



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.



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Barbados Dairy Industries Limited

DIRECTORS

A.C. Fields
Chairman

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

FirstCaribbean International Bank

Notice of Annual Meeting

Notice is hereby given that the Fortieth Annual General Meeting of Barbados Dairy Industries Limited will be held at:

**PINE HILL DAIRY
ST. MICHAEL
MONDAY, 31ST JANUARY, 2005
AT 10:30 A.M.**

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, 2004.
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

December 16th, 2004.

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

Chairman's Statement

During our last financial, key sectors of both the local and the regional economies remained under significant pressure. Performance in the agriculture sectors was mixed with livestock and poultry showing strong buoyancy while the output of the dairy sector declined once more. Overall, manufacturing, which grew in the last two years, fell marginally in 2003. As a consequence, the environment in which Barbados Dairy Industries Limited had to operate proved just as challenging, as the previous year. We were successful in growing our export sales by 13.2%. However, we experienced a marginal decline 1.2% in the local market.

For the period under review the Company recorded a profit of \$2,517,386 before tax compared to \$3,613,659 in the previous year. Increased cost of sales totalling \$1,126,208 account for the difference. Obsolete inventory of packaging materials and spare parts \$470,000 along with increases in utilities, ingredients and packaging materials were the main contributors to this difference. These are being monitored very closely. 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 control measures, along with the introduction of new products planned for this financial year, will return our Company to better profit margins.

Sales finished at \$58.5 million compared to \$58.4 million for the previous year. Increased Cost of Sales, as mentioned above, of 2.5% resulted 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 \$310,276 giving a net profit of \$2,827,662

Earnings per share ended at \$0.60, which is below last years \$0.73. Our debt to equity ratio, based on the bank overdraft and long-term borrowing, improved to 0.13 compared to 0.25 last year. Our working capital is 4.5% lower than last year and the return on equity finished at 8.2%. Based on the satisfactory financial position of our company, the Board is pleased to be able to declare a dividend of 21 cents, the same as last year. This represents 35% of the net income and an average dividend payout of 26% over the last five years.

The number of farms supplying milk declined from 20 to 19. The quantity of milk received continues to decline, falling by 5.5% during the year. In last year's report, I advised that the Fair Trading Commission (FTC) had started an inquiry as to whether Barbados Dairy Industries Limited, had abused a dominant position in the local dairy processing industry. I am pleased to report that the FTC ruled in our favour.



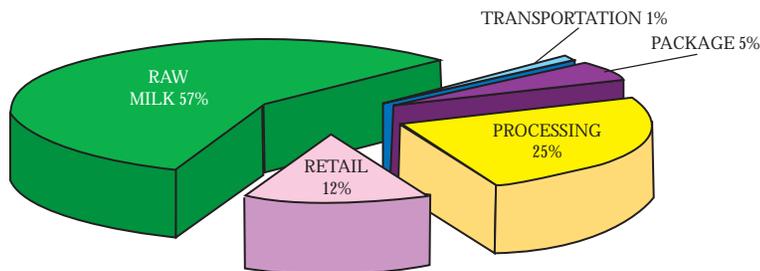


This was no surprise to us, as we were always confident that the ruling would be in our favour.

I also stated, that the outcome of this investigation would be critical to the future role that we will play in the local dairy industry. Our share of each dollar that the consumer spends in purchasing fresh pasteurised milk is 25 cents. This gross margin cannot cover our processing and

delivery expenses. The result is significant losses annually in processing locally produced milk. Table 2 below is a representation of how the consumer dollar is distributed when purchasing fresh pasteurised milk.

Distribution of Consumer Dollar - Fresh Pasteurised Milk



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It is obvious, from the above data, that the biggest beneficiaries of the consumer dollar are the farmers. Unfortunately, there are still some farmers who seem to think that they are disadvantaged by the Dairy. To these I would say that they should carefully examine their options and if they think that they can do better for themselves we would give them every encouragement to do so.

Once more I must stress, that the sales of our canned evaporated and condensed milks have subsidised the production of freshly produced milk. The sales of these two products continue to decline. This, coupled with the high cost of cans and the inefficiency of our retort canning process have resulted in lower margins, which can no longer cover the losses incurred in processing fresh milk. Our Company is seriously evaluating the future of our canning operations with a view to implementing alternative packaging technologies that will allow us to meet the challenges of Globalisation.

