



Annual Report  
**2011**

# **BARBADOS DAIRY INDUSTRIES LIMITED**

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Year ended 31 August 2011

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# **BARBADOS DAIRY INDUSTRIES LIMITED**

## **Company Information**

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### **Directors**

Sir Allan C. Fields KCMG  
C.R. Cozier  
D.B. Stoute  
G.P. Marshall  
N. McD. Brewster  
P.D. Davis  
C. J. Newman (appointed 19 December 2011)

### **Corporate Secretary**

C.S.A. Jones

### **Registered Office**

The Pine  
St. Michael, BB14000  
Barbados, W.I.

### **Auditors**

Ernst & Young  
Chartered Accountants  
Worthing, Christ Church, BB15008  
Barbados, W.I.

### **Bankers**

CIBC FirstCaribbean International Bank  
Wildey  
St. Michael  
Barbados, W.I.

### **Attorneys-At-Law**

Carrington & Sealy  
Belmont House  
Belmont Road  
St. Michael  
Barbados, W.I.

# BARBADOS DAIRY INDUSTRIES LIMITED

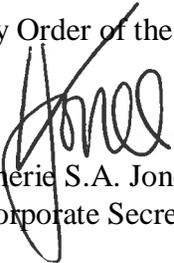
Registered Office: The Pine  
St Michael  
Barbados

## NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Forty-Seventh Annual General Meeting of the shareholders of Barbados Dairy Industries Limited ('the Company') will be held at the **Pine Hill Dairy, The Pine, St. Michael, Barbados, on Monday, 06 February 2012 at 10:00 am** for the following purposes:

1. To receive and consider the Financial Statements of the Company for the Financial Year ended 31 August 2011 and the Auditors' Report thereon;
2. To elect Directors;
3. To appoint Auditors for the ensuing financial year;
4. To transact any other business which may properly come before the meeting.

By Order of the Board



Cherie S.A. Jones  
Corporate Secretary

4 January 2012

The notes to the enclosed proxy forms are incorporated in this notice.

## **BARBADOS DAIRY INDUSTRIES LIMITED**

### **Statement from the Board of Directors**

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Barbados Dairy Industries Limited had an extremely challenging year. Sales revenue of \$59.1 million was down by 5.8% leading to a loss of \$6.65 million for the year.

The reduction in revenue was as a direct result of our inability to maintain adequate stocks of all SKUs during the year as challenges were experienced in installing and integrating the new equipment in a functioning production environment. Attempts to maintain full production during this upgrade led to large amounts of overtime being incurred and to increased consumption of cleaning chemicals and utilities, principally electricity, diesel (for steam) and water. Unfortunately the increased working hours did not facilitate keeping our full portfolio in the market and the resulting “stock outs” experienced both in the local as well as the regional export markets severely affected sales.

In early March, following a short but serious period of illness, our Managing Director, Mr. Clyde Gibson, opted for early retirement. I would like to take this opportunity to sincerely thank Clyde for his years of service and wish him well in his retirement. The vacancy created on the Board of Directors as a result of Mr. Gibson’s retirement has been filled, as of 19 December 2011 by Ms. Charyl Newman. Ms. Newman is a successful Barbadian businesswoman and we look forward to her contributions to the Board’s deliberations in the future.

A multi-disciplinary team of individuals picked from across the Banks Holdings Limited Group was assembled and asked to work with the Dairy’s Management Team to complete the upgrade project and to conduct a thorough review of the Company’s operations in light of the new processes and procedures. This review led to a restructuring exercise across all facets of the operation; the financial result of which was the booking of large nonrecurring costs associated with severance payments, disposal of obsolete assets and the write down of obsolete spares, raw and packing materials.

Substantial progress has been made however within the last months of the year and the early months of the new financial year with respect to the upgrade project and completion is now expected before the end of the first half of the new financial year.

With the adoption of the new TGA (gable top) package, PHD effectively exited cold chain distribution (the only direct distribution that the Company was responsible for). With this change we evaluated our capabilities against those of our distribution partners in respect of ambient distribution. We concluded that the investment required to transition our cold chain to an efficient ambient operation was significant and that we were better served in extending our existing distribution contracts to include the new TGA package. Consequently, therefore with effect from 1 September 2011 Pine Hill ceased direct distribution of the TGA products opting to outsource this function to its two existing distributors of UHT products – SBI Distribution Inc. and B&B Distribution Limited. It is expected that this move will result in a much wider reach across Barbados especially in the traditional grocery and small shop categories.

## **BARBADOS DAIRY INDUSTRIES LIMITED**

### **Statement from the Board of Directors (cont'd)**

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#### **Sales**

As indicated earlier, sales quantities across all categories fell short of prior year principally as a result of our inability to consistently supply the markets. Sales of evaporated milks as well as TGA juices were most severely affected recording significant declines.

White milk sales rebounded somewhat during the year to finish 10% up on prior year signalling improved acceptance of the ultra pasteurized milks.

At the beginning of the year, a decision to discontinue certain flavours in the 1L TBA package was taken. Unfortunately, the expected transition of volume from that package to the 1L TGA package never materialized and significant lost sales were recorded especially in the export markets forcing the reintroduction of those flavours by the end of the first half of the year.

During the second half, we decided to revert to the PINEHILL brand (and discontinue the use of the Caribbean Pride brand) for all TGA juices and at the time of writing this report, all but two flavours had been transitioned. Initial feedback from the trade has been exceedingly positive and it is clear that the PINEHILL brand continues to hold significant equity with consumers both locally as well as in the export markets.

Cultured product sales were flat on prior year, considerable process improvements have been made to the yogurt plant and we expect to see growth in this area as we develop new flavours and reintroduce fresh cream in the new financial year.

At the end of the final quarter, we reached agreement with a local fast food operation for the supply of milkshakes, thereby guaranteeing sales of this product to them over the next four years.

#### **Operations**

The amalgamation of the plants is complete and final commissioning issues are ongoing. Commissioning of the new TGA (gable top) filling line has also been completed and efficiencies continue to approach those initially projected.

The “old” UHT plant area has been converted into a “state of the art” finished goods warehouse with new robotic palletizing and “flow” racking capabilities. The transition from wooden to plastic pallets has also been completed and work has begun on the expansion of the raw and packaging materials storage facility.

During the year, we were forced to switch our supply point for milk powder and as a result suffered quality issues associated with the stability of the new imported powder. This, coupled with logistical difficulties with the handling of the powder contained in the new “super sacks” challenged our ability to reliably supply the market with reconstituted milk products. We are pleased to report that this issue is now resolved.

## **BARBADOS DAIRY INDUSTRIES LIMITED**

### **Statement from the Board of Directors (cont'd)**

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The relocation of the Quality Assurance laboratory to a modern facility adjacent to the filling room was completed as was the construction of the new plant operations offices; housing all operations personnel in an open-plan seating arrangement. We expect to see improved effectiveness as a result of these two initiatives.

Substantial improvements have also been made to the employee changing and recreation areas and significant security enhancements have been implemented.

#### **Farms**

We continue to work closely with our dairy farmers to ensure the highest possible quality of milk. We suspended the milk quota system in July 2011 and have, since then, been paying full price for all milk, irrespective of its destination. It is hoped that this move will incentivize farmers to increase their milk production allowing us to expand our range of milk based products. During the new financial year we will be meeting with them to discuss the future of the quota system and an equitable formula for the purchase of raw milk.

#### **Quality Systems**

Our Integrated Management System has been stream lined and we have appointed an Environmental, Health and Safety Officer. PHD has embarked upon its “Greening Campaign” and has initiated recycling of all plastics, cardboard and metals generated as a result of its operations. Additionally, we have established a “Recycling Centre” which enables staff members to bring suitable materials from home for recycling.

We have targeted May 2013 as the date for us to gain certification in the following four International Quality Standards:

- ISO 9001:2008 (Quality Systems Management)
- ISO 22001:2005 (Food Safety Management)
- ISO 14001:2004 (Environmental Management)
- OSHAS 18001:2007 (Employee Health & Safety Management)

#### **Human Resources**

As suggested above, the second half of the year saw significant changes being made to the organizational structure, management and operational teams as well as operational processes and procedures. We would like to take this opportunity to commend all staff on the level of maturity displayed during this period of volatility. We are convinced that as we enter the new financial year with the new team in place, the dedication and commitment to excellence that has been demonstrated will begin to deliver positive results.

