PINEHILL

2006

ANNUAL REPORT

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

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-second Annual General Meeting of the shareholders of Barbados Dairy Industries Limited will be held at: **PINE HILL DAIRY, ST. MICHAEL,** on **TUESDAY, 16TH JANUARY, 2007, 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, 2006.

2. To elect Directors.

3. To appoint Auditors for the ensuing year.

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

A. Richard S. Marshall

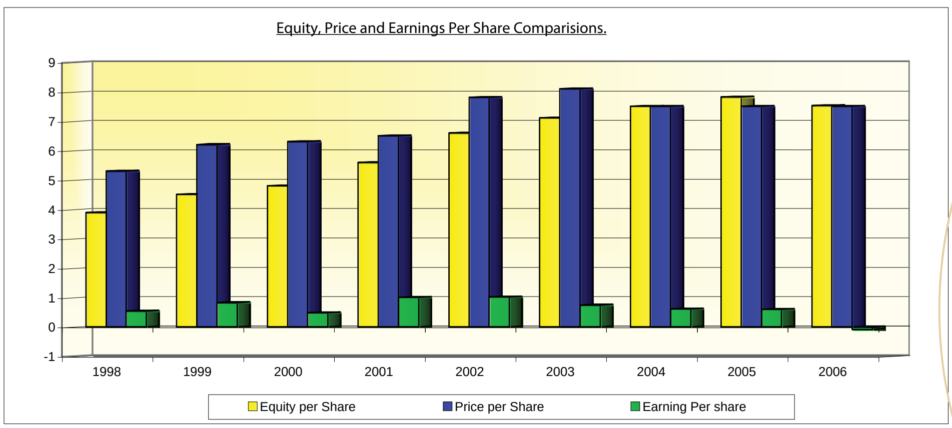
By order of the Board
A.R.S. Marshall
Secretary

November 24th, 2006

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, 2006. Compared to recent years, the year under review is disappointing. We recorded an after tax loss of $429,198, which is down by $2,935,805 when compared to the previous year. This resulted in a loss per share of $0.09 following earnings of $0.53 per share last year. The working capital of the Company continues to be strong and at the end of the financial year stood at $10 million compared to $ 8.95 million at the previous year-end. Our debt to equity ratio improved to 0.08 compared to 0.15 last year. Despite our loss this year, the Directors have declared a dividend of 5 cents per share. The financial year under review can be considered a watershed year and we are confident that the Company will return to profitability during this financial year.



Sales declined by 9.6% finishing at $53.9 million compared to $59.6 million the previous year. Lost of revenue from the decline in sales and a 3.6% increase in the cost of inputs along with losses associated with the disposal of assets, are responsible for our below par performance. During the financial year we invested $1.44million on new assets, the majority of which was spent in upgrading our plant as we continue to strive to ensure that we are able to compete in a liberalised market. We consider the investment in plant, IT and personnel to be crucial to allow us to reap the benefits of a much larger CSME market. Our PINEHILL brand has regional recognition and recent investments by our parent Company Banks Holdings Limited will present opportunities for significant growth.

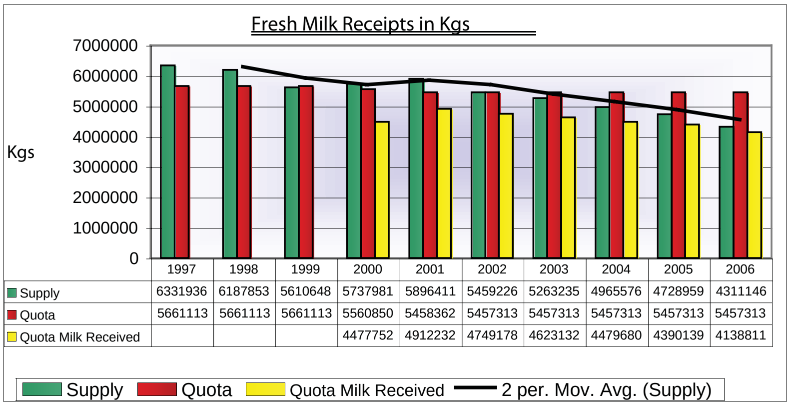
In my report last year, I stated that we closed our canning plant at the end of July 2005. The transition to the UHT aseptic package was more difficult than anticipated and the benefits from this decision have taken longer to materalise than anticipated. We encountered problems with sterility, which hampered production, leading to stocks-outs on several occasions during the first half of the year. The UHT plant

produces Sungold Evaporated milk as well as juices. The juice production was also impacted with similar stock-outs. Corrective action by the way of revision of our operating procedures and the training of employees was implemented and productivity returned during the latter half of the year.