On a similar note, I am pleased to inform that our Company has invested in a new 400 bottles per minute sleeve applicator and an automatic bottle un-scrambler, that will facilitate the launch of a range of low carbohydrate products under the “Light Delight” brand in 12oz portion sizes as well 28oz. Our investment in this equipment is approximately \$750,000. Production is schedule to start during the second quarter of this financial year. This, along with the expansion of our ice creams flavours and packaging sizes, will provide much needed sales lift.

We continue to voice our concerns with respect to food security. The local dairy industry is critical in this regard and we continue to implore the Government to find ways to protect our agricultural and manufacturing sectors within this new regime of liberalisation. We take note of the NISE campaign, with an objective to improving service excellence throughout all sectors of our community. We look forward to fully supporting and participating in this joint public/private sector venture.

I would like to congratulate the management and staff for their commitment and dedication that led to another satisfactory year’s performance. On their behalf and 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. I would also like to take this opportunity to appeal to all Barbadians to support locally produced products, especially those that have demonstrated the commitment to high quality and excellence.



Senator Allan C. Fields
Chairman
December 16th, 2004



Managing Director's Statement

The past year proved to be another challenging one for Barbados Dairy Industries Limited. Our sales remained flat and our after tax revenue was below expectations. The year's performance indicators were very similar to last year, with a strong first half and a somewhat below par second-half. Our major challenges resulted from out of stock conditions for both ingredients and packaging materials due to industrial and logistical problems at some major shipping ports. This allowed several new juices and juice drinks that recently entered the market, as a consequence of trade liberalization, to gain market share because some of our major product lines were not continuously available. The effect was a 1.2% decline in local sales and a growth in export sales of 13.2%.

Sales Summary

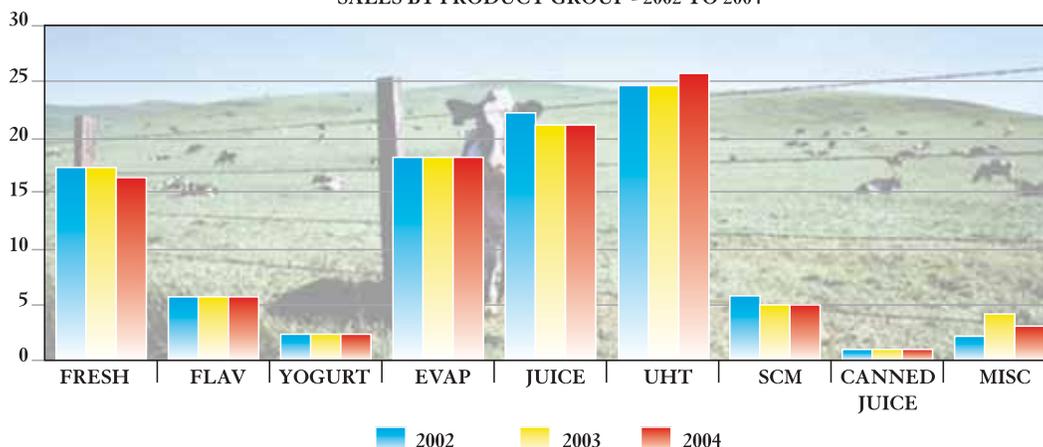
Sales at year-end finished at \$58.5 million compared to \$58.4 million the previous year. In the year 2002 sales finished at \$58.5 million. With no growth over the last three years, and with increasing operational costs, our margins are on the decline. This is a concern that must be addressed during the current financial year. We plan to introduce several new products, which will be aggressively marketed both locally and regionally. This will generate the necessary growth to return our performance to that of recent years.

Table 1 below shows the performance of our product groups over the last three years. It should be noted that miscellaneous group includes ice cream, cream and cottage cheese as well as contract packaging.



Table 1

SALES BY PRODUCT GROUP - 2002 TO 2004



The following is a summary of how our product groups performed:

- The UHT product group recorded an encouraging 5% growth. The new one-litre slim line package, which was launched in mid-2003 when we acquired the new TB8A Tetra Pac filler, accounted for most of this performance with a growth of 155%. The 250-ml juices were down cumulatively by 3%.
- Yogurt, cottage cheese and ice cream also recorded growth. The Ice Cream filler is installed and is functioning satisfactorily with one-litre products. The cups for the 235 ml (225g) size will come on stream in Q1 of this financial year and we expect sales to reach or exceed the half million-dollar mark by the end of this financial year.
- Sales of all of our milk products are down when compared to last year. Sales of fresh pasteurised white and flavoured milks declined by 1.7% and 6.1% respectively. Similar declines were seen over the previous three years and remain a major concern. Our Chairman addressed these concerns extensively in his report. Therefore, you would have realised that this situation is critical and must be addressed urgently, if we are to sustain a vibrant dairy industry.
- Sales of Sweetened Condensed and Evaporated milks declined by 2.9 % and 1.9% respectively. We experienced similar levels of decline over the last three years as these products continue to face competition from cheaper imported brands.
- Sales of pasteurised juices were lower than last year, with gable-top one litre cartons and 250-ml products declining by 6.3% and 6.6%, while the HDPE 1/2 gallon line grew by 3.2% for an overall decline of 2%. This product group has been our strength in recent years, recording double-digit growth. This is the second year that we have seen a decline in sales with last year being 1.3% below the previous year. This product group experiences severe competition from imported beverages. Our challenge is to re-capture our market share.

Sales of canned juices have declined to a level that is too low to sustain profitability. The Board took a decision to discontinue this category of products and promote our UHT one litre line as a suitable replacement.



Exports

Our exports continue to grow recording a 13.2% increase compared to a 4.3% increase last year. Export sales finished at \$5.863M compared to \$5.183M last year. The territories leading this growth are Antigua with an increase of 93%, USA (36%), St. Lucia (14%) and Cruise Ships (158%). Trinidad continues to under perform with declining sales of 25%. Our UHT aseptic 250-ml and one litre products account for the majority of our export sales. See Table 2 below.

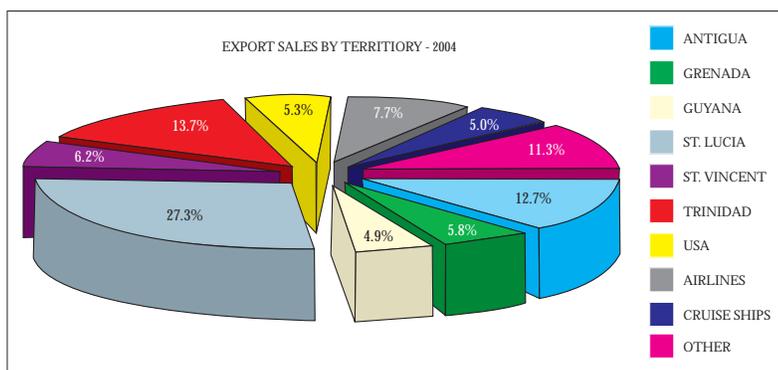


Table 2 – Exports by Territory

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Future

It is imperative that we increase our sales in order to sustain acceptable net margins. We have a number of programmes that will allow us to do so. The following is a brief description of the most important ones:

Light Delights

We will launch a range of low carbohydrate juices, shakes, and smoothies in an attractive shrink sleeve HDPE package. The first phase will be the juice drinks in four flavours, namely Tropical Punch, Passion, Orange and Cherry Apple. They will be available in two sizes (12oz and 28oz). The Brand name is “Light Delights” and the launch is scheduled for February 2005.



Light Delights



Re-Formulate

Recent developments of food science technology have led to a range of new products that will allow us to revise our formulations with the objective of improving our yields, while sustaining a natural high quality line of juice products. This project is at the laboratory “desk-top” stage and hopefully we will see the results in the last half of this financial year.



Aseptic Line

Barbados Dairy Industries Limited is seeking to acquire an aseptic processing and packing line for HDPE and PET packaging. At our last strategic meeting, we set a goal to obtain this technology in three to five years. We are currently negotiating with a major aseptic supplier and the prospect of obtaining this technology during the current financial year looks feasible. This will present an excellent opportunity to significantly boost our export growth. All our milks and juices, which are only available in the chilled pasteurised chain, can be packaged as shelf stable products for the export market. The products produced using this aseptic technology will have a best before date of nine months and most importantly, the products will retain a similar taste profile as the fresh pasteurised products. We will be the first manufacturer in the Caribbean and Central America region with aseptic packaging capabilities in plastic.

Co-Packaging

We continue to explore co-packaging agreements with Coca Cola, Vemco and Dairy Farmers of America as we seek to better utilize our UHT facilities by increasing throughput, which will spread our fixed cost.

The above programmes are designed to boost our sales, reduce costs and improve productivity whilst ensuring that the excellent quality of our products is maintained. Within two years, they will lead to improved net margins.

