

Havells Sylvania (Thailand) Ltd.
Report and financial statements
31 December 2013



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Independent Auditor's Report

To the Shareholders of Havells Sylvania (Thailand) Ltd.

I have audited the accompanying financial statements of Havells Sylvania (Thailand) Ltd. which comprise the statement of financial position as at 31 December 2013, the related statements of income and changes in shareholders' equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Thai Financial Reporting Standards applicable to non-publicly accountable entities, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Thai Standards on Auditing. Those standards require that I 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 auditor's judgment, 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 management, as well as evaluating the overall presentation of the financial statements.



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I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Havells Sylvania (Thailand) Ltd. as at 31 December 2013, and its financial performance for the year then ended in accordance with Thai Financial Reporting Standards applicable to non-publicly accountable entities.

Sophon Permsirivallop

Certified Public Accountant (Thailand) No. 3182

EY Office Limited

(Formerly known as Ernst & Young Office Limited)

Bangkok: 10 March 2014

Havells Sylvania (Thailand) Ltd.
Statement of financial position
As at 31 December 2013

		(Unit: Baht)	
	Note	2013	2012
Assets			
Current assets			
Cash and cash equivalents		9,336,859	25,911,380
Trade and other receivables	5	399,556,363	329,587,570
Inventories	6	215,733,008	150,342,998
Short-term loans to associated company	7	8,506,913	8,287,797
Other current assets		11,335,283	14,840,105
Total current assets		<u>644,468,426</u>	<u>528,969,850</u>
Non-current assets			
Restricted bank deposit	8	1,197,647	1,168,351
Investment in associated companies	9	1,492,719	1,492,719
Equipment	10	8,479,103	9,133,266
Intangible assets	11	80,918	200,027
Deposits		4,972,834	6,027,950
Deferred income tax assets	18	10,118,518	8,564,998
Total non-current assets		<u>26,341,739</u>	<u>26,587,311</u>
Total assets		<u><u>670,810,165</u></u>	<u><u>555,557,161</u></u>

The accompanying notes are an integral part of the financial statements.

Havells Sylvania (Thailand) Ltd.
Statement of financial position (continued)
As at 31 December 2013

		(Unit: Baht)	
	Note	2013	2012
Liabilities and shareholders' equity			
Current liabilities			
Bank overdrafts and short-term loans from financial institutions	12	177,350,480	123,472,665
Trade and other payables	13	242,362,992	170,474,656
Other current liabilities		14,740,011	17,795,543
Total current liabilities		<u>434,453,483</u>	<u>311,742,864</u>
Non-current liabilities			
Provision for long-term employee benefits	14	20,881,000	17,414,000
Total non-current liabilities		<u>20,881,000</u>	<u>17,414,000</u>
Total liabilities		<u>455,334,483</u>	<u>329,156,864</u>
Shareholders' equity			
Share capital			
Registered			
5,100 ordinary shares of Baht 100 each		510,000	510,000
4,900 preference shares of Baht 100 each	15	490,000	490,000
		<u>1,000,000</u>	<u>1,000,000</u>
Issued and fully paid-up			
5,100 ordinary shares of Baht 100 each		510,000	510,000
4,900 preference shares of Baht 100 each		490,000	490,000
Retained earnings			
Appropriated - statutory reserve	16	576,659	576,659
Unappropriated retained earnings		213,899,023	224,823,638
Total shareholders' equity		<u>215,475,682</u>	<u>226,400,297</u>
Total liabilities and shareholders' equity		<u>670,810,165</u>	<u>555,557,161</u>

The accompanying notes are an integral part of the financial statements.

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Directors
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Havells Sylvania (Thailand) Ltd.

Income statements

For the year ended 31 December 2013

		(Unit: Baht)	
	Note	2013	2012
Revenues			
Sales	17	752,718,738	646,765,025
Other income		1,128,155	2,330,199
Total revenues		<u>753,846,893</u>	<u>649,095,224</u>
Expenses			
Cost of sales		468,640,408	431,393,536
Selling expenses		130,554,051	111,207,494
Administrative expenses		158,561,166	160,947,936
Total expenses		<u>757,755,625</u>	<u>703,548,966</u>
Loss before finance cost and income tax expenses		(3,908,732)	(54,453,742)
Finance cost		(6,393,654)	(6,280,672)
Loss before income tax expenses		<u>(10,302,386)</u>	<u>(60,734,414)</u>
Income tax income (expenses)	18	(622,229)	3,092,733
Net loss for the year		<u><u>(10,924,615)</u></u>	<u><u>(57,641,681)</u></u>

The accompanying notes are an integral part of the financial statements.

