

# **Devonshire Industries Limited**

Annual Report and  
Consolidated Financial Statements  
**March 31, 2014**

# Devonshire Industries Limited

March 31, 2014

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# Devonshire Industries Limited

March 31, 2014

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## Summary of financial information

	Year ended March 31				
	2014	2013	2012	2011	2010
	\$	\$	\$	\$	\$
Assets	2,666,966	2,633,321	2,915,573	2,909,781	3,064,854
Liabilities	195,278	210,318	268,024	201,110	379,003
Shareholders' equity	2,471,688	2,423,003	2,647,549	2,708,671	2,685,851
Net income (loss)	50,035	(114,127)	49,297	133,239	399,230

## Directors' share interests and service contracts

Pursuant to Regulation 6.8(3) of Section 11B of the Bermuda Stock Exchange Listing Regulations, the total interests of all the directors and officers of the Company in the shares of the Company at March 31, 2014 were 12,297 (2013 - 12,297) shares. No rights to subscribe for shares in the Company have been granted to or exercised by any director or officer. There are no service contracts with directors.



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## **INDEPENDENT AUDITORS' REPORT**

### **To the Shareholders of Devonshire Industries Limited**

We have audited the accompanying consolidated financial statements of Devonshire Industries Limited, which comprise the consolidated statement of financial position as at March 31, 2014, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

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

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Devonshire Industries Limited as at March 31, 2014, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

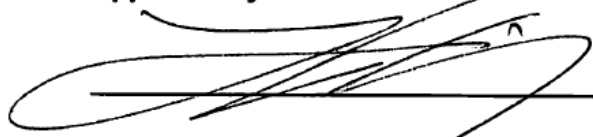
*KPMG Audit Limited*

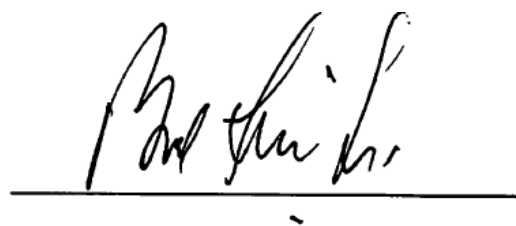
Chartered Professional Accountants  
Hamilton, Bermuda  
August 14, 2014

**Devonshire Industries Limited**  
 Consolidated Statement of Financial Position  
 As at March 31, 2014

	2014 \$	2013 \$
<b>Assets</b>		
Cash and cash equivalents (note 7)	263,118	234,086
Short-term deposits (note 7)	134,400	134,400
Trade and other receivables (note 8)	225,646	191,908
Inventories (note 9)	1,004,178	982,565
Prepaid expenses	80,697	72,307
<b>Current assets</b>	<b>1,708,039</b>	<b>1,615,266</b>
Property, plant and equipment (note 10)	779,053	788,419
Intangible assets (note 11)	178,373	228,135
Other non-current assets	1,501	1,501
<b>Non-current assets</b>	<b>958,927</b>	<b>1,018,055</b>
<b>Total assets</b>	<b>2,666,966</b>	<b>2,633,321</b>
<b>Liabilities</b>		
Trade and other payables (note 12)	195,278	210,318
<b>Current liabilities</b>	<b>195,278</b>	<b>210,318</b>
<b>Equity</b>		
Share capital (note 14)	220,688	220,838
Share premium (note 14)	145,544	146,744
Retained earnings	2,105,456	2,055,421
<b>Total equity</b>	<b>2,471,688</b>	<b>2,423,003</b>
<b>Total liabilities and equity</b>	<b>2,666,966</b>	<b>2,633,321</b>

Approved by the Board of Directors

  
 \_\_\_\_\_ Director

  
 \_\_\_\_\_ Director

The accompanying notes on pages 7 to 24 are an integral part of these consolidated financial statements.

**Devonshire Industries Limited**  
Consolidated Statement of Comprehensive Income  
For the year ended March 31, 2014

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	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Net revenues	2,692,065	2,694,164
Cost of sales (notes 9, 16 and 19)	1,569,640	1,706,584
<b>Gross profit</b>	<b>1,122,425</b>	<b>987,580</b>
Administrative expenses (note 18)	587,386	687,016
Selling expenses (note 17)	273,333	262,212
Other expenses (note 20)	116,725	87,309
Marketing expenses	116,244	85,368
<b>Operating expenses</b>	<b>1,093,688</b>	<b>1,121,905</b>
<b>Net income (loss) before undernoted items</b>	<b>28,737</b>	<b>(134,325)</b>
Other income	22,716	23,191
Interest income (note 7)	1,686	2,049
Net foreign exchange losses	(3,104)	(5,042)
<b>Net income (loss) for the year</b>	<b>50,035</b>	<b>(114,127)</b>
<b>Total comprehensive income (loss)</b>	<b>50,035</b>	<b>(114,127)</b>
<b>Basic and diluted earnings (loss) per share (note 15)</b>	<b>0.11</b>	<b>(0.26)</b>

All amounts included in the consolidated statement of comprehensive income relate to continuing operations.

