

Report of the Directors and Audited Financial Statements

HAVELLS SYLVANIA ASIA PACIFIC LIMITED
(Incorporated in Hong Kong with limited liability)

31 December 2014

HAVELLS SYLVANIA ASIA PACIFIC LIMITED

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HAVELLS SYLVANIA AISA PACIFIC LIMITED

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of Havells Sylvania Asia Pacific Limited (the "Company") for the year ended 31 December 2014.

Principal activities

The principal activities of the Company are marketing and selling of lighting products and other related electronic devices. Details of the principal activities of the Company's subsidiaries are set out in note 8 to the financial statements. There were no significant changes in the nature of the Company's principal activities during the year.

Results and dividends

The Company's profit for the year ended 31 December 2014 and the state of affairs of the Company at that date are set out in the financial statements on pages 5 to 29.

The directors do not recommend the payment of any dividend in respect of the year.

Share capital

Details of movements in the Company's share capital during the year are set out in note 17 to the financial statements.

Reserves

Details of movements in the Company's reserves during the year are set out in the statement of changes in equity.

Directors

The directors of the Company during the year were:

Mahender Singh Bagri
Meng Xianjun
Vikas Agarwal (Resigned in January 2014)

In accordance with articles 105 and 106 of the Company's articles of association, Mahender Singh Bagri and Meng Xianjun will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Directors' interests

At no time during the year was the Company, any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Company's directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Directors' interests in contracts

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Company to which the Company, any of its holding companies, subsidiaries or fellow subsidiaries was a party during the year.

HAVELLS SYLVANIA ASIA PACIFIC LIMITED

REPORT OF THE DIRECTORS

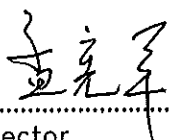
Management contracts

Pursuant to an agreement dated 28 March 2013 between the Company and its fellow subsidiary, Guangzhou Havells Sylvania Enterprise Limited ("Sylvania Guangzhou"), Sylvania Guangzhou provided management services to the Company. The agreement was terminated on 31 December 2014. During the year, the Company paid a management service fee amounting to HK\$2,984,960 (2013: HK\$2,931,840) in accordance with the terms of the agreement.

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD



.....
Director

Hong Kong
5 May 2015



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INDEPENDENT AUDITORS' REPORT

To the shareholder of Havells Sylvania Asia Pacific Limited (Incorporated in Hong Kong with limited liability)

We have audited the financial statements of Havells Sylvania Asia Pacific Limited (the "Company") set out on pages 5 to 29, which comprise the statement of financial position as at 31 December 2014, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with section 80 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

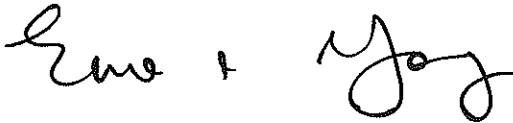
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT (continued)

To the shareholder of Havells Sylvania Asia Pacific Limited
(Incorporated in Hong Kong with limited liability)

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2014 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.



Certified Public Accountants
Hong Kong
5 May 2015

HAVELLS SYLVANIA ASIA PACIFIC LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2014

	Notes	2014 HK\$	2013 HK\$
REVENUE	4	44,402,408	43,648,732
Cost of sales		<u>(33,984,356)</u>	<u>(36,434,573)</u>
Gross profit		10,418,052	7,214,159
Other income and gains	4	66,984	29,762
Selling and distribution costs		(1,031,289)	(1,460,178)
Administrative expenses		(3,433,498)	(3,397,707)
Other expenses		<u>51,829</u>	<u>(1,900,559)</u>
PROFIT BEFORE TAX	5	6,072,078	485,477
Income tax expense	7	<u>-</u>	<u>-</u>
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u><u>6,072,078</u></u>	<u><u>485,477</u></u>