## **BARBADOS DAIRY INDUSTRIES LIMITED**

### **Statement from the Board of Directors (cont'd)**

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We continue to enjoy a cordial relationship with our employees' representative, the Barbados Workers Union and concluded negotiations for a new 2 year collective agreement towards the end of the final quarter.

We have embarked on a major multidisciplinary training programme across all departments. This initiative is aimed at closing the gap between our employees' current level of knowledge and that required to operate and maintain the sophisticated technology now employed within the plant.

#### **The Future**

Our strategies, over the next year are geared towards returning Pine Hill to profitability and we will focus our efforts not only on cost containment and efficiency improvement within the production plant but more importantly on regaining the confidence of our local and regional customers and consumers.

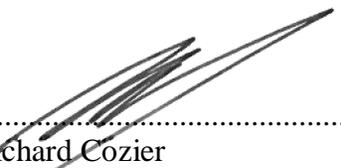
We will continue to grow the PINEHILL brand as one that can be relied upon for quality and consistency and have several new product offerings in the developmental pipeline, scheduled for rollout during the coming year. As the plant has ramped up production, we have rekindled our export thrust and at the time of preparing this report had shipped the first containers to our new partners in the Trinidad market. We successfully hosted a regional distributors' conference in Barbados in November and will follow this up by visits to each market as we roll out individually tailored commercial programmes.

We will also be seeking to fill vacant plant capacity and we have identified potential regional co-packing opportunities and are gearing up our plant to meet the stringent requirements.

We will be replacing our two antiquated 250ml "buddy pack" filling lines in March, with a single state of the art A3 "Compact Flex" filling line which will afford us the opportunity of launching a 200ml and a 330ml package in addition to the existing 250ml pack.

We are confident that with the new Dairy Team on board, our new distribution structure, imminent completion of the project and renewed focus on exports, the year ahead, while not being without its challenges, will see the Company returning to the levels of profitability delivered in the past.

  
.....  
Sir Allan C. Fields, KCMG  
Chairman

  
.....  
C. Richard Cozier  
Director

19 December 2011

## BARBADOS DAIRY INDUSTRIES LIMITED

### Directors' Report

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1. The Directors present their annual report and the audited financial statements for the year ended 31 August 2011.

\$
2. The comprehensive loss for the year was (6,652,335)  
To which is added retained earnings brought forward of 41,868,330  
Giving retained earnings carried forward of 35,215,995
3. The Directors have declared that there will be no dividend in respect of 2011.
4. In accordance with the Company's By-Laws the following Directors cease to hold office at the end of the Annual Meeting but are eligible for re-election for three years:  
  
Sir Allan Fields  
Ms. Chiryl Newman
5. According to the Company's register, the interests of persons who were Directors on the dates indicated were as follows:

Name	No. of Shares 31 August 2011	No. of Shares 4 January 2012
Sir Allan Fields	-	-
C. Richard Cozier	-	-
Dan B. Stoute	-	-
Geoffrey P. Marshall	-	-
Neville McD. Brewster	-	-
Paul D.Davis	-	-
Chiryl J.Newman	N/A	-

6. At no time during, or the end of the financial year, has any Director had any material interests in any contract or arrangement in relation to the business of the Company.

## BARBADOS DAIRY INDUSTRIES LIMITED

### Directors' Report (continued)

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7. At 31 August 2011 and 4 January 2012, the following party held more than 5% of the share capital of the Company. No other party held more than 5% of the stated capital of the Company at those dates.

	No. of Shares	
	31.08.11	04.01.12
Banks Holdings Limited	3,960,667 (83.74%)	3,960,667 (83.74%)

8. The retiring auditors, Ernst & Young, Chartered Accountants, offer themselves for re-appointment.

BY ORDER OF THE BOARD



Cherie S.A. Jones  
Corporate Secretary

4 January 2012

## AUDITORS' REPORT

To the Shareholders of Barbados Dairy Industries Limited

We have audited the accompanying financial statements of Barbados Dairy Industries Limited, which comprise of the statement of financial position as of 31 August 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 International Financial Reporting Standards, 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.

### Auditors' Responsibility

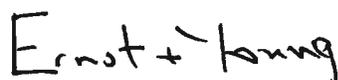
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the 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' 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.

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 financial statements present fairly, in all material respects, the financial position of Barbados Dairy Industries Limited as of 31 August 2011 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.



CHARTERED ACCOUNTANTS

Barbados  
19 December 2011

## BARBADOS DAIRY INDUSTRIES LIMITED

Statement of Comprehensive Income  
Year ended 31 August 2011

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	Notes	2011 \$	2010 \$
<b>Sales</b>		59,138,783	62,795,340
<b>Loss from operations before undernoted items</b>	4	(5,855,709)	(759,271)
Interest income		168	88,590
Interest expense		(636,564)	(118,414)
<b>Loss before taxation</b>		(6,492,105)	(789,095)
Taxation	6	(160,230)	1,095,692
<b>Total comprehensive loss for the year</b>		(6,652,335)	306,597
(Loss) earnings per share – basic and diluted	20	(\$1.41)	\$0.06

The accompanying notes form part of these financial statements.

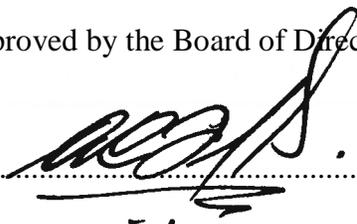
# BARBADOS DAIRY INDUSTRIES LIMITED

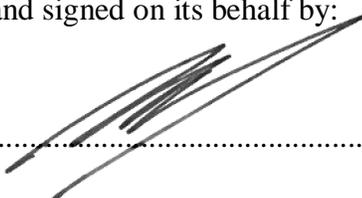
Statement of Financial Position  
As of 31 August 2011

	Notes	2011 \$	2010 \$
<b>Current assets</b>			
Cash		454,691	219,388
Accounts receivable and prepayments	5	5,928,573	6,785,706
Inventories	7	17,040,796	14,110,296
Current portion of loans receivable	8	-	16,447
Taxation recoverable		1,638	1,638
Due from related companies	9	313,561	810,810
		<u>23,739,259</u>	<u>21,944,285</u>
<b>Current liabilities</b>			
Bank overdraft	10	3,678,328	945,841
Accounts payable and accruals	11	9,518,729	6,603,516
Due to related companies	9	2,515,897	-
Current portion of long-term liabilities	12	6,544,393	3,616,226
		<u>22,257,347</u>	<u>11,165,583</u>
<b>Working capital</b>		1,481,812	10,778,702
<b>Deferred tax asset</b>	6	5,466,127	5,626,357
<b>Long-term investment</b>	13	1	1
<b>Property, plant and equipment</b>	14	32,452,165	31,487,758
<b>Pension plan surplus</b>	15	4,050,641	3,844,153
<b>Post-employment medical liability</b>	16	(585,131)	(554,228)
<b>Loan due to parent company</b>	9	(2,500,000)	-
<b>Long-term liabilities</b>	12	(4,143,516)	(8,308,209)
		<u>36,222,199</u>	<u>42,874,534</u>
<b>Shareholders' equity</b>			
Share capital	17	1,006,204	1,006,204
Retained earnings		35,215,995	41,868,330
		<u>36,222,199</u>	<u>42,874,534</u>

The accompanying notes form part of these financial statements.

Approved by the Board of Directors on 19 December 2011 and signed on its behalf by:

  
.....Chairman

  
.....Director

## BARBADOS DAIRY INDUSTRIES LIMITED

### Statement of Changes in Equity Year ended 31 August 2011

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	<b>Share capital</b> \$	<b>Retained earnings</b> \$	<b>Total</b> \$
<b>Balance at 31 August 2009</b>	1,006,204	42,271,162	43,277,366
Total comprehensive income for the year	-	306,597	306,597
Ordinary dividend paid (15¢ per share)	-	(709,429)	(709,429)
<b>Balance at 31 August 2010</b>	1,006,204	41,868,330	42,874,534
Total comprehensive loss for the year	-	(6,652,335)	(6,652,335)
<b>Balance at 31 August 2011</b>	1,006,204	35,215,995	36,222,199

The accompanying notes form part of these financial statements.