The accompanying notes on pages 7 to 24 are an integral part of these consolidated financial statements.

**Devonshire Industries Limited**  
 Consolidated Statement of Changes in Equity  
 For the year ended March 31, 2014

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	<u>Attributable to the owners of the Company</u>			
	Share capital \$	Share premium \$	Retained earnings \$	Total \$
<b>Balance, March 31, 2012</b>	220,838	146,744	2,279,967	2,647,549
Total comprehensive loss for the year	-	-	(114,127)	(114,127)
Dividends declared (\$0.25 per ordinary share)	-	-	(110,419)	(110,419)
<b>Balance, March 31, 2013</b>	220,838	146,744	2,055,421	2,423,003
Total comprehensive income for the year	-	-	50,035	50,035
Shares repurchased (note 14)	(150)	(1,200)	-	(1,350)
<b>Balance, March 31, 2014</b>	220,688	145,544	2,105,456	2,471,688

The accompanying notes on pages 7 to 24 are an integral part of these consolidated financial statements.

# Devonshire Industries Limited

## Consolidated Statement of Cash Flows

For the year ended March 31, 2014

	2014 \$	2013 \$
<b>Cash flows from operating activities</b>		
Net income (loss) for the year	50,035	(114,127)
Adjustments for:		
Depreciation and amortization	149,588	120,027
Impairment loss on trade receivables	43,261	40,780
Interest income	(1,686)	(2,049)
Changes in items of working capital:		
Short term deposits	-	144,488
Trade and other receivables	(75,319)	67,311
Inventories	(21,613)	1,154
Prepaid expenses	(8,390)	(25,051)
Trade and other payables	(12,521)	(76,531)
Net cash from operating activities	123,355	156,002
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(90,460)	(67,545)
Purchase of intangible assets	-	(59,766)
Interest received	6	812
Cash used in investing activities	(90,454)	(126,499)
<b>Cash flows from financing activity</b>		
Dividends paid	(2,519)	(91,593)
Shares repurchased	(1,350)	-
Cash used in financing activity	(3,869)	(91,593)
<b>Increase (decrease) in cash and cash equivalents</b>	29,032	(62,090)
<b>Cash and cash equivalents - beginning of year</b>	234,086	296,176
<b>Cash and cash equivalents - end of year</b>	263,118	234,086

The accompanying notes on pages 7 to 24 are an integral part of these consolidated financial statements.



# Devonshire Industries Limited

Notes to the Consolidated Financial Statement

March 31, 2014

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## 1. *General information*

Devonshire Industries Limited (“the Company”) and its wholly-owned subsidiary, Bermuda Paint Company Limited are incorporated in Bermuda under the laws of Bermuda. The Company is primarily engaged in the management of Bermuda Paint Company Limited, which is primarily engaged in the manufacture and sale of paint and related products.

The Company is listed on the Bermuda Stock Exchange and there is no ultimate controlling party. The address of its registered office is No. 9 Watlington Road, Devonshire DV06, Bermuda and its postal address is P.O. Box DV30, Devonshire DVBX, Bermuda.

## 2. *Statement of compliance and basis of preparation*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The consolidated financial statements have been prepared on the historical cost basis.

These consolidated financial statements were approved by the Board of Directors for issue on August 14, 2014.

## 3. *Summary of significant accounting policies*

The significant accounting policies used in the preparation of these consolidated financial statements are as follows:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

### (a) **Basis of consolidation**

The consolidated financial statements include the financial statements of Devonshire Industries Limited and its wholly-owned subsidiary, Bermuda Paint Company Limited.

All intragroup transactions, balances, income and expenses are eliminated on consolidation.

### (b) **Segment reporting**

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses; whose operating results are regularly reported to the Company’s chief operating decision makers, which comprise the General Manager and members of the Board of Directors, to make decisions about resources to be allocated to the segment and assess its performance. The Company has determined that it has only one operating segment.

