 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

15 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

15 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

15 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

15 Accounting Policies (continued)

Financial Highlights

Explanation of financial ratios

Gross margin

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

Profit margin

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