**Basis of Accounting**

1.1 Purpose and scope

This section lists Samsonite’s accounting policies as published in the IFRS financial statements. All accounting policies must be adhered to consistently across all regions.

1.2 Summary of significant accounting policies

**(a)** **Principles of Consolidation**

**(i)** **Subsidiaries**

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial information of subsidiaries is included in the consolidated financial statements from the date on which control commences until the date on which control ceases. All significant intercompany balances and transactions have been eliminated in consolidation.

**(ii)** **Non-controlling Interests**

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from total equity attributable to equity holders of the Company. Non-controlling interests in the results of the Group are presented in the consolidated income statement and consolidated statement of comprehensive income as an allocation of the total profit for the year and total comprehensive income for the year between non-controlling interests and equity holders of the Company.

Changes in the Group’s interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognized.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with the resulting gain or loss being recognized in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognized at fair value and this amount is regarded as the new cost basis on initial recognition of a financial asset or an associate.

**(iii)** **Business Combinations**

Business combinations are accounted for using the acquisition method at the acquisition date, which is the date on which control is obtained by the Group. In assessing control, the Group takes into consideration substantive potential voting rights.

The Group measures goodwill at the acquisition date as the excess of the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the Group’s previously held equity interest in the acquiree, over the Group’s interest in the net fair value of the acquiree’s identifiable assets and liabilities measured at the acquisition date. If the net fair value is greater than the consideration transferred, then this excess is recognized immediately in profit or loss as a gain on a bargain purchase.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships, if applicable. Such amounts generally are recognized in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

When share-based payment awards (“replacement awards”) are required to be exchanged for awards held by the acquiree’s employees (“acquiree’s awards”) and relate to past services, then all or a portion of the amount of the acquirer’s replacement awards is included in measuring consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree’s awards and the extent to which the replacement awards relate to past and/or future service.

**(b)** **Foreign Currency Translation**

**(i)** **Foreign Currency Transactions**

Foreign currency transactions are translated using foreign exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of qualifying cash flow hedges, which are recognized in other comprehensive income. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

**(ii)** **Foreign Operations**

The assets and liabilities of the Group’s foreign subsidiaries are translated into USD at period end exchange rates. Equity accounts denominated in foreign currencies are translated into USD at historical exchange rates. Income and expense accounts are translated at average monthly exchange rates. All foreign currency differences arising from the translation of the financial statements of foreign operations are recorded in the foreign currency translation reserve in the consolidated statement of position. The net exchange gains or losses resulting from translating at varied exchange rates are recorded as a component of other comprehensive income and accumulated in equity and attributed to non-controlling interests, as appropriate.

**(c)** **Segment Reporting**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group’s other components. All operating segments’ operating results are reviewed regularly by the Group’s management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Group’s segment reporting is based on geographical areas, representative of how the Group’s business is managed and its operating results are evaluated. The Group’s operations are organized as follows: (i) “North America”; (ii) “Asia”; (iii) “Europe”; (iv) “Latin America”, and (v) “Corporate”.

Segment results that are reported to management include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses, income tax assets and liabilities, and licensing activities from the license of brand names owned by the Group.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment.

**(d)** **Property, Plant and Equipment**

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Assets under finance leases are stated at the present value of the future minimum lease payments. Improvements which extend the life of an asset are capitalized. Maintenance and repair costs are expensed as incurred.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components).

Gains and losses arising from the retirement or disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized in profit or loss on the date of retirement or disposal.

Depreciation and amortization are provided on the straight-line method over the estimated useful life of the asset or the lease term, if applicable, as follows:

* Buildings 20 to 30 years
* Machinery, equipment and other 3 to 10 years
* Leasehold improvements Lesser of useful life or the lease term

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if appropriate. Land owned by the Group with freehold interest is not depreciated.