### (c) **Foreign currency**

The consolidated financial statements of the Company are presented in Bermuda dollars, the functional currency of the Company. All values are rounded to the nearest dollar except when otherwise stated.

Transactions in foreign currencies are initially recorded by the Company in Bermuda dollars using the foreign exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated using the closing foreign exchange rate prevailing at the reporting date. All differences are charged to profit or loss in the consolidated statement of comprehensive income.

# Devonshire Industries Limited

## Notes to the Consolidated Financial Statement

### March 31, 2014

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### 3. Summary of significant accounting policies (continued)

#### (d) Cash and cash equivalents

Cash represents cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the dates of placement, and that are subject to an insignificant risk of changes in value.

#### (e) Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred, and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

The Company's financial instruments comprise, loans and receivables and financial liabilities:

- (i) Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise cash and cash equivalents, short-term deposits and trade and other receivables, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.
- (ii) Financial liabilities include trade and other payables. These are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, trade and other payables are measured at amortized cost using the effective interest method.

#### (f) Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that the Company's financial assets are impaired. The criteria used to determine if there is objective evidence of an impairment loss include significant financial difficulty of the obligor, delinquencies in interest or principal payments, and if it becomes probable that the borrower will enter bankruptcy or other financial reorganization.

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated statement of comprehensive income.

# Devonshire Industries Limited

## Notes to the Consolidated Financial Statement

### March 31, 2014

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### 3. *Summary of significant accounting policies* (continued)

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

Inventories are measured at the lower of cost and net realisable value ("NRV").

NRV is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is determined based on the first-in first-out principle for finished goods, trading goods and raw materials. Finished goods include direct materials and labor and a proportion of manufacturing overhead costs based on actual goods processed and produced, but excluding borrowing costs.

When inventories are sold, the carrying amounts of those inventories are recognized under cost of sales in the consolidated statement of comprehensive income in the period when the related revenue is recognized.

The amount of any write-down of inventories to NRV is recognized in cost of sales in the consolidated statement of comprehensive income in the period the write-down or loss was incurred. The amount of any reversal of any write-down of inventories, arising from an increase in the NRV, is recognized as a reduction to cost of sales in the period where the reversal was incurred.

#### **(h) Property, plant and equipment**

Property, plant and equipment, except land which is stated at cost less any impairment in value, are measured at cost less accumulated depreciation and impairment losses, if any.

The initial cost of property, plant and equipment comprises its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Cost also includes interest and other financing charges on borrowed funds used to finance the acquisition of property, plant and equipment to the extent incurred during the period of installation and construction.

Subsequent replacement costs of parts of property, plant and equipment are capitalized when the recognition criteria are met. Significant refurbishments and improvements are capitalized when it can be clearly demonstrated that the expenditures have resulted in an increase in future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond the originally assessed standard of performance. Costs of repairs and maintenance are charged as expense when incurred.

Depreciation of property, plant and equipment commences once the assets are available for use, and is computed using the straight-line method over the estimated useful life of the assets, regardless of utilization.

Property, plant and equipment are depreciated as follows:

Buildings (straight-line method)	4%
Improvements (straight-line method)	4 -10%
Factory and office equipment (diminishing balance method)	15%
Motor vehicles (straight-line method)	20%
Computers (straight-line method)	25%

The assets' residual values, useful lives and methods of depreciation are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment. Any change in the expected residual values, useful lives and methods of depreciation are adjusted prospectively from the time the change was determined necessary.

# Devonshire Industries Limited

## Notes to the Consolidated Financial Statement

### March 31, 2014

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### 3. *Summary of significant accounting policies* (continued)

#### (h) **Property, plant and equipment** (continued)

Major spare parts and stand-by equipment items that the Company expects to use over more than one period and can be used only in connection with an item of property, plant and equipment are accounted for as property, plant and equipment. Depreciation on these major spare parts and stand-by equipment commences once these have become available for use (i.e. when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by the Company).

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated statement of comprehensive income, in the year the item is derecognized.

#### (i) **Intangible assets**

Intangible assets (color system, distribution rights and computer software) acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are measured at cost less any accumulated amortization and impairment losses, if any.

The period and the method of amortization of an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite useful lives is recognized under cost of sales, selling and administrative expenses in the consolidated statement of comprehensive income in the expense category consistent with the function of the intangible asset. Intangible assets with finite lives are assessed for impairment, whenever there is an indication that the intangible assets may be impaired.