## BARBADOS DAIRY INDUSTRIES LIMITED

Statement of Cash Flows  
Year ended 31 August 2011

	2011 \$	2010 \$
<b>Cash flows from operating activities</b>		
Loss before taxation	(6,492,105)	(789,095)
<b>Adjustments for:</b>		
Depreciation	4,046,794	4,560,440
Loss (gain) on disposal of property, plant and equipment	650,808	(88,497)
Interest income	(168)	(88,590)
Interest expense	636,564	118,414
Pension plan surplus	(206,488)	(687,770)
Post-employment medical liability	30,903	82,316
Operating (loss) profit before working capital changes	(1,333,692)	3,107,218
Decrease (increase) in accounts receivable and prepayments	857,133	(1,242,861)
(Increase) decrease in inventories	(2,930,500)	561,349
Decrease in due from related companies	497,249	252,001
Increase in accounts payable and accruals	2,915,213	1,378,219
Increase (decrease) in due to related companies	2,515,897	(1,345,283)
Cash generated from operations	2,521,300	2,710,643
Interest paid	(636,564)	(118,414)
Interest received	168	88,590
Taxes paid	-	(65,606)
Net cash from operating activities	1,884,904	2,615,213
<b>Cash flows from investing activities</b>		
Proceeds from disposal of property, plant and equipment	183,413	911,619
Purchase of property, plant and equipment	(5,845,422)	(14,229,765)
Net repayment of loans receivable	16,447	25,905
Net cash used in investing activities	(5,645,562)	(13,292,241)
<b>Cash flows from financing activities</b>		
Net (repayment) proceeds of long-term liabilities	(1,236,526)	10,475,018
Proceeds of loan from parent company	2,500,000	-
Dividends paid	-	(709,429)
Net cash from financing activities	1,263,474	9,765,589
<b>Decrease in cash and cash equivalents</b>	(2,497,184)	(911,439)
<b>Cash and cash equivalents – beginning of year</b>	(726,453)	184,986
<b>Cash and cash equivalents – end of year</b>	(3,223,637)	(726,453)
<b>Represented by:</b>		
Cash	454,691	219,388
Bank overdraft	(3,678,328)	(945,841)
<b>Cash and cash equivalents – end of year</b>	(3,223,637)	(726,453)

The accompanying notes form part of these financial statements.

# BARBADOS DAIRY INDUSTRIES LIMITED

Notes to the Financial Statements  
Year ended 31 August 2011

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## 1. Incorporation, ownership and principal place of business

The Company is a subsidiary of Banks Holdings Limited, a Company incorporated under the Laws of Barbados on 12 March 1964. During 1997, the parent company acquired an 82.9% interest in the company.

The principal activity of the Company during the year was the manufacturing, processing and distribution of dairy products and fruit juices.

The Company's registered office is located at the Pine, St. Michael, Barbados.

## 2. Significant accounting policies

### a] Basis of accounting and financial statement preparation

The financial statements are prepared under the historical cost convention except for long-term investments, which are carried at fair value. The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

### b] Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following standards, amendments and interpretations which are effective in the current year:

#### ***IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions (effective 1 January 2010)***

IFRS 2 has been amended to clarify the accounting for group cash-settled share-based payment transactions, where a subsidiary receives goods or services from employees or suppliers but the parent or another entity in the group pays for those goods or services. The amendments clarify that the scope of IFRS 2 includes such transactions. This amendment is applied retrospectively, in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors in respect of changes in accounting policy. For group reporting and consolidated financial statements, the amendment clarifies that if an entity receives goods or services that are cash settled by shareholders not within the group, they are outside the scope of IFRS 2. The adoption of this amendment did not have any impact on the financial position of the Company.

#### ***IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective 1 February 2010)***

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Company.

## BARBADOS DAIRY INDUSTRIES LIMITED

Notes to the Financial Statements  
Year ended 31 August 2011

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### 2. Significant accounting policies (cont'd)

#### b] Changes in accounting policies and disclosures (cont'd)

##### ***IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective 1 July 2010)***

This interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case this cannot be reliably measured, they are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Company.

##### ***IAS 1 Presentation of Financial Statements (effective 1 January 2010)***

The terms of a liability that could at anytime result in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification. The adoption of this standard had no effect on the financial position or performance of the Company.

##### ***IAS 7 Statement of Cash Flows (effective 1 January 2010)***

Only expenditure that results in a recognized asset can be classified as a cash flow from investing activities. The adoption of this standard had no effect on the financial position or performance of the Company.

##### ***IAS 17 Leases (effective 1 January 2010)***

The specific guidance on classifying land as a lease has been removed so that only the general guidance remains. The adoption of this standard had no impact on the financial position or performance of the Company.

##### ***IAS 36 Impairment of Assets (effective 1 January 2010)***

The largest unit permitted for allocating goodwill acquired in a business combination is the operating segment defined in IFRS 8 before aggregation for reporting purposes. The adoption of this standard had no impact on the financial position or performance of the Company.

##### ***IAS 39 Financial Instruments: Recognition and Measurement - Assessment of loan prepayment penalties as embedded derivatives (effective 1 January 2010)***

A prepayment option is considered closely related to the host contract when the exercise price reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract. The adoption of this standard had no impact on the financial position or performance of the Company.

Scope exemption for business combination contract: The scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree.

## BARBADOS DAIRY INDUSTRIES LIMITED

Notes to the Financial Statements  
Year ended 31 August 2011

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### 2. Significant accounting policies (cont'd)

#### b] Changes in accounting policies and disclosures (cont'd)

##### ***IAS 39 Financial Instruments: Recognition and Measurement - Assessment of loan prepayment penalties as embedded derivatives (effective 1 January 2010) (cont'd)***

at a future date applies only to binding forward contracts, not derivative contracts where further actions are still to be taken. This is effective prospectively to all unexpired contracts for annual periods beginning on or after 1 January 2010. The adoption of this standard had no impact on the financial position or performance of the Company.

Cash flow hedge accounting: Gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges or recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss. This is effective prospectively to all unexpired contracts for annual periods beginning on or after 1 January 2010. The adoption of this standard had no impact on the financial position or performance of the Company.

##### ***IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (effective 1 January 2010)***

This amendment clarifies that the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations are only those set out in IFRS 5. The adoption of this standard had no impact on the financial position or performance of the Company.

##### ***IFRS 8 Operating Segments (effective 1 January 2010)***

Segment assets and liabilities need only be reported when those assets and liabilities are included in measures used by the chief operating decision maker. The adoption of this standard had no impact on the financial position or performance of the Company.

##### ***New Accounting Standards and Interpretations not adopted***

The Company has not adopted the following new and revised IFRSs and IFRIC Interpretations that have been issued as these standards/interpretations do not apply to the activities of the Company:

IFRS 1	First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters (Amendments) (effective 1 January 2010)
IFRS 1	First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective 1 July 2010)

## BARBADOS DAIRY INDUSTRIES LIMITED

Notes to the Financial Statements  
Year ended 31 August 2011

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### 2. Significant accounting policies (cont'd)

#### c] Standards issued but not yet effective

The following is a list of standards and interpretations issued that are not yet effective up to the date of issuance of the Company's financial statements. The Company reasonably expects these standards and interpretations to be applicable at a future date and intends to adopt these standards and interpretations when they become effective.

- IAS 12 *Income Taxes - Recovery of Underlying Assets*
- IAS 24 *Related Party Disclosures (Amendment)*
- IFRS 1 *First-time adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
- IFRS 7 *Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements*
- IFRS 9 *Financial Instruments: Classification and Measurement*
- IFRIC 14 *Prepayments of a Minimum Funding Requirement (Amendment)*

In May 2010, the International Accounting Standards Board issued “Improvements to IFRSs”, which is part of its annual improvements project, and a vehicle for making non-urgent but necessary amendments to various IFRSs. These amendments primarily become effective for annual periods beginning on or after 1 July 2010 or 1 January 2011. The following shows the IFRSs and topics addressed by these amendments:

- IAS 1 *Presentation of Financial Statements*
- IAS 27 *Consolidated and Separate Financial Statements*
- IAS 34 *Interim Financial Statements*
- IFRS 1 *First-time Adoption of International Financial Reporting Standards*
- IFRS 7 *Financial Instruments: Disclosures*
- IFRIC 13 *Customer Loyalty Programmes*

The Company, however, expects no impact from the adoption of the amendments on its financial position or performance.