During the year there was further consolidation with regards to the number of dairy farmers supplying milk. The number declined by one and now stands at eighteen. During the year, we agreed to pay for all milk delivered at $2.00 per Kg in order to motivate the farmers to produce more, while the Milk Marketing Board is being established. We still believe that a detailed financial study of the industry is vitally important for all concerned. As mentioned last year, the quantity of milk received continues to decline, and in July 2005 the supply was the lowest in since 1991. The dairy industry is at a critical juncture. During the year, several farmers have invested in new milking parlour and hay processing equipment, taking advantage of the incentives presented by The Prime Minister in his last financial presentation, which is encouraging. However, our role as a processor of fresh milk presents several concerns:

- We consistently lose over $1.0 million each year in processing fresh milk as the low volume coupled with the ex factory pricing structure that currently exists does not allow us to cover our cost of collection, processing, packaging, storage and distribution. This situation will be addressed shortly after a comprehensive review of the costing of all of our products is completed.
- Our ability to develop, produce and market dairy products from fresh milk is no longer feasible because the current pricing structure makes these products uncompetitive in a liberalised market.
- Our loyal consumers very often cannot obtain the commodities and the general perception is that PINEHILL cannot supply.
- Attempts to compensate for the shortage by importing was un-successful due to short shelf life remaining after the stringent testing required by the relevant ministries.
- There will be a shortage of fresh milk during the peak demand period of December to April, especially during World Cup 2007.

We will continue to monitor and evaluate this situation very closely to determine what will be our future role in the local dairy industry.



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Supply	6331936	6187853	5610648	5737981	5896411	5459226	5263235	4965576	4728959	4311146
Quota	5661113	5661113	5661113	5560850	5458362	5457313	5457313	5457313	5457313	5457313
Quota Milk Received				4477752	4912232	4749178	4623132	4479680	4390139	4138811

Figure 2

We continue our support of local culture, sports and community related activities through sponsorship both locally and regionally. We also facilitate educational tours of our plant for schools and we again provided opportunities for students from the Polytechnic, Community College and University of the West Indies to gain valuable work experience.

We continue to work with the Barbados Workers Union (BWU) to foster mutually beneficial relationships that will position us to meet the challenges as we transition to a more liberalised trading environment. This year we are implementing a new Performance Management System to reward our employees on their performance and the performance of the Company. This programme was developed with full participation by the BWU and we look forward to the benefits during the coming year.

I would like to thank the management and staff for their commitment and dedication, during another testing year. Once more, I would like to emphasise that the challenges to stay competive in manufacturing remains diffcult and it is imperative that we remain focused by paying attention to every detail. 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
November 24th, 2006

Managing Director's Statement

1. Financial Summary

After several years of good performances, the year under review was disappointing. We finished the year with an after tax loss of $429,198 compared with a profit of $2,506,607 the previous year. This result was due to reduced sales, coupled with increases in cost of inputs and non re-occurring losses incurred in the disposal of assets. Regrettably, our plant efficiencies were also challenged and could not offset these increasing costs.

At the end of August 2006, we incurred a before tax loss of $1,492,508 compared to a profit of $1,437,084 for the previous year. This decline was a result of increases in cost of sales ($1,294,014), reduced profits from loss of sales ($920,082), loss of disposable asset ($450,923) and increases in interest charges ($393,566).

The year was a difficult one as we strived to implement new fillers and processing equipment in our HTST plant. This much needed re-engineering is now complete and already showing improvements in reliability and efficiencies. We look forward to the benefits, which will lower our operational cost, during the new financial year.

In our UHT plant, consolidating the production of our SunGold brand of evaporated milk also challenged us. We encountered process control problems that resulted in poor efficiencies and yields. The necessary process control procedures have been revised, operators trained and the new procedures successfully implemented.

2. Sales Summary

Sales revenue declined by 9.6% to finish at $53,861,191 compared to $59,611,704 for the previous year. This decline was both local and regional with local sales declining by 8.5% and exports by 14.8%.

The fall-off is attributed to the operational challenges in both our aseptic (UHT) and Pasteurised (HTST) plants, which lead to stock outs of several products. Also contributing, is the lower pricing on evaporated milk as we changed packaging from the 375ml can to the 250ml Tetra-Pak, coupled with offering the new package at an introductory low price. The introductory pricing on the evaporated milk compromised margins as the required sales lift to compensate for this did not materialize.