Costs incurred to acquire computer software (not an integral part of its related hardware) and bring it to its intended use are capitalized as intangible assets. Costs directly associated with the development of identifiable computer software that generate expected future benefits to the Company are also recognized as intangible assets. In particular, costs that are directly attributable to the development phase are recognized as intangible assets provided they meet the following recognition requirements:

- Completion of the intangible asset is technically feasible so that it will be available for use or sale;
- The Company intends to complete the intangible asset and use or sell it;
- The Company has the ability to use or sell the intangible assets;
- The intangible asset will generate probable future economic benefits. Among other things, this requires that there is a market for the output from the intangible asset or for the intangible asset itself, or if it is to be used internally, the asset will be used in generating such benefits;
- There are adequate technical, financial and other resources to complete the development and to use or sell the intangible assets; and
- The expenditure attributable to the intangible asset during its development can be measured reliably.

Development costs not meeting above criteria for capitalization are expensed as incurred. The capitalization of development costs is initiated when all the criteria mentioned are met. Directly attributable costs include employee costs incurred in the development, along with appropriate portion of relevant overheads. The assets are subject to impairment testing on an annual basis.

A gain or loss arising from derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the intangible asset and is recognized in the consolidated statement of comprehensive income when the asset is derecognized.

**3. Summary of significant accounting policies** (continued)

**(j) Impairment of non-financial assets**

This accounting policy applies primarily to the Company's property, plant and equipment and intangible assets.

The Company assesses at each reporting date whether there is an indication that its property, plant and equipment and intangible assets may be impaired. When an indicator of impairment exists or when annual impairment testing for an asset is required, the Company makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's (or cash-generating unit's) fair value less costs to sell and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash-generating unit to which the asset belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit).

Impairment losses from continuing operations are recognized under other gains and losses in the consolidated statement of comprehensive income. The Company evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

**(k) Share capital**

Share capital is classified as equity and is recorded at par value. Proceeds in excess of par value are recorded as share premium in the consolidated statement of financial position. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

**(l) Revenue and cost recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding trade and prompt payment discounts.

Revenue from sale of goods is recognized upon delivery, when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

**(m) Other income**

Gains from sale of property, plant and equipment and intangibles are recognized upon completion of the earning process and the collectability of the sales price is reasonably assured.

**(n) Provisions**

Provisions are recognized when: (a) the Company has a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense in the consolidated statement of comprehensive income. Where the Company expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is probable.

# Devonshire Industries Limited

## Notes to the Consolidated Financial Statement

### March 31, 2014

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### 3. *Summary of significant accounting policies* (continued)

#### (o) **Contingencies**

Contingent liabilities are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable.

#### (p) **Pension costs**

The Company has an administered defined contribution pension plan for its employees. Pension benefits are determined as a function of accumulated contributions made by both the Company and the employees and the investment returns earned by the invested contributions. The Company's contributions are charged against income in the year the employees provided the service.

#### (q) **Earnings (loss) per share ("EPS")**

Basic EPS is computed by dividing net income (loss) attributable to the ordinary equity holders by the weighted average number of common shares issued and outstanding during the year, adjusted for any subsequent stock dividends declared.

Diluted EPS amounts are calculated by dividing the net income (loss) attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year, plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

#### (r) **Dividends on common shares**

Dividends on common shares are recognized as a liability and deducted from equity when approved by the Board of Directors of the Company in the case of cash dividends, and the Board of Directors and shareholders in the case of stock dividends.

#### (s) **Subsequent events**

Any post year-end event up to the date of approval by the Board of Directors of the consolidated financial statements that provides additional information about the Company's position at the reporting date, in which such event is deemed an adjusting event, is reflected in the consolidated financial statements. Any post year-end event that is not an adjusting event is disclosed in the notes to the consolidated financial statements, when material.

#### (t) **Accounting standards and amendments issued but not yet effective and not adopted by anticipation**

The following new and amended standards and interpretations have been issued and are mandatory for the Company's accounting periods beginning on or after April 1, 2013 or later periods and are expected to be relevant to the Company. The Company does not plan to adopt these standards early.

**3. Summary of significant accounting policies** (continued)

**(t) Accounting standards and amendments issued but not yet effective and not adopted by anticipation**  
(continued)

• **IFRS 9 Financial Instruments (2010), IFRS 9 Financial Instruments (2009)**

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additional changes relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

IFRS 9 (2010) and (2009) are effective for annual period beginning on or after January 1, 2015, with early adoption permitted. The adoption of these standards is not expected to have a material impact on the Company's financial assets and liabilities.

