PINEHILL

Annual Report 2005

Our Mission:

To manufacture and market high quality foods that consistently meet and exceed our customers' expectations while improving value for shareholders, ensuring the well-being of employees and being a responsible corporate citizen.

Barbados Dairy Industries Limited

DIRECTORS
Sir Allan Fields, K.C.M.G.
Chairman

C. E. Gibson
Managing Director

E.R. Cumberbatch

P.D. Davis

N. McD. Brewster

C.R. Cozier

C. E. Gibson

D.B. Stoute

SECRETARY
A.R.S. Marshall
Attorney-at-Law

REGISTERED OFFICE
Pine, St. Michael

AUDITORS
Ernst & Young
Chartered Accountants

ATTORNEY
Patterson Cheltenham, Q.C.

BANKERS
First Caribbean International Bank

Notice of Annual Meeting

Notice is hereby given that the Forty-first Annual General Meeting of the shareholders of Barbados Dairy Industries Limited will be held at: **PINE HILL DAIRY, ST. MICHAEL,** on **MONDAY, 30TH JANUARY, 2006, AT 10:30 A.M. for the following purposes:**

1. To receive and consider the Statement of Income, Changes in Equity, the Balance Sheet and the reports of the Directors and of the Auditors with respect to the year ended 31st August, 2005.

2. To elect Directors.

3. To appoint Auditors for the ensuing year.

4. To consider, and if thought fit, to confirm By-Law No. 2.

5. To transact any other business which may be transacted at an annual meeting.

A. Richard S. Marshall

By order of the Board
A.R.S. Marshall
Secretary

December 19th, 2005.

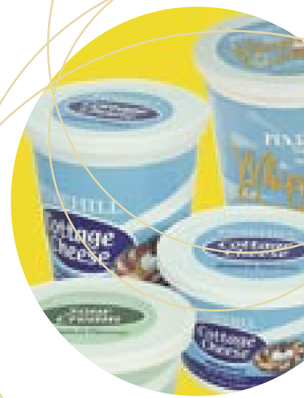
The notes to the enclosed proxy forms are incorporated in this notice.

Chairman's Statement

On behalf of our Board, I am pleased to present the Annual Report and Audited Financial Statements of Barbados Dairy Industries Ltd. for the year ended August 31, 2005. The performance indicators show that the year under review was below expectations, when compared to recent years.

There were major operational changes that occurred during the year. The first and most significant was the implementation of our SAP (System, Applications and Products) ERP (Enterprise, Resource and Planning) software module. SAP is an integrated information system supporting the business process for Materials Management, Sales and Distribution, Finance, Controlling, Production, Human Resources and Quality Management. The implementation of this system allows us to use advanced technology to execute the business processes while supporting the Dairy's mission and vision.

Regrettably, this has presented major challenges as some of our more long-serving employees have struggled to adapt in this new environment. It has resulted in some fall out and as we strive to optimise the full potential of SAP there will be further training and retraining.



In my report last year, I stated that we were seriously considering the future of our canning plant. This is the other major change that took place during the year. This plant closed at the end of July 2005 and the production of our SunGold brand of evaporated milk was transferred to our UHT department. The operational cost of running this plant had reached a level that made it uneconomical to continue the operation. The rising cost of steel on the world market, pushed the price of cans to a level that made us un-competitive. To date, sales have been encouraging with the month of October 2005 exceeding our target. We are confident that our loyal consumers will accept the new packaging and that we will maintain our market share.

For the period under review the Company recorded a profit of $1,730,940 before tax compared to $2,517,386 in the previous year. One-off expenses associated with the closure of the canning plant amounted to $750,495. Severance ($627,252) and write-off of equipment ($123,243) made up this amount. Regrettably, the closure of the canning plant occurred at the end of our financial year and there was no benefit during the year. Increased cost of sales as a result of increases in utilities, ingredients and packaging materials contributors to the difference in this year's performance. The energy (utilities), ingredients and packaging materials are all the result of world market trends, which are beyond our control, however, I wish to assure our shareholders that stringent cost control measures along with the installation and commissioning of a new electrical generator planned for this financial year and already installed, will

reduce our energy cost and assist in returning our Company to better profit margins.

Sales finished at $59.6 million compared to $58.4 million for the previous year. As mentioned above, Cost of Sales increased, by 2% resulting in a lower Gross Profit. Selling and Distribution along with General and Administration expenses were in line with budget. Interest was lower and we obtained a tax credit of $1,069,463 giving a similar net profit as last year of $2,800,463 million.

Earnings per share ended at $0.59, compared to $0.60 last year. Our debt to equity ratio, based on the bank overdraft and long-term borrowing, remain the same as last year at 0.15. Our working capital is 6% lower than last year and the return on equity remained at 8%. Based on the satisfactory financial position of our Company, the Board is pleased to be able to declare a dividend of 20 cents. This represents 34% of the net income and an average dividend payout of 27% over the last five years.

The number of farms supplying milk remains at 19. The quantity of milk received continues to decline, and is projected to fall by 6% for 2005 when compared to 2004. This has been the trend in recent years as in shown in figure 1.0 below.