**(e)** **Goodwill and Other Intangible Assets**

**(i)** **Goodwill**

Goodwill that arises upon the acquisition of a business is included in intangible assets. For measurement of goodwill at initial recognition, see note 3(a)(iii). Subsequent to initial recognition, goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit (“CGU”), or groups of CGUs, which are expected to benefit from the synergies of the combination and are tested annually for impairment.

**(ii)** **Intangible Assets (Other Than Goodwill)**

Intangible assets primarily consist of tradenames, customer relationships, patents, key money and computer software costs. No recognized intangible assets have been generated internally.

Intangible assets which are considered to have an indefinite life, such as tradenames, are measured at cost less accumulated impairment losses and are not amortized but are tested for impairment at least annually or more frequently if events or circumstances indicate that the asset may be impaired. *Samsonite*®, *Tumi*®, *American Tourister*®, *Speck*®, *High Sierra*®, *Gregory*®,*Lipault*®, *Kamiliant*®, *Hartmann*® and *eBags*® are the significant tradenames of the Group. It is anticipated that the economic benefits associated with these tradenames will continue for an indefinite period. The conclusion that the tradenames are an indefinite lived asset is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortization of intangible assets with finite lives as set out below.

Intangible assets which have a finite life are amortized and measured at cost less accumulated amortization and accumulated impairment losses. Amortization expense is recognized in profit or loss on a straight-line basis over the estimated useful lives from the date that they are available for use, as this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets. The range of estimated useful lives are as follows:

* Customer relationships 10 to 20 years
* Key money 3 to 10 years
* Patents 1 to 10 years

The Group capitalizes the costs of purchased software and costs to configure, install and test software and includes these costs within other intangible assets in the consolidated statement of financial position. Software assessment and evaluation, process reengineering, data conversion, training, maintenance and ongoing software support costs are expensed as incurred.

Intangible assets having a finite life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Estimated useful lives of intangible assets are reviewed annually and adjusted if applicable.

**(f)** **Impairment**

**(i)** **Financial Assets (Including Trade and Other Receivables)**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, or indications that a debtor or issuer will enter bankruptcy.

The Group considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

In assessing collective impairment, the Group uses historical trends, adjusted for management’s judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. Impairment losses that have been recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

**(ii)** **Non-financial Assets**

The carrying amounts of the Group’s non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated. For those CGUs or group of CGUs to which goodwill has been allocated and intangible assets that have indefinite useful lives, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using an appropriate discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “CGU”). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the group of CGUs that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment before aggregation ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes to the asset or CGU.

The Group’s corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset may be allocated.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the group of units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss that has been recognized on goodwill is not reversed in subsequent periods if estimates used to determine the recoverable amount change. For other assets, impairment losses that have been recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

**(g)** **Inventories**

Inventories are carried at the lower of cost or net realizable value. Cost is calculated using the weighted average method. The cost of inventory includes expenditures incurred in acquiring the inventories, production costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Cost also may include transfers from other accumulated comprehensive income (loss) of any gain or loss on qualifying cash flow hedges of foreign currency purchases of inventories. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as expenses in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

**(h)** **Trade and Other Receivables**

Trade accounts receivable are recorded at invoiced amounts, less estimated allowances for trade terms, sales incentive programs, discounts, markdowns, chargebacks and returns as discussed below in *Revenue Recognition*. Royalty receivables are recorded at amounts earned based on the licensees’ sales of licensed products, subject in some cases to contractual minimum royalties due from individual licensees. The Group maintains an allowance for doubtful accounts for estimated losses that will result from the inability of customers to make required payments. The allowance is determined based on review of specific customer accounts where collection is doubtful, as well as an assessment of the collectability of total receivables considering the aging of balances, historical and anticipated trends, and current economic conditions. All accounts are subject to ongoing review of ultimate collectability. Receivables are written off against the allowance when it is probable the amounts will not be recovered.