Table 1 below shows the last three years' sales as a percentage of total sales.

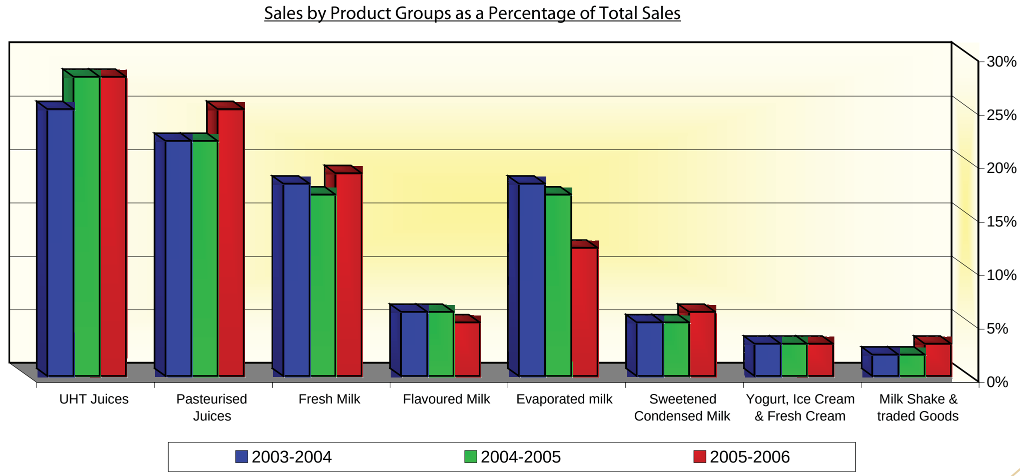


Table 1.

Sales Comparisons:

==> **Sales of UHT** products declined by 7.7% although the percentage of total sales remained the same at 28%. Post sterilisation and re-contamination problems along with poor equipment availability were responsible for several SKUs not being always available. This was more so during the second and third quarters and impacted negatively on exports, as we strived to service the local market first. Both of these concerns have been addressed and are now behind us.

==> **Pasteurised juices** recorded sales similar to last year.
However, when one considers that there was a 5% increase in the price of these products in October 2005, sales actually declined by 4.4%. Re-engineering challenges, as we installed two new fillers and shortages of HDPE plastic bottles, created product shortages.

==> **White pasteurized milks** sales were similar to those of last year, despite a decline in the intake of fresh milk. Our decision to reduce the amount of fresh milk used in the production of flavoured milks and other dairy products as well as ceasing exports were responsible for this result. As expected, the sales of flavoured milks declined by 21%. The prices of these products remain unchanged since July 2001. They are in need of urgent review and as stated in our Chairman's report, they annually result in negative margins. Our decision to pay for all fresh milk received at $2.00 per Kg will increase our losses, as we anticipate paying out an additional $315,000 more than the previous year, for fresh milk.

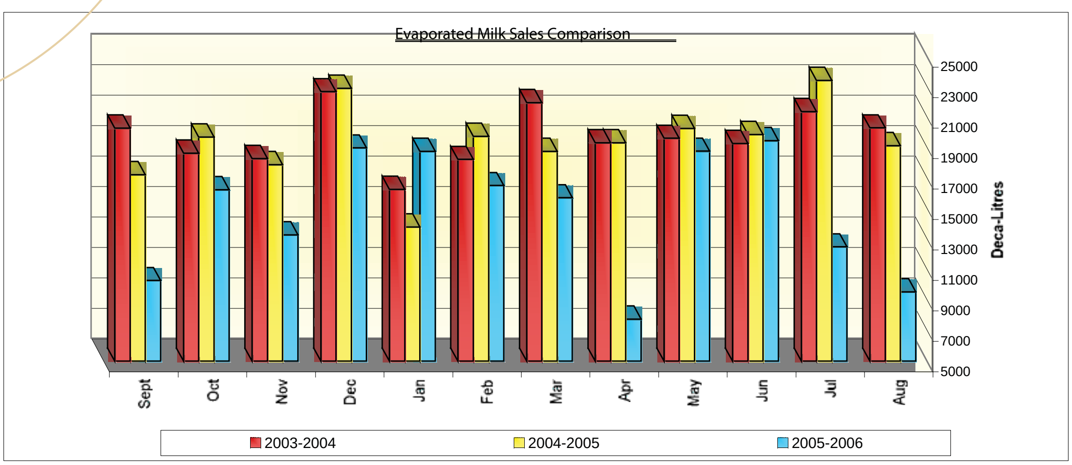
==> **Evaporated milk** sales are down by $4,005,618 or 39% and are responsible for most of our sales decline. The reasons for the lower sales are:

- Operational challenges created shortages, which resulted in the product not being always available between September 2005 and April 2006. Dollar values were lower at 61 and 60 percent, when compared to the last two years. The special introductory price, which ran between September 2005 and December 2005, also contributed to the lower sales. The objective of the special was to sustain at least 70% of our canned market. This was achieved, as the volume sold was 77%.