Havells Sylvania (Thailand) Ltd.

Statement of changes in shareholders' equity

For the year ended 31 December 2013

(Unit: Baht)

	Issued and fully paid-up		Retained earnings		Total
	share capital		Appropriated - statutory reserve	Unappropriated	
	Ordinary shares	Preference shares			
Balance as at 1 January 2012	510,000	490,000	576,659	282,465,319	284,041,978
Net loss for the year	-	-	-	(57,641,681)	(57,641,681)
Balance as at 31 December 2012	510,000	490,000	576,659	224,823,638	226,400,297
Balance as at 1 January 2013	510,000	490,000	576,659	224,823,638	226,400,297
Net loss for the year	-	-	-	(10,924,615)	(10,924,615)
Balance as at 31 December 2013	510,000	490,000	576,659	213,899,023	215,475,682

The accompanying notes are an integral part of the financial statements.

Havells Sylvania (Thailand) Ltd.
Notes to financial statements
For the years ended 31 December 2013

1. General information

Havells Sylvania (Thailand) Ltd. ("the Company") is a limited company incorporated and domiciled in Thailand. Its major shareholder is Flowil International Lighting Holding B.V., which was incorporated in The Netherlands. The Company is principally engaged in the trading of products relating to lamps and batteries. Its registered address is 2 Ploenchit Center Building, 19th Floor, Sukhumvit Soi 2 Road, Klongtoey, Bangkok. The Company has one branch at Khonkaen province.

2. Basis of preparation

The financial statements have been prepared in accordance with Thai Financial Reporting Standards applicable to non-publicly accountable entities as issued by the Federation of Accounting Professions, and the Company has also adopted Thai Accounting Standard No.12 Income Taxes. Their presentation has been made in compliance with the stipulations of the Notification of the Department of Business Development dated 28 September 2011, issued under the Accounting Act B.E. 2543.

The financial statements in Thai language are the official statutory financial statements of the Company. The financial statements in English language have been translated from the Thai language financial statements.

The financial statements have been prepared on a historical cost basis except where otherwise disclosed in the accounting policies.

3. Significant accounting policies

3.1 Revenues recognition

Sales of goods

Sales of goods are recognised when the significant risks and rewards of ownership of the goods have passed to the buyer. Sales are the invoiced value, excluding value added tax, of goods supplied after deducting discounts and allowances.

Interest income

Interest income is recognised on an accrual basis based on the effective interest rate.

3.2 Cash and cash equivalents

Cash and cash equivalents consist of cash in hand and at banks, and all highly liquid investments with an original maturity of three months or less and not subject to withdrawal restrictions.

3.3 Trade accounts receivable

Trade accounts receivable are stated at the net realisable value. Allowance for doubtful accounts is provided for the estimated losses that may be incurred in collection of receivables. The allowance is generally based on collection experience and analysis of debt aging.

3.4 Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined by Weighted average method.

3.5 Investment

Investment in associate is stated at cost net of allowance for loss on diminution in value (if any).

3.6 Equipment/Depreciation

Equipment is stated at cost less accumulated depreciation and allowance for diminution in value (if any).

Depreciation of equipment is calculated by reference to their costs on the straight-line basis over the following estimated useful lives:-

Office equipment	-	3 and 5 years
Furniture and fixtures	-	3 and 5 years

Depreciation is included in determining income. No depreciation is provided on assets under installation.

3.7 Intangible assets

Intangible assets are stated at cost less any accumulated amortisation and allowance for diminution in value (if any).

Intangible assets are amortised as expenses in the income statements on a straight-line basis over the economic useful life. Computer software has an economic useful live of 3 years.

3.8 Long-term leases

Leases of property, plant and equipment which transfer substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lower of the fair value of the leased assets and the present value of the minimum lease payments. The outstanding rental obligations, net of finance charges, are included in other long-term payables, which interest element is charged to the income statements over the lease period.

Leases of property, plant and equipment which do not transfer substantially all the risks and rewards of ownership are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

3.9 Foreign currencies

Transactions in foreign currencies are translated into Baht at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Baht at the exchange rate ruling at the end of the reporting period.

Gains and losses on exchange are included in determining income.

3.10 Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

For long-term employee benefits, the Company calculates its long-term employee benefits obligation on the basis of its best estimate of its payment obligations as at the end of the reporting period.

3.11 Income taxes

Income tax expense represents the sum of corporate income tax currently payable and deferred tax.

Current tax

Current income tax is provided in the accounts at the amount expected to be paid to the taxation authorities, based on taxable profits determined in accordance with tax legislation.

