PINEHILL DAIRY

Annual Report 2012

Barbados Dairy Industries Limited

Financial Statements

Year ended 31 August 2012
(Expressed In Barbados Dollars)

BARBADOS DAIRY INDUSTRIES LIMITED

Index to the Annual Report
Year ended 31 August 2012

BARBADOS DAIRY INDUSTRIES LIMITED

Corporate Information

Directors

Sir Allan C. Fields KCMG
C.R. Cozier
D.B. Stoute
G.P. Marshall
N. McD. Brewster
P.D. Davis
C. J. Newman

Corporate Secretary

Cherie 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 is hereby given that the Forty-Eighth Annual General Meeting of the shareholders of Barbados Dairy Industries Limited ('the Company') will be held at the **Pine Hill Dairy, Pine, St. Michael, Barbados, on Friday, 11 January, 2013 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, 2012 and the Auditors' Report thereon;

2. To elect Directors and if thought fit to pass the following resolutions:

   (i) THAT the Directors to be elected be elected en bloc;

   (ii) THAT, in accordance with the requirements of paragraph 4.4 of By-Law No. 2 of the Company, Mr Carl Richard Cozier and Mr Neville McDonald Brewster be and are hereby elected Directors of the Company to hold office until the close of the third Annual Meeting of the Shareholders of the Company following this election.

3. To appoint Auditors for the ensuing financial year and to authorise the Directors to fix their remuneration and if thought fit to pass the following resolution:

   (i) THAT incumbent auditors Ernst & Young be and are hereby re-appointed as Auditors of the Company for a period ending at the close of the next Annual General Meeting after their re-appointment.

4. To transact any other business which may properly come before the meeting.

By Order of the Board

Cherie S.A. Jones
Corporate Secretary

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

11 December 2012

BARBADOS DAIRY INDUSTRIES LIMITED

Statement from the Board of Directors

Financial Overview

While overall performance showed an improvement over 2011, budgeted expectations were not met. Sales revenue, aided by a price increase on both milk and juice during the year exceeded that of the prior year by 2.4%, however fell short on budget by 6.1%. The net loss after tax of $4.69 million compared to the 2011 loss of $6.65 million is however, indicative of the improving overall performance.

Production costs, while an improvement on the previous year, exceeded budget largely as a result of the additional production overtime incurred during the final stages of the Ultra Pasteurisation upgrade project commissioning.

Sales

Local

At the beginning of the financial year, we outsourced our remaining self-distribution of Tetra Gemina Aseptic (TGA) packaged Milks and Juices as well as yogurts to our two existing distributors. This transition was closely managed and despite a few initial issues quickly settled down.

By the beginning of the second half the vast majority of the operational issues which had caused significant lost sales due to “stock outs” had been resolved and we were in a much better position to meet both local and export requirements.

The transition of the 1L TGA juice brand from Caribbean Pride to PINEHILL was completed during the first quarter of the year and the packaging of the 250ml juices was ‘refreshed’ during the second half.

In July and in response to growing consumer demand, Fresh Pasteurized Milk was launched. The taste of the product has been exceedingly well received; however this has not translated into sales as consumers continue to opt for the convenience of the shelf stable Ultra Pasteurized milks.

The technical challenges associated with the 500ml white and flavoured milks were also overcome and these SKUs were re-launched during the final months of the year.

Moderate increases in sales volumes were seen in Sweetened Condensed Milk, Flavoured Milks and Milkshakes. Despite the entry into the market, during the second quarter of two Nestle brands of Evaporated milk in Tetra Pak, sales in this category remained flat.

Sales of Ultra Pasteurised milks contracted during the second half and recorded single digit percentage declines on prior year performance. A National Milk Campaign, aimed at increasing local milk consumption and funded by both Pine Hill as well as the Barbados Dairy and Beef Producers Association was developed and launched in November.

The loss of the yogurt supply to a major catering customer at the beginning of the financial year, compounded by the aggressive pricing on self-imported brands by several leading retailers, resulted in the declines in yogurt sales of over 20%. A thorough analysis of this operation was conducted and the decision was taken to cease production at the end of calendar year 2012.

Export Sales

During the first quarter, we sought to arrest the decline in export sales with the hosting of a Regional Distributors Conference held in Barbados and followed up by visits to the various territories. Coupling this with significant trade activation and branding we have seen a strong recovery in overall export sales across all categories. While Antigua remains our largest export market the largest growth has been realized in Guyana.

Additionally, having overcome a variety of issues related primarily to requirements for packaging, we re-entered the Trinidad market and entered, for the first time, into the Jamaican market, with the appointment of Marketing & Distribution Limited as our distribution partners in both territories. Unfortunately, to date, sales in both territories have not met expectations.

Operations

Significant improvements to operational efficiencies were made during the year.

The Tetra Pak Upgrade project was completed and the issues with the 500ml production on the TGA filling line were resolved. The 1L TBA (Tetra Brik Aseptic) filling line was also completely overhauled and both lines are performing at much higher levels of efficiencies.

At the time of writing this report the A3 Compact Flex filling line had been commissioned and was delivering substantial line efficiencies and product yields. This equipment facilitates the production of 200ml and 330ml packages in addition to the regular 250ml offering.

Farms

The suspension of the milk quota system on 1 July 2011 resulted, as expected in an increase of milk supply. Unfortunately the growth trend in sales of white milk plateaued and then reversed, the resulting milk glut forced PHD to re-instate the quota system from 1 July 2012.

During the final quarter of the financial year, a series of discussions were held with the farmers and with Government in an attempt to determine a solution that would provide for the sustainability of the Dairy Industry.

Integrated Management Systems

The targeted date for certification of the following four International Standards now stands as September 2013 and we continue to make steady progress towards this goal.

