
Pandora Jewelry Taiwan A/S

Havneholmen 17-19, DK-1561 Copenhagen V

Annual Report for 1 January - 31 December 2021

CVR No 39 58 40 85

The Annual Report was
presented and adopted at
the Annual General
Meeting of the Company on
30/6 2022

DocuSigned by:

Pernille Bregendahl

Pernille Bregendahl
Chairman of the General
Meeting



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Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Pandora Jewelry Taiwan A/S 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.

In our opinion, Management's Review includes a true and fair account of the matters addressed in the Review.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Copenhagen, 30 June 2022


Executive Board

DocuSigned by:

Irving Holmes Wong Weng Hoong

Board of Directors

DocuSigned by:

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Chairman Peter Ring

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Irving Holmes Wong Weng Hoong

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Independent Auditor's Report

To the Shareholder of Pandora Jewelry Taiwan A/S

Opinion

We have audited the financial statements of Pandora Jewelry Taiwan A/S 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 skepticism 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

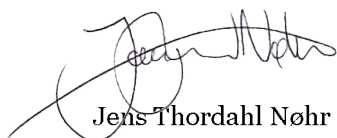
Independent Auditor's Report

review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

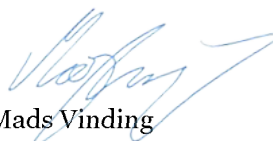
Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

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 Statements Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 30 June 2022
EY Godkendt Revisionspartnerselskab
CVR No 30 70 02 28



Jens Thordahl Nøhr
State Authorised Public Account
mne32212



Mads Vinding
State Authorised Public Account
mne42792

Company Information

The Company

Pandora Jewelry Taiwan A/S
Havneholmen 17-19
DK-1561 Copenhagen V

CVR No: 39 58 40 85
Financial period: 1 January - 31 December
Incorporated: 18 May 2018
Municipality of reg. office: Copenhagen, Denmark

Board of Directors

Chairman Peter Ring
Irving Holmes Wong Weng Hoong
Martino Giuseppe Mauro Pessina

Executive Board

Irving Holmes Wong Weng Hoong

Auditors

EY Godkendt Revisionspartnerselskab
Dirch Passers Allé 36
DK-2000 Frederiksberg

Financial Highlights

Seen over a four-year period, the development of the Company is described by the following financial highlights:

	2021	2020	2019	2018
	TWD'000	TWD'000	TWD'000	TWD'000
Key figures				
Profit/loss				
Revenue	812,334	784,039	772,888	0
Gross profit/loss	147,773	140,597	163,643	0
Profit/loss before financial income and expenses	2,989	-2,964	13,014	0
Net financials	-5,613	-1,768	-802	0
Net profit/loss for the year	-1,590	-3,526	10,328	0
Balance sheet				
Balance sheet total	637,225	719,791	614,814	4,982
Equity	9,919	11,509	15,034	4,700
Investment in property, plant and equipment	38,098	285	28,309	0
Number of employees	105	102	117	0
Ratios				
Gross margin	18.2%	17.9%	21.2%	0.0%
Profit margin	0.4%	-0.4%	1.7%	0.0%

Management's Review

Business review

The Company's main activity is to operate the Pandora sales activity in Taiwan, through a branch in Taiwan.

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 not been affected by any unusual events, apart from limited store closures as a result of COVID-19.

Development in the year

In 2021 the Company's revenue was TWD 812 mill. (2020: TWD 784 mill.) and the gross profit was TWD 148 mill. (2020: TWD 141 mill.). Furthermore, the income statement of the Company for 2021 shows a net loss for the year of TWD -2 mill. (2020: TWD -4 mill.), which is lower than expected.

The Company in general generates revenue from sales through in total 19 stores. The 12 owned and operated concept stores and 7 owned and operated shop in shop stores are all located in Taiwan through a local Taiwan branch (Pandora Jewelry Taiwan A/S Taiwan Branch). The branch's registered office of the main business location is at 7F., No. 2, Sec. 3, Minsheng E. Rd., Taipei City, Taiwan.

During 2021, the Company opened four concept stores: TC Chungyo DPS, KS E-Sky Land, TY Tai Mall and TY Gloria Outlets Mall. On 30th June 2021, the Company closed one shop in shop store, TW KS Far Eastern DPS, located in Kaohsiung.

Subsequent events and Outlook

No subsequent events have occurred after the balance sheet date.