HAVELLS SYLVANIA ASIA PACIFIC LIMITED

STATEMENT OF FINANCIAL POSITION

31 December 2014

	Notes	2014 HK\$	2013 HK\$
NON-CURRENT ASSETS			
Investments in subsidiaries	8	-	-
Total non-current assets		-	-
CURRENT ASSETS			
Inventories	9	2,072,035	2,342,537
Trade receivables	10	8,628,832	9,640,507
Prepayments, deposits and other receivables		7,537	48,176
Due from the ultimate holding company	16	3,880	-
Due from subsidiaries	11	1,184,019	-
Due from fellow subsidiaries	12	5,590,103	428,630
Tax recoverable		385,055	439,950
Cash and cash equivalents	13	2,916,165	4,164,124
Total current assets		20,787,626	17,063,924
CURRENT LIABILITIES			
Trade payables	14	4,727,963	5,172,210
Other payables and accruals	15	2,360,404	1,972,216
Due to fellow subsidiaries	12	2,817,124	5,100,397
Due to the ultimate holding company	16	-	9,044
Total current liabilities		9,905,491	12,253,867
NET CURRENT ASSETS		10,882,135	4,810,057
Net assets		10,882,135	4,810,057
EQUITY			
Issued capital	17	10,520,000	10,520,000
Retained earnings/(accumulated losses)		362,135	(5,709,943)
Total equity		10,882,135	4,810,057

王克平

Director

Alaghu

Director

HAVELLS SYLVANIA ASIA PACIFIC LIMITED

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2014

	Issued capital HK\$	Retained earnings/ accumulated losses HK\$	Total HK\$
At 1 January 2013	10,520,000	(6,195,420)	4,324,580
Profit and total comprehensive income for the year	<u>-</u>	<u>485,477</u>	<u>485,477</u>
At 31 December 2013 and 1 January 2014	10,520,000	(5,709,943)	4,810,057
Profit and total comprehensive income for the year	<u>-</u>	<u>6,072,078</u>	<u>6,072,078</u>
At 31 December 2014	<u>10,520,000</u>	<u>362,135</u>	<u>10,882,135</u>

HAVELLS SYLVANIA ASIA PACIFIC LIMITED

STATEMENT OF CASH FLOWS

Year ended 31 December 2014

	Notes	2014 HK\$	2013 HK\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		6,072,078	485,477
Adjustments for:			
Provision of inventories	5	755,512	435,661
Reversal of impairment of trade receivables, net (Write-back)/impairment of amounts due from fellow subsidiaries	5	-	(90,414)
Impairment of amounts due from subsidiaries	5	(342,153)	950,023
Impairment loss on investments in subsidiaries	5	297,719	15,869
Interest income	5	-	382,847
Unrealised exchange differences	4	(66,984)	(48)
		114,470	(30,521)
		<u>6,830,642</u>	<u>2,148,894</u>
(Increase)/decrease in inventories		(485,010)	371,116
Decrease/(increase) in trade receivables		1,011,675	(6,522,290)
Increase in amounts due from subsidiaries		(305,403)	-
(Increase)/decrease in amounts due from fellow subsidiaries		(111,120)	1,980,431
Increase in amount due from ultimate holding company		(3,880)	-
Decrease in prepayments, deposits and other receivables		40,639	615,204
(Decrease)/increase in trade payables		(444,247)	335,608
(Decrease)/increase in amounts due to fellow subsidiaries		(2,283,273)	3,038,119
Decrease in an amount due to the ultimate holding company		(9,044)	(102,899)
Increase in other payables and accruals		388,188	1,246,701
Cash generated from operations		<u>4,629,167</u>	<u>3,110,884</u>
Hong Kong profits tax paid		-	-
Net cash flows from operating activities		<u>4,629,167</u>	<u>3,110,884</u>