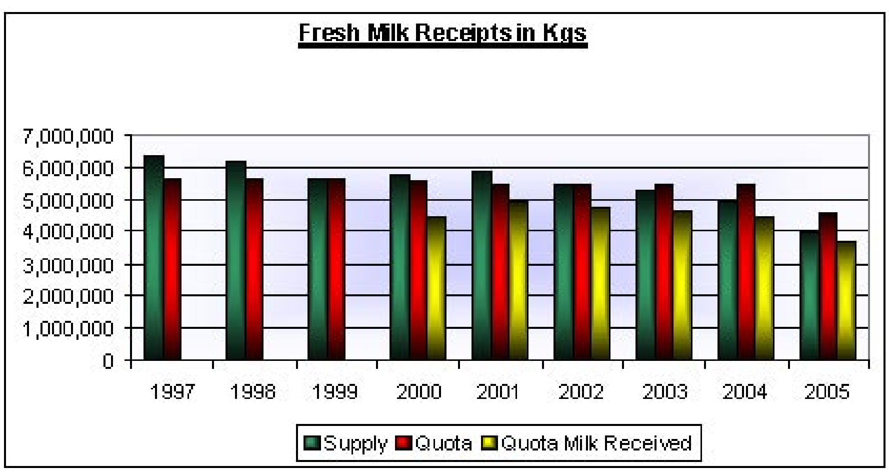
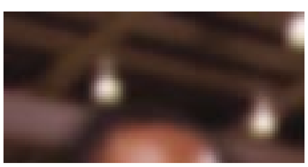


Figure 1

The result is will be a shortage of fresh milk during the peak demand period of December to April, of around 600,000Kg. This matter has been drawn to the attention of both the Minister of Agriculture and the Minister of Industry and International Business. To demonstrate our continued support of the local Dairy industry, we agreed to honour the payment for all milk received under a farmers' existing quota between November 2005 and April 2006. The Dairy is willing to absorb the additional cost so as to allow the farmers to implement the improvements recommended by the Israeli consultant, who recently undertook a study of the local dairy industry. The improvements, when implemented, should see the cost of locally produced milk being reduced allowing the commodity to be more affordable and should lead to increased consumption.

During the year, the Company continued its re-engineering strategy by investing over 2.8 million dollars in new capital expenditure. The major share of this investment was in a new 400 bottles per minute sleeve application system and an automatic bottle un-scrambler that facilitated the successful launch of a range of low carbohydrate products under the "Light Delight" brand in 12oz and 28oz portion sizes. The cost of this equipment is approximately three quarters of a million dollars. A further 0.8 million was invested in the SAP software. These two acquisitions accounted for the major share of our capital investment.

I would like to thank the management and staff for their commitment and dedication, during another testing year. I would like to emphasise that the challenges to stay competive in manufacturing has never been greater and it is imperative that we exercise prudence at all times in our efforts to optimise our efficeincy. On behalf of the Board of Directors, I wish to thank our shareholders, the public in general and most importantly our customers for their loyal support during the year.



Sir Allan C. Fields, KCMG
Chairman
December 19th 2005

Managing Director's Statement

1. Sales Summary

The Dairy achieved its sales goal with increased sales of 1.95 % over the previous year. This growth was achieved as a result of improved exports of 9.4% along with a 1% growth in local sales. This performance is commendable in view of the fact that there was continued competition from imports in all key market segments as well as a fall-off in tourist arrivals. Sales at year-end finished at $59,611,704 compared to $58,470,854 the previous year.

A summary of the sales segments is as follows:

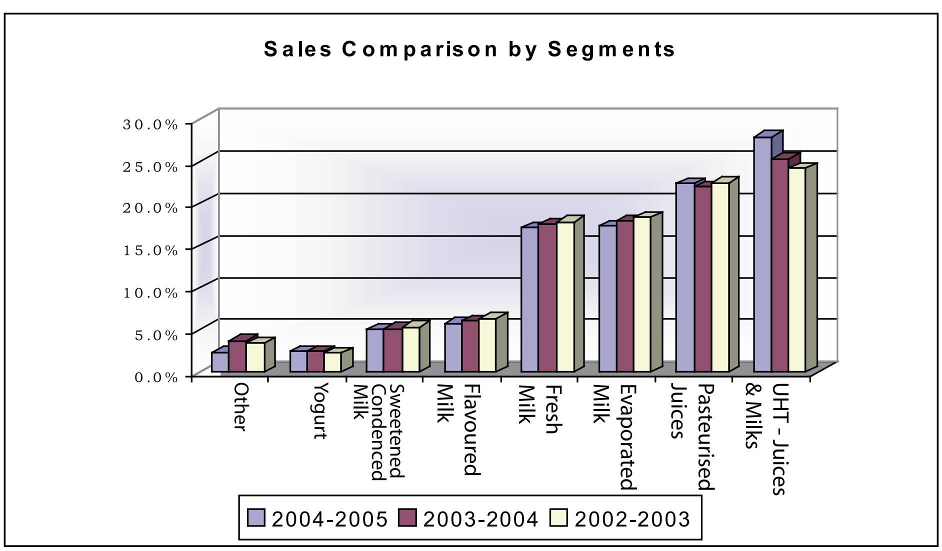
- The high light is the UHT product group, which recorded an encouraging 12.1% growth. The one-litre slim line products continue to do well in both the local and export markets. The 250-ml Buddy Pak has benefited from B&B being appointed as a distributor.