The Company is expected to grow its business by 7% in 2022 resulting in a positive profit before tax. The Company aims to enhance offline business in 2022 by upgrading stores through renovation. Meanwhile, to expand digital channel, the Company has launched a new platform Line (Q4 2021) and keep steady growth in Momo and Yahoo to offer end-consumers a seamless shopping journey online and offline.

Particular risks

The Company's revenue are highly vulnerable to the general economic developments in Taiwan and Greater China.

Income Statement 1 January - 31 December

	Note	2021 TWD'000	2020 TWD'000
Revenue		812,334	784,039
Other operating income	2	4,400	0
Expenses for raw materials and consumables		-363,309	-358,557
Other external expenses		-305,652	-284,885
Gross profit/loss		147,773	140,597
Staff expenses	3	-103,352	-105,286
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	4	-41,432	-38,275
Profit/loss before financial income and expenses		2,989	-2,964
Financial income	5	7	8
Financial expenses	6	-5,620	-1,776
Profit/loss before tax		-2,624	-4,732
Tax on profit/loss for the year	7	1,034	1,206
Net profit/loss for the year		-1,590	-3,526

Distribution of profit

Proposed distribution of profit

Retained earnings		-1,590	-3,526
		-1,590	-3,526

Balance Sheet 31 December

Assets

	Note	2021 TWD'000	2020 TWD'000
Other intangible assets		1,889	2,212
Goodwill		167,193	191,079
Intangible assets	8	169,082	193,291
Other fixtures and fittings, tools and equipment		28,344	6,502
Property, plant and equipment	9	28,344	6,502
Deposits		636	560
Deferred tax asset	10	1,857	1,501
Fixed asset investments		2,493	2,061
Fixed assets		199,919	201,854
Inventories		202,159	176,492
Trade receivables		188,656	179,878
Receivables from group enterprises		0	102,350
Other receivables		4,110	5,266
Corporation tax receivable from group enterprises		8,676	7,890
Prepayments		802	914
Receivables		202,244	296,298
Cash		32,903	45,147
Total Current assets		437,306	517,937
Total assets		637,225	719,791

Balance Sheet 31 December

Liabilities and equity

	Note	2021 TWD'000	2020 TWD'000
Share capital		4,700	4,700
Retained earnings		5,219	6,809
Equity		9,919	11,509
Provision for deferred tax	10	6,756	4,503
Other provisions	11	10,175	8,159
Long-term debt		16,931	12,662
Other provisions	11	2,317	1,446
Trade payables		71,050	64,038
Payables to group enterprises		523,519	607,933
Corporation tax		4,611	4,329
Other payables		8,878	17,874
Short-term debt		610,375	695,620
Total Liabilities		627,306	708,282
Total equity and liabilities		637,225	719,791
Financing and liquidity	1		
Contingent assets, liabilities and other financial obligations	12		
Related parties	13		
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Statement of Changes in Equity

	Share capital	Retained earnings	Total
	TWD'000	TWD'000	TWD'000
Equity at 1 January	4,700	6,809	11,509
Net profit/loss for the year	0	-1,590	-1,590
Equity at 31 December	4,700	5,219	9,919

Notes to the Financial Statements

1 Financing and liquidity

As at 31 December 2021 the Company had a positive equity equal to TWD 10 mill. Current assets amount to TWD 437 mill. with corresponding current liabilities of TWD 616 mill. At 31 December 2021, debt towards group entities, mainly the parent company, amounts to TWD 524 mill. The debt towards group entities relates to the acquisition of distribution in Taiwan for which the purchase price was TWD 440 mill.

As part of the financing, a loan agreement has been entered between the Company and its parent company, Pandora A/S, in which the Company has secured a credit facility of TWD 700 mill. All outstanding amounts under the credit facility is payable on the last day of the term. The credit facility is automatically extended with consecutive 1 year. The credit facility may be terminated with 30-day written notice before the last day of the term. Pandora A/S has confirmed that the credit facility will not be terminated before 1 January 2023.

Based on the abovementioned credit facility, the Board of Directors and the Executive Board consider it reasonable and well-founded to base the financial reporting on going concern assumption.