HAVELLS SYLVANIA ASIA PACIFIC LIMITED

STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2014

	Note	2014 HK\$	2013 HK\$
CASH FLOWS FROM INVESTING ACTIVITIES			
Loan to a subsidiary		(1,176,335)	-
Loan to a fellow subsidiary		(4,708,200)	-
Interest received		<u>66,984</u>	<u>48</u>
Net cash flows used in investing activities		<u>(5,817,551)</u>	<u>48</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of a loan to a fellow subsidiary		<u>-</u>	<u>(723)</u>
Net cash flows used in financing activities		<u>-</u>	<u>(723)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		(1,188,384)	3,110,209
Cash and cash equivalents at beginning of year		4,164,124	1,022,671
Effect of foreign exchange rate changes, net		<u>(59,575)</u>	<u>31,244</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u><u>2,916,165</u></u>	<u><u>4,164,124</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	13	<u><u>2,916,165</u></u>	<u><u>4,164,124</u></u>

31 December 2014

1. CORPORATE INFORMATION

Havells Sylvania Asia Pacific Limited (the "Company") is a limited liability company incorporated in Hong Kong. The registered office of the Company is located at Unit 1005, 10th Floor, Tower B, Hunghom Commercial Centre, 37, Ma Tau Wai Road, Hunghom, Kowloon, Hong Kong.

During the year, the Company's principal activities are marketing and selling of lighting products and other related electronic devices.

The Company's immediate holding company is Flowil International Lighting (Holding) B.V., a company incorporated in the Netherlands. In the opinion of the directors, the Company's ultimate holding company is Havells India Limited, a company incorporated in India.

2.1 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance which concern the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance.

2.2 BASIS OF PREPARATION

These financial statements have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars ("HK\$").

Consolidated financial statements have not been prepared as Havells Malta Limited, the intermediate holding company of the Company, prepares consolidated financial statements in accordance with International Financial Reporting Standards, which can be obtained at the registered office of Havells Malta Limited. The registered office of Havells Malta Limited is located at 33, St. Barbara Bastion, Valletta, VLT 1961, Malta.

31 December 2014

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Company has adopted the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 10 HKFRS 12 and HKAS 27(2011)	<i>Investment Entities</i>
Amendments to HKAS 32	<i>Offsetting Financial Assets and Financial Liabilities</i>
Amendments to HKAS 36	<i>Recoverable Amount Disclosures for Non-Financial Assets</i>
Amendments to HKAS 39	<i>Novation of Derivatives and Continuation of Hedge Accounting</i>
HK(IFRIC)-Int 21	<i>Levies</i>
Amendments to HKFRS 2 included in <i>Annual Improvements 2010-2012 Cycle</i>	<i>Definition of Vesting Condition¹</i>
Amendments to HKFRS 3 included in <i>Annual Improvements 2010-2012 Cycle</i>	<i>Accounting for Contingent Consideration in a Business Combination¹</i>
Amendments to HKFRS 13 included in <i>Annual Improvements 2010-2012 Cycle</i>	<i>Short-term Receivables and Payables</i>
Amendments to HKFRS 1 included in <i>Annual Improvements 2011-2013 Cycle</i>	<i>Meaning of Effective HKFRSs</i>

¹ Effective from 1 July 2014

The adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

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2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

HKFRS 9	<i>Financial Instruments</i> ⁴
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sales or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ²
Amendments to HKFRS 10 HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i> ²
Amendments to HKFRS 11 HKFRS 14	<i>Accounting for Acquisitions of Interests in Joint Operations</i> ²
HKFRS 15	<i>Regulatory Deferral Accounts</i> ⁵
Amendments to HKAS 1	<i>Revenue from Contracts with Customers</i> ³
Amendments to HKAS 16 and HKAS 38	<i>Disclosure Initiative</i> ²
Amendments to HKAS 16 and HKAS 41	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> ²
Amendments to HKAS 19	<i>Agriculture: Bearer Plants</i> ²
Amendments to HKAS 27 (2011)	<i>Defined Benefit Plans: Employee Contributions</i> ¹
<i>Annual Improvements 2010 - 2012 Cycle</i>	<i>Equity Method in Separate Financial Statements</i> ²
<i>Annual Improvements 2011 - 2013 Cycle</i>	Amendments to a number of HKFRSs ¹
<i>Annual Improvements 2012 - 2014 Cycle</i>	Amendments to a number of HKFRSs ¹
	Amendments to a number of HKFRSs ²

¹ Effective for annual periods beginning on or after 1 July 2014

² Effective for annual periods beginning on or after 1 January 2016

³ Effective for annual periods beginning on or after 1 January 2017

⁴ Effective for annual periods beginning on or after 1 January 2018

⁵ Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

The Company is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Company considers that these new and revised HKFRSs are unlikely to have a significant impact on the Company's results of operations and financial position.