- Fresh pasteurized juices, reversed the downward trend over the last 2 years to record a growth of 3.6%

- All other product groups, with the exception of yogurt, which grew by 0.6%, recorded declines. This includes fresh pasteurized milks, which will be addressed later in my report. (See table 1)

Table 1

Note: Other comprises Milk Powder, Cottage Cheese, Fresh Cream and Ice

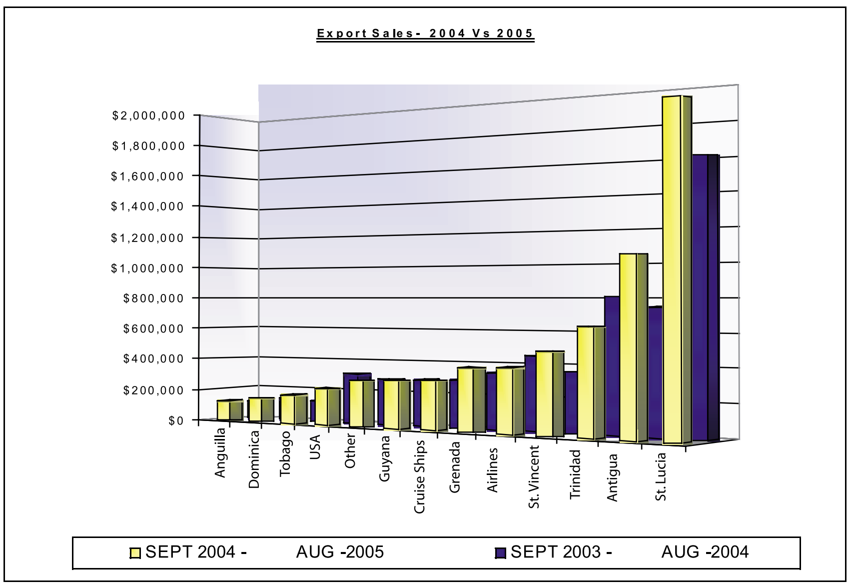


Exports

Export sales grew by 9.45% as compared to 13.2% percent the previous year. This growth resulted mainly from increases to Antigua, St. Lucia and St. Vincent. This is excellent in view of the challenges being experienced in the economies of these countries. (See table 2)

Table 2

(Note: Other consists of Belize, Bermuda, Surinam, St. Kitts and UK)



2. Financial Summary

Although total revenue grew, this increase did not enhance our net margin as expected because of increased operational expenses resulting from increased energy costs, wages and salaries and to a lesser extent packaging and ingredients. Our decision to close the canning plant resulted in a severance cost of $627,252. The net result was an after tax net profit $2,800,643. Financially, the year was disappointing and as our Chairman stated in his report our net profit before tax declined by 31% despite our increased sales. Higher operating costs coupled with the non-reoccurring cost associated with closing the canning plant accounts for the difference in profit when compared to the previous year.

The year presented many challenges with stock-outs of critical packaging and ingredients. This resulted primarily from delays at our regional ports some of which can be attributed to the active hurricane seasons in recent years. While we dealt with the situation to the best of our ability, we have to continue to seek new ways to avoid any re-occurrences and the inventory management capabilities of our SAP enterprise software system will help us in this aspect.

3. Future Strategy

Our goal is to achieve continued sales growth both locally and extra-regionally through dynamic marketing strategies coupled with mutually beneficial synergies with established organizations. At the same time, we must continue to rationalize our operating procedures in order to manage cost and increase productivity. This will be achieved through:

- **Capital Investment**

Our $1.3M budget for capital projects is mostly geared towards achieving the above objective. The installation of a new electrical generator will reduce electricity cost. A new filler will extend the shelf life of our pasteurized juice products and improve yields. The SAP software suit, mentioned by our chairman, will allow us to make informed decisions, which will lead to improve efficiency in all aspects of our operations.

- **Product Development**

Our marketing and product development teams will continue to intensify their efforts in developing and launching of new products and enhancing our current product lines to continue our growth of sales while sustaining or enhancing margins.

- **Training and employee development**

We will continue to provide opportunities to allow our employees to retool themselves to function in a very dynamic and fast changing

Light Delights

work environment. It is possible that in the event our loyal and committed employees are unable to adapt to these changes, it would be necessary for the company to seek persons with the necessary skills as our survival as a leading regional manufacturing entity will depend on how successful we are at utilising the available technology.

• Aseptic Line

In my report last year, I stated that Barbados Dairy Industries Limited was seeking to acquire an aseptic processing and packing line for HDPE and PET packaging and that we had set a goal to obtain this technology in three to five years. This is still our goal despite the fact that negotiations to obtain suitable filler from the USA were unsuccessful. We are continuing discussions with major aseptic suppliers and the prospects of obtaining this technology will, realistically take 18 to 24 months, due to the wide scope and complexity of the project. We are still of the opinion that this project will present an excellent opportunity to significantly boost our growth and allow us to differentiate our products while producing them efficiently.

4. Dairy Industry

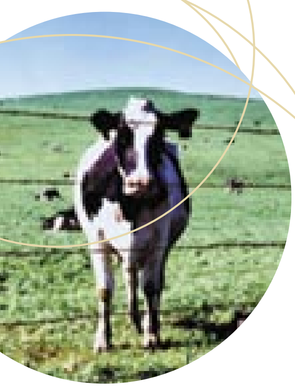
Our Chairman addressed this matter in great detail in his report. However, I wish to stress that our ability to grow our existing dairy product lines and to develop new ones using fresh milk, is severely disadvantaged. The current status of the dairy industry is a major concern and the revitalization of the industry to return to annual production levels of 6 million Kilograms per year, which was achieved in the late nineties, does not look feasible in the near future. Our ability to service the needs of the cruise lines that homeport or call to our port may not be possible.