	2021 TWD'000	2020 TWD'000
2 Other operating income		
Other income	4,400	0
	4,400	0

Other income relates to government support/aid regarding fixed costs

3 Staff expenses

Wages and salaries	85,214	81,773
Pensions	4,785	4,635
Other social security expenses	9,144	9,426
Other staff expenses	4,209	9,452
	103,352	105,286
Average number of employees	105	102

No remuneration has been paid to the Executive Board or Board of Directors

Notes to the Financial Statements

	2021 <u>TWD'000</u>	2020 <u>TWD'000</u>
4 Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		
Amortisation of intangible assets	25,175	24,982
Depreciation of property, plant and equipment	<u>16,257</u>	<u>13,293</u>
	<u>41,432</u>	<u>38,275</u>
5 Financial income		
Other financial income	<u>7</u>	<u>8</u>
	<u>7</u>	<u>8</u>
6 Financial expenses		
Interest paid to group enterprises	5,191	1,607
Other financial expenses	115	162
Exchange adjustments, expenses	<u>314</u>	<u>7</u>
	<u>5,620</u>	<u>1,776</u>
7 Tax on profit/loss for the year		
Current tax for the year	-4,107	-4,899
Deferred tax for the year	1,897	1,008
Adjustment of tax concerning previous years	<u>1,176</u>	<u>2,685</u>
	<u>-1,034</u>	<u>-1,206</u>

The Company has taxes payable to the local Taiwan tax authorities as the branch in Taiwan has permanent establishment. The holding company in Denmark, excluding the Taiwan branch, is jointly taxed with Pandora A/S and other Danish entities. The company is entitled to joint taxation receivable in Denmark.

Notes to the Financial Statements

8 Intangible assets

	Other intangible assets TWD'000	Goodwill TWD'000	Total TWD'000
Cost at 1 January	4,574	238,848	243,422
Additions for the year	967	0	967
Cost at 31 December	<u>5,541</u>	<u>238,848</u>	<u>244,389</u>
Impairment losses and amortisation at 1 January	2,362	47,770	50,132
Amortisation for the year	1,290	23,885	25,175
Impairment losses and amortisation at 31 December	<u>3,652</u>	<u>71,655</u>	<u>75,307</u>
Carrying amount at 31 December	<u>1,889</u>	<u>167,193</u>	<u>169,082</u>

Goodwill has been tested for impairment based on expected future cash flow under the Pandora Group transfer pricing setup.

No impairment identified.

9 Property, plant and equipment

	Other fixtures and fittings, tools and equipment TWD'000
Cost at 1 January	41,062
Additions for the year	38,099
Disposals for the year	<u>-3,274</u>
Cost at 31 December	<u>75,887</u>
Impairment losses and depreciation at 1 January	34,560
Depreciation for the year	16,257
Reversal of impairment and depreciation of sold assets	<u>-3,274</u>
Impairment losses and depreciation at 31 December	<u>47,543</u>
Carrying amount at 31 December	<u>28,344</u>

Notes to the Financial Statements

	2021 <u>TWD'000</u>	2020 <u>TWD'000</u>
10 Provision for deferred tax		
Provision for deferred tax at 1 January	3,002	1,994
Amounts recognised in the income statement for the year	<u>1,897</u>	<u>1,008</u>
Provision for net deferred liability tax at 31 December	<u>4,899</u>	<u>3,002</u>

The deferred tax liability amounts to TWD 6,756 (2020: TWD 4,503) relating to intangible assets and deferred tax assets amounts to TWD 1,857 (2020: TWD 1,501) relating to provisions.

11 Other provisions

Balance at beginning of year	9,605	9,268
Additions	8,573	607
Unused provisions reversed	-112	-270
Utilised in the year	<u>-5,574</u>	<u>0</u>
Provisions at 31 December	<u>12,492</u>	<u>9,605</u>

The provisions are expected to mature as follows:

Within 1 year	2,317	1,446
Between 1 and 5 years	<u>10,175</u>	<u>8,159</u>
	<u>12,492</u>	<u>9,605</u>

Current provisions relate to return and warranty provisions whereas non-current provisions relate to obligations to restore leased property.

12 Contingent assets, liabilities and other financial obligations

Contingent liabilities

The Company has taxes payable to the local Taiwan tax authorities as the branch in Taiwan has permanent establishment. The holding company in Denmark, excluding the Taiwan branch, is jointly and severally liable for tax on the jointly taxed incomes etc. of the Group. The total amount of corporation tax payable is disclosed in the Annual Report of Pandora A/S, which is the management company of the joint taxation purposes. Moreover, the group companies are jointly and severally liable for Danish withholding taxes by way of dividend tax, tax on royalty payments and tax on unearned income. Any subsequent adjustments of corporation taxes and withholding taxes may increase the Company's liability.

The rent and lease liabilities include a rent obligation totalling TWD 5 mill. (2020: TWD 14 mill.) in interminable rent agreements with remaining contract of 1-5 years.