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

During the first quarter of the year, we finalized the arrangements with our recycling partner, B's recycling and in addition to all plastics, metals, and cardboard we are also now recycling 100% of Post production Tetra Pak material and have launched Tetra Pak recycling programmes in over 20 schools across the island.

Human Resources

Training of staff at all levels continues to be our focus as we seek to marry their technical skill with those required to operate and maintain the sophisticated plant equipment in place today.

We have revised both our Commercial and Farm Liaison structures and at the time of writing this report had filled the previously vacant positions of Commercial Manager as well as Farm Liaison Officer.

The Future

The future of the Dairy Industry will present as the largest challenge in the coming financial year. Input costs, across the entire industry sector, exemplified by the recent announcement of the increase in feed prices, continue to escalate and the farmers, processor and government must continue to work closely to develop strategies to ensure the sustainability of this vital industry.

We will continue to focus on reducing our production costs by cutting waste, in all forms, out of our operations and will strive to maintain the PINEHILL Brand as one that can be relied upon for quality, consistency and value.

We have several new products and packaging options in the developmental pipeline and these coupled with our new commercial structure are expected to deliver positive results.

In closing we would like to thank our staff, distributors, customers and consumers for their continued cooperation, support and patience over the past year and look forward to strengthening these relationships in the coming year.

....	....
Sir Allan C. Fields, KCMG	Geoffrey P. Marshall
Chairman	Director

11 December 2012

BARBADOS DAIRY INDUSTRIES LIMITED

Directors

Sir Allan Fields, K.C.M.G. – **Non-Executive Chairman – Citizen of Barbados** - Sir Allan Fields joined the Board of Barbados Dairy Industries Limited in 1997 and has served as its Chairman since then. Formally trained in Mechanical Engineering, he has served as Managing Director of the Barbados operations of Lucas Industries, Barbados Shipping and Trading and Banks (Barbados) Breweries Limited. He also serves on the Boards of CIBC FirstCaribbean International Bank and Cable & Wireless (Barbados) Limited. He was Barbados' non-resident Ambassador to the Peoples Republic of China from 2003 to 2008 and served as an Independent Senator in the Barbados Parliament.

Carl Richard Cozier – **Executive Director – Citizen of Barbados** - A member of the Board since 13 November 1997, Mr. Cozier is a Fellow of the Institute of Chartered Accountants of Barbados (ICAB). He joined the staff at Banks (Barbados) Breweries Limited in 1979 as an Accountant. He was appointed Chief Accountant in 1985 and six years later, General Manager of another Banks Holdings Limited (BHL) subsidiary, the Barbados Bottling Company (BBC). His dedication and commitment was further rewarded in 1999, when he was appointed Managing Director and CEO of the BHL Group comprising Banks (Barbados) Breweries Limited, Barbados Dairy Industries Limited (Pine Hill Dairy), Barbados Bottling Co. Limited and B&B Distribution Ltd. He is a current member of the Master Brewers Association of the Americas, the International Society of Beverage Technologists, the Barbados Stock Exchange, the Board of Trustees of BIMAP as well as The Barbados Private Sector Agency.

Neville McDonald Brewster – **Non-executive Director – Citizen of Barbados** – Mr. Brewster utilises his leadership and business experience to provide strategic direction to BDIL. He has been the Managing Director of Super Centre Ltd since October 2012 and prior to this, served Super Centre Ltd as the Director of Operations from January 2001 to September 2012. Mr. Brewster not only has vast experience in large retail operations; but also possesses marketing skills having worked with Digital Information Systems Ltd as the Marketing Manager and has petroleum industry experience gained during his tenure with Texaco Eastern Caribbean Ltd. Mr. Brewster holds a Bachelor of Science degree in Accounting and an MBA in Business Administration and Marketing.

Paul Devere Davis - **Non-executive Director – Citizen of Barbados** – Mr. Davis has been a member of the BDIL Board since 1997. A former sugar farmer, he became a career dairy farmer in 1983, when he assumed the post of Manager of Walkers Dairy Farm in St. George, a state-of-the-art facility. His public spiritedness has seen Walkers Dairy Farm hosting various school tours as a way of ensuring that future generations are educated about dairy farming. Mr. Davis pursued Agricultural studies at Macdonald College in Canada. A Past-President of the Barbados Dairy and Beef Producers Association of the Barbados Agricultural Society (BAS), Mr. Davis continues to serve as a member of the Association, which he has been associated with since the mid-1980s.

Dan Bryan Stoute – **Non-Executive Director – Citizen of Barbados** – Mr. Stoute has been a member of the Board since 10 May 2004. Mr. Stoute brings to the BDIL Board a wealth of knowledge in the beverage industry and business sector. He has been in several leadership positions professionally including serving as Managing Director of BBC and Sales Manager/General Manager at TMR Sales & Service. Added to his diverse experience, Mr. Stoute has a Management Diploma from Oxford University and a Chemical Technology – Polymer Diploma with Honours from Ryerson Polytechnical Institute. In addition to serving on the BDIL Board, Mr. Stoute serves on the Boards of BHL, Banks DIH, Caribco in Nassau and Citrus Products of Belize Ltd.

Chiryl Josephine Newman – **Non-executive Director – Citizen of Barbados** – Mrs. Newman is the most recent addition to the Board, having joined on 19 December 2011. Mrs. Newman is a restauranteur by profession and the owner/Managing Director of Champers Restaurant & Wine Bar on the South Coast. Prior to establishing the restaurant 16 years ago, Mrs. Newman managed NICO's Champagne and Wine Bar. She also worked with the former Board of Tourism and in the travel sector in various capacities. Mrs. Newman managed St. James Travel for 14 years and also worked with Gardner Austin Travel.