## BARBADOS DAIRY INDUSTRIES LIMITED

Notes to the Financial Statements  
Year ended 31 August 2011

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### 2. Significant accounting policies (cont'd)

#### c] Standards issued but not yet effective (cont'd)

IFRS 2	Group Cash-settled Share-based Payment Arrangements IAS 32 Financial Instruments: Presentation - Classification of Rights Issues (Amendment)
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments
IFRS 9	Financial Instruments
IAS 24	Related Party Disclosures (Revised)
IFRIC 14	Prepayments of a Minimum Funding Requirement (Amendment)

In April 2009, the International Accounting Standards Board issued “Improvements to IFRSs”, which is part of its annual improvements project, and a vehicle for making non-urgent but necessary amendments to various IFRSs. These amendments primarily become effective for annual periods beginning on or after 1 January 2010. The following shows the IFRSs and topics addressed by these amendments:

<b>IFRS</b>	<b>Subject of Amendment</b>
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations Disclosures
IFRS 8	Operating Segments Disclosure of information about segment assets
IAS 1	Presentation of Financial Statements Current/non-current classification of convertible instruments
IAS 7	Statement of Cash Flows Classification of expenditures on unrecognised assets
IAS 17	Leases Classification of land and buildings
IAS 36	Impairment of Assets Unit of accounting for goodwill impairment testing
IAS 38	Intangible Assets Consequential amendments arising from IFRS 3. Measuring fair value
IAS 39	Financial Instruments: Recognition and Measurement Assessment of loan prepayment penalties as embedded derivatives. Scope exemption for business combination contract. Cash flow hedge accounting.
IFRIC 9	Reassessment of Embedded Derivatives Scope of IFRIC 9 and IFRS 3
IFRC 16	Hedges of a Net Investment in a Foreign Operation Amendment of the restriction on the entity that can hold hedging instruments.

## **BARBADOS DAIRY INDUSTRIES LIMITED**

Notes to the Financial Statements  
Year ended 31 August 2011

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### **2. Significant accounting policies (cont'd)**

**d] Amalgamation**

As at 31 March 2010, the Company and its wholly-owned subsidiary Pine Hill Marketing Limited were amalgamated.

**e] Revenue recognition**

Revenue is recognized when the significant risks and rewards of ownership of goods have passed to the buyer and the amount of revenue can be measured reliably. Interest income is recognized on an accrual basis.

**f] Currency**

These financial statements are presented in Barbados dollars, which is also its functional currency. Monetary assets and liabilities denominated in currencies other than Barbados dollars are translated at the rate of exchange ruling at the balance sheet date. Non-monetary assets and liabilities and transactions denominated in currencies other than Barbados dollars are translated at the rate of exchange ruling at the date of the transaction. Foreign exchange gains or losses are charged to income.

**g] Impairment of financial assets**

The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, 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 expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account and the amount of the loss is recognized in income.

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, the previously recognized impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date. Any subsequent reversal of an impairment loss is recognized in income.

In relation to loans and receivables, a provision for impairment is made when there is objective evidence that the Company will not be able to collect all of the amounts due under the original terms of the agreement. The carrying amount of loans and receivables is reduced through use of an allowance account.

## BARBADOS DAIRY INDUSTRIES LIMITED

Notes to the Financial Statements  
Year ended 31 August 2011

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### 2. Significant accounting policies (cont'd)

#### h] Inventories

Inventories are stated at the lower of cost and net realizable value. In general, cost is determined on a weighted average basis. In the case of manufactured products, cost includes all direct expenditure and production overheads based on the normal level of activity.

Spares and supplies are valued at cost. Provisions are made for obsolete, slow moving and defective items as considered appropriate in the circumstances.

#### i] Depreciation

Depreciation is charged on leasehold buildings over the term of the lease.

Depreciation of other property, plant and equipment is made by using the straight-line basis at rates sufficient to write off the cost of the assets over their estimated useful lives as follows:

Plant and machinery	-	3 to 20 years
Furniture, fittings and other equipment	-	3 to 10 years
Motor vehicles	-	5 years
Containers	-	5 years

#### j] Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset'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. Where the carrying amount of an asset exceeds its recoverable amount, the asset 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 pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of the recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case the carrying amount of the asset is increased to its recoverable amount.

## BARBADOS DAIRY INDUSTRIES LIMITED

Notes to the Financial Statements  
Year ended 31 August 2011

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### 2. Significant accounting policies (cont'd)

#### j] Impairment of non-financial assets (cont'd)

That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

#### k] Taxation

The financial statements are prepared using the liability method of accounting for taxation whereby the future taxable liability or asset arising from temporary differences is provided for at the estimated future corporation tax rate that is expected to apply to the period when the liability is settled or the asset realized. Deferred tax assets in respect of unused tax losses are recognized to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilized.

#### l] Pensions

The Company operates a defined benefit plan, the assets of which are held in a separate fund administered by Trustees. The pension plans are funded by payments from the Company taking into account the recommendations of independent qualified actuaries.

The pension accounting costs are accrued using the projected unit credit method. Under this method, the cost of providing pensions is charged to the statement of comprehensive income so as to spread the regular cost over the service lives of the employees in accordance with the advice of independent qualified actuaries who carry out a full valuation of the plans every three years. The pension obligation is measured as the present value of the estimated future cash flows using interest rates of Government Securities which have terms to maturity approximating the terms of the related liability. Actuarial gains and losses are spread forward over the average remaining service lives of employees.

The Company also operates a contributory defined contribution pension scheme. Contributions are charged to the statement of comprehensive income in the year to which they relate.

The Company also provides post-employment healthcare benefits to its employees, pensioners and their registered dependants. These benefits are funded by contributions from the Company. The expected costs of these benefits are accrued over the period of employment, using a methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income over the expected average service lives of the related employees. These obligations are valued by independent qualified actuaries.

## **BARBADOS DAIRY INDUSTRIES LIMITED**

Notes to the Financial Statements  
Year ended 31 August 2011

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### **2. Significant accounting policies (cont'd)**

#### **m] Long-term investment**

The Company's investment, which has been classified as fair value through profit and loss, is recorded at fair value. The fair value of this privately held investment, in the absence of readily ascertainable market values, has been estimated by management on the basis of the market value of the underlying assets.

Unrealized gains or losses are recorded in the statement of comprehensive income.

#### **n] Interest bearing loans receivable and payable**

All interest bearing loans receivable and payable are initially recognized at cost. After initial recognition, they are measured at amortized cost using the effective interest rate method.

#### **o] Leases**

Finance leases are capitalized at fair value on inception of the lease agreement. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the statement of comprehensive income.

### **3. Significant accounting judgments, estimates and assumptions**

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

#### Impairment of financial assets

When the fair value declines or when there is objective evidence of impairment, management makes assumptions about the declines in value to determine whether it is an impairment that should be recognized in income.

#### Impairment of non-financial assets

The Company assesses whether there are any indicators of impairment for all other non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

## BARBADOS DAIRY INDUSTRIES LIMITED

Notes to the Financial Statements  
Year ended 31 August 2011

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### 3. Significant accounting judgments, estimates and assumptions (cont'd)

#### Deferred tax assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon likely timing and level of future taxable profits together with future tax planning strategies.

#### Employee retirement benefits

The cost of the defined benefit pension plan and other post-employment medical benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets of the plan, future pension increases, future salary increases, proportion of employees opting for early retirement, future changes in the NIS ceiling and inflation. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Assumptions used are disclosed in Notes 15 and 16.