5. General

Regrettably, we lost the services of Mr. James Browne, our Engineering Manager, who resigned to take up a senior management position in a leading and established company. I wish to express our sincere appreciation and thanks to Mr. Browne for his 5 years of dedicated service to our Company and wish him well in his new appointment.

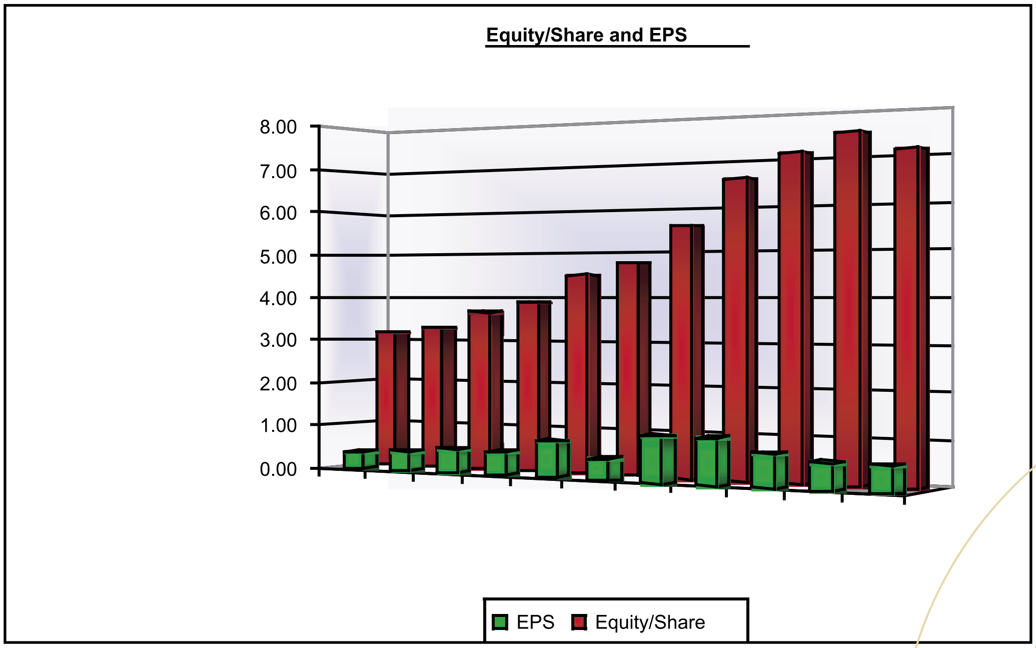
We were fortunate to hire Mr. Grantley Parris to the position of Engineering Manager. Mr. Parris is a qualified engineer with 30 years experience in manufacturing and engineering. We welcome him to our management team and we look forward to a long and mutually successful stint.

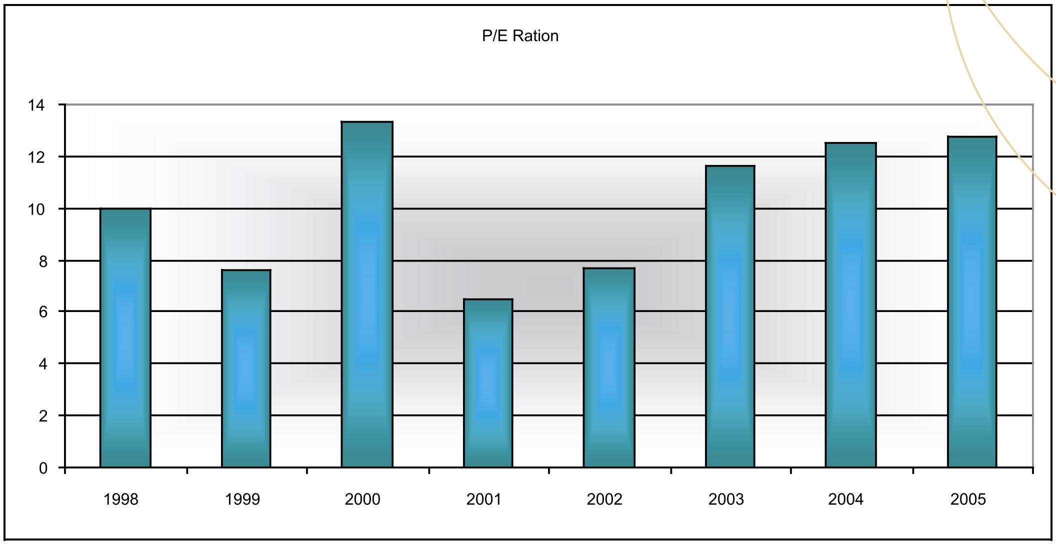
Once more, I wish to thank our Directors and the employees of Barbados Dairy Industries Limited for their support and the confidence placed in me, during a difficult year. I expect the current year to be another challenging one but I remain committed to sustaining the profitability of our organisation through dedicated, commitment and most importantly a combined team effort. I am confident that our Company remains well positioned to continue to provide high quality products and services thus ensuring our future success. As always, I wish to thank our customers, distributors, suppliers and many friends, both locally and regionally for their loyal support during the past year and we pledge to strive to provide excellent service during the current year



CLYDE E. GIBSON
Managing Director
December 19th 2005

Selected Financial Information





Directors' Report

1. The directors present their annual report and the audited consolidated financial statements for the year ended August 31, 2005.