Directors (cont'd)

Geoffrey Peter Marshall -	**Executive Director** – **Citizen of Barbados** - Mr. Marshall is the Chief Financial Officer of Banks Holdings Limited and has held this position since June 2007. He completed a BSc. Degree in Accounting from the University of the West Indies in 1994 and attained the Certified General Accountant (CGA) designation in 1998. He is a Fellow of the Institute of Chartered Accountants of Barbados and possesses over 18 years of audit, accounting and finance experience. He joined the Board of Barbados Dairy Industries Limited on 29 October 2009.

BARBADOS DAIRY INDUSTRIES LIMITED

Directors' Report

1. The Directors present their annual report and the audited financial statements for the year ended 31 August 2012.

		$
2.	The comprehensive loss for the year was	(4,686,710)
	To which is added retained earnings brought forward of	35,215,995
	Excess on repurchase and cancellation of shares	(195,144)
	Giving retained earnings carried forward of	30,334,141

3. The Directors have declared that there will be no dividend in respect of 2012.

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:

   Mr Carl Richard Cozier
   Mr Neville McDonald Brewster

5. At 31 August 2012 and 11 December 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	
	31.08.12	**11.12.12**
Banks Holdings Limited	3,960,667 (84.43%)	3,960,667 (84.43%)

6. No Directors held any beneficial or non-beneficial interests in the Company's shares during the year and there has been no change since the end of the financial year and 11 December 2012.

7. No service contracts were entered into between the Company and any of its Directors during the financial year and there were no contracts subsisting during or at the end of the financial year in which a Director of the Company was materially interested

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

BY ORDER OF THE BOARD

Cherie S.A. Jones
Corporate Secretary

11 December 2012

BARBADOS DAIRY INDUSTRIES LIMITED

Corporate Governance Statement

The Board of Directors is accountable to the shareholders of Barbados Dairy Industries Limited (the "Company") and seeks to carry out its duties and responsibilities in the best interest of the shareholders, employees, creditors and stakeholders of the Company and the general public as a whole. The Board of Directors is committed to the observance of good corporate governance standards and best practices by the Company and seeks to ensure that the conduct of the Company's business takes place in a prudent, ethical and responsible manner.

During the course of the financial year, the Barbados Stock Exchange Inc. issued a number of Corporate Governance Recommendations (the 'Recommendations') as a guide to listed companies. The full text of the Recommendations is available on the BSE's website at www.bse.com.bb . The Board is in the process of reviewing and implementing these Recommendations in an effort to ensure that its observance of the principles of good governance is consistent with the Recommendations. The Board has identified Board Evaluation and on-going Director Education as two areas worthy of focus in the coming financial year.

As at the date of this Report, there were seven (7) Directors of the Company. The Company's Articles of Amalgamation provide that it shall have a minimum of five (5) Directors and a maximum of nine (9) Directors. Of the seven (7) Directors, five (5) are independent of the management of the Company. Two Directors, Mr Carl Richard Cozier and Mr Geoffrey Marshall are officers of Banks Holdings Limited, which provides management services to the Company.

The Board's mandate includes:

(i) monitoring the performance of the Management Team and providing guidance and direction as necessary;
(ii) creating, encouraging and fostering a corporate culture of integrity and social responsibility throughout the Company;
(iii) directing and supervising the Company's strategic planning process and approving, on an annual basis, a strategic plan, budget and financial objectives which take into account, among other things, the opportunities and risks of the business;
(iv) identifying the principal risks of the Company's business, and ensuring the implementation of appropriate systems to manage these risks and
(v) overseeing the design and effectiveness of internal controls and management information systems.

As it is a relatively small Board, the Board of Directors has not appointed any standing Committees. Rather, the entire complement of Directors considers all matters requiring Board deliberation, including those matters which might normally be considered by an Audit Committee.

In accordance with By-Law No. 2, and the provisions of the *Companies Act*, Directors are nominated and elected by shareholders. Directors elected to fill casual vacancies are selected by the Board. In both cases, the entire Board reviews the training, experience and business acumen of every candidate to ensure suitability for the role.

There were four (4) Board Meetings during the Financial Year and the attendance of Directors is represented on the below table as follows:

Director	Attendance (No. of Meetings)	Rate
Sir Allan Fields	4 out of 4	100%
Carl Richard Cozier	4 out of 4	100%
Dan Bryan Stoute	4 out of 4	100%
Geoffrey Marshall	4 out of 4	100%
Neville McDonald Brewster	4 out of 4	100%
Paul Davis	4 out of 4	100%
Chiryl Newman	3 out of 3*	100%

** Ms. Chiryl Newman's appointment to the Board of Directors was approved at a Board Meeting on 19 December, 2011 and she was invited to her first meeting on 06 February, 2012.*

Directors are remunerated on an annual basis in arrears for those meetings which they attend. All Directors are remunerated in cash only. They do not receive any performance-based incentives, nor do they participate in stock-option plans or receive other forms of compensation. A total of $52,000 in Directors' Fees was paid for the Financial Year.

ERNST & YOUNG

P.O. Box 261, Bridgetown, BB11000
Barbados, W.I.

Street Address
Worthing, Christ Church, BB15008
Barbados, W.I.

Tel: 246 430 3900
Fax: 246 426 9551
246 426 0472
246 435 2079
246 430 3879
www.ey.com

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 2012, 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 2012 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst + Young

CHARTERED ACCOUNTANTS
Barbados
11 December 2012

BARBADOS DAIRY INDUSTRIES LIMITED

Statement of Comprehensive Income
Year ended 31 August 2012

	Notes	2012 $	2011 $
Sales		60,545,919	59,138,783
Loss from operations before undernoted items	4	(3,980,648)	(5,855,709)
Interest income		-	168
Interest expense		(840,095)	(636,564)
Loss before taxation		(4,820,743)	(6,492,105)
Taxation	6	134,033	(160,230)
Total comprehensive loss for the year		(4,686,710)	(6,652,335)
Loss per share – basic and diluted	19	($1.00)	($1.41)

The accompanying notes form part of these financial statements.