- Another factor is that between 10 and 15 percent of the consumers opted to continue to purchase evaporated milk in cans, despite the fact that the PineHill Sungold package is approximately 29% cheaper, than the main competing canned product.

- The 250ml Tetra Pak carton sells at a price that is 11 % lower than our previous years' canned price.

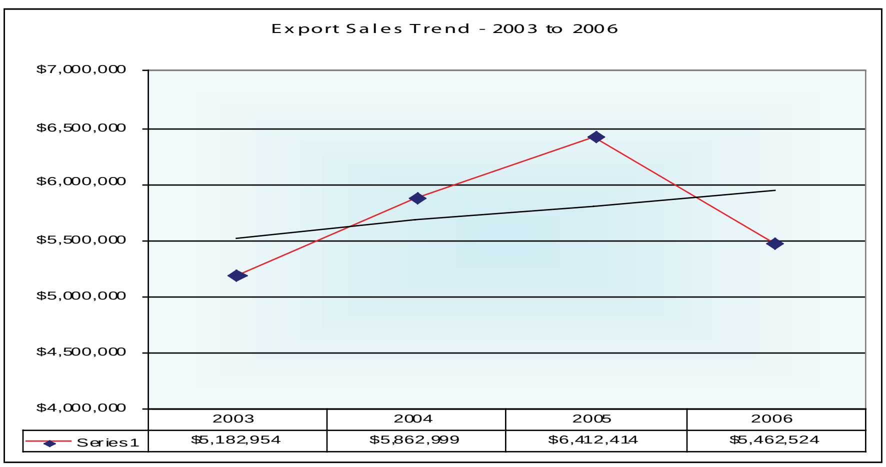
We are confident that once the product is consistently available and with effective marketing, we will recapture our loss in market share.



==> **Sweetened Condensed Milk** increased by $496,985 or 17% as canned evaporated milk consumers switched to this product.

Export Sales:

As stated previously, exports sales declined by 14.8%. UHT juices and milks are our main exported products and with the problems experienced in our UHT plant, we were not in a position to sustain our level of sales. Our recent decision to appoint a new distributor in Trinidad will assist in sales rebounding during this financial year. Over the last four years, the trend remains positive as can be seen from the graph (Table 2). Exports are our brightest opportunity to grow and we will continue to focus in this area in the future.



3. Future

Our goal is to recapture our lost sales both locally and extra-regionally during this new financial year. At the same time, we must continue to rationalize our operating procedures in order to improve our efficiencies while increasing productivity. This strategy will be achieved through:

- Capital Investment: The two new Tetra Pak fillers, recently installed in HTST department are complete. The expected reliability and consistency

in sealing our gable top cardboard cartons has been established and the savings from lower packaging cost will contribute significantly to our profitability. The 2L packages have been in the market now for two months and the transition from HDPE ½ gallon bottle has been successful.

The installation of a Metico Continew Blending System during the new financial year will also improve yields in the UHT plant. This will reduce our cost of sales during the second half of this financial year.

- Product Development: Our product development team will continue to intensify their efforts in developing and launching of new products. We will enhance our current products, focusing on improved margins, while fulfilling our mission of producing high quality products, at competitive prices that meets our customers' expectations.

- Restructuring: Over the last two years we have undertaken much restructuring. We have been successful in filling several key positions, especially in our engineering department. We are constantly reviewing our operational procedures with the objective of achieving higher levels of efficiencies, which will position us nearer to world-class standards. We are confident that we have the right team in place to achieve our goals.

- Training and Employee Development: The PineHill Quality Management System (PHD QMS) was re-activated in May 2006 and has been successful to date. Our Standard Operating Procedures (SOPs), for both UHT and HTST plants have been revised. Training of our employees is in progress and auditing has started. We expect to be HACCP certified in March 2007.