In addition, the annual report requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Company's first financial year commencing on or after 3 March 2014 in accordance with section 358 of that Ordinance. The Company is in the process of making an assessment of the expected impact of the changes in the Companies Ordinance on the financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has been concluded that the impact is unlikely to be significant and will primarily only affect the presentation and disclosure of information in the financial statements.

31 December 2014

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Company the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Company's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 - based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 - based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Related parties

A party is considered to be related to the Company if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Company;
 - (ii) has significant influence over the Company; or
 - (iii) is a member of the key management personnel of the Company or of a parent of the Company;

or

31 December 2014

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

- (b) the party is an entity where any of the following conditions applies:
- (i) the entity and the Company are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Company are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a); and
 - (vii) a person identified in (a)(i) 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).

Impairment of non-financial assets

The Company assesses at the end of each reporting period whether there is an indication that an asset may be impaired. If such an indication exists, the Company makes an estimate of the asset's recoverable amount.

The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e., a cash-generating unit).

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of the impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. The reversal of the impairment loss is credited to profit or loss in the year in which it arises.

31 December 2014

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

(a) Financial assets

The Company's financial assets included cash and cash equivalents, trade receivables and amounts due from related companies, and are classified and accounted for as loans and receivables. Financial assets are recognised on the trade date.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method, less any impairment losses. Any changes in their value are recognised in profit or loss.

Derecognition of financial assets occurs when the rights to receive cash flows from the financial assets expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

An assessment for impairment is undertaken at least at the end of each reporting period whether or not there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment loss on loans and receivables is recognised when there is objective evidence that the Company will not be able to collect all the amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

(b) Financial liabilities

The Company's financial liabilities include trade payables, financial liabilities included in other payables and accruals and amounts due to the related companies. Financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities are initially recognised at fair value, net of transaction costs incurred and subsequently measured at amortised cost using the effective interest rate method. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled, or expires.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

31 December 2014

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Income tax

Income tax comprises current and deferred tax.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Company operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the end of the reporting period are used to determine the deferred tax.

Deferred tax liabilities are provided in full while deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Company and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and
- (b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include cash on hand, deposits held at call with banks, and other short term highly liquid investments with original maturity of three months or less when acquired, less bank overdrafts.

31 December 2014

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents (continued)

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, which are not restricted as to use.

Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of the Company using the exchange rates prevailing at the dates of the transactions. Exchange differences arising from the settlement of such transactions and from the retranslation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

Income taxes

Significant judgement is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provision in the period in which such determination is made.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of trade receivables

The Company maintains an allowance for estimated loss arising from the inability of its customers to make the required payments. The Company makes its estimates based on the ageing of its trade receivable balances, customers' creditworthiness, and historical write-off experience. If the financial condition of its customers was to deteriorate so that the actual impairment loss might be higher than expected, the Company would be required to revise the basis of making the allowance.