### 4. Profit from operations

	<b>2011</b>	<b>2010</b>
	\$	\$
Sales	59,138,783	62,795,340
Cost of sales	(58,047,169)	(58,631,643)
Gross profit	1,091,614	4,163,697
Other (expenses) income	(307,517)	258,222
Selling, general and administrative expenses	784,097 (6,639,806)	4,421,919 (5,181,190)
Loss from operations	(5,855,709)	(759,271)
Loss from operations is after charging:		
Depreciation	4,046,794	4,560,440
Staff costs	10,858,886	10,632,367

## BARBADOS DAIRY INDUSTRIES LIMITED

Notes to the Financial Statements  
Year ended 31 August 2011

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### 5. Accounts receivable and prepayments

	<b>2011</b>	<b>2010</b>
	\$	\$
Trade receivables (net)	3,953,968	5,703,753
Other receivables and prepayments	1,974,605	1,081,953
	<u>5,928,573</u>	<u>6,785,706</u>
	<u><u>5,928,573</u></u>	<u><u>6,785,706</u></u>
	<b>2011</b>	<b>2010</b>
	\$	\$
Gross trade receivables	3,995,134	5,718,144
Provision for doubtful debts	(41,166)	(14,391)
	<u>3,953,968</u>	<u>5,703,753</u>
	<u><u>3,953,968</u></u>	<u><u>5,703,753</u></u>

Trade receivables are non-interest bearing and are generally on 30-60 days terms.

As at 31 August 2011, trade receivables at a nominal value of \$41,166 (2010 - \$14,391) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	<b>Total</b>
	\$
At 31 August 2009	10,972
Charge for the year	14,391
Write offs	(10,972)
	<u>14,391</u>
At 31 August 2010	14,391
Charge for the year	58,555
Write-offs	(31,780)
	<u>41,166</u>
At 31 August 2011	<u><u>41,166</u></u>

## BARBADOS DAIRY INDUSTRIES LIMITED

Notes to the Financial Statements  
Year ended 31 August 2011

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### 5. Accounts receivable and prepayments (cont'd)

As at 31 August, the ageing analysis of trade receivables is as follows:

		<u>Past due but not impaired</u>					
	<b>Total</b>	<b>Neither past due nor impaired</b>	<b>&lt; 30 days</b>	<b>30-60 days</b>	<b>60-90 days</b>	<b>90-120 days</b>	<b>&gt;120 days</b>
	\$	\$	\$	\$	\$	\$	\$
<b>2011</b>	3,953,968	3,626,751	221,152	92,092	13,973	-	-
<b>2010</b>	5,703,753	3,497,071	982,706	532,393	95,328	28,135	568,120

With respect to trade receivables and other receivables and prepayments that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will default on payment obligations since the Company trades only with recognized credit worthy third parties.

### 6. Taxation

	<b>2011</b>	<b>2010</b>
	\$	\$
<b>Statement of comprehensive income</b>		
Deferred tax charge (recovery) for the year	160,230	(1,327,179)
Under-provision of prior year deferred tax asset	-	231,487
	<u>160,230</u>	<u>(1,095,692)</u>

## BARBADOS DAIRY INDUSTRIES LIMITED

Notes to the Financial Statements  
Year ended 31 August 2011

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### 6. Taxation (cont'd)

The tax on the income before taxation differs from the theoretical amount that would arise using the basic corporation tax rate as follows:

	<b>2011</b>	<b>2010</b>
	\$	\$
Loss before taxation	(6,492,105)	(789,095)
Taxed at the applicable rate of 15% (2010 - 15%)	(973,816)	(118,364)
Capital allowances	-	(870,874)
Balancing charge	(110,058)	(350,356)
Expenses not deductible	2,042	529
Group relief surrendered	49,430	-
Under-provision of prior year deferred tax asset	-	231,487
Deferred tax asset not recognized	1,154,275	-
Losses expired	16,668	7,201
Other	21,689	4,685
	<u>160,230</u>	<u>(1,095,692)</u>
	\$	\$
<b>Deferred tax asset</b>		
Balance, beginning of year	5,626,357	4,530,665
Deferred tax (charge) credit	(160,230)	1,327,179
Over-provision of prior year deferred tax asset	-	(231,487)
Balance, end of year	<u>5,466,127</u>	<u>5,626,357</u>

## BARBADOS DAIRY INDUSTRIES LIMITED

Notes to the Financial Statements  
Year ended 31 August 2011

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### 6. Taxation (cont'd)

	<b>2011</b>	<b>2010</b>
	\$	\$
Deferred tax asset is made up as follows:		
Pension plan surplus	(607,596)	(576,623)
Post-retirement medical liability	87,770	83,134
Unutilized tax losses	5,103,738	5,120,406
Accelerated depreciation for accounting purposes	880,568	997,793
Bad debt provision	1,647	1,647
	<hr/>	<hr/>
	5,466,127	5,626,357
	<hr/> <hr/>	<hr/> <hr/>

#### Tax losses

The Company has unrelieved tax losses of \$41,720,091 (2010 - \$34,136,043) available to be carried forward and applied against future taxable income. The losses have not been agreed by the Commissioner of Inland Revenue but are not in dispute.

<b>Income Year</b>	<b>Amount</b>	<b>Expiry Date</b>
	\$	
2003	49,755	2012
2004	672,058	2013
2005	2,893,916	2014
2006	3,346,343	2015
2007	3,405,539	2016
2008	4,111,367	2017
2009	4,285,891	2018
2010	15,260,054	2019
2011	7,695,168	2020
	<hr/>	
	41,720,091	
	<hr/> <hr/>	

## BARBADOS DAIRY INDUSTRIES LIMITED

Notes to the Financial Statements  
Year ended 31 August 2011

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### 7. Inventories

	2011	2010
	\$	\$
Raw materials	11,345,848	7,305,229
Finished goods	2,937,257	3,367,931
Spares and supplies	2,757,691	3,437,136
	<hr/>	<hr/>
	17,040,796	14,110,296
	<hr/> <hr/>	<hr/> <hr/>

The amount of write-down of inventories recognized as an expense is \$3,016,691 (2010 - \$1,352,846). This expense is included in cost of sales as disclosed in Note 4.

### 8. Loans receivable

	2011	2010
	\$	\$
Loans receivable due at end of year	-	16,447
Less: Current portion	-	(16,447)
	<hr/>	<hr/>
Long-term portion	-	-
	<hr/> <hr/>	<hr/> <hr/>

### 9. Related party transactions and balances

The amounts due from/to related companies are unsecured, interest-free and have no fixed terms of repayment. The loan due to the parent company is unsecured and interest-free. Repayment of the loan will commence in September 2012 with 60 monthly instalments of \$41,666.67.

	2011	2010
	\$	\$
Loan to parent company	2,500,000	-
Less: Current portion	-	-
	<hr/>	<hr/>
Long-term portion	2,500,000	-
	<hr/> <hr/>	<hr/> <hr/>

## BARBADOS DAIRY INDUSTRIES LIMITED

Notes to the Financial Statements  
Year ended 31 August 2011

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### 9. Related party transactions and balances (cont'd)

During the year, the Company entered into the following transactions with its parent and fellow subsidiaries:

	<b>2011</b>	<b>2010</b>
	\$	\$
Sales to a related company	10,647,390	10,901,171
Sales to affiliated companies	29,220,276	30,711,337
Purchases from affiliated companies	13,699,446	10,504,944
Management fees paid to parent company	1,008,000	1,198,000
Lease payments to parent company	12,128	11,705

Compensation of key management personnel of the Company:

	<b>2011</b>	<b>2010</b>
	\$	\$
Short-term employee benefits	301,135	347,416
Post-employment benefits	36,570	41,373
	<u>337,705</u>	<u>388,789</u>

### 10. Bank overdraft

The security for the bank overdraft facility of \$3,000,000 is disclosed in Note 12.

Interest is charged and payable monthly on the overdraft balance at prime plus 1% per year. The rate at year-end was 9.05% (2010 - 9.05%).

### 11. Accounts payable and accruals

	<b>2011</b>	<b>2010</b>
	\$	\$
Trade payables	8,653,933	6,041,854
Other payables	864,796	561,662
	<u>9,518,729</u>	<u>6,603,516</u>

## BARBADOS DAIRY INDUSTRIES LIMITED

Notes to the Financial Statements  
Year ended 31 August 2011

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### 11. Accounts payable and accruals (cont'd)

Terms and conditions of the above liabilities

- Trade payables are non-interest bearing and are normally settled on 30-60 day terms.
- Other payables are non-interest bearing and are normally settled within three months.