4. Dairy Industry

We are paying our dairy farmers $2.00 for all Grade A milk. As stated previously, this is expected to increase cost this financial year. The objective is to motivate our dairy farmers to increase their production to meet local demand, especially with World Cup 2007 around the corner. The intake is on the decline with July 2006 recording the lowest levels in the last 15 years. Importation of pasteurised milk proved to be extremely challenging. The imported milk has an eighteen-day shelf life from the date of production and after shipping and local testing by the respective ministries, the milk was close to the expiration date, which meant that we could not market the commodity. We anticipate continue shortages during the first four months of 2007.

As always, I extend my sincere thanks to our Directors, our Management Team and the staff of Barbados Dairy Industries Ltd for their continued support during a very tough year. I look forward to the coming year with optimism and I remain committed to doing whatever it takes to return our Company to acceptable levels of profitability. As I stated earlier, the year was difficult and the lessons we learned from this experience coupled with our commitment to work together, will position us to capitalise on the benefits of CSME. We have experienced and knowledgeable employees and with total commitment and cooperation we will be again successful.

In closing, I wish to thank our distributors, loyal customers, suppliers and our many friends for their continued support during the year. I would also like to take this opportunity to wish a Merry Christmas and a Blessed and Happy New Year to all.

CLYDE E. GIBSON
Managing Director
November 24th, 2006

Directors' Report

1. The directors present their annual report and the audited consolidated financial statements for the year ended August 31, 2006.

		$
2.	The consolidated net loss for the year was	(429,198)
	To which is added the retained earnings brought forward of	35,964,707
	Ordinary dividend paid (20¢ per share)	(945,906)
	Giving retained earnings available for appropriation of	34,589,603

3. Subsequent to year-end, a dividend of 5¢ per share in respect of 2006 was approved by the Directors. This dividend will be accounted for as an appropiation of retained earnings inthe year ending 2007.

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: C.R.Cozier, and N.McD.Brewster.

5. At August 31, 2006 and November 24, 2006 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	
	31.08.06	**24.11.06**
Banks Holdings Limited	3,960,587 (83.7%)	3,960,587 (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
November 24th, 2006

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, 2006 and the related consolidated statements of loss, 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, 2006 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
November 24, 2006


USE BY NOV 21
PINEHILL
PASTEURISED
PURE 100%
MILK
LOW FAT 2%
MILK
KEEP REFRIGERATED
Nutrition Facts

Consolidated Statement of Loss
Year ended August 31, 2006

	Notes	2006 $	2006 $
Sales		53,861,191	59,611,704
(Loss) profit from operations before undernoted items	3	(1,111,942)	1,537,545
Interest income		13,000	47,015
Interest expense		(393,566)	(147,476)
(Loss) income before taxation		(1,492,508)	1,437,084
Taxation	4	1,063,310	1,069,523
Net (loss) income for the year		(429,198)	2,506,607
(Loss)earnings per share	16	($0.09)	$0.53

The accompanying notes form part of these financial statements.

Consolidated Balance Sheet
As at August 31, 2006

	Notes	2006 $	2005 $
Current assets			
Cash		144,425	56,346
Accounts receivable		2,520,588	4,127,439
Prepaid expenses		60,000	61,122
Corporation tax refundable	4	22,729	22,729
Inventories	5	14,006,035	13,781,766
Current portion of loans receivable	6	164,848	154,439
Due from related companies	7	506,732	67,583
		17,425,357	18,271,424
Non-current asset classified as held for sale	17	478,240	-
		17,903,597	18,271,424
Current liabilities			
Bank overdraft	8	1,086,638	1,873,550
Accounts payable and accrued expenses		5,195,655	4,913,907
Due to related companies	7	913,891	1,464,710
Current portion of long-term liabilities	9	703,903	1,068,259
		7,900,087	9,320,426
Working capital		10,003,510	8,950,998
Deferred taxation	4	3,706,423	2,643,113
Loans receivable	6	156,165	224,188
Long-term investments	10	1	1
Property, plant and equipment	11	22,192,668	25,151,840
Pension plan	12	1,476,862	1,094,917
Long-term liabilities	9	(1,939,822)	(1,094,146)
		35,595,807	36,970,911
Shareholders' equity			
Share capital	13	1,006,204	1,006,204
Retained earnings		34,589,603	35,964,707
		35,595,807	36,970,911

The accompanying notes form part of these financial statements.