**(i)** **Cash and Cash Equivalents**

Cash and cash equivalents includes cash held at banks, deposits held at call with banks, and other short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

**(j)** **Interest-bearing Borrowings**

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between the amount initially recognized and the redemption value being recognized in profit or loss over the period of the borrowings, together with any interest payable and deferred financing costs, using the effective interest method.

**(k)** **Financial Instruments**

**(i)** **Non-derivative Financial Assets and Liabilities**

The Group initially recognizes receivables and deposits on the date that they are originated.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position when the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, receivables are measured at cost, less any impairment losses. Receivables are comprised of trade and other receivables.

The Group initially recognizes debt instruments issued on the date that they are originated. The Group derecognizes a financial liability when its contractual obligations are discharged, canceled or expire.

The Group has the following non-derivative financial liabilities: loans and borrowings and trade and other payables. Both loans and borrowings and trade and other payables are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to their initial recognition, loans and borrowings are accounted for at amortized cost using the effective interest method.

**(ii)** **Derivative Financial Instruments**

The Group holds derivative financial instruments to hedge certain of its foreign currency risk and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. For derivatives designated in hedging relationships, changes in the fair value are either offset through profit or loss against the change in fair value of the hedged item attributable to the risk being hedged or recognized in hedging reserves that are reported directly in equity (deficit) until the hedged item is recognized in profit or loss and, at that time, the related hedging gain or loss is removed from equity (deficit) and is used to offset the change in value of the hedged item.

Other than agreements with holders of non-controlling interests, there were no derivatives embedded in host contracts during the periods presented. The Group has certain put option agreements that are classified as financial liabilities in accordance with IAS 32, *Financial Instruments: Presentation* (“IAS 32”), in the consolidated statement of financial position, as the Group has a potential obligation to settle the option in cash in the future. The amount recognized initially is the fair value of the redeemable non-controlling interests and subsequently remeasured at each reporting date based on a price to earnings multiple discounted to the reporting date. For agreements entered into prior to the adoption of IFRS 3, *Business Combinations* (“IFRS 3”), on January 1, 2008, subsequent changes in liabilities are recognized in profit or loss. For agreements entered into after January 1, 2008, subsequent changes in liabilities are recognized through equity.

Derivatives are recognized initially at fair value and any attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

The Group periodically enters into derivative contracts that it designates as a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). For all hedging relationships, the Group formally documents the hedging relationship and its risk management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item, the nature of the risk being hedged, how the hedging instrument’s effectiveness in offsetting the hedged risk will be assessed prospectively and retrospectively, and a description of the method of measuring ineffectiveness. The Group also formally assesses, both at the hedge’s inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting cash flows of hedged items by determining whether the actual results of each hedge are within a range of 80% to 125%. For a cash flow hedge of a forecasted transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that ultimately could affect reported profit or loss.

For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other accumulated comprehensive income (loss) and presented in the hedging reserve in equity, and reclassified into profit or loss in the same period or periods during which the hedged transaction affects profit or loss. Gains and losses on the derivative representing hedge ineffectiveness are excluded from the assessment of effectiveness and are recognized immediately in profit or loss.

The Group discontinues hedge accounting prospectively when it determines that the derivative is no longer effective in offsetting cash flows of the hedged item, the derivative expires or is sold, terminated, or exercised, the derivative is de-designated as a hedging instrument because it is unlikely that a forecasted transaction will occur, or management determines that designation of the derivative as a hedging instrument is no longer appropriate.

When a derivative financial instrument is not held for trading, and is not designated in a qualified hedging relationship, all changes in fair value are recognized immediately through profit or loss. If the forecasted transaction is no longer expected to occur, then the balance in equity is reclassified to profit or loss.

**(iii)** **Share Capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects.

**(l)** **Employee Benefits**

**(i)** **Defined Contribution Plans**

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

**(ii)** **Defined Benefit Plans**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group’s net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is based on a high grade bond yield curve under which the benefits were projected and discounted at spot rates along the curve. The discount rate is then determined as a single rate yielding the same present value. IAS 19, *Employee Benefits* ("IAS19") limits the measurement of the defined benefit asset to the lower of the surplus in the defined benefit plan and the asset ceiling, which is defined as the present value of any economic benefits available in the form of refunds from the plan or redirections in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realizable during the life of the plan, or on settlement of the plan liabilities.