### 12. Long-term liabilities

	2011	2010
	\$	\$
i) CIBC FirstCaribbean International Bank	3,382,502	3,248,232
ii) Tetra Pak, S.A.	7,305,407	8,676,203
	<hr/>	<hr/>
	10,687,909	11,924,435
Less: current portion	(6,544,393)	(3,616,226)
	<hr/>	<hr/>
Long-term portion	4,143,516	8,308,209
	<hr/> <hr/>	<hr/> <hr/>

- i) The three loans bear an interest rate of 7.05% (2010 – 7.05% and 7.55%). The principal loan amounts of \$241,388, \$1,500,000 and \$4,000,000 will mature on 30 December 2012, 30 November 2013 and 30 August 2013 respectively. They are repayable in various instalments of principal and interest. The loans and the overdraft facility (disclosed at Note 10) are secured by a letter of undertaking to provide the bank with a mortgage over the Company's assets, if called upon to do so and a guarantee endorsed by the parent company, Banks Holdings Limited.
- ii) The three Tetrapak leases bear an interest rate of 3-Month Libor plus 2.5% with quarterly and annual lease payments over 4 years. All of the leases are secured by certain equipment (See Note 14). Future lease payments due within one year are \$4,306,963 (2010 - \$2,599,388). Lease payments due after one year total \$2,998,444 (2010 - \$6,076,815).

### 13. Long-term investment

	2011	2010
	\$	\$
Barbados Agro Processing Company Limited (in receivership)	1	1
	<hr/> <hr/>	<hr/> <hr/>

## BARBADOS DAIRY INDUSTRIES LIMITED

Notes to the Financial Statements  
Year ended 31 August 2011

### 14. Property, plant and equipment

	At 31 August 2010 \$	Additions \$	Disposals \$	Transfers \$	At 31 August 2011 \$
<b>Cost</b>					
Buildings on leasehold					
land	12,817,385	352,595	-	1,950,130	15,120,110
Plant and machinery	28,387,205	5,051,718	(4,915,467)	11,899,783	40,423,239
Motor vehicles	1,174,535	-	(583,567)	-	590,968
Furniture, fixtures and equipment	2,282,146	79,522	(182,755)	(28,033)	2,150,880
Containers	221,319	246,214	-	-	467,533
Construction-in-progress	13,821,880	115,373	-	(13,821,880)	115,373
	58,704,470	5,845,422	(5,681,789)	-	58,868,103
<b>Accumulated depreciation</b>					
Buildings on leasehold					
land	7,243,541	367,571	-	-	7,611,112
Plant and machinery	17,199,698	3,287,914	(4,132,851)	21,024	16,375,785
Motor vehicles	806,319	96,669	(554,960)	-	348,028
Furniture, fixtures and equipment	1,897,135	204,383	(159,757)	(21,024)	1,920,737
Containers	70,019	90,257	-	-	160,276
	27,216,712	4,046,794	(4,847,568)	-	26,415,938
<b>Net book value</b>					
Buildings on leasehold					
land	5,573,844				7,508,998
Plant and machinery	11,187,507				24,047,454
Motor vehicles	368,216				242,940
Furniture, fixtures and equipment	385,011				230,143
Containers	151,300				307,257
Construction-in-progress	13,821,880				115,373
	31,487,758				32,452,165

The Company has plant and equipment with a net book value of \$10,570,471 (2010 - \$10,566,978) secured under a finance lease.

## BARBADOS DAIRY INDUSTRIES LIMITED

Notes to the Financial Statements  
Year ended 31 August 2011

### 14. Property, plant and equipment (cont'd)

	At 31 August 2009	Additions	Disposals	Transfers	At 31 August 2010
	\$	\$	\$	\$	\$
<b>Cost or valuation</b>					
Buildings on leasehold					
land	12,868,409	-		(51,024)	12,817,385
Plant and machinery	37,597,129	1,078,530	(10,792,453)	503,999	28,387,205
Motor vehicles	1,719,181	153,680	(297,603)	(400,723)	1,174,535
Furniture, fixtures and equipment	5,045,389	45,217	(2,779,705)	(28,755)	2,282,146
Containers	713,419	157,724	(649,667)	(157)	221,319
Construction-in-progress	1,050,606	12,794,614	-	(23,340)	13,821,880
	58,994,133	14,229,765	(14,519,428)	-	58,704,470
<b>Accumulated depreciation</b>					
Buildings on leasehold					
land	6,984,220	258,250	-	1,071	7,243,541
Plant and machinery	22,932,651	3,803,782	(9,971,144)	434,409	17,199,698
Motor vehicles	1,401,010	94,454	(295,790)	(393,355)	806,319
Furniture, fixtures and equipment	4,445,988	332,206	(2,779,705)	(101,354)	1,897,135
Containers	588,709	71,748	(649,667)	59,229	70,019
	36,352,578	4,560,440	(13,696,306)	-	27,216,712
<b>Net book value</b>					
Buildings on leasehold					
land	5,884,189				5,573,844
Plant and machinery	14,664,478				11,187,507
Motor vehicles	318,171				368,216
Furniture, fixtures and equipment	599,401				385,011
Containers	124,710				151,300
Construction-in-progress	1,050,606				13,821,880
	22,641,555				31,487,758

## BARBADOS DAIRY INDUSTRIES LIMITED

Notes to the Financial Statements  
Year ended 31 August 2011

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### 15. Pension plan surplus

	2011	2010
	\$	\$
<b>Statement of financial position</b>		
Present value of funded obligations	(9,631,468)	(10,682,047)
Fair value of plan assets	15,122,607	15,376,529
	<hr/>	<hr/>
	5,491,139	4,694,482
Unrecognized actuarial gains	(1,440,498)	(850,329)
	<hr/>	<hr/>
Net asset recognized in the statement of financial position	4,050,641	3,844,153
	<hr/> <hr/>	<hr/> <hr/>
<b>Statement of comprehensive income</b>		
Current service cost	213,992	253,857
Interest cost	763,458	797,934
Expected return on plan assets	(1,110,917)	(1,137,342)
Net actuarial gains recognized in the year	(78,286)	(224,117)
Past service cost – vested benefits	300,371	-
Gains on curtailments and settlements	(204,500)	(264,996)
	<hr/>	<hr/>
Total, included in staff costs	(115,882)	(574,664)
	<hr/> <hr/>	<hr/> <hr/>
Actual return on plan assets	989,267	563,710
	<hr/> <hr/>	<hr/> <hr/>

## BARBADOS DAIRY INDUSTRIES LIMITED

Notes to the Financial Statements  
Year ended 31 August 2011

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### 15. Pension plan surplus (cont'd)

Changes in the present value of the defined benefit obligation are as follows:

	\$
Defined benefit obligation at 31 August 2009	10,920,477
Interest cost	797,934
Current service cost	357,854
Benefits paid	(920,575)
Actuarial gain on obligation	(208,643)
Gain on curtailments and settlements	(265,000)
	<hr/>
Defined benefit obligation at 31 August 2010	10,682,047
Interest cost	763,458
Current service cost	296,551
Transfers out – liabilities	(114,589)
Gain on curtailments	(204,500)
Past service cost – vested benefits	300,371
Benefits paid	(1,301,765)
Actuarial gain on obligation	(790,105)
	<hr/>
Defined benefit obligation at 31 August 2011	<u>9,631,468</u>

Changes in the fair value of plan assets are as follows:

	\$
Fair value of plan assets at 31 August 2009	15,516,295
Expected return	1,137,342
Contributions by employer and employee	217,099
Benefits paid	(920,575)
Actuarial loss on plan assets	(573,632)
	<hr/>
Fair value of plan assets at 31 August 2010	15,376,529
Expected return	1,110,917
Contributions by employer and employee	173,166
Transfers out – assets	(114,589)
Benefits paid	(1,301,765)
Actuarial loss on plan assets	(121,651)
	<hr/>
Fair value of plan assets at 31 August 2011	<u>15,122,607</u>

## BARBADOS DAIRY INDUSTRIES LIMITED

Notes to the Financial Statements  
Year ended 31 August 2011

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### 15. Pension plan surplus (cont'd)

The Company expects to contribute \$55,234 to its defined benefit pension plans in 2012.