Approved by the Board of Directors on November 24, 2006 and signed on its behalf by:

....Chairman ....Director

Consolidated Statement of Changes in Equity
Year ended August 31, 2006

	Share capital $	Retained earnings $	Total $
Balance at August 31, 2004	1,006,204	34,451,301	35,457,505
Net income for the year	-	2,506,607	2,506,607
Ordinary dividend paid (21¢ per share)	-	(993,201)	(993,201)
Balance at August 31, 2005	1,006,204	35,964,707	36,970,911
Balance at August 31, 2005 as previously stated	1,006,204	36,258,563	37,264,767
Prior year adjustment (note 19)	-	(293,856)	(293,856)
Balance at August 31, 2005	1,006,204	35,964,707	36,970,911
Net loss for the year	-	(429,198)	(429,198)
Ordinary dividend paid (20¢ per share)	-	(945,906)	(945,906)
Balance at August 31, 2006	1,006,204	34,589,603	35,595,807

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows
Year ended August 31, 2006

	2005 $	2004 $
Cash flows from operating activities		
(Loss) income before taxation	(1,492,508)	1,437,084
Adjustments for:		
Depreciation	3,156,404	3,129,402
Loss on disposal of property, plant and equipment	450,923	31,070
Interest income	(13,000)	(47,015)
Interest expense	393,566	147,476
Pension benefit	(381,945)	(508,843)
Operating profit before working capital changes	2,113,440	4,189,174
Decrease (increase) in accounts receivable	1,606,851	(942,395)
Decrease in prepaid expenses	1,122	287,813
Increase in inventories	(224,269)	(1,399,293)
(Increase) decrease in due from related companies	(439,149)	1,960,386
Increase (decrease) in accounts payable and accrued expenses	281,748	(182,481)
(Decrease) increase in due to related companies	(550,819)	988,123
Cash generated from operations	2,788,924	4,901,327
Interest paid	(393,566)	(147,476)
Interest received	13,000	47,015
Net cash from operating activities	2,408,358	4,800,866
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	317,813	97,923
Purchase of property, plant and equipment	(1,444,208)	(3,487,575)
Decrease in loans receivable	57,614	88,692
Proceeds from sale of long-term investments	-	134,750
Net cash used in investing activities	(1,068,781)	(3,166,210)
Cash flows from financing activities		
Net proceeds from (repayment of) long-term liabilities	481,320	(1,805,463)
Dividends paid	(945,906)	(993,201)
Net cash used in financing activities	(464,586)	(2,798,664)
Decrease (increase) in bank overdraft less cash	874,991	(1,164,008)
Bank overdraft less cash – beginning of year	(1,817,204)	(653,196)
Bank overdraft less cash – end of year	(942,213)	(1,817,204)

The accompanying notes form part of these financial statements.

Notes to the Consolidated Financial Statements
Year ended August 31, 2006

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, 2006

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] **Property, plant and equipment**

Plant and equipment is stated at cost less accumulated depreciation and accumulated impairment in value.

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

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not berecoverable.

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 unitcredit 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 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, 2006

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

i] **Long-term investments**
The Company's investments, which have been classified as at fair value through profit and loss, 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 loss.

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.

Significant estimates are made with respect to the usefel lives of property, plant and equipment and provisions for doubtful accounts and inventory

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.

m] **Change in accounting policy**
The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted those new/revised standards mandatory for financial years beginning on or after January 1, 2005.

The change in accounting policy result from the adoption of the following standard:

<u>IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'</u>
The Group has applied IFRS 5 prospectively in accordance with the transitional provisions of IFRS 5, which resulted in a change in accounting policy on the recognition of a discontinued operation and non-current assets held for sale.

IFRS 5 requires a component of an entity to be classified as discontinued when the criteria to be classified as held for sale have been met. An item is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than continuing use. Non-current assets classified as held for sale are carried at the lower of its carrying value and fair value less cost to sell.

Notes to the Consolidated Financial Statements
Year ended August 31, 2006

3. Loss from operations

	2006	2005
	$	$
Sales	53,861,191	59,611,704
Cost of sales	(46,537,414)	(50,053,274)
Gross profit	7,323,777	9,558,430
Other income	185,704	122,937
	7,509,481	9,681,367
Selling, general and administrative expenses	(8,621,423)	(8,143,822)
(Loss) profit from operations	(1,111,942)	1,537,545

Profit from operations is after charging:

	2006	2005
	$	$
Depreciation	3,156,404	3,129,402
Staff costs	10,230,128	10,520,687

4. Taxation

	2006	2005
	$	$
Statement of loss		
Deferred tax recovery	(1,063,310)	(1,069,523)