BARBADOS DAIRY INDUSTRIES LIMITED

Statement of Financial Position
As of 31 August 2012

	Notes	2012 $	2011 $
Current assets			
Cash		180,658	454,691
Accounts receivable and prepayments	5	8,556,865	5,928,573
Inventories	7	15,773,878	17,040,796
Taxation recoverable		-	1,638
Due from related companies	8	716,885	313,561
		25,228,286	23,739,259
Current liabilities			
Bank overdraft	9	3,439,975	3,678,328
Accounts payable and accruals	10	10,436,534	9,518,729
Due to related companies	8	3,063,310	2,515,897
Current portion of long-term liabilities	11	6,519,974	6,544,393
Current portion of loan to parent company	8	550,000	-
		24,009,793	22,257,347
Working capital		1,218,493	1,481,812
Deferred tax asset	6	5,601,798	5,466,127
Long-term investment	12	1	1
Property, plant and equipment	13	32,224,978	32,452,165
Pension plan surplus	14	4,428,094	4,050,641
Post-employment medical liability	15	(605,328)	(585,131)
Loan due to parent company	8	(4,950,000)	(2,500,000)
Long-term liabilities	11	(6,585,867)	(4,143,516)
		31,332,169	36,222,199
Shareholders' equity			
Share capital	16	998,028	1,006,204
Retained earnings		30,334,141	35,215,995
		31,332,169	36,222,199

The accompanying notes form part of these financial statements.

Approved by the Board of Directors on 11 December 2012 and signed on its behalf by:

....Chairman ....Director

BARBADOS DAIRY INDUSTRIES LIMITED

Statement of Changes in Equity
Year ended 31 August 2012

	Share capital $	**Retained earnings** $	**Total** $
Balance at 31 August 2010	1,006,204	41,868,330	42,874,534
Total comprehensive loss for the year	-	(6,652,335)	(6,652,335)
Balance at 31 August 2011	1,006,204	35,215,995	36,222,199
Total comprehensive loss for the year	-	(4,686,710)	(4,686,710)
Share repurchase (note 16)	(8,176)	(195,144)	(203,320)
Balance at 31 August 2012	998,028	30,334,141	31,332,169

The accompanying notes form part of these financial statements.

BARBADOS DAIRY INDUSTRIES LIMITED

Statement of Cash Flows
Year ended 31 August 2012

	2012 $	2011 $
Cash flows from operating activities		
Loss before taxation	(4,820,743)	(6,492,105)
Adjustments for:		
Depreciation	4,393,377	4,046,794
(Gain) loss on disposal of property, plant and equipment	(53,542)	650,808
Interest income	-	(168)
Interest expense	840,095	636,564
Pension plan surplus	(377,453)	(206,488)
Post-employment medical liability	20,197	30,903
Operating profit (loss) before working capital changes	1,931	(1,333,692)
(Increase) decrease in accounts receivable and prepayments	(2,628,292)	857,133
Decrease (increase) in inventories	1,266,918	(2,930,500)
(Increase) decrease in due from related companies	(403,324)	497,249
Increase in accounts payable and accruals	917,805	2,915,213
Increase in due to related companies	547,413	2,515,897
Cash (used in) generated from operations	(297,549)	2,521,300
Interest paid	(840,095)	(636,564)
Interest received	-	168
Net cash (used in) from operating activities	(1,137,644)	1,884,904
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	784,348	183,413
Purchase of property, plant and equipment	(4,896,996)	(5,845,422)
Net repayment of loans receivable	-	16,447
Net cash used in investing activities	(4,112,648)	(5,645,562)
Cash flows from financing activities		
Net proceeds (repayment) of long-term liabilities	2,417,932	(1,236,526)
Proceeds of loan from parent company	3,000,000	2,500,000
Repurchase of shares	(203,320)	-
Net cash from financing activities	5,214,612	1,263,474
Decrease in cash for the year	(35,680)	(2,497,184)
Cash – beginning of year	(3,223,637)	(726,453)
Cash – end of year	(3,259,317)	(3,223,637)
Represented by:		
Cash	180,658	454,691
Bank overdraft	(3,439,975)	(3,678,328)
Cash – end of year	(3,259,317)	(3,223,637)

The accompanying notes form part of these financial statements.

1. Incorporation, ownership and principal place of business

The Company is incorporated under the Laws of Barbados on 12 March 1964 and its parent company is Banks Holdings Limited, a company incorporated in Barbados.

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:

The adoption of the standards or interpretations is described below:

IAS 24 *Related Party Transactions* (Amendment)
The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Company.

2. Significant accounting policies (cont'd)

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

IAS 1 – Presentation of Financial Statements

The amendment clarifies that an entity will present an analysis of other comprehensive income (OCI) for each componentof equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment is applied retrospectively, in accordance with the requirements of IAS 8 for changes in accounting policy.

IAS 32 -*Financial Instruments: Presentation – Classification of Rights Issues (Amendment)*

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment had no effect on the financial position or performance of the Company.

IAS 34 – *Interim Financial Reporting*

The amendment provides guidance to illustrate how to apply the disclosure principles in IAS 34 and requires additional disclosures of the circumstances likely to affect fair values of financial instruments and their classification; transfers of financial instruments between different levels of the fair value hierarchy; changes in classification of financial assets; and changes in contingent liabilities and assets. The amendment is applied retrospectively, in accordance with the requirements of IAS 8 for changes in accounting policy.