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	<b>2011</b>	<b>2010</b>
	%	%
Bonds	19	18
Mortgages	8	9
Equities	30	27
Mutual funds	20	19
Loans	-	3
Real estate	20	19
Other	3	5

The overall expected rate of return on assets is determined based on the market expectations prevailing on that date, applicable to the period over which the obligation is to be settled.

	<b>2011</b>	<b>2010</b>
	%	%
Principal actuarial assumptions as at 31 August were:		
Discount rate at end of year	8.00	7.50
Expected return on plan assets at end of year	8.00	7.50
Future promotional salary increases	2.00	2.00
Future inflationary salary increase	3.50	3.50
Future increases in NIS ceiling for earnings	4.50	4.00
Future pension increases	4.00	3.50

## BARBADOS DAIRY INDUSTRIES LIMITED

Notes to the Financial Statements  
Year ended 31 August 2011

### 16. Post-employment medical liability

	2011	2010
	\$	\$
<b>The amounts recognized in the statement of financial position are as follows:</b>		
Present value of funded obligation	344,113	384,241
Unrecognized actuarial gains	241,018	169,987
	<hr/>	<hr/>
Liability recognized in the balance sheet	585,131	554,228
	<hr/> <hr/>	<hr/> <hr/>
	2011	2010
	\$	\$
<b>The amounts recognized in the statement of comprehensive income are as follows:</b>		
Current service cost	18,814	32,033
Interest on obligation	29,876	47,764
Net actuarial (gain) loss recognized	(8,929)	5,236
Past service costs – vested benefits	547	5,631
	<hr/>	<hr/>
Total, included in staff costs	40,308	90,664
	<hr/> <hr/>	<hr/> <hr/>
<b>Movements in the net liability recognized in the statement of financial position are as follows:</b>		
Net liability, beginning of year	554,228	471,912
Net expense recognized in the statement of income	40,309	90,664
Contributions	(9,406)	(8,348)
	<hr/>	<hr/>
Net liability, end of year	585,131	554,228
	<hr/> <hr/>	<hr/> <hr/>
Changes in the present value of the obligation are as follows:		
		\$
Obligation at 31 August 2009		609,000
Interest cost		47,764
Current service cost		32,033
Past service costs – vested benefits		5,631
Benefits paid		(8,348)
Actuarial gain on obligation		(301,839)
		<hr/>
Obligation at 31 August 2010		384,241
Interest cost		29,876
Current service cost		18,814
Past service costs – vested benefits		547
Benefits paid		(9,406)
Actuarial gain on obligation		(79,959)
		<hr/>
Obligation at 31 August 2011		344,113
		<hr/> <hr/>

## BARBADOS DAIRY INDUSTRIES LIMITED

Notes to the Financial Statements

Year ended 31 August 2011

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### 16. Post-employment medical liability (cont'd)

	<b>2011</b>	<b>2010</b>
<b>Principal actuarial assumptions used for accounting purposes at 31 August were as follows:</b>	<b>%</b>	<b>%</b>
Discount rate at end of year	8.00	7.50
Future medical claims/premium inflation	4.50	4.00

A one percentage point change in the assumed rate of increase in healthcare costs would have the following effects:

	<b>Increase</b>	<b>Decrease</b>
	<b>\$</b>	<b>\$</b>
<b>2011</b>		
Effect on the aggregate current service cost and interest cost	58,809	40,706
Effect on the obligation	403,574	296,225
<b>2010</b>		
Effect on the aggregate current service cost and interest cost	97,529	65,893
Effect on the obligation	454,919	327,592

### 17. Share capital

#### Authorized:

The Company is authorized to issue an unlimited number of shares without nominal or par value designated as common shares.

	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<b>Issued:</b>		
4,729,529 (2010 - 4,729,529) common shares	1,006,204	1,006,204

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### 18. Operating lease commitment

The lease expense for the year for motor vehicles was \$12,128 (2010 - \$11,705).

	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Future minimum lease payments under operating leases are as follows:		
Within one year	-	2,926
After one year but no more than five years	-	-
	-	2,926

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## **BARBADOS DAIRY INDUSTRIES LIMITED**

Notes to the Financial Statements  
Year ended 31 August 2011

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### **19. Commitments and contingencies**

Capital expenditure of \$4,679,158 (2010 - \$2,240,610) was approved by the Directors of which Nil (2010 - \$1,500,000) is subject to contract.

### **20. Earnings per share**

Earnings per share are based on net loss of \$6,652,335 (2010 - net income of \$306,597) and 4,729,529 (2010 - 4,729,529) common shares in issue during the year.

### **21. Risk management**

The Company's principal financial liabilities comprise bank overdraft, trade payables and long-term liabilities which comprise bank loans, finance leases and loan due to parent company. The main purpose of these financial liabilities is to raise finance for the Company's operations. The Company has various financial assets such as trade receivables, loans receivable, due from related parties, long-term investments and cash, which arise directly from its operations. The Company does not enter into derivative transactions. The main risks arising from the Company's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board of Directors reviews and agrees policies for managing each of these risks which are summarized below.

#### **Interest rate risk**

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Company manages its interest rate exposure by using a variable rate debt. The Company's exposure to the risk of changes in the market interest rates relates primarily to its long-term liabilities.

## BARBADOS DAIRY INDUSTRIES LIMITED

Notes to the Financial Statements  
Year ended 31 August 2011

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### 21. Risk management (cont'd)

The following table demonstrates the sensitivity to a reasonable possible change in interest rate, with other variables held constant of the Company's income before taxation. There is no impact on the Company's equity.

	<b>2011</b>	<b>2010</b>
<b>Increase/decrease in basis points</b>	<b>Effect on profit before tax</b>	<b>Effect on profit before tax</b>
	\$	\$
+50	71,831	60,722

#### **Foreign currency risk**

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company operates primarily in the Barbados market and is therefore not subject to significant foreign currency risk. Management monitors its exposure to foreign currency fluctuations and employs appropriate strategies to mitigate any potential losses.

The Company has transactional currency exposures. Such exposure arises from purchases by an operating unit in currencies other than the unit's functional currency. Approximately 64% (2010 - 59%) of the Company's purchases are denominated in a currency other than the functional currency however the majority of these are in US\$ which has a fixed exchange rate to the functional currency. Fluctuations in currencies other than US\$ are not considered significant.

#### **Credit risk**

Credit risk arises from the possibility that counterparties may default on their obligations to the Company. The amount of the Company's maximum exposure to credit risk is indicated by the carrying amount of its financial assets.

## **BARBADOS DAIRY INDUSTRIES LIMITED**

Notes to the Financial Statements  
Year ended 31 August 2011

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### **21. Risk management (cont'd)**

#### **Concentration of credit risk**

Concentrations of credit risk may arise from exposures to a single debtor or to groups of debtors having a common characteristic such that their ability to meet their obligations is expected to be affected similarly by changes in economic or other conditions.

Substantially, all the assets of the Company are located in Barbados and there are no significant concentrations of credit risk.

The Company trades only with recognized, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed at Note 5. The Company does not offer credit terms without the approval of Management.

With respect to credit risk arising from the other financial assets of the Company, which comprise of cash, loans receivable, accounts receivable and due from related parties, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

#### **Liquidity risk**

Liquidity risk is the risk that the Company will be unable to meet its payment obligations when they fall due under normal and stress circumstances. The Company monitors its liquidity risk by considering the maturity of both its financial assets and projected cash flows from operations. Where possible, the Company utilizes available credit facilities such as loans, overdrafts and other financing options.

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans.

The table below summarizes the maturity profile of the Company's financial liabilities at 31 August, based on contractual undiscounted payments.