HAVELLS SYLVANIA ASIA PACIFIC LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Company's turnover, represents the net sale of various lighting products and other related electronic devices. An analysis of revenue, other income and gains is as follows:

	2014 HK\$	2013 HK\$
<u>Revenue</u>		
Sale of goods	<u>44,402,408</u>	<u>43,648,732</u>
<u>Other income and gains</u>		
Interest income from loan to a subsidiary	12,812	-
Interest income from loan to a fellow subsidiary	54,172	48
Commission income	-	29,714
	<u>66,984</u>	<u>29,762</u>

5. PROFIT BEFORE TAX

The Company's profit before tax is arrived at after charging/(crediting):

	Notes	2014 HK\$	2013 HK\$
Cost of inventories sold		33,228,844	35,998,912
Auditors' remuneration		104,369	105,779
Employee benefits expenses (including directors' remuneration (note 6))			
Commercial medical insurance payments	6	-	113,972
Foreign exchange differences, net		78,036	96,815
Provision of inventories	9	755,512	435,661
Impairment loss on investments in subsidiaries	8	-	382,847
Reversal of impairment of trade receivables, net	10	-	(90,414)
Impairment of amounts due from subsidiaries	11	297,719	15,869
(Write-back)/impairment of amounts due from fellow subsidiaries, net	12	<u>(342,153)</u>	<u>950,023</u>

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6. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 78 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622) with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32) is as follows:

	2014 HK\$	2013 HK\$
Other emoluments:		
Commercial medical insurance payments	-	113,972
	<u>-</u>	<u>113,972</u>

7. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

	2014 HK\$	2013 HK\$
Provision for the year	-	-
Deferred tax	-	-
Tax charge for the year	<u>-</u>	<u>-</u>

A reconciliation of the Company's tax expense applicable to profit before tax at the statutory rate to the tax expense at the effective tax rate is as follows:

	2014 HK\$	2013 HK\$
Profit before tax	<u>6,072,078</u>	<u>485,477</u>
Tax at the statutory tax rate of 16.5% (2013: 16.5%)	1,001,893	80,103
Expenses not deductible for tax	23,986	102,949
Income not subject to tax	(703,964)	(724)
Tax losses utilised from previous periods	<u>(321,915)</u>	<u>(182,328)</u>
Tax charged at the effective rate	<u>-</u>	<u>-</u>

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8. INVESTMENTS IN SUBSIDIARIES

	2014 HK\$	2013 HK\$
At cost:		
Havells Sylvania (Shanghai) Limited ("Sylvania Shanghai")	11,333,657	11,333,657
Havells Sylvania (Malaysia) Sdn. Bhd. ("Sylvania Malaysia")	<u>382,847</u>	<u>382,847</u>
	11,716,504	11,716,504
Less: impairment	<u>(11,716,504)</u>	<u>(11,716,504)</u>
	<u>-</u>	<u>-</u>

The Company's amounts due from subsidiaries are disclosed in note 11 to the financial statements.

Particulars of the subsidiaries as at the end of the reporting period are as follows:

Name	Place of incorporation and operations	Nominal value of registered/ issued share capital	Percentage of equity directly attributable to the Company	Principal activities
Sylvania Shanghai	The People's Republic of China	RMB14,000,000	100%	Wholesale and marketing of lighting and other related electronic devices
Sylvania Malaysia	Malaysia	MYR250,000	70%	Wholesale and marketing of lighting and other related electronic devices

The post-acquisition profits or losses of the subsidiaries attributable to the Company are summarised below:

	2014 HK\$	2013 HK\$
Amount dealt with in the Company's financial statements	<u>-</u>	<u>-</u>
Amount not dealt with in the Company's financial statements:		
Balance at beginning of year	(3,259,040)	(1,957,272)
Loss for the year	<u>(2,081,398)</u>	<u>(1,301,768)</u>
Balance at end of year	<u>(5,340,438)</u>	<u>(3,259,040)</u>

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9. INVENTORIES

	2014 HK\$	2013 HK\$
Finished goods	4,233,852	4,719,918
Goods in transit	<u>971,076</u>	<u>-</u>
	5,204,928	4,719,918
Less: Provision of inventories	<u>(3,132,893)</u>	<u>(2,377,381)</u>
	<u><u>2,072,035</u></u>	<u><u>2,342,537</u></u>

10. TRADE RECEIVABLES

	2014 HK\$	2013 HK\$
Trade receivables	9,765,255	10,813,664
Impairment	<u>(1,136,423)</u>	<u>(1,173,157)</u>
	<u><u>8,628,832</u></u>	<u><u>9,640,507</u></u>

The Company's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of three months. The Company seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. The Company does not hold any collateral or other credit enhancements over those balances. Trade receivables are non-interest-bearing, and are stated net of provisions.