		$
2.	The consolidated net income for the year was	2,800,463
	To which is added the retained earnings brought forward of	33,458,100
	Giving retained earnings available for appropriation of	36,258,563
3.	The directors recommend the following appropriation:	
	To pay dividend of 20 cents per share, absorbing	(945,906)
	Leaving retained earnings to be carried forward of	35,312,657

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: Senator Sir Allan Fields, C.E. Gibson

5. At August 31, 2005 and December 19, 2005 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	
	31.08.05	**19.12.05**
Banks Holdings Limited	3,960,667 (83.7%)	3,960,667 (83.7%)

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

BY ORDER OF THE BOARD

A. Richard S. Marshall

A.R.S. Marshall
Secretary
December 19, 2005

ERNST & YOUNG

Worthing Centre
Worthing,
Christ Church, Barbados.

Tel: (246) 430-3900
Fax: (246) 426-9551
(246) 429-6446
(246) 435-2079

Auditors' Report

To the shareholders of Barbados Dairy Industries Limited

We have audited the accompanying consolidated balance sheet of Barbados Dairy Industries Limited as of August 31, 2005 and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. 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 plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of August 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young

CHARTERED ACCOUNTANTS

Barbados
December 19, 2005


PURE 100%
MILK

Consolidated Statement of Income
Year ended August 31, 2005

	Notes	2005	2004
		$	$
Sales	3	59,611,704	58,470,583
Profit from operations before undernoted items	3	1,831,401	2,950,179
Interest income		47,015	9,634
Interest expense		(147,476)	(350,797)
Unrealised loss on long-term investment		-	(91,630)
Income before taxation		1,730,940	2,517,386
Taxation	4	1,069,523	310,276
Net income for the year		2,800,463	2,827,662
Earnings per share	16	$0.59	$0.60

The accompanying notes form part of these financial statements.

Consolidated Balance Sheet
As at August 31, 2005

	Notes	2005 $	2004 $
Current assets			
Cash		56,346	23,938
Accounts receivable		4,127,439	3,185,044
Prepaid expenses		61,122	348,935
Corporation tax refundable	4	22,729	22,729
Inventories	5	14,075,622	12,382,473
Current portion of loans receivable	6	154,439	145,622
Due from related companies	7	67,583	2,027,969
		18,565,280	18,136,710
Current liabilities			
Bank overdraft	8	1,873,550	677,134
Accounts payable and accrued expenses		4,913,907	5,096,388
Due to related companies	7	1,464,710	476,587
Current portion of long-term liabilities	9	1,068,259	1,886,406
		9,320,426	8,136,515
Working capital		9,244,854	10,000,195
Deferred taxation	4	2,643,113	1,573,590
Loans receivable	6	224,188	321,697
Long-term investments	10	1	134,751
Fixed assets	11	25,151,840	24,922,660
Pension plan	12	1,094,917	586,074
Long-term liabilities	9	(1,094,146)	(2,081,462)
		37,264,767	35,457,505
Shareholders' equity			
Share capital	13	1,006,204	1,006,204
Proposed dividend		945,906	993,201
Retained earnings		35,312,657	33,458,100
		37,264,767	35,457,505

The accompanying notes form part of these financial statements.

Approved by the Board of Directors on December 19, 2005 and signed on its behalf by:

....Chairman ....Director

Consolidated Statement of Changes in Equity
Year ended August 31, 2005

	Share capital $	Proposed dividend $	Retained earnings $	Total $
Balance at August 31, 2003	1,006,204	993,201	31,623,639	33,623,044
Net income for the year	-	-	2,827,662	2,827,662
Ordinary dividend paid	-	(993,201)	-	(993,201)
Ordinary dividend proposed (21¢ per share)	-	993,201	(993,201)	-
Balance at August 31, 2004	1,006,204	993,201	33,458,100	35,457,505
Net income for the year	-	-	2,800,463	2,800,463
Ordinary dividend paid	-	(993,201)	-	(993,201)
Ordinary dividend proposed (20¢ per share)	-	945,906	(945,906)	-
Balance at August 31, 2005	1,006,204	945,906	35,312,657	37,264,767

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows
Year ended August 31, 2005

	2005	2004
	$	$
Cash flows from operating activities		
Income before taxation	1,730,940	2,517,386
Adjustments for:		
Depreciation	3,129,402	3,189,503
Loss (gain) on disposal of fixed assets	31,070	(17,013)
Unrealised loss on long-term investment	-	91,630
Interest income	(47,015)	(9,634)
Interest expense	147,476	350,797
Pension benefit	(508,843)	(169,482)
Operating profit before working capital changes	4,483,030	5,953,187
Increase in accounts receivable	(942,395)	(479,904)
Decrease (increase) in prepaid expenses	287,813	(256,586)
(Increase) decrease in inventories	(1,693,149)	2,303,683
Decrease in due from related companies	1,960,386	225,868
Decrease in accounts payable and accrued expenses	(182,481)	(1,219,214)
Increase in due to related companies	988,123	338,900
Cash generated from operations	4,901,327	6,865,934
Interest paid	(147,476)	(350,797)
Interest received	47,015	9,634
Net cash from operating activities	4,800,866	6,524,771
Cash flows from investing activities		
Proceeds from disposal of fixed assets	97,923	17,013
Purchase of fixed assets	(3,487,575)	(2,036,820)
Decrease in loans receivable	88,692	103,977
Proceeds from sale of long-term investments	134,750	-
Net cash used in investing activities	(3,166,210)	(1,915,830)
Cash flows from financing activities		
Repayment of long-term liabilities	(1,805,463)	(2,943,718)
Dividend paid	(993,201)	(993,201)
Net cash used in financing activities	(2,798,664)	(3,936,919)
(Increase) decrease in bank overdraft less cash	(1,164,008)	672,022
Bank overdraft less cash - beginning of year	(653,196)	(1,325,218)
Bank overdraft less cash - end of year	(1,817,204)	(653,196)

The accompanying notes form part of these financial statements.