Deferred tax

Deferred income tax is provided on temporary differences between the tax bases of assets and liabilities and their carrying amounts at the end of each reporting period, using the tax rates enacted at the end of the reporting period.

The Company recognises deferred tax liabilities for all taxable temporary differences while it recognises deferred tax assets for all deductible temporary differences and tax losses carried forward to the extent that it is probable that future taxable profit will be available against which such deductible temporary differences and tax losses carried forward can be utilised.

At each reporting date, the Company reviews and reduces the carrying amount of deferred tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

The Company records deferred tax directly to shareholders' equity if the tax relates to items that are recorded directly to shareholders' equity.

4. Use of accounting estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions in certain circumstances, affecting amounts reported in these financial statements and related notes. Actual results could differ from these estimates.

5. Trade and other receivables

(Unit: Thousand Baht)

	2013	2012
Trade accounts receivable	415,130	329,237
Other receivables	3,406	4,981
Total	418,536	334,218
Less: Allowance for doubtful account	(18,980)	(4,630)
Trade and other receivables - net	399,556	329,588

6. Inventories

(Unit: Thousand Baht)

	Cost		Allowance for diminution in value of inventories		Inventories - net	
	2013	2012	2013	2012	2013	2012
Finished goods	212,815	164,079	(10,731)	(20,781)	202,084	143,298
Goods in transit	13,649	7,045	-	-	13,649	7,045
Total	226,464	171,124	(10,731)	(20,781)	215,733	150,343

7. Short-term loans to associated company

As at 31 December 2013, the Company had outstanding loans in US Dollar totaling Baht 9 million (2012: Baht 8 million) to its associated company, carrying interest at the rate of 8% per annum (2012: 6% per annum). The loans are unsecured.

8. Restricted bank deposit

This represents a fixed deposit pledged with a bank to secure letters of guarantee issued by the bank on behalf of the Company in the ordinary course of business.

9. Investment in associated companies

(Unit: Thousand Baht)

Company's name	Nature of business	Country of incorporation	Shareholding percentage		Cost	
			2013	2012	2013	2012
Havells Sylvania (Malaysia)						
SDN. BHD.	Trading	Malaysia	30%	30%	720	720
PT. Havells Sylvania						
Indonesia	Trading	Indonesia	26%	26%	773	773
					1,493	1,493

10. Equipment

(Unit: Thousand Baht)

	Office equipment	Furniture and Fixtures	Total
Cost:			
1 January 2012	12,256	31,207	43,463
Additions	4,334	-	4,334
Transfer in (out)	2,466	(2,466)	-
31 December 2012	19,056	28,741	47,797
Additions	550	2,047	2,597
Transfer in (out)	(133)	133	-
31 December 2013	19,473	30,921	50,394
Accumulated depreciation:			
1 January 2012	10,508	23,884	34,392
Depreciation for the year	3,049	1,223	4,272
31 December 2012	13,557	25,107	38,664
Depreciation for the year	1,661	1,590	3,251
31 December 2013	15,218	26,697	41,915
Net book value			
31 December 2012	5,499	3,634	9,133
31 December 2013	4,255	4,224	8,479

As at 31 December 2013, certain equipment items have been fully depreciated but are still in use. The original cost of those assets amounted to Baht 41 million (2012: Baht 33 million).

11. Intangible assets

(Unit: Thousand Baht)

	2013	2012
Computer software - cost	4,814	4,772
Less: Accumulated amortisation	(4,733)	(4,572)
Net book value	81	200

	(Unit: Thousand Baht)	
	2013	2012
Net book value at beginning of year	200	403
Additions	42	-
Amortisation	(161)	(203)
Net book value at end of year	<u>81</u>	<u>200</u>

12. Bank overdrafts and short-term loans from financial institutions

(Unit: Thousand Baht)

	Interest rate		2013	2012
	(percent per annum)			
	2013	2012	2013	2012
Bank overdrafts	-	7.375	-	25,461
Promissory notes	2.85 - 4.90	3.35 - 5.15	177,350	98,012
Total			<u>177,350</u>	<u>123,473</u>

13. Trade and other payables

(Unit: Thousand Baht)

	2013	2012
Trade accounts payable	156,342	122,903
Accrued expenses	8,248	6,269
Other payable	77,773	41,303
Total trade and other payable	<u>242,363</u>	<u>170,475</u>

14. Provision for long-term employee benefits

(Unit: Thousand Baht)

As at 1 January 2012	15,988
Increase during the year	5,025
Decrease from actual paid	<u>(3,599)</u>
As at 31 December 2012	17,414
Increase during the year	6,459
Decrease from actual paid	<u>(2,992)</u>
As at 31 December 2013	<u>20,881</u>

The provisions represent the Company's obligations payable to its employees when they reach a retirement age. They are determined based on the employee's age, length of employment services and salary increase rate, among other things.