Certain subsidiaries of the Group have pension plans and post-retirement health benefit plans which provide retirement benefits for eligible employees, generally measured by length of service, compensation and other factors. The Group follows the recognition, measurement, presentation and disclosure provisions of IAS 19. Under IAS 19, remeasurements, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest) are recognized immediately in other comprehensive income and are not subsequently reclassified into profit or loss. The measurement date for all pension and other employee benefit plans is the Group’s fiscal year end.

Under IAS 19, the Group determines the net interest expense (income) for the period on the net defined benefit liability (asset) by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset) at the beginning of the annual period. Consequently, the net interest cost on the net defined benefit liability (asset) now comprises:

* Interest cost on the defined benefit obligation;
* Interest income on plan assets; and
* Interest on the effect of asset ceiling.

**(iii)** **Other Long-term Employee Benefits**

The Group’s net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is based on a high grade bond yield curve under which the benefits are projected and discounted at spot rates along the curve. The discount rate is then determined as a single rate yielding the same present value. Any actuarial gains and losses are recognized in other comprehensive income in the period in which they arise. Actuarial valuations are obtained annually at the end of the fiscal year.

**(iv)** **Termination Benefits**

Termination benefits are employee benefits provided in exchange for the termination of an employee’s employment as a result of either an entity’s decision to terminate an employee’s employment before the normal retirement date or an employee’s decision to accept an offer of benefits in exchange for the termination of employment.

**(v)** **Short-term Employee Benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

**(vi)** **Share-based Compensation**

The grant-date fair value of equity-settled share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For equity-settled share-based payment awards with market performance conditions or non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

**(m)** **Income Taxes**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the reporting date, and any adjustment to tax payable in respect of previous years.

The Group recognizes a tax reserve for uncertain positions at the most likely outcome when it is more likely than not there will be a future outflow of funds. The Group measures the most likely outcome, or in the event multiple outcomes are possible, on the expected value method. The Group records interest and penalties related to these uncertain tax positions in income tax expense in the consolidated income statements.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, if they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

**(n)** **Revenue Recognition**

Revenues from wholesale product sales are recognized when (i) evidence of a sales arrangement at a fixed or determinable price exists (usually in the form of a sales order), (ii) collectability is reasonably assured, and (iii) title transfers to the customer. Provisions are made for estimates of markdown allowances, warranties, returns and discounts at the time product sales are recognized. Shipping terms are predominately FOB shipping point (title transfers to the customer at the Group’s shipping location) except in certain Asian countries where title transfers upon delivery to the customer. In all cases, sales are recognized upon transfer of title to customers. Revenues from retail sales are recognized at the point of sale to consumers. Revenue excludes collected sales taxes.

Revenue is measured at the fair value of the consideration received or receivable. Provided that it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in profit or loss.

The Group licenses its brand names to certain third parties. Net sales in the accompanying consolidated income statement include royalties earned on licensing agreements with third parties, for which revenue is earned and recognized when the third party makes a sale of a branded product of the Group.

**(o)** **Cost of Sales, Distribution, Marketing and General and Administrative Expenses**

The Group includes the following types of costs in cost of sales: direct product purchase and manufacturing costs, duties, freight, receiving, inspection, internal transfer costs, depreciation and procurement and manufacturing overhead. The impairment of inventories and the reversals of such impairments are included in cost of sales during the period in which they occur.

Distribution expenses are primarily comprised of rent, employee benefits, customer freight, depreciation, amortization, warehousing costs and other selling expenses.