Notes to the Consolidated Financial Statements
Year ended August 31, 2005

1. **Incorporation and principal activity**

The company and its subsidiary are incorporated in Barbados.

The company is a subsidiary of Banks Holdings Limited, incorporated under the Laws of Barbados.

The principal activity of the group during the year was the manufacture, 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**

The financial statements have been prepared in accordance with International Financial Reporting Standards which comprise standards and interpretations approved by the International Accounting Standards Board and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect.

The most significant policies are summarised below:

a] **Basis of preparation**
These financial statements are prepared under the historical cost convention modified by the revaluation of long-term investments. No account is taken of the effects of inflation.

b] **Principles of consolidation**
The consolidated financial statements include the results and state of affairs of the company and its wholly-owned subsidiary, Pine Hill Marketing Limited.

c] **Revenue recognition**
Revenue is recognised 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 recognised on an accrual basis.

d] **Currency**
These financial statements are expressed in Barbados dollars. 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.

Notes to the Consolidated Financial Statements
Year ended August 31, 2005

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

e] **Inventories**

Inventories are stated at the lower of cost and net realisable 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.

f] **Depreciation**

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

Depreciation of other fixed assets 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:

Motor vehicles	-	5 years
Plant and machinery	-	10 & 15 years
Furniture, fittings and equipment	-	10 years
Computer equipment	-	4 years
Containers	-	5 years

g] **Taxation**

The company follows the liability method of accounting for taxation, whereby the future tax asset or liability arising from temporary differences is provided for at the estimated future corporation tax rate that is expected to apply to the period when the asset is realised or liability is settled.

h] **Pensions**

The company contributes to a Group contributory defined benefit pension plan administered on behalf of its employees. The assets of the pension plan are held in a separate fund administered by a Trustee. The pension plan is funded by payments 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 income statement 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 plan 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.

Notes to the Consolidated Financial Statements
Year ended August 31, 2005

2. Significant accounting policies (cont'd)

i] Long-term investments

The Company's investments, which have been classified as available-for-sale, are recorded at their fair value. The fair value of these privately held investments, in the absence of readily ascertainable market values, has been estimated by management on the basis of the market value of the underlying assets.

Unrealised gains or losses are recorded in the statement of income.

j] Use of estimates

The preparation of the financial statements, in conformity with International Financial Reporting Standards, requires that management make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. Although some variability is inherent in these estimates, management believes that the amounts provided are adequate.

k] Leases

Finance leases are capitalised 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 against income.

Rentals payable under operating leases are charged against income on a straight-line basis over the lease term.

l] Interest bearing loans receivable and payable

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

Notes to the Consolidated Financial Statements
Year ended August 31, 2005

3. Profit from operations

	2005 $	2004 $
Sales	59,611,704	58,470,583
Cost of sales	(49,759,418)	(45,794,854)
Gross profit	9,852,286	12,675,729
Other income	122,937	51,928
	9,975,223	12,727,657
Selling, general and administrative expenses	(8,143,822)	(9,777,478)
Profit from operations	1,831,401	2,950,179

Profit from operations is after charging:

	2005 $	2004 $
Staff costs	10,520,687	10,103,437
Depreciation	3,129,402	3,189,503

	2005	2004
Average number of employees during the year was	189	195

Notes to the Consolidated Financial Statements
Year ended August 31, 2005

4. Taxation

	2005 $	2004 $
Deferred tax recovery	(1,069,523)	(310,276)

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

	2005 $	2004 $
Income before taxation	1,730,940	2,517,386
Taxed at the applicable rate of 25% (2004- 33%)	432,735	830,737
Effects of tax deductible items not reducing accounting profit:		
Capital allowances	(314,021)	(218,743)
Other	-	99,412
(Under) over provision of prior year's deferred tax asset	(14,227)	63,140
Exempt profits	(1,174,010)	(1,115,060)
Exempt unrealized investment loss	-	30,238
	(1,069,523)	(310,276)

Notes to the Consolidated Financial Statements
Year ended August 31, 2005

4. Taxation (cont'd)

	2005	2004
	$	$
Balance sheet		
Corporation tax refundable	22,729	22,729
Deferred taxation		
Balance, beginning of year	1,573,590	1,263,314
Deferred tax recovery	1,069,523	310,276
Balance, end of year	2,643,113	1,573,590
Deferred tax balance is made up as follows:		
Pension asset	(273,729)	(146,519)
Unutilised tax losses	1,222,466	482,282
Accelerated depreciation for accounting purposes	1,694,376	1,237,827
	2,643,113	1,573,590

Tax losses

The company has unrelieved tax losses of $4,889,862 (2004 - $1,929,128) 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
	$	
1999	151,431	2008
2000	963,575	2009
2001	48,007	2010
2002	111,120	2011
2003	49,755	2012
2004	672,058	2013
2005	2,893,916	2014
	4,889,862	

Under the provisions of the Fiscal Incentives Act Cap. 71A, the profits of the subsidiary are exempt from corporation tax for a period of 10 years, which commenced from August 1, 1992. The company was granted a further five year extension until 2007.