15. Preference shares

The preference shareholders of the Company are entitled to receive dividend at the rate of ninety percents of the declared dividend. The remaining of ten percents will be allocated to preference and ordinary shareholders at nine-tenth and one-tenth respectively.

16. Statutory reserve

According to the Thai Civil and Commercial Code, the Company is required to set aside a statutory reserve equal to at least five percent of its net profit each time the Company pays out a dividend, until such reserve reaches ten percent of its registered share capital. The statutory reserve could not be used for dividend payment.

17. Sales

In 2012 sales included revenue from promotion and advertising barter agreements approximately Baht 0.6 million (2013: Nil).

18. Income tax

Income tax expenses for the years ended 31 December 2013 and 2012 are made up as follows:

	(Unit: Thousand Baht)	
	2013	2012
	<u> </u>	<u> </u>
Current income tax:		
Current income tax charge	2,175	-
Deferred tax:		
Relating to origination and reversal of temporary differences	<u>(1,553)</u>	<u>(3,093)</u>
Income tax expense (Income) reported in the statement of income	<u> 622</u>	<u> (3,093)</u>

Reconciliation between income tax expenses and the product of accounting profit multiplied by the applicable tax rates for the years ended 31 December 2013 and 2012 is as follows:

	(Unit: Thousand Baht)	
	2013	2013
Accounting loss before tax	<u>(10,302)</u>	<u>(60,734)</u>
Applicable tax rate	20%	23%
Effects of:		
Non-deductible expenses	4,235	-
Increase in deferred tax assets	(1,553)	(3,093)
Others	<u>(2,060)</u>	<u>-</u>
Income tax expenses (income) reported in the statement of income	<u>622</u>	<u>(3,093)</u>

As of 31 December 2013 and 2012, the components of deferred tax assets and deferred tax liabilities are as follows:

	(Unit: Thousand Baht)	
	2013	2012
Deferred tax assets		
Allowance for diminution in value of inventories	2,146	4,156
Allowance for doubtful accounts	3,796	926
Provision for long-term employee benefits	<u>4,176</u>	<u>3,483</u>
Total	<u>10,118</u>	<u>8,565</u>

In October 2011, the cabinet passed a resolution to reduce the corporate income tax rate from 30 percent to 23 percent in 2012, and then to 20 percent from 2013. In addition, in order to comply with the resolution of the cabinet, in December 2011, the decreases in tax rates for 2012 - 2014 were enacted through a royal decree. The Company reflected the changes in tax rates in its deferred tax calculation, as presented above.

19. Commitment

19.1 Operating lease commitments

The Company has entered into several lease agreements in respect of the lease of office building space, warehouse, logistics services, and advertising and promotion. The terms of the agreements are generally between 1 and 6 years.

Future minimum lease payments required under these non-cancellable operating lease and service contracts were as follows.

	(Unit: Million Baht)	
	As at 31 December	
	2013	2012
Payable:		
in up to 1 year	18	18
In over 1 and up to 5 years	18	19

19.2 Long-term service commitments

- a) The Company has entered into management fee agreement with an overseas related company whereby it receives marketing and sales, finance and controlling, human resources and supply chain management services. Under the conditions of this agreement, the Company has to pay an annual management fee as stipulated in the agreement. The fee for the year 2013 amounted to approximately Baht 3 million. (2012: Baht 5 million)
- b) The Company has entered into product licensing agreement with an overseas related company for the right to use a trademark and the receipt of management know-how relating to distribution and marketing of products. Under the conditions of the license agreement, the Company is to pay an annual royalty fee as stipulated in the agreement. The fees for the year 2013 amounted to approximately Baht 18 million (2012: Baht 14 million).

19.3 Guarantees

As at 31 December 2013, there were outstanding bank guarantees of approximately Baht 1 million issued by banks on behalf of the Company in respect of certain performance bonds as required in the normal course of business (2012: Nil).

20. Reclassification

Certain amounts in the financial statements for the year ended 31 December 2012 have been reclassified to conform to the current year classification. The reclassifications had no effect to previously reported net profit or shareholders' equity.

	(Unit: Thousand Baht)	
	<u>As reclassified</u>	<u>As previously reported</u>
Trade and other payables	170,475	164,206
Accrued expenses	-	6,269

21. Approval of financial statements

These financial statements were authorised for issue by authorised directors of the Company on 10 March 2014.