Marketing expenses consist of advertising and promotional activities. Costs for producing media advertising are deferred until the related advertising first appears in print or television media, at which time such costs are expensed. All other advertising costs are expensed as incurred. Cooperative advertising costs associated with customer support programs giving the Group an identifiable advertising benefit equal to at least the amount of the advertising allowance are accrued and charged to marketing expenses when the related revenues are recognized. From time to time, the Group offers various types of incentive arrangements such as cash or payment discounts, rebates or free products. All such incentive arrangements are accrued and reduce reported revenues when incurred.

General and administrative expenses consist of management salaries and benefits, information technology costs, and other costs related to administrative functions and are expensed as incurred.

**(p)** **Finance Income and Costs**

Finance income comprises interest income on funds invested, gains on hedging instruments that are recognized in profit or loss and reclassifications of net gains previously recognized in other comprehensive income. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings (including the amortization of deferred financing costs), unwinding of the discount on provisions, changes in the fair value of put options associated with the Group’s majority-owned subsidiaries, net gains (losses) on hedging instruments that are recognized in profit or loss and reclassifications of net losses previously recognized in other comprehensive income. Foreign currency gains and losses are reported as finance costs on a net basis.

Costs incurred in connection with the issuance of debt instruments are included in the initial measurement of the related financial liabilities in the consolidated statement of financial position. Such deferred financing costs are amortized using the effective interest method over the term of the related debt obligation.

**(q)** **Earnings Per Share**

The Group presents basic and diluted earnings per share (“EPS”) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary equity shareholders of the Company by the weighted average number of ordinary shares outstanding for the period, adjusted for any shares held by the Group. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary equity shareholders and the weighted average number of ordinary shares outstanding, adjusted for any shares held by the Group, for the effects of all potentially dilutive ordinary shares, which comprise share options granted to employees, as applicable.

**(r)** **Leases**

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement, regardless of whether the arrangement takes the legal form of a lease.

Leases in which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Other leases are operating leases and the leased assets are not recognized in the Group’s consolidated statement of financial position.

The Group leases retail stores, distribution centers and office facilities. Initial terms of the leases range from one to twenty years. Most leases provide for monthly fixed minimum rentals or contingent rentals based upon sales in excess of stated amounts and normally require the Group to pay real estate taxes, insurance, common area maintenance costs and other occupancy costs. The Group recognizes rent expense for leases that include scheduled and specified escalations of the minimum rent on a straight-line basis over the base term of the lease. Any difference between the straight-line rent amount and the amount payable under the lease is included in other liabilities in the consolidated statement of financial position. Contingent rental payments are expensed as incurred.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

**(s)** **Provisions and Contingent Liabilities**

Provisions are recognized for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

**(t)** **Related Parties**

(i) A person, or a close member of that person’s family, is related to the Group if that person:

1. has control or joint control over the Group;
2. has significant influence over the Group; or
3. is a member of the key management personnel of the Group.

(ii) An entity is related to the Group if any of the following conditions apply:

1. the entity and the Group are members of the same group (which means that each parent, the subsidiary and fellow subsidiary is related to the others);
2. one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
3. both entities are joint ventures of the same third party;
4. one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
5. the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
6. the entity is controlled or jointly controlled by a person identified in (i);
7. a person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or
8. the entity, or any member of a group of which it is part, provides key management services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

**(u)** **New Standards and Interpretations**

Certain new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2017, and have not been applied in preparing these consolidated financial statements.

In July 2014, the IASB issued the final element of its comprehensive response to the financial crisis by issuing IFRS 9, *Financial Instruments* (”IFRS 9”). The improvements introduced by IFRS 9 include new principles for classification and measurement based on cash flows characteristics and business model, a single forward-looking expected loss impairment model and a substantially revised approach to hedge accounting aligning it more with risk management strategies. IFRS 9 will come into effect on January 1, 2018 with early application permitted. The Group will adopt IFRS 9 as of January 1, 2018 and will not have a material impact on its financial performance and condition.