At 31 December 2014, trade receivables of HK\$1,136,423 (2013: HK\$1,173,157) were individually determined to be impaired. The individually impaired trade receivables relate to third party customers and it was assessed that none of those receivables were expected to be recoverable and a full provision has been made.

NOTES TO FINANCIAL STATEMENTS

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10. TRADE RECEIVABLES (continued)

The movements in provision for impairment losses are as follows:

	2014 HK\$	2013 HK\$
At 1 January	1,173,157	1,952,142
Impairment losses reversed (note 5)	-	(90,414)
Impairment losses written-off	<u>(36,734)</u>	<u>(688,571)</u>
At 31 December	<u>1,136,423</u>	<u>1,173,157</u>

The aged analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	2014 HK\$	2013 HK\$
Neither past due nor impaired	1,623,102	8,420,390
Past due but not impaired		
Less than 90 days	6,886,208	711,597
91 days to 180 days	-	85,517
Over 180 days and less than 1 year	119,522	305,069
Over 1 year	-	117,934
	<u>8,628,832</u>	<u>9,640,507</u>

Trade receivables that were neither past due nor impaired relate to a number of customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Company. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

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11. DUE FROM SUBSIDIARIES

Particulars of amounts due from subsidiaries are as follows:

	2014 HK\$	2013 HK\$
Amounts due from Sylvania Shanghai	9,243,133	8,945,414
Amounts due from Sylvania Malaysia	1,217,204	33,185
Impairment	<u>(9,276,318)</u>	<u>(8,978,599)</u>
	<u>1,184,019</u>	<u>-</u>

Except for the loan to Sylvania Malaysia of HK\$1,176,335, which matures on 19 August 2015 with an annual interest rate of 3%, the amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment.

12. BALANCES WITH FELLOW SUBSIDIARIES

	2014 HK\$	2013 HK\$
Due from fellow subsidiaries		
Trade receivables due from fellow subsidiaries	8,358,671	8,401,956
Other receivables due from fellow subsidiaries	4,995,318	132,713
Impairment	<u>(7,763,886)</u>	<u>(8,106,039)</u>
	<u>5,590,103</u>	<u>428,630</u>
Due to fellow subsidiaries		
Trade payables due to fellow subsidiaries	<u>2,817,124</u>	<u>5,100,397</u>

Except for the loan to Havells Sylvania Europe Ltd. ("Havells Europe") of HK\$4,708,200 with an annual interest rate ranging from 3% to 4%, trade receivables and other receivables due from/trade payables due to fellow subsidiaries are unsecured, interest free and have no fixed terms of repayment.

13. CASH AND CASH EQUIVALENTS

	2014 HK\$	2013 HK\$
Cash and bank balances	<u>2,916,165</u>	<u>4,164,124</u>

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

HAVELLS SYLVANIA ASIA PACIFIC LIMITED

NOTES TO FINANCIAL STATEMENTS

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14. TRADE PAYABLES

	2014 HK\$	2013 HK\$
Trade payables	<u>4,727,963</u>	<u>5,172,210</u>

Trade payables are non-interest-bearing and are normally settled on term of 90 days or less.