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

	2006	2005
	$	$
(Loss) income before taxation	(1,492,508)	1,437,084
Taxed at the applicable rate of 25% (2005 – 25%)	(373,127)	359,271
Effects of tax deductible items not reducing accounting profit:		
Capital allowances	(105,753)	(314,021)
Other	15,744	59,237
Exempt profits	(1,827,853)	(1,174,010)
Group relief surrendered	(1,227,679)	-
	(1,063,310)	(1,069,523)

Notes to the Consolidated Financial Statements
Year ended August 31, 2006

4. Taxation (cont'd)

	2006 $	2005 $
Balance sheet		
Corporation tax refundable	22,729	22,729
Deferred taxation		
Balance, beginning of year	2,643,113	1,573,590
Deferred tax recovery	1,063,310	1,069,523
Balance, end of year	3,706,423	2,643,113
Deferred tax balance is made up as follows:		
Pension asset	(369,216)	(273,729)
Unutilised tax losses	2,059,051	1,222,466
Accelerated depreciation for accounting purposes	2,016,588	1,694,376
	3,706,423	2,643,113

Tax losses

The company has unrelieved tax losses of $8,236,205 (2005 – $4,889,862) 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
2006	3,346,343	2015
	8,236,205	

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, 2006

5. Inventories

	2006	2005
	$	$
Raw materials	8,960,675	8,786,523
Finished goods	1,440,698	2,168,943
Spares and supplies	3,604,662	2,826,300
	14,006,035	13,781,766

The amount of write-down of inventories recognised as an expense is $417,117 (2005-$211,110). This expense is insluded in cost of sales as disclosed in Note 3.

6. Loans receivable

	2005	2004
	$	$
Loans receivable due at end of year	321,013	378,627
Less: Current portion	(164,848)	(154,439)
Long-term portion	156,165	224,188

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 ½% per annum. Interest at the rate of 8.5% (2005 – 8.50%) 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.

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

	2006	2005
	$	$
Sales to a related company	12,923,696	19,243,235
Purchases from related companies	4,442,550	1,491,941
Management fees paid to parent company	420,000	108,000
Interest paid to parent company	7,049	56,628
Interest paid to a related company	868	28,759

Compensation of key management personnel of the Company:

	2006	2005
	$	$
Short-term employee benefits	553,845	544,071

Notes to the Consolidated Financial Statements
Year ended August 31, 2006

8. Bank overdraft

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

Interest is charged and payable monthly on the overdraft balance at prime plus 1% per year. The rate at year-end was 10.65% (2005 – 9.15%).

9. Long-term liabilities

	2005 $	2004 $
i) Grassland Development loans	134,883	111,319
ii) Banks (Barbados) Breweries Limited	-	107,601
iii) Banks Holdings Limited	-	284,395
iv) FirstCaribbean International Bank	1,518,760	669,008
v) Tetra Pak TBA/8	990,082	990,082
	2,643,725	2,162,405
Less: current portion	(703,903)	(1,068,259)
Long-term portion	1,939,822	1,094,146

(i) There is a facility of $1,000,000 with the Group's bank to be drawn in tranches of $100,000each 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 8.50% (2005 – 9.15%) per annum is charged.

ii) The loan from a related companycarried interest at therate of 7.5% (2005– 7.5%) per annum and was repaid during the year.

iii) The loan from the parent companycarried interest at the rate of 7.5% (2005– 7.5%) per annum and was repaid during the year.

iv) The bank loans bear interest at rates between 8.15% and 8.65% (2005-7.15%) and are repayable in various instalments of principal and interest. The loans and the overdraft facility are secured by a letter of undertaking to provide the bankwith 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.

v) 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

Notes to the Consolidated Financial Statements
Year ended August 31, 2006

11. Property, plant and equipment

	At August 31, 2005 $	Additions $	Disposals $	Transfers $	At August 31, 2006 $
Cost					
Buildings on leasehold land	12,719,335	46,789	-	-	12,766,124
Plant and machinery	36,481,987	1,175,283	(2,146,361)	(638,915)	34,871,994
Motor vehicles	1,539,604	51,938	-	-	1,591,542
Furniture, fixtures and equipment	5,712,559	81,795	-	-	5,794,354
Containers	1,281,120	88,403	-	-	1,369,523
	57,734,605	1,444,208	(2,146,361)	(638,915)	56,393,537
Accumulated Depreciation					
Buildings on leasehold land	5,955,892	254,930	-	-	6,210,822
Plant and machinery	21,027,752	1,971,338	(1,377,625)	(160,675)	21,460,790
Motor vehicles	853,592	216,850	-	-	1,070,442
Furniture, fixtures and equipment	3,987,150	495,810	-	-	4,482,960
Containers	758,379	217,476	-	-	975,855
	32,582,765	3,156,404	(1,377,625)	(160,675)	34,200,869
Net book value					
Buildings on leasehold land	6,763,443				6,555,301
Plant and machinery	15,454,235				13,383,039
Motor vehicles	686,012				521,099
Furniture, fixtures and equipment	1,725,409				1,339,561
Containers	522,741				393,668
	25,151,840				22,192,668

The company has plant and equipment with a net book value of $1,225,764 (2005 – $1,332,795) secured under finance lease. During 2006, plant and machinery with a carrying value of $478,240 was transferred to non-current assets classified as held for sale.