IFRIC 14 *Prepayments of a Minimum Funding Requirement (Amendment)*

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The amendment of the interpretation had no effect on the financial position or performance of the Company.

Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the amendments had no impact on the financial position or performance of the Company.

2. Significant accounting policies (cont'd)

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

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*
This amendment clarifies that instruments issued to a creditor to extinguish a financial liability are consideration paid in accordance with paragraph 41 of IAS 39 Financial Instruments Recognition and Measurement. The equity instruments issued are measured at their fair value, unless this cannot be reliably measured, in which case, they are measured at the fair value if the liability extinguished. Any gain or loss is recognized immediately in profit or loss. This amendment of the interpretation had no effect on the financial position or performance of the Company.

IFRS 7 – *Financial Instruments: Disclosures*
The amendments emphasize the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments as follows:

- The amendments clarify that only financial assets with carrying amounts that do not reflect the maximum exposure to credit risk need to provide further disclosure of the amount that represents the maximum exposure to such risk;
- The amendments require, for all financial assets, disclosure of the financial effect of collateral held as security and other credit enhancements, including the amount that best represents the maximum exposure to credit risk (e.g., a description of the extent to which collateral mitigates credit risk);
- The amendments remove the disclosure requirement of the collateral held as security, other credit enhancements and an estimate of their fair value for financial assets that are past due but not impaired, and financial assets that are individually determined to be impaired;
- The amendments remove the requirement to specifically disclose financial assets renegotiated to avoid becoming past due or impaired; and
- The amendments clarify that the additional disclosure required for financial assets obtained by taking possession of collateral or other credit enhancements are only applicable to assets held at the reporting date.

IFRS 7 – *Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements*
The amendment requires additional disclosures about financial assets that have been transferred, but not derecognised, to enable the user of the Bank's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of and risks associated with, the entity's continuing involvement in those derecognised assets. The adoption of this standard had no effect on the financial position or performance of the Bank.

2. Significant accounting policies (cont'd)

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

New accounting policies not adopted

IFRS 1 - First-time Adoption of International Financial Reporting Standards (Amendment) - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters

The amendment provides guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to severe hyperinflation.

IFRIC 13 - Customer Loyalty Programmes

The amendment clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme is to be taken into account. The amendment is applied retrospectively, in accordance with the requirements of IAS 8 for changes in accounting policy.

c] Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. The Company intends to adopt these standards when they become effective.

- IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income
- IAS 12 Income Taxes – Recovery of Underlying Assets
- IAS 19 Employee Benefits (Amendment)
- IAS 27 Separate Financial Statements (as revised in 2011)
- IAS 28 Investments in Associates and Joint Ventures
- IAS 32 Offsetting Financial Assets and Financial Liabilities
- IFRS 1- Government Loans – Amendments to IFRS 1
- IFRS 7 – Disclosures – Offsetting Financial Assets and Financial Liabilities
- IFRS 9 – Financial Instruments: Classification and Measurement (Phase 1)
- IFRS 11 – Joint Arrangements
- IFRS 12 – Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement
- IFRIC 20 – Stripping Costs in the Production Phase of a surface Mine

2. Significant accounting policies (cont'd)

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

Annual Improvements May 2012
These improvements include:
IFRS 1 – First-time Adoption of International Financial Reporting Standards
IAS 1 – Presentation of Financial Statements
IAS 16 – Property, Plant and Equipment
IAS 32 – Financial Instruments, Presentation
IAS 34 – Interim Financial Reporting

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

d] 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.

e] 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.

f] 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.

2. Significant accounting policies (cont'd)

f] Impairment of financial assets (cont'd)

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.

g] 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.

h] 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

2. Significant accounting policies (cont'd)

i] 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.

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.

j] 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.

2. Significant accounting policies (cont'd)

k] 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.

l] 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.

m] 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.

2. Significant accounting policies (cont'd)

n] 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.

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.

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

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, futuree 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 14 and 15.

4. Profit from operations

	2012 $	**2011** $
Sales	60,545,919	59,138,783
Cost of sales	(59,871,298)	(58,047,169)
Gross profit	674,621	1,091,614
Other income (expenses)	480,289	(307,517)
	1,154,910	784,097
Selling, general and administrative expenses	(5,135,558)	(6,639,806)
Loss from operations	(3,980,648)	(5,855,709)

Loss from operations is after charging:

	2012 $	**2011** $
Depreciation	4,393,377	4,046,794
Staff costs	8,506,957	10,858,886

5. Accounts receivable and prepayments

	2012	2011
	$	$
Trade receivables (net)	6,044,628	3,953,968
Other receivables and prepayments	2,512,237	1,974,605
	8,556,865	5,928,573

	2012	2011
	$	$
Gross trade receivables	6,069,453	3,995,134
Provision for doubtful debts	(24,825)	(41,166)
Trade receivables (net)	6,044,628	3,953,968

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

As at 31 August 2012, trade receivables at a nominal value of $24,825 (2011 - $41,166) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	Total
	$
At 31 August 2010	14,391
Charge for the year	58,555
Write offs	(31,780)
At 31 August 2011	41,166
Charge for the year	21,795
Write-offs	(38,136)
At 31 August 2012	24,825

5. Accounts receivable and prepayments (cont'd)

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

			Past due but not impaired				
	Total	**Neither past due nor impaired**	**< 30 days**	**30-60 days**	**60-90 days**	**90-120 days**	**>120 days**
	$	$	$	$	$	$	$
2012	6,044,628	5,977,283	37,575	9,475	-	-	20,295
2011	3,953,968	3,626,751	221,152	92,092	13,973	-	-

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. With respect other receivables and prepayments an amount of $46,110 (2011 - $Nil) has been provided for in respect of a non-trade receivable balance.