Notes to the Financial Statements

12 Contingent assets, liabilities and other financial obligations (continued)

The Company does not have any security or other collateral in assets at 31 December 2021.

13 Related parties

Transactions

During the year, the Company had the following transactions with related parties:

Cost of sales TWD 363,309 (2020: TWD 358,557)

Other external expenses TWD 5,975 (2020: TWD 2,960)

Interest expenses to group entities TWD 5,191 (2020: TWD 1,607)

Receivables from group entities TWD 0 (2020: TWD 102,350)

Payables to group entities TWD -523,519 (2020: TWD -607,932)

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 Jewelry Taiwan A/S.

Pandora Jewelry Taiwan A/S is included in the Group Annual Report of Pandora A/S. The Group Annual Report of Pandora A/S can be obtained in the following link: <https://pandoragroup.com/investor/news-and-reports/annual-reports>.

Notes to the Financial Statements

14 Accounting Policies

The Annual Report of Pandora Jewelry Taiwan A/S 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 TWD'000.

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

Taiwan Dollars, TWD, is used as the presentation currency. All other currencies are regarded as foreign currencies.

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. Where foreign exchange transactions are considered hedging of future cash flows, the value adjustments are recognised directly in equity.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the

Notes to the Financial Statements

14 Accounting Policies (continued)

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.

Functional and presenting currency

The financial statements are presented in Taiwan Dollars (TWD), which is the functional currency of the Company. The Company's only activity is to sell Pandora Jewelry through stores in Taiwan. The choice of functional currency is determined by the fact that all revenue and all significant costs relating to the branch as well as the financing are all denominated in TWD.

The exchange rate TWD/DKK as of 31 December 2021 stated at 0.24 (0.22 as of 31 December 2020). The average exchange rate TWD/DKK for the year 2021 is 0.24 (0.22 for the year 2020).

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 the 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.

Notes to the Financial Statements

14 Accounting Policies (continued)

Staff costs

Staff costs 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.

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.

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 on profit/loss for the year consists of current tax for the year, changes in deferred tax for the year and corrections to prior year's tax. The tax attributable to the profit/loss for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in 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 payable at year end.

The Company is jointly taxed with the parent company and its Danish subsidiaries. Danish corporation taxes are fully allocated among the jointly taxed companies on the basis of the companies' taxable income (full allocation with reimbursement of tax losses).

Notes to the Financial Statements

14 Accounting Policies (continued)

Balance Sheet

Intangible assets

Goodwill is initially recognised at the amount by which the purchase price for a business combination exceeds the recognised value of the identifiable assets and liabilities acquired. Goodwill comprises future growth expectations, buyer-specific synergies, the workforce in place and know-how. Subsequent to initial recognition, goodwill is measured at cost less accumulated amortisation. Goodwill is amortised over its useful life, which is assessed at 10 years starting 2019.

Other intangible assets consist of key money and software. Other intangible assets are measured at cost less accumulated amortisation. Other intangible assets are amortised over a straight-line basis over its useful life, which is assessed at 5 years starting 2019.

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 over a straight-line basis over the expected useful lives of the assets, which is 5 years.

Impairment of fixed assets

The carrying amount of intangible assets and property, plant and equipment is assessed for impairment on an annual basis.

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 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.

Inventories

Inventories are measured at the lower of cost under the FIFO method and net realisable value.

Notes to the Financial Statements

14 Accounting Policies (continued)

The net realisable value of inventories is calculated at the amount expected to be generated by sale of the inventories in the process of normal operations with deduction of selling expenses. The net realisable value is determined allowing for marketability, obsolescence and development in expected selling price.

The cost of goods sold for resale equals landed costs as well as other costs directly attribute to the acquisition.

Receivables

Receivables are measured at amortised cost, which usually corresponds to the 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 comprise prepaid expenses concerning rent, insurance premiums, subscriptions, interest etc. Prepayments are measured at cost.

Equity - dividend

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

Corporation tax and deferred tax

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

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 losses 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.

Notes to the Financial Statements

14 Accounting Policies (continued)

Current tax receivables and liabilities

Current tax liabilities and receivables are recognised in the balance sheet as the expected taxable income for the year adjusted for tax on taxable incomes for prior years and tax paid on account. Extra payments and repayment under the on-account taxation scheme are recognised in the income statement in financial income and expenses.

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 primarily of 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 a historical experience or when a reasonable 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 net realisable value.

Financial Highlights

Explanation of financial ratios

Gross margin

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

Profit margin

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