Notes to the Consolidated Financial Statements
Year ended August 31, 2005

5. Inventories

	2005 $	2004 $
Raw materials	8,786,523	6,251,043
Finished goods	2,168,943	2,485,993
Spares and supplies	3,120,156	3,645,437
	14,075,622	12,382,473

6. Loans receivable

	2005 $	2004 $
Loans receivable due at end of year	378,627	467,319
Less: Current portion	(154,439)	(145,622)
Long-term portion	224,188	321,697

The loans are mainly secured advances to farmers for the purchase of equipment. Interest on the loans is being charged at the commercial banks' prime rate plus 1⁄2% per annum. Interest at the rate of 8.50% (2004 – 7.65%) per annum was charged. The loans are repayable over a period of 4 years with a one-year moratorium on the repayment of principal. The loans are secured by the assets of the respective farmers.

7. Related party transactions and balances

The amounts due from/to related companies are unsecured, interest free and have no fixed terms of repayment.

Notes to the Consolidated Financial Statements
Year ended August 31, 2005

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

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

	2005 $	2004 $
Sales to a related company	19,243,235	16,686,044
Purchases from related companies	1,491,941	1,099,454
Management fees paid to parent company	108,000	108,000
Interest paid to parent company	56,628	181,948
Interest paid to a related company	28,759	67,023

8. Bank overdraft

The security for the bank overdraft limit of $2,000,000 is disclosed in Note 9 (v).

Interest is charged and payable monthly on the overdraft balance. The rate at year-end was 9.15% (2004 – 8.15%).

9. Long-term liabilities

	2005 $	2004 $
i) Grassland Development loans	111,319	287,875
ii) Banks (Barbados) Breweries Limited	107,601	623,605
iii) Banks Holdings Limited	284,395	881,162
iv) Tetra Pak S.A. 20-110	-	18,725
v) First Caribbean International Bank	669,008	961,389
vi) Tetra Pak TBA/8	990,082	1,195,112
	2,162,405	3,967,868
Less: current portion	(1,068,259)	(1,886,406)
Long-term portion	1,094,146	2,081,462

Notes to the Consolidated Financial Statements
Year ended August 31, 2005

9. Long-term liabilities (cont'd)

i) There is a facility of $1,000,000 with FirstCaribbean International Bank to be drawn in tranches of $100,000 each for lending to farmers. There is a one-year moratorium on the repayment of the principal from the date of draw down. Interest at the rate of 9.15% (2004 – 7.65%) per annum is charged.

ii) The loan from a related company bears interest at the rate of 7.5% (2004 – 7.5%) per annum. There was a twenty-eight month moratorium on the repayment of the principal from August 31, 2000, after which the loan is repayable in varying instalments of principal and interest over three years. The loan is unsecured.

iii) The loan from the parent company bears interest at the rate of 7.5% (2004 – 7.5%) per annum. The loan is repayable in varying instalments of principal and interest over three years and is unsecured.

iv) The finance lease from Tetra Pak S.A. carried interest at the rate of 8% (2004 - 8%) per annum.

v) The company has a loan facility of $1.5 million from First Caribbean International Bank, of which $669,008 (2004 - $961,389) has been drawn down. The loan bears interest of 7.15% (2004 – 5.65%) per annum and is repayable over five years. The loan and the overdraft facility 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, a negative pledge by the company and a guarantee endorsed by the parent company, Banks Holdings Limited, limited to $4,631,000.

vi) The financial lease from Tetra Pak is repayable over five years in equal instalments. No interest is charged on the lease. It is secured by the asset related to the lease.

10. Long-term investments

	2005	**2004**
	$	$
Barbados Agro Processing Company Limited (in receivership)	1	1
Little Bristol Investments Inc.	-	134,750
	1	134,751

Notes to the Consolidated Financial Statements
Year ended August 31, 2005

11. Fixed assets

	At August 31, 2004 $	Additions $	Disposals $	At August 31, 2005 $
Cost				
Buildings on leasehold land	12,233,569	485,766	-	12,719,335
Plant and machinery	35,886,299	1,606,633	(1,010,945)	36,481,987
Motor vehicles	1,376,891	330,005	(167,292)	1,539,604
Furniture, fixtures and equipment	5,495,024	1,064,524	(846,989)	5,712,559
Containers	3,748,930	647	(2,468,457)	1,281,120
	58,740,713	3,487,575	(4,493,683)	57,734,605
Accumulated depreciation				
Buildings on leasehold land	5,786,762	169,130	-	5,955,892
Plant and machinery	19,793,226	2,119,171	(884,645)	21,027,752
Motor vehicles	820,044	200,840	(167,292)	853,592
Furniture, fixtures and equipment	4,378,287	453,161	(844,298)	3,987,150
Containers	3,039,734	187,100	(2,468,455)	758,379
	33,818,053	3,129,402	(4,364,690)	32,582,765
Net book value				
Buildings on leasehold land	6,446,807			6,763,443
Plant and machinery	16,093,073			15,454,235
Motor vehicles	556,847			686,012
Furniture, fixtures and equipment	1,116,737			1,725,409
Containers	709,196			522,741
	24,922,660			25,151,840

The company has plant and equipment with a net book value of $1,332,795 (2004-$1,440,496) secured under finance lease.