6. Taxation

	2012	**2011**
	$	$
Statement of comprehensive income		
Deferred tax (recovery) charge for the year	(219,003)	160,230
Over-provision of prior year deferred tax asset	83,332	-
Write-off of corporation tax refundable	1,638	-
	(134,033)	160,230

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:

	2012 $	**2011** $
Loss before taxation	(4,820,743)	(6,492,105)
Taxed at the applicable rate of 15% (2011 - 15%)	(723,112)	(973,816)
Depreciation on assets not qualifying for capital allowances	(39,935)	-
Balancing charge	(86,271)	(110,058)
Expenses not deductible	-	2,042
Group relief surrendered	-	49,430
Write-off of corporation tax refundable	1,638	-
Over-provision of prior year deferred tax asset	83,332	-
Deferred tax asset not recognized	280,148	1,154,275
Deferred tax asset impaired	308,645	-
Losses expired	7,466	16,668
Other	34,074	21,689
	(134,033)	160,230

	2012 $	**2011** $
Deferred tax asset		
Balance, beginning of year	5,466,127	5,626,357
Deferred tax credit (charge)	219,003	(160,230)
Over-provision of prior year deferred tax asset	(83,332)	-
Balance, end of year	5,601,798	5,466,127

6. Taxation (cont'd)

	2012	2011
	$	$
Deferred tax asset is made up as follows:		
Pension plan surplus	(664,214)	(607,596)
Post-retirement medical liability	90,799	87,770
Unutilized tax losses	4,787,630	5,103,738
Accelerated depreciation for accounting purposes	1,387,583	880,568
Bad debt provision	-	1,647
	5,601,798	5,466,127

Tax losses

The Company has unrelieved tax losses of $43,543,563 (2011 - $41,725,688) 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.

Income Year	Amount	Expiry Date
	$	
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	7,700,745	2020
2012	1,867,650	2021
	43,543,563	

7. Inventories

	2012 $	2011 $
Raw materials	8,096,540	11,345,848
Finished goods	5,517,358	2,937,257
Spares and supplies	2,159,980	2,757,691
	15,773,878	17,040,796

The amount of write-down of inventories recognized as an expense is $1,241,207 (2011 - $3,016,691). This expense is included in cost of sales as disclosed in Note 4.

8. 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, however the parent company reserves the right to charge interest at a rate of prime minus 1% per annum on the unpaid balance at its sole discretion. Repayment of the loan will commence in September 2012 with 120 monthly principal instalments of $45,833.33.

	2012 $	2011 $
Loan to parent company	4,950,000	2,500,000
Less: Current portion	550,000	-
Long-term portion	5,500,000	2,500,000

8. Related party transactions and balances (cont'd)

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

	2012 $	2011 $
Sales to a related company	17,208,164	10,647,390
Sales to affiliated companies	42,456,061	29,220,276
Purchases from affiliated companies	15,296,086	13,699,446
Management fees paid to parent company	1,008,000	1,008,000
Lease payments to parent company	-	12,128

Compensation of key management personnel of the Company:

	2012 $	2011 $
Short-term employee benefits	52,000	301,135
Post-employment benefits	-	36,570
	52,000	337,705

9. Bank overdraft

The security for the bank overdraft facility of $5,000,000 is disclosed in Note 11.

Interest is charged and payable monthly on the overdraft balance at prime plus 1% per year (2011 – prime plus 1% per year). The rate at year-end was 9.05% (2011 - 9.05%).

10. Accounts payable and accruals

	2012 $	2011 $
Trade payables	7,840,569	8,653,933
Other payables and accruals	2,595,965	864,796
	10,436,534	9,518,729

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.

11. Long-term liabilities

		2012 $	2011 $
i)	CIBC FirstCaribbean International Bank	4,377,247	3,382,502
ii)	Tetra Pak, S.A.	8,728,594	7,305,407
		13,105,841	10,687,909
	Less: current portion	(6,519,974)	(6,544,393)
	Long-term portion	6,585,867	4,143,516

i) During the year the Company consolidated the three loans outstanding at the end of 2011 with a new loan. The loan bears an interest rate of 7.05% (2011 - 7.05%), will mature on 16 February 2017 and is repayable in 60 monthly instalments of $94,861 of blended principal and interest. At 31 August 2012 the Company was in breach of one of the covenants of the loan but received a letter from the lender subsequent to year-end waiving its rights under the breach. The loan and the overdraft facility (disclosed at Note 9) 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 four Tetra Pak leases bear an interest rate of 3-Month Libor plus 2.5% with quarterly lease payments over 4 years. All of the leases are secured by certain equipment (See Note 13). Future lease payments due within one year are $2,142,727 (2011-$4,306,963). Lease payments due after one year total $6,585,867 (2011-$2,998,444).

12. Long-term investment

	2012 $	2011 $
Barbados Agro Processing Company Limited (in receivership)	1	1

13. Property, plant and equipment

	At 31 August 2011	Additions	Disposals	Transfers	At 31 August 2012
	$	$	$	$	$
Cost					
Buildings on leasehold land	15,120,110	2,824	-	-	15,122,934
Plant and machinery	40,423,239	4,203,248	(651,127)	683,835	44,659,195
Motor vehicles	590,968	-	(498,682)	-	92,286
Furniture, fixtures and equipment	2,150,880	64,276	-	31,214	2,246,370
Containers	467,533	26,972	-	-	494,505
Construction-in-progress	115,373	599,676	-	(715,049)	-
	58,868,103	4,896,996	(1,149,809)	-	62,615,290
Accumulated depreciation					
Buildings on leasehold land	7,611,112	378,698	-	-	7,989,810
Plant and machinery	16,375,785	3,685,837	(109,277)	-	19,952,345
Motor vehicles	348,028	33,098	(309,726)	-	71,400
Furniture, fixtures and equipment	1,920,737	145,949	-	-	2,066,686
Containers	160,276	149,795	-	-	310,071
	26,415,938	4,393,377	(419,003)	-	30,390,312
Net book value					
Buildings on leasehold land	7,508,998				7,133,124
Plant and machinery	24,047,454				24,706,850
Motor vehicles	242,940				20,886
Furniture, fixtures and equipment	230,143				179,684
Containers	307,257				184,434
Construction-in-progress	115,373				-
	32,452,165				32,224,978

The Company has plant and equipment with a net book value of $14,069,621 (2011 - $10,570,471) secured under a finance lease.