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers* (”IFRS 15”). IFRS 15 sets out requirements for recognizing revenue that applies to all contracts with customers and introduces a five step approach with control being the basic principal underpinning the new model. IFRS 15 also requires enhanced qualitative and quantitative revenue-related disclosures. IFRS 15 is effective as of January 1, 2018 with earlier application permitted. The Group will adopt IFRS 15 as of January 1, 2018. The Group has evaluated the impact of the new standard comparing the current accounting policies and practices to the requirements of the new standard. The Group analyzed the timing of transfer of control, right of return and variable consideration related to the sales of its products under IFRS 15. This analysis included stocking fees, rebates, loyalty programs, gift cards, customized products and warranties. The Company also analyzed its licensing agreements and cooperative advertising programs under IFRS 15. The Group has warranties that vary amongst brands and product categories, but does not offer any multi-period maintenance or extended warranty agreements. Under current accounting policies, revenue is recorded when products ship with an estimated warranty accrual recorded for the estimated future warranty costs. The Group does not expect any change in this accounting under the new revenue recognition standard. Assurance-type warranties on the Group's products do not provide an additional service to the customer (i.e., they are not separate performance obligations). Based on the analysis performed, the Group has determined that the impact of adopting IFRS 15 on the amount and timing of the revenue recognized in the consolidated financial statements from the adoption of the new standard is not material.

In January 2016, the IASB issued IFRS 16, *Leases* ("IFRS 16"). The guidance amends the existing accounting standards for lease accounting, including the requirement that lessees recognize right of use assets and lease liabilities for leases with terms greater than twelve months on the statements of financial position. Under the new guidance, lessor accounting is largely unchanged. This guidance is effective for fiscal years, and for interim periods within those fiscal years, beginning on or after January 1, 2019. IFRS 16 provides an option to adopt the new requirements by either using a retrospective approach (i.e., restating all comparatives) or a modified retrospective approach and contains certain other transition reliefs. The Group is currently evaluating these options. The Company (i) has established a multidisciplinary team to assess and implement the new guidance, (ii) expects the guidance to have a material impact on its consolidated statements of financial position due to the recording of right of use assets and lease liabilities for leases in which it is a lessee and which it currently treats as operating leases and (iii) continues to evaluate the impact of the new guidance.

In June 2016, the IASB issued Amendments to IFRS 2, *Classification and Measurement of Share-based Payment Transactions*. These amendments eliminate the ambiguity over how a company should account for certain types of share-based payment arrangements. Amendments to IFRS 2, *Classification and Measurement of Share-based Payment Transactions* cover three accounting areas: (i) measurement of cash-settled share-based arrangements, (ii) classification of share-based payments settled net of tax withholdings and (iii) accounting for a modification of a share-based payment from cash-settled to equity-settled. Amendments to IFRS 2, *Classification and Measurement of Share-based Payment Transactions* will come into effect for annual periods beginning on or after January 1, 2018 with earlier application permitted. The Group will adopt IFRS 2, *Classification and Measurement of Share-based Payment Transactions* as of January 1, 2018 and does not anticipate it will have a material impact on its consolidated financial results from adoption of this amendment.

In December 2016, the IFRS Interpretations Committee ("IFRS IC") issued IFRIC 22, *Foreign Currency Transactions and Advance Consideration* ("IFRIC 22"). IFRIC 22 clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. IFRIC 22 covers foreign currency transactions when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. IFRIC 22 is effective for annual reporting periods beginning on or after January 1, 2018 with earlier application permitted. The Group will adopt IFRIC 22 as of January 1, 2018 and does not anticipate it will have a material impact on its consolidated financial statements from the adoption of the new standard.

In June 2017, the IFRS IC issued IFRIC 23, *Uncertainty over Income Tax Treatments*, ("IFRIC 23"). IFRIC 23 clarifies the accounting for uncertainties related to income taxes and is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12, *Income Taxes*. IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. The Group is currently evaluating the impact of IFRIC 23 on its consolidated financial statements.