• **Offsetting financial assets and financial liabilities**

The amendments to IAS 32 clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is considered to be equivalent to net settlement. The amendments are effective for annual periods beginning on or after January 1, 2014 and interim periods within those annual periods. Early application is permitted.

Based on the initial assessment, the standard is not expected to have a material impact on the Company.

**4. Significant accounting estimates and judgements**

The preparation of the Company's consolidated financial statements requires estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge, and their predictions of future events and actions. Actual results can always differ from those estimates, possibly significantly. Revisions to accounting estimates are recognized in the year of the revision and future years, where applicable. Areas where estimates and judgment are exercised by management include the allowance for impairment of trade receivables, useful lives of property, plant and equipment and intangible assets with finite life and impairment of assets. The areas where significant estimates and judgments have been applied by management are described below.

**(a) Estimation of allowance for impairment of trade receivables**

In determining amounts recorded for the impairment of trade receivables, management makes judgments regarding indicators of impairment, that is, whether there are indicators that suggest there may be a decrease in the estimated future cash flows from receivables, for example, from default or adverse economic conditions. Management also makes estimates of the likely estimated future cash flows from impaired receivables as well as the timing of such cash flows. Historical loss experience is applied where indicators of impairment are not observable on individually significant receivables with similar characteristics, such as credit risks.

**4. Significant accounting estimates and judgements** (continued)

**(a) Estimation of allowance for impairment of trade receivables** (continued)

During the year, the impairment charge for trade receivables included in other expense in the consolidated statement of comprehensive income amounted to \$43,261 (2013 – \$40,780). The carrying value of the Company's total receivables, net of allowance for impairment, is disclosed in note 8.

**(b) Estimation of useful lives of property, plant and equipment, and intangible assets with finite life**

The Company estimates the useful lives of its depreciable property, plant and equipment and intangible assets with finite life based on the period over which the assets are expected to be available for use. The estimated useful life of the depreciable assets are reviewed at least annually and are updated, if expectations differ from previous estimates due to physical wear and tear and technical or commercial obsolescence on the use of these assets. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned above. A reduction in the estimated useful life of the depreciable property, plant and equipment and intangible assets would increase depreciation and amortization expense and decrease non-current assets.

**5. Financial risk management objectives and policies**

The Company's financial instruments comprises cash and cash equivalents, short-term deposits, trade and other receivables and trade and other payables. The Company has exposure to credit risk, liquidity risk and market risk from the use of financial instruments. The Board of Directors ("BOD") of the Company review and approve the policies for managing risks which are summarized below, together with the related risk management structure.

**Risk management structure**

The BOD of the Company is ultimately responsible for the oversight of the Company's risk management processes that involve identifying, measuring, analyzing, monitoring and controlling risks. The risk management framework encompasses environmental scanning, the identification and assessment of business risks, development of risk management strategies, design and implementation of risk management capabilities and appropriate responses, monitoring risks and risk management performance, and identification of areas and opportunities for improvement in the risk management process.

The Company's BOD has created the board-level Audit Committee ("AC") to spearhead the managing and monitoring of risks. The AC assists the Company's BOD in its fiduciary responsibility for the overall effectiveness of risk management systems of the Company. Furthermore, it is also the AC's purpose to lead in the general evaluation and to provide assistance in the continuous improvements of risk management, control and governance processes.

The AC also aims to ensure that:

- a. financial reports comply with established internal policies and procedures, pertinent accounting and auditing standards and other regulatory requirements;
- b. risks are properly identified, evaluated and managed, specifically in the areas of managing credit, market, liquidity, operational, legal and other risks, and crisis management; and
- c. the Company's BOD is properly assisted in the development of policies that would enhance the risk management and control systems.



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## 5. *Financial risk management objectives and policies (continued)*

### ***Day-to-day risk management function***

At the business or company level, the day-to-day risk management functions are handled by the Finance Committee and senior management who initiate and are directly accountable for all risks taken.

### ***Risk management***

The following analysis provides a measure of the Company's risk exposure and concentrations as at March 31, 2014.

#### **(a) Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk arises primarily from credit given to customers, including related parties, and deposits with financial institutions.

##### *Trade and other receivables*

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Management has established a credit policy under which each customer is analyzed for creditworthiness prior to being offered credit. Management also has procedures in place to restrict credit transactions if the customers have not cleared outstanding debts within the credit period.

Credit risk is monitored according to each customer's characteristics, such as whether it is an individual or company, industry, aging profile and previous financial difficulties.