Notes to the Consolidated Financial Statements
Year ended August 31, 2005

12. Pension plan

	2005	2004
	$	$
Balance sheet		
Present value of funded obligations	10,430,832	10,240,335
Fair value of plan assets	(13,520,865)	(12,003,741)
	(3,090,033)	(1,763,406)
Unrecognised actuarial gains	1,995,116	1,177,332
Net asset recognised in the balance sheet	(1,094,917)	(586,074)
Statement of income		
Current service cost	383,307	346,638
Interest cost	618,509	653,275
Expected return on plan assets	(847,036)	(722,718)
Gains on curtailments and settlements	(223,087)	-
Total, included in staff costs	(68,307)	277,195
Actual return on plan assets	1,323,585	1,464,305

Movement in the net amount recognised in the balance sheet:

	2005	2004
	$	$
Net asset, beginning of year	(586,074)	(416,592)
Net (income) expense recognised in the income statement	(68,307)	277,195
Contributions paid	(440,536)	(446,677)
Net asset, end of year	(1,094,917)	(586,074)

	2005	2004
Principal actuarial assumptions as at August 31, were:		
Discount rate at end of year	7.0%	6.0%
Expected return on plan assets at end of year	7.0%	7.0%
Future promotional salary increases	2.5%	2.5%
Future inflationary salary increase	3.0%	2.5%
Future increases in NIS ceiling for earnings	3.5%	2.5%
Future pension increases	3.0%	2.0%

Notes to the Consolidated Financial Statements
Year ended August 31, 2005

13. Share capital

Authorised:
The company is authorised to issue an unlimited number of shares without nominal or par value designated as common shares.

	2005	2004
	$	$
Stated and issued:		
4,729,529 (2004 – 4,729,529) common shares	1,006,204	1,006,204

14. Operating lease commitment

The lease expense for the year for motor vehicles was $389,297 (2004 - $329,765).

Future minimum rentals under the non-cancellable leases are as follows as of August 31:

	2005	2004
	$	$
Within one year	142,098	314,834
After one year but not more than five years	2,886	219,447
	144,984	534,281

15. Commitments and contingencies

The company has guaranteed $500,000 and $1,000,000 in respect of the Housing Loan Fund for staff and The Farmers Grass Land loan scheme respectively.

Capital expenditure of $1,360,000 (2004 – $1,451,000) was approved by the Directors and $607,000 was contracted for.

Notes to the Consolidated Financial Statements
Year ended August 31, 2005

16. Earnings per share

Earnings per share are based on net income of $2,800,463 (2004 - $2,827,662) and 4,729,529 shares (2004 - 4,729,529) in issue during the year.

17. Financial instruments

Fair values

The carrying value of the Group's financial assets and liabilities are shown at their fair value, with the exception of loans receivable and long-term liabilities which are shown at amortised cost. The methods and assumptions used to estimate the fair value of each class of financial instruments for which it is practical to estimate a value 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 accrued expenses and due to related companies.

ii) Long-term financial assets
Long-term investments are carried at fair value as disclosed in Note 2.

Credit risk

The company sells its products to customers primarily in Barbados and provides loans as detailed in Note 6. Credit risk arises from the possibility that customers and 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. The company performs ongoing credit reviews of its customers and counterparties, and provisions are set aside against amounts deemed irrecoverable.

Interest rate risk

The company is exposed to interest rate risk as detailed in Notes 6, 8 and 9.

Barbados Dairy Industries Limited

Management Proxy Circular

Company No 3382

Management is required by the Companies Act Cap. 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-first Annual Meeting of Shareholders of Barbados Dairy Industries Limited (hereinafter called "the Company") to be held on Monday, January 30th, 2006 at 10.30 am (hereinafter called "the meeting") and is furnished in connection with the solicitation by the management of the Company of proxies for use at the meeting, or any adjournment thereof. It is expected that 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 pm on Friday, January 27th, 2006 being 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 Wednesday, December 28th, 2005 as the record date for determining the shareholders who are entitled to receive notice of the meeting and have given notice thereof by advertisement as required by the Companies Act. Only shareholders of record at the close of business on Wednesday, December 28th, 2005, 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

Election of Directors

The Board of Directors consists of members who will retire in rotation annually. On December 19th 2005 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 herewith enclosed:-

Nominee for Director	**Present Principal Occupation**
Senator Sir Allan Fields K.C.M.G.	Non-Executive Director
C.E. Gibson	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 sucessor 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. Senator Sir Allan Fields and Mr. C.E. Gibson the two (2) nominees are now directors of the Company and will retire at the close of the Forty-first Annual General Meeting in accordance with the provision of Clause 4.4 of By-Law No 1 of the Company but, being qualified, are eligible for re-election. They were elected as directors at the Thirty-Ninth annual general meeting held on December 19th, 2003 for a period of two years.

Appointment of Auditors

It is proposed to nominate the firm Ernst & Young, the present auditors of the consolidated 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 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 judgement 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

BARBADOS DAIRY INDUSTRIES LIMITED

COMPANY NO. 3382

PROXY FORM

The undersigned shareholder of BARBADOS DAIRY INDUSTRIES LIMITED hereby

appoints ....

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 41st Annual General Meeting of the Shareholders of the said company to be held on Monday, January 30th, 2006, and at any adjournment or adjournments 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 .... day of 2006

....

Signature of shareholder

Notes

1. (a) A shareholder who is entitled to vote at a meeting of 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 meetings of shareholders may be given by an individual authorised by a resolution of the directors or governing body of that body corporate or association to represent it at meetings of 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 not later than 4.15 p. m. on Friday, January 27th, 2006.

CUT HERE