13. Property, plant and equipment (cont'd)

	At 31 August 2010 $	Additions $	Disposals $	Transfers $	At 31 August 2011 $
Cost					
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
Accumulated depreciation					
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
Net book value					
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

14. Pension plan surplus

	2012	2011
	$	$
Statement of financial position		
Present value of funded obligation	(9,918,452)	(9,631,468)
Fair value of plan assets	14,365,520	15,122,607
	4,447,068	5,491,139
Unrecognized actuarial gains	(18,974)	(1,440,498)
Net asset recognized in the statement of financial position	4,428,094	4,050,641
Statement of comprehensive income		
Current service cost	106,713	213,992
Interest cost	726,483	763,458
Expected return on plan assets	(1,163,396)	(1,110,917)
Net actuarial gains recognized in the year	-	(78,286)
Past service cost – vested benefits	-	300,371
Gains on curtailments and settlements	-	(204,500)
Total, included in staff costs	(300,200)	(115,882)
Actual return on plan assets	459,625	989,267

14. Pension plan surplus (cont'd)

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

	$
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 loss on obligation	(790,105)
Defined benefit obligation at 31 August 2011	9,631,468
Interest cost	726,483
Current service cost	161,421
Transfers out – liabilities	(56,398)
Benefits paid	(1,262,275)
Actuarial loss on obligation	717,753
Defined benefit obligation at 31 August 2012	9,918,452

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

	$
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)
Fair value of plan assets at 31 August 2011	15,122,607
Expected return	1,163,396
Contributions by employer and employee	101,961
Transfers out – assets	(56,398)
Benefits paid	(1,262,275)
Actuarial loss on plan assets	(703,771)
Fair value of plan assets at 31 August 2012	14,365,520

14. Pension plan surplus (cont'd)

The Company expects to contribute $46,413 to its defined benefit pension plans in 2013.

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

	2012	**2011**
	%	%
Bonds	22	19
Mortgages	8	8
Equities	25	30
Mutual funds	16	20
Loans	-	-
Real estate	22	20
Other	7	3

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.

	2012	**2011**
	%	%
Principal actuarial assumptions as at 31 August were:		
Discount rate at end of year	7.75	8.00
Expected return on plan assets at end of year	7.75	8.00
Future promotional salary increases	2.00	2.00
Future inflationary salary increase	3.00	3.50
Future increases in NIS ceiling for earnings	4.25	4.50
Future pension increases	3.75	4.00

15. Post-employment medical liability

	2012	2011
	$	$
The amounts recognized in the statement of financial position are as follows:		
Present value of funded obligation	298,762	344,113
Unrecognized actuarial gains	306,566	241,018
Liability recognized in the balance sheet	605,328	585,131

	2012	2011
	$	$
The amounts recognized in the statement of comprehensive income are as follows:		
Current service cost	13,125	18,814
Interest on obligation	28,180	29,876
Net actuarial (gain) loss recognized	(13,888)	(8,929)
Past service costs – vested benefits	2,771	547
Total, included in staff costs	30,188	40,308
Movements in the net liability recognized in the statement of financial position are as follows:		
Net liability, beginning of year	585,131	554,228
Net expense recognized in the statement of income	30,188	40,309
Contributions	(9,991)	(9,406)
Net liability, end of year	605,328	585,131

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

	$
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)
Obligation at 31 August 2011	344,113
Interest cost	28,180
Current service cost	13,125
Past service costs – vested benefits	2,771
Benefits paid	(9,991)
Actuarial gain on obligation	(79,436)
Obligation at 31 August 2012	298,762

15. Post-employment medical liability (cont'd)

Principal actuarial assumptions used for accounting purposes at 31 August were as follows:	**2012 %**	**2011 %**
Discount rate at end of year	7.75	8.00
Future medical claims/premium inflation	4.25	4.50

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

	Increase $	**Decrease $**
2012		
Effect on the aggregate current service cost and interest cost	49,596	34,762
Effect on the obligation	347,010	259,781
2011		
Effect on the aggregate current service cost and interest cost	58,809	40,706
Effect on the obligation	403,574	296,225

16. Share capital

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

Issued:

	Number of Shares			
	2012	**2011**	**2012 $**	**2011 $**
Balance, beginning of year	4,729,529	4,729,529	1,006,204	1,006,204
Repurchased during the year	(38,435)	-	(8,176)	-
Balance, end of year	4,691,094	4,729,529	998,028	1,006,204

During the year the Company repurchased 38,435 shares at a price of $5.29 per share.
These shares were cancelled subsequent to year-end.

17. Operating lease commitment

The lease expense for the year for motor vehicles was $12,771 (2011 - $12,128).

	2012	2011
	$	$
Future minimum lease payments under operating leases are as follows:		
Within one year	42,632	-
After one year but no more than five years	106,078	-
	148,710	-

18. Commitments and contingencies

Capital expenditure of $1,039,165 (2011 - $4,679,158) was approved by the Directors of which Nil (2011 - Nil) is subject to contract.

19. Earnings per share

Earnings per share are based on a net loss of $4,686,710 (2011 - net loss of $6,652,335) and 4,691,094 (2011 - 4,729,529) common shares in issue during the year.