The Company's normal term of credit on the sale of goods is 30 days. Impairment for trade and other receivables is recognized based on an estimate of irrecoverable amounts, determined by taking into consideration past default experience, current economic conditions and expected receipts and recoveries once impaired.

##### *Due from related parties*

Related party transactions are reviewed and approved by management on an on-going basis.

##### *Cash and cash equivalents and short-term deposits*

Cash and cash equivalents and short-term deposits are placed with counterparties who have minimal risk of credit default and are rated by Standard & Poor's with credit ratings of between A- and A-1.

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**5. Financial risk management objectives and policies** (continued)

**(b) Liquidity risk**

Liquidity risk is the risk of not being able to meet funding obligations such as the repayment of liabilities or payment of asset purchases as they fall due. The Company's liquidity management involves maintaining funding capacity to finance capital expenditures and service maturing liabilities, and to accommodate any fluctuations in asset and liability levels due to changes in the Company's business operations or unanticipated events created by customer behavior or capital market conditions. The Company maintains a level of cash and cash equivalents and short-term deposits deemed sufficient to finance its operations. As part of its liquidity risk management, the Company regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund-raising activities. Fund-raising activities may include obtaining bank loans.

As at March 31, 2014, the carrying amount of the trade and other payables is equal to the contractual cash flows of the same. All are short-term in nature and due within a period of 12 months.

The following are the contractual maturities of financial liabilities, including interest payments as at the reporting date:

	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>0 – 12 months</b>	<b>1 – 2 years</b>	<b>2 – 5 years</b>	<b>More than 5 years</b>
	\$	\$	\$	\$	\$	\$
Trade and other payables at March 31, 2014	195,278	195,278	195,278	-	-	-
Trade and other payables at March 31, 2013	210,318	210,318	210,318	-	-	-

The Company does not expect to encounter significant difficulties in meeting its financial liabilities.

**(c) Market risk**

Market risk is the risk of loss to future earnings, fair value or future cash flows of a financial instrument as a result of changes in its price, in turn caused by changes in interest rates, foreign currency exchange rates, equity prices and other market factors. The following discussion covers the market risk of the Company:

*Foreign currency risk*

The Company incurs foreign currency risk primarily on purchases that are denominated in a currency other than the Bermuda Dollar. However, foreign currency risk is minimal, due to the fact that the Bermuda Dollar is pegged to the US Dollar at a 1:1 rate and the majority of the Company's materials and trading goods are imported from the United States.

The Company is not exposed to significant interest rate or other price risk.

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**6. Fair value of financial assets and liabilities**

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

*Cash and cash equivalents, short-term deposits, trade and other receivables, and trade and other payables* Carrying amounts approximate their fair values due to the relatively short-term maturities of these instruments.

**7. Cash and cash equivalents and short-term deposits**

	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Cash at bank and on hand	263,118	234,086
Cash and cash equivalents	263,118	234,086
Short-term deposits	134,400	134,400

Short-term deposits earn interest at the respective bank deposit rates and have an original maturity of more than three months. Interest income earned from short-term deposits during the year amounted to \$1,686 (2013 - \$2,049) and is included in the consolidated statement of comprehensive income.

**8. Trade and other receivables**

	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Trade receivables	317,367	212,466
Allowance for impairment losses on trade and other receivables	(76,123)	(32,862)
Allowance for trade discounts	(50,648)	(39,706)
Due from related parties (note 13)	31,327	49,967
Interest receivable	3,723	2,043
	<b>225,646</b>	<b>191,908</b>

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**8. Trade and other receivables** (continued)

The following is the aging of trade and other receivables at the reporting date, which include related party receivables arising from regular business transactions of \$13,606, (2013 - \$31,245):

	2014		2013	
	Gross	Impairment	Gross	Impairment
	\$	\$	\$	\$
Not past due	198,712	-	173,153	-
Past due 31 – 60 days	36,982	-	11,499	-
Past due 61 – 90 days	849	-	-	-
More than 90 days	94,430	76,123	59,059	32,862
	<u>330,973</u>	<u>76,123</u>	<u>243,711</u>	<u>32,862</u>

Changes in the allowance for impairment losses on receivables are as follows:

	2014	2013
	\$	\$
Balance at beginning of year	32,862	13,344
Provision for impairment	43,261	40,780
Amounts written off	-	(21,262)
	<u>76,123</u>	<u>32,862</u>

**9. Inventories**

Inventories are classified as follows:

	2014	2013
	\$	\$
Raw materials	459,176	449,847
Trading goods	384,188	385,845
Finished goods	160,814	146,873
	<u>1,004,178</u>	<u>982,565</u>

Cost of sales includes inventories expensed during the year in the amount of \$1,270,830 (2013 - \$1,378,567). Inventory written-down as expense and included in cost of sales in the consolidated statement of comprehensive income amounted to \$19,745 (2013 - \$19,188).