15. OTHER PAYABLES AND ACCRUALS

	2014 HK\$	2013 HK\$
Advanced receipts	365,008	726,439
Accrued audit fee	104,369	105,376
Other accrued charges	<u>1,891,027</u>	<u>1,140,401</u>
	<u>2,360,404</u>	<u>1,972,216</u>

16. BALANCES WITH THE ULTIMATE HOLDING COMPANY

	2014 HK\$	2013 HK\$
Due from the ultimate holding company		
Other receivables	<u>3,880</u>	<u>-</u>
Due to the ultimate holding company		
Trade payables	<u>-</u>	<u>9,044</u>

17. SHARE CAPITAL

	2014 HK\$	2013 HK\$
Authorised: (note (i))		
Nil (2013: 1,052,000 ordinary shares of HK\$10 each (note (ii)))	<u>-</u>	<u>10,520,000</u>
	2014 HK\$	2013 HK\$
Issued and fully paid:		
1,052,000 ordinary shares	<u>10,520,000</u>	<u>10,520,000</u>

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17. SHARE CAPITAL (continued)

Notes:

- (i) Under the Hong Kong Companies Ordinance (Cap. 622) which commenced operation on 3 March 2014, the concept of authorised share capital no longer exists.
- (ii) In accordance with section 135 of the Hong Kong Companies Ordinance (Cap. 622), the Company's shares no longer have a par or nominal value with effect from 3 March 2014. There is no impact on the number of shares in issue or the relative entitlement of any of the members of the Company as a result of this transition.

18. OPERATING LEASE ARRANGEMENTS

At 31 December 2014, the Company had no future lease payments under non-cancellable operating leases (2013: Nil).

19. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions disclosed elsewhere in these financial statements, the Company had the following significant transactions with related parties during the year:

	2014 HK\$	2013 HK\$
Sale of goods to fellow subsidiaries	-	845,106
Purchases of goods from fellow subsidiaries	7,247,906	8,626,374
Purchases of goods from the ultimate holding company	5,086	111,885
Interest income from a subsidiary	12,812	-
Interest income from a fellow subsidiary	54,172	48
Loan to a subsidiary	1,176,335	-
Loan to a fellow subsidiary	4,708,200	-
Management fee expense to a fellow subsidiary	<u>2,984,960</u>	<u>2,931,840</u>

All related party transactions were made at terms mutually agreed between the Company and the related parties.

- (b) Compensation of key management personnel of the Company:

	2014 HK\$	2013 HK\$
Short-term employee benefits	<u>-</u>	<u>113,972</u>
Total compensation paid to key management personnel	<u>-</u>	<u>113,972</u>

Further details of directors' emoluments are included in note 6 to the financial statements.

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NOTES TO FINANCIAL STATEMENTS

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20. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

	2014 HK\$	2013 HK\$
<u>Financial assets - Loans and receivables</u>		
Cash and cash equivalents (note 13)	2,916,165	4,164,124
Trade receivables (note 10)	8,628,832	9,640,507
Due from the ultimate holding company (note 16)	3,880	-
Due from subsidiaries (note 11)	1,184,019	-
Due from fellow subsidiaries (note 12)	5,590,103	428,630
	<u>18,322,999</u>	<u>14,233,261</u>
	2014 HK\$	2013 HK\$
<u>Financial liabilities at amortised cost</u>		
Trade payables (note 14)	4,727,963	5,172,210
Financial liabilities included in other payables and accruals	1,995,396	1,245,777
Due to fellow subsidiaries (note 12)	2,817,124	5,100,397
Due to the ultimate holding company (note 16)	-	9,044
	<u>9,540,483</u>	<u>11,527,428</u>

21. FAIR VALUE HIERARCHY

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Cash and cash equivalents, trade receivables, trade payables, financial liabilities included in other payables and accruals and balances with related companies approximate to their carrying amounts largely due to the short-term maturities of these instruments.

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22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's activities expose it to a variety of financial risks, including foreign currency risk, credit risk and liquidity risk. The Company's overall risk management procedures focus on the unpredictability of financial markets and seek to minimise potential adverse effects on the Company's financial performance.

Foreign currency risk

The Company is exposed to foreign currency risk arising from various currency exposures created in the normal course of business, primarily with respect to United States dollars, Euro, and Renminbi ("RMB"). The Company currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposures and will consider hedging significant foreign currency exposures should the need arise.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the exchange rates of currencies other than the functional currency of the Company, with all other variables held constant, of the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities). There is no material impact on other components of the Company's equity.