## BARBADOS DAIRY INDUSTRIES LIMITED

Notes to the Financial Statements  
Year ended 31 August 2011

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### 21. Risk management (cont'd)

#### Year ended 31 August 2011

	<b>On Demand</b>	<b>1 year</b>	<b>1 to 5 years</b>	<b>Total</b>
	\$	\$	\$	\$
Bank overdraft	3,678,328	-	-	3,678,328
Accounts payable	-	8,653,933	-	8,653,933
Due to related companies	-	2,515,897	-	2,515,897
Loan due to parent company	-	-	2,500,000	2,500,000
Long-term liabilities	-	6,076,552	4,875,113	10,951,665

#### Year ended 31 August 2010

	<b>On Demand</b>	<b>1 year</b>	<b>1 to 5 years</b>	<b>Total</b>
	\$	\$	\$	\$
Bank overdraft	945,841	-	-	945,841
Accounts payable	-	6,041,854	-	6,041,854
Long-term liabilities	-	4,054,826	8,796,903	12,851,729

### 22. Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder 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 shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 August 2011 and 31 August 2010.

## BARBADOS DAIRY INDUSTRIES LIMITED

Notes to the Financial Statements  
Year ended 31 August 2011

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### 23. Fair value of financial instruments

Set out below is a comparison by category of carrying amounts and fair values of all the Company's financial instruments that are carried in the financial statements:

	Carrying amount		Fair value	
	2011	2010	2011	2010
	\$	\$	\$	\$
<b>Financial assets</b>				
Cash	454,691	219,388	454,691	219,388
Loans receivable	-	16,447	-	16,447
Accounts receivable	3,953,968	5,703,753	3,953,968	5,703,753
Due from related companies	313,561	810,810	313,561	810,810
<b>Financial liabilities</b>				
Bank overdraft	3,678,328	945,841	3,678,328	945,841
Accounts payable	8,653,933	6,041,854	8,653,933	6,041,854
Due to related companies	2,515,897	-	2,515,897	-
Loan due to parent company	2,500,000	-	2,500,000	-
Long-term liabilities	10,687,909	11,924,435	10,687,909	11,924,435

The methods and assumptions used to estimate the fair value of each class of financial instruments are as follows:

i) Short-term financial assets and liabilities

The carrying value of these assets and liabilities is a reasonable estimate of their fair value because of the short maturity of these instruments. Short-term financial assets comprise cash, accounts receivable and due from related companies. Short-term financial liabilities comprise bank overdraft, accounts payable and due to related companies.

ii) Long-term financial assets and liabilities

Loans receivable and long-term liabilities are at variable rates and consequently their fair values approximate their carrying values.

**BARBADOS DAIRY INDUSTRIES LIMITED**  
**MANAGEMENT PROXY CIRCULAR**

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**COMPANY NO: 33151**

Management is required by the Companies Act Chapter 308 of the Laws of Barbados (hereinafter called 'the Companies Act') to send, with the Notice convening the Meeting, forms of proxy. By complying with the Companies Act, Management is deemed to be soliciting proxies within the meaning of the Companies Act.

This Management Proxy Circular accompanies the Notice of the Forty-Seventh Annual General Meeting of Shareholders of Barbados Dairy Industries Limited (hereinafter called 'the Company') to be held at the **offices of the Company, Pine Hill Dairy, The Pine, St. Michael, Barbados on Monday, the 06<sup>th</sup> day of February, 2012** (hereinafter called 'the Meeting') and is furnished in connection with the solicitation of proxies by the Management of the Company for use at the Meeting, or any adjournments thereof. The solicitation will primarily be by mail. The cost of the solicitation will be borne by the Company.

**Proxies**

A shareholder who is entitled to vote at a meeting of shareholders has the right by means of the enclosed form of proxy to appoint a person to represent him by inserting the name of such person in the space indicated in the form of proxy.

Proxies given by shareholders for use at the meeting may be revoked by the shareholder giving such proxy at any time prior to their use. In addition to revocation in any other manner permitted by Law, a proxy may be revoked by an instrument in writing executed by the shareholder or by his/her attorney in writing; if the shareholder is a company, executed under its corporate seal or by any duly authorised officer or attorney thereof, and deposited at the registered office of the Company at The Pine, St. Michael at any time up to 4:15 p.m. on Thursday, 02 February 2012 being two business days preceding the day of the meeting, or any adjournment thereof, at which the proxy is to be used or with the Chairman of such meeting, on the day of the meeting, or adjournment thereof, and upon either of such deposits the proxy is revoked.

**Record Date, Notice of Meeting and Voting Shares**

The Directors of the Company have not fixed a record date for determining the shareholders who are entitled to receive notice of the meeting. In accordance with the Companies Act, the statutory default date therefore applies. Only shareholders of record at the close of business on the day immediately preceding the day on which notice is given under Section 109(1) of the Companies Act will be entitled to receive notice of the meeting.

Only such registered holders of common shares of the Company will be entitled to vote at the meeting. Each holder is entitled to one vote for each share held. As at the date hereof there are 4,729,529 common shares without par value of the Company issued and outstanding.

**BARBADOS DAIRY INDUSTRIES LIMITED**  
**MANAGEMENT PROXY CIRCULAR (cont'd)**

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**Election of Directors**

The Board of Directors consists of members who retire in rotation annually. On 31 December 2011, there were seven (7) Board members. The number of Directors of the Company to be elected at the meeting is two (2). The following are the names of the persons proposed as nominees for election as Directors of the Company and for whom it is intended that votes will be cast for their election as Directors pursuant to the forms of proxy enclosed herewith:-

<b>Nominee for Director</b>	<b>Present Principal Occupation</b>
Sir Allan Fields	Non-Executive Director
Ms. Chiryl Newman	Non-Executive Director

With respect to the two (2) persons nominated, the term of office for each person so elected will expire at the close of the third Annual General Meeting of the shareholders of the Company following his election or until his successor is elected or appointed. The Management of the Company does not contemplate that any of the persons named above will, for any reason, become unable or unwilling to serve as a director.

Sir Allan Fields is presently a Director of the Company and will retire at the close of the Forty-Seventh Annual General Meeting in accordance with the provision of Clause 4.4 of By-Law No 2 of the Company but, being qualified, is eligible for re-election. He was elected at the Forty-Fourth Annual General Meeting of the Company held on Friday, 6 February 2009 for a period ending at the close of the third Annual General Meeting after his election. Ms. Chiryl Newman was appointed by the Board of Directors to fill a vacancy created by the resignation of Mr. Clyde Gibson, who was elected at a Shareholders Meeting held on Friday, 6 February 2009 for a period ending at the close of the third Annual General Meeting after his election.

**Appointment of Auditors**

It is proposed to nominate the firm Ernst & Young, the incumbent auditors of the accounts of the Company, as auditors of the Company to hold office until the next annual meeting of shareholders.

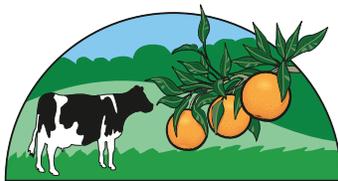
**Discretionary Authority**

Management knows of no matter to come before the meeting other than the matters referred to in the notice of the meeting enclosed herewith. However, if any other matters which are not now known to Management should properly come before the meeting or any adjournment thereof, the shares represented by proxies in favour of Management nominees will be voted on any such matter in accordance with the best judgment of the proxy nominee. Similar discretionary authority is conferred with respect to amendments to the matters identified in the notice of the meeting. The contents of this Management Proxy Circular and the sending thereof to the holders of the common shares of the Company have been approved by the Directors of the Company.



NOTES:

1. (a) A shareholder who is entitled to vote at any meeting of the shareholders may by means of a proxy appoint a proxy holder, or one or more alternate proxy holders, none of whom need be shareholders, to attend and act at the meeting in the manner and to the extent authorised by the proxy and with the authority conferred by the proxy.
- (b) In the case of a shareholder who is a body corporate or association, votes at a meeting of shareholders may be given by any individual authorized by a resolution of the directors or governing body of that body corporate or association to represent it at meetings of the shareholders of the Company
2. A proxy must be executed in writing by the shareholder or his attorney authorised in writing.
3. **Proxy appointments are required to be deposited at the registered office of the Company, The Pine, St. Michael, Barbados, no later than 4:15 p.m. on the 02<sup>nd</sup> day of February 2012.**



**BARBADOS DAIRY INDUSTRIES LIMITED**

A MEMBER OF THE BANKS HOLDINGS (BHL) GROUP

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