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**10. Property, plant and equipment**

	Land \$	Building \$	Improvements \$	Factory equipment \$	Office equipment \$	Motor vehicles \$	Computer \$	Total \$
<b>Cost</b>								
At April 1, 2012	225,000	802,748	325,097	839,152	196,028	94,908	172,189	2,655,122
Additions	-	1,835	29,476	4,461	14,091	-	17,682	67,545
At March 31, 2013	225,000	804,583	354,573	843,613	210,119	94,908	189,871	2,722,667
Additions	-	-	84,104	1,350	599	-	4,407	90,460
At March 31, 2014	<b>225,000</b>	<b>804,583</b>	<b>438,677</b>	<b>844,963</b>	<b>210,718</b>	<b>94,908</b>	<b>194,278</b>	<b>2,813,127</b>
<b>Accumulated depreciation</b>								
At April 1, 2012	-	599,283	201,696	649,445	145,899	92,585	145,990	1,834,898
Charge for year	-	30,641	13,482	29,014	9,857	898	15,458	99,350
At March 31, 2013	-	629,924	215,178	678,459	155,756	93,483	161,448	1,934,248
Charge for year	-	30,641	21,943	24,807	8,237	899	13,299	99,826
At March 31, 2014	-	<b>660,565</b>	<b>237,121</b>	<b>703,266</b>	<b>163,993</b>	<b>94,382</b>	<b>174,747</b>	<b>2,034,074</b>
<b>Net book value</b>								
At April 1, 2012	<b>225,000</b>	<b>203,466</b>	<b>123,401</b>	<b>189,707</b>	<b>50,129</b>	<b>2,323</b>	<b>26,199</b>	<b>820,225</b>
At March 31, 2013	<b>225,000</b>	<b>174,659</b>	<b>139,395</b>	<b>165,154</b>	<b>54,363</b>	<b>1,425</b>	<b>28,423</b>	<b>788,419</b>
At March 31, 2014	<b>225,000</b>	<b>144,018</b>	<b>201,556</b>	<b>141,697</b>	<b>46,725</b>	<b>526</b>	<b>19,531</b>	<b>779,053</b>

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**11. Intangible assets**

- (a) The Company purchased distribution rights as a non-exclusive distributor for certain products on September 1, 2007. The cost pertaining to this purchase has been recorded as an intangible asset and was amortized on a straight-line basis over four years. This intangible asset was fully amortized in September 2011.
- (b) The Company commenced development of a color system in 2009 which was completed in October 2012. The amortization for the costs associated in the development of this asset was started in November 2012 and will continue to be amortized over a period of five years.
- (c) The Company purchased computer software to be used in its production process. The cost of this asset is amortized over a period of five years starting in August 2012.

	<b>Color system</b>	<b>Distribution rights</b>	<b>Computer software</b>	<b>Total</b>
	\$	\$	\$	\$
<b>Cost</b>				
At April 1, 2012	189,046	80,000	-	269,046
Additions	36,966	-	22,800	59,766
At March 31, 2013 and 2014	<b>226,012</b>	<b>80,000</b>	<b>22,800</b>	<b>328,812</b>
<b>Accumulated amortization</b>				
At April 1, 2012	-	80,000	-	80,000
Amortization charge	18,537	-	2,140	20,677
At March 31, 2013	18,537	80,000	2,140	100,677
Amortization charge	45,202	-	4,560	49,762
At March 31, 2014	<b>63,739</b>	<b>80,000</b>	<b>6,700</b>	<b>150,439</b>
<b>Net book value</b>				
At April 1, 2012	189,046	-	-	189,046
At March 31, 2013	207,475	-	20,660	228,135
At March 31, 2014	<b>162,273</b>	-	<b>16,100</b>	<b>178,373</b>

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**12. Trade and other payables**

	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Trade payables	122,887	128,801
Dividends payable	35,083	32,564
Due to related parties (note 13)	1,851	168
Accrued expenses	35,457	48,785
	<b>195,278</b>	<b>210,318</b>

*Trade payables*

Trade payables are non-interest-bearing and are normally settled on 30 to 60-day terms. Trade payables arise mostly from purchases of inventories, which include trading goods and raw materials for use in manufacturing. Trade payables also include purchased goods and services for use in operations.