20. 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.

20. 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.

		2012	2011
	Increase/decrease in basis points	Effect on profit before tax	Effect on profit before tax
		$	$
	+-50	85,210	71,831

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 65% (2011 - 64%) 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.

20. 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.

20. Risk management (cont'd)

Year ended 31 August 2012

	On Demand $	<1 year $	1 to 5 years $	Total $
Bank overdraft	3,439,975	-	-	3,439,975
Accounts payable	-	7,840,569	-	7,840,569
Due to related companies	-	3,063,310	-	3,063,310
Loan due to parent company	-	550,000	4,950,000	5,500,000
Long-term liabilities	4,377,247	2,407,937	6,849,324	13,634,508

Year ended 31 August 2011

	On Demand $	<1 year $	1 to 5 years $	Total
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

21. 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 2012 and 31 August 2011.

22. 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	
	2012	**2011**	**2012**	**2011**
	$	$	$	$
Financial assets				
Cash	180,658	454,691	180,658	454,691
Accounts receivable	6,044,628	3,953,968	6,044,628	3,953,968
Due from related companies	716,885	313,561	716,885	313,561
Financial liabilities				
Bank overdraft	3,439,975	3,678,328	3,439,975	3,678,328
Accounts payable	7,840,569	8,653,933	7,840,569	8,653,933
Due to related companies	3,063,310	2,515,897	3,063,310	2,515,897
Loan due to parent company	5,500,000	2,500,000	5,500,000	2,500,000
Long-term liabilities	13,105,841	10,687,909	13,105,841	10,687,909

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
COMPANY NO: 33151

MANAGEMENT PROXY CIRCULAR

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-Eighth (48th) Annual General Meeting of the Shareholders of Barbados Dairy Industries Limited (the 'Company') to be held at the Pine Hill Dairy, The Pine, St. Michael, Barbados on **Friday the 11th day of January, 2013 at 10:00 a.m.** (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. Completed proxies must be deposited at the registered office of the Company at the Pine, St. Michael at any time up to **4:15 p.m. on Wednesday, 09 January, 2013** being no more than forty-eight (48) hours preceding the day of the meeting, or any adjournment thereof

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 and including the last business day 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 fixed a record date of **Wednesday, 5th December, 2012** for determining the shareholders who are entitled to receive notice of the meeting. Only shareholders of record at the close of business on **Wednesday, 5th December, 2012** 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 **4,691,094** common shares without par value of the Company issued and outstanding.

Election of Directors

The Board of Directors consists of members who retire in rotation annually. As at the date of this Notice there are 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:-

Nominee for Director	**Present Principal Occupation**
Mr. Carl Richard Cozier	Corporate Executive
Mr. Neville McDonald Brewster	Corporate Executive

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. Both nominated candidates are willing to serve and have signed declarations of consent attesting to their willingness to serve. 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.

Mr. Carl Richard Cozier and Mr. Neville McDonald Brewster are presently Directors of the Company and will retire at the close of the Forty-Eighth Annual General Meeting in accordance with the provision of Clause 4.4 of the By-Laws of the Company but, being qualified, are eligible for re-election. They were elected at the Forty-Fifth Annual General Meeting of the Company held on Thursday, January 14, 2010 for a period ending at the close of the third Annual General Meeting after their 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. In accordance with Section 11 (2) of the *Financial Services Commission Act, 2010 – 21*, the approval of the Financial Services Commission has been sought for this appointment. There is no standing Audit Committee of the Board. However, all matters normally reviewed by such a Committee are reviewed by the full complement of Directors as a matter of course. This may be reviewed during the coming year.

Corporate Governance

The Company has started the process of becoming fully compliant with the Corporate Governance Recommendations issued by the Barbados Stock Exchange Inc. (the 'Corporate Governance Recommendations). A copy of the Corporate Governance Recommendations is available on the website of the Barbados Stock Exchange Inc. at http://www.bse.com.bb/. The Company's approach to Corporate Governance is outlined at pages 11 to 12 of this Report.

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.

No director's statement has been received by the Company pursuant to section 71(2) of the *Companies Act*.

No auditor's statement has been received by the Company pursuant to section 163 (1) of the *Companies Act*.

BARBADOS DAIRY INDUSTRIES LIMITED
COMPANY NO: 33151

PROXY FORM

I/We

……

……………………………… of

……

……

shareholder(s) of BARBADOS DAIRY INDUSTRIES LIMITED ‘the Company’) hereby appoint

……………………………………………………………………………………………….. of

……

………………………………………

……………………………………………………………………………………………….. or,

failing him, ………………………………………………………………………………. of

…………………………………………………………

……

…………………………………….……..

as the nominee of the undersigned to attend and act for the undersigned and on behalf of the undersigned at the Forty-Eighth (48th) Annual General Meeting of the Shareholders of Barbados Dairy Industries Limited (the ‘Company’) to be held at the **Pine Hill Dairy, The Pine, St. Michael, Barbados on Friday, the 11th day of January, 2013** and at any adjournment thereof in the same manner, to the same extent and with the same powers as if the undersigned were present at the said meeting or such adjournment or adjournments thereof.

Dated this day of , 201…...

…………………………………………………………………….

(Please print name of Shareholder)

…………………………………………………………………….

(Signature of Shareholder)

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 authorised 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. If the shareholder is a body corporate, the proxy must be executed by the duly authorised officer(s) of that body corporate and, where applicable, the seal or stamp applied.

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 09th day of January, 2013.**

BARBADOS DAIRY INDUSTRIES LIMITED

A MEMBER OF THE BANKS HOLDINGS (BHL) GROUP

P.O. Box 56B, The Pine, St. Michael,
BB14000, Barbados, West Indies
www.thebhlgroup.com