Notes to the Consolidated Financial Statements
Year ended August 31, 2006

12. **Pension plan**

	2006	2005
	$	$
Balance sheet		
Present value of funded obligations	10,230,820	10,430,832
Fair value of plan assets	(14,305,256)	(13,520,865)
	(4,074,436)	(3,090,033)
Unrecognised actuarial gains	2,597,574	1,995,116
Net asset recognised in the balance sheet	(1,476,862)	(1,094,917)
Statement of income		
Current service cost	344,702	383,307
Interest cost	731,685	618,509
Expected return on plan assets	(952,192)	(847,036)
Gains on curtailments and settlements	-	(223,087)
Net actuarial gains recognised in the year	(41,301)	-
Total, included in staff costs	82,894	(68,307)
Actual return on plan assets	620,629	1,323,585

Movement in the net amount recognised in the balance sheet:

	2006	2005
	$	$
Net asset, beginning of year	(1,094,917)	(586,074)
Net expense (income) recognised in the income statement	82,894	(68,307)
Contributions paid	(464,839)	(440,536)
Net asset, end of year	(1,476,862)	(1,094,917)

	2006	2005
Principal actuarial assumptions as at August 31, were:		
Discount rate at end of year	7.0%	7.0%
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%	3.0%
Future increases in NIS ceiling for earnings	3.5%	3.5%
Future pension increases	3.0%	3.0%

Notes to the Consolidated Financial Statements
Year ended August 31, 2006

13. Share capital

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

	2006	2005
	$	$
Stated and issued:		
4,729,529 (2005 – 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 $189,826 (2005 – $389,297).

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

	2006	2005
	$	$
Within one year	-	142,098
After one year but not more than five years	-	2,886
	-	144,984

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 Gross Land Loan Scheme respectively.

Capital expenditure of $1,503,500 (2005 – $1,360,000) was approved by the Directors of which $681,600 (2005-Nil) is subject to contract.

16. (Loss) earnings per share

(Loss) earnings per share are based on net loss of $429,198 (2005 – net income of $2,506,607) and shares 4,729,529 (2005 – 4,729,529) in issue during the year.

17. Assets classified as held for sale

During the year, the company decided to dispose of the canning equipment which had become obsolete due to market changes. The company is currently negotiating the sale of the equipment which is expected to be completed within twelve (12) months after year end. As at August 31, 2006, the canning equipment was classified as a non-current asset held for sale.

Notes to the Consolidated Financial Statements
Year ended August 31, 2006

18. 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 thefair 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.

19. Prior period adjustments

The inventory was overstated by $293,856 as at August 31, 2005. The amount has been treated as a prior period adjustment to retained earnings and the 2005 comparatives have been restated accordingly.

20. Dividends

Subsequent to year end, the Directors approved of 5¢ per share amounting to $236,476 (2005 - 20¢ per share amounting $945,906). This dividend will be accounted for as an appropiation of retained earnings in the next financial year.

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-second Annual Meeting of Shareholders of Barbados Dairy Industries Limited (hereinafter called "the Company") to be held on Tuesday, January 16th, 2007 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 Monday, January 15th, 2007 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 13th, 2006 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 13th, 2006, 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 November 24th 2006 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
C.R. Cozier	Non-Executive Director
N.McD. Brewster	Non-Executive Director

With respect to the two (2) persons nominated, the term of office for each person so elected will expire at the close of the Third Annual General Meeting of the shareholders of the Company following his election or until his 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. Messrs C.R. Cozier and N.McD. Brewster the two (2) nominees are now directors of the Company and will retire at the close of the Forty-second Annual General Meeting in accordance with the provision of Clause 4.4 of By-Law No 2 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 three 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 42nd Annual General Meeting of the Shareholders of the said company to be held on Tuesday, January 16th, 2007, 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 2007

....

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 Monay, January 15th, 2007.

CUT HERE