*Accrued expenses*

Accrued expenses consist of accruals for audit fees, director's fees, bonus and other employee benefits.

**13. Related party transactions and balances**

Related party transactions are with directors, senior management, certain shareholders and individuals related to shareholders or companies affiliated to shareholders.

Transactions and balances between the Company and its related parties are disclosed below.

	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Sale of goods	147,689	206,651
Purchases of goods and services	97,896	134,052
Amounts receivable from related parties	31,327	49,967
Amounts payable to related parties	1,851	168

Sales of goods to related parties were made at the Company's usual list prices, less normal trade discounts. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provision has been made for impairment in respect of the amounts owed by related parties.

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**14. Share capital**

	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Authorized: 456,000 (2013 - 456,000) common shares of \$0.50 par value	228,000	228,000
Issued and fully paid: 441,375 (2013 - 441,675) common shares of \$0.50 par value	220,688	220,838

There are no restrictions attached to the common shares with regards to dividend distribution and repayment of capital.

On July 8, 2013 the Company repurchased 300 common shares of \$0.50 par value for consideration of \$1,350 resulting in a reduction in issued share capital and share premium account of \$150 and \$1,200, respectively.

**Capital management**

The Company's policy is to maintain a strong capital structure, sufficient to safeguard its ability to continue as a going concern, to provide an adequate return to shareholders, to meet its financial obligations, and to have the financial flexibility to take advantage of growth opportunities. The Company defines capital as the amount presented in the equity section of the consolidated statement of financial position.

In order to maintain or adjust its capital structure, the Company may adjust the amount of dividends paid to shareholders or issue new shares. The Company is not subject to any external capital requirements as at the year end.

**15. Earnings (loss) per share**

The calculation of basic and diluted earnings (loss) per share has been based on basic and diluted net income attributable to common shareholders of \$50,035 (2013 - loss of \$114,127), and a weighted average number of common shares of 441,450 (2013 - 441,675).

**16. Cost of sales**

	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Raw materials used	787,042	770,414
Direct labor	94,050	95,312
Overhead cost	211,643	216,054
Cost of goods manufactured	1,092,735	1,081,780
Trading goods	476,905	624,804
	<b>1,569,640</b>	<b>1,706,584</b>



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**17. Selling expenses**

	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Wages, salaries and benefits (note 19)	233,231	213,109
Fuel expenses	10,228	9,457
Payroll tax (note 19)	9,588	11,516
Depreciation and amortization	6,690	10,110
Stationery and other office supplies	3,992	5,277
Other taxes and licenses	3,678	3,665
Repairs and maintenance	3,188	6,368
Insurance expenses	2,738	2,710
	<b>273,333</b>	<b>262,212</b>

**18. Administrative expenses**

	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Wages, salaries and benefits (note 19)	257,617	349,492
Professional services	148,536	131,208
Depreciation and amortization	77,926	68,352
Insurance expenses	32,496	32,102
Repairs and maintenance	16,659	21,146
Telephone and other communication	12,271	14,148
Other taxes and licenses	10,384	8,767
Electricity and water	10,229	10,185
Payroll tax (note 19)	9,967	21,046
Stationery and other office supplies	5,861	18,575
Subscription and dues	3,390	4,474
Postage	2,050	3,255
Employee training (note 19)	-	4,266
	<b>587,386</b>	<b>687,016</b>

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**19. Personnel expenses**

	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Salaries and wages	584,760	657,232
Other employee benefits	92,136	113,634
Pension expenses	20,204	21,096
	<u>697,100</u>	<u>791,962</u>

The breakdown of personnel expenses is as follows:

	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Cost of sales (note 16)	186,697	192,533
Selling expenses (note 17)	242,819	224,625
Administrative expenses (note 18)	267,584	374,804
	<u>697,100</u>	<u>791,962</u>

Key management comprises members of the Board of Directors, executive committees and senior management. Compensation of key management consists of:

	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Salaries and wages	128,768	212,958
Other employee benefits	16,604	28,828
Pension expenses	5,342	6,526
	<u>150,714</u>	<u>248,312</u>

**20. Other expense**

	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Impairment loss on trade receivables (Note 8)	43,261	40,780
Research and development	45,202	24,130
Bank charges	22,948	20,419
Miscellaneous	2,744	892
Donations	2,570	1,088
	<u>116,725</u>	<u>87,309</u>

**21. Taxation**

Under current Bermuda law the Company is not required to pay taxes in Bermuda on either income or capital gains. Accordingly, no provision for taxation has been made in the consolidated financial statements.