	Increase/ (decrease) in exchange rates %	Increase/ (decrease) in profit before tax HK\$
2014		
If Hong Kong dollars weakens against Euro	5%	387,631
If Hong Kong dollars weakens against USD	5%	553,540
If Hong Kong dollars weakens against RMB	5%	(104,228)
If Hong Kong dollars strengthens against Euro	(5%)	(387,631)
If Hong Kong dollars strengthens against USD	(5%)	(553,540)
If Hong Kong dollars strengthens against RMB	(5%)	104,228
2013		
If Hong Kong dollars weakens against Euro	5%	(32,962)
If Hong Kong dollars weakens against USD	5%	216,196
If Hong Kong dollars weakens against RMB	5%	(208,034)
If Hong Kong dollars strengthens against Euro	(5%)	32,962
If Hong Kong dollars strengthens against USD	(5%)	(216,196)
If Hong Kong dollars strengthens against RMB	(5%)	208,034

Credit risk

Credit risk arises from bank balances, trade receivables, receivables from subsidiaries and fellow subsidiaries as well as credit exposures to other customers.

The credit risk on bank balances is limited because the counterparty is a bank with high credit rating assigned by international credit rating agencies.

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22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

The credit risk on receivables from fellow subsidiaries is considered to be low because the fellow subsidiaries have sound financial positions and there is no default history, except for receivables due from Guangzhou Sylvania Enterprises ("Sylvania Guangzhou") and Havells Europe, Havells Sylvania (Thailand) Ltd ("Havells Thailand"), Havells Sylvania Dubai FZCO ("Havells Dubai") and other fellow subsidiaries aging over 1 year for which impairment losses of HK\$7,261,717 (2013: HK\$7,296,602) and HK\$502,169 (2013: HK\$809,437) were provided as at 31 December 2014, respectively.

Sylvania Shanghai has ceased its operation and become dormant, accordingly, a provision for impairment loss of HK\$9,243,133 (2013: HK\$8,945,414) on amounts due from subsidiaries was made as at year end. In addition, an impairment loss of HK\$33,185 (2013: 33,185) due from Sylvania Malaysia was provided for as at 31 December 2014 as it was assessed to be not recoverable.

There is a concentration of credit risk with respect to trade receivables due from third party customers as the largest two customers contribute around 63% (2013: 65%) of the balance. The Company has policies in place to ensure that credit is only granted to customers with an appropriate credit history and a good reputation. The exposure to credit risk is closely monitored on an ongoing basis. The directors are of the opinion that the credit risk is low.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the financial statements.

Liquidity risk

The liquidity of the Company is managed and monitored by maintaining sufficient cash balances and the availability of funding and financial support when needed from the holding company. Accordingly, the directors are of the opinion that the Company does not have significant liquidity risk.

The maturity profile of the Company's financial liabilities as at the end of the reporting period, based on the contracted undiscounted payments, is as follows:

	2014 HK\$	2013 HK\$
<u>Less than one year</u>		
Trade payables	4,727,963	5,172,210
Financial liabilities included in other payables and accruals	<u>1,995,396</u>	<u>1,245,777</u>
	<u>6,723,359</u>	<u>6,417,987</u>
<u>Repayable on demand</u>		
Due to fellow subsidiaries	2,817,124	5,100,397
Due to the ultimate holding company	<u>-</u>	<u>9,044</u>
	<u>2,817,124</u>	<u>5,109,441</u>
	<u>9,540,483</u>	<u>11,527,428</u>

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22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary object of the Company's capital management is to safeguard the Company's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder's value.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholder, return capital to shareholder or issue new shares. No changes were made in the objects, policies or processes for managing capital during the years ended 31 December 2014 and 31 December 2013.

The Company carried out business with its own capital. As at 31 December 2014 and 2013, the Company did not have any other significant interest-bearing borrowings. In the opinion of the directors, the presentation of the quantitative capital management analysis would provide no additional useful information to the users of the financial statements.

23. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 5 May 2015.