Local Dairy Industry

As stated in the Chairman’s report the FTC’s investigation is completed and they ruled that Barbados Dairy Industries Limited did not abuse a dominant position. However, the controversy



regarding the “quota” still lingers and must be addressed urgently. Currently, the existing quotas are significantly higher than the market demand because of the fact that they have not been adjusted since July 2000. Our position remains unchanged in that we will only purchase quantities of fresh milk from the farmers that meet the market demand. Our proposal to revise the existing quota system was rejected by the farmers in June 2003. At the time the farmers, through the Barbados Dairy and Beef Producers Association, promised to present an alternative proposal. They also committed to conduct a study of the local dairy industry that would assist in the preparation of their proposal. At the time of preparing this report, nothing has materialised and Barbados Dairy Industries Limited may be forced to implement our proposal early in 2005.

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Distribution

B&B Distribution commenced distribution of our UHT and canned products from October 1, 2004. This is in keeping with the strategy to have B&B as a main distributor for all products manufactured within the Banks Holdings Group of Companies. A.S. Brydens & Sons (B'dos) Ltd. ceased to be distributor of the said UHT and canned products at the end of September 2004.

Information Technology

We recognise that our achievement over the years is a direct result of the various programs and training implemented at the Dairy. We cannot afford to become complacent as we are in a very fast changing environment. We are committed to utilising technology to its fullest, to drive continuous improvement at the Dairy. We are currently conducting extensive training to prepare our Company to go live with the new SAP financial and manufacturing software package in February 2005. SAP is a very powerful software package that will provide real time information to enable effective decision-making. It will present challenges, as the concepts involved are different from our current accounting system. However, we are extremely confident that our dedicated and skilled employees will overcome these challenges. We look forward with excitement to this new concept of doing business as well as the improvements that will considerably enhance our operations leading to higher productivity.



Training/Quality

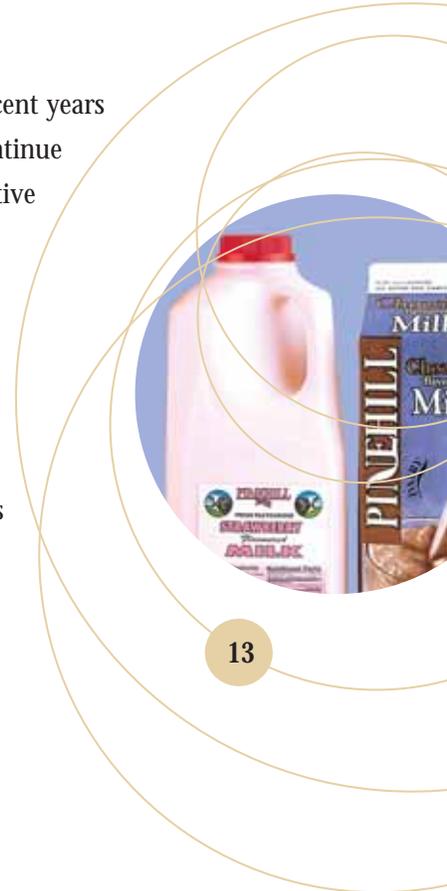
Again this year we invested heavily in staff training, especially in the areas of food hygiene, health and safety and information technology. These training programmes are essential as we endeavour to take our manufacturing processes to world-class standards. We acquired a modern infrared milk analyser, which allows us to do a number of milk tests significantly quicker and with improved accuracy, thus improving the efficiency of our laboratory operations. Our ISO and HACCP programmes remain on stream and during the year, we obtained accreditation to the new ISO 9001/2000 standard. We also started preparations to obtain full HACCP accreditation.

We pledge to continue our efforts to sustain the financial performances of recent years but we must remain conscious of the fact that the challenges ahead of us will continue to be a threat. The changing market conditions are here to stay and it is imperative that we stay committed to managing all our resources prudently.

I wish to thank our Directors and the employees of Barbados Dairy Industries Limited for their support, during the year. Our Company is well positioned to continue to provide high quality products and services thus ensuring our future success. To our customers, distributors, suppliers and many friends, both locally and regionally, I extend sincere thanks on behalf of all the stakeholders of Barbados Dairy Industries Limited for your loyalty during the past year.



Clyde Gibson
Managing Director
December 16th, 2004



Directors' Report

1. The directors present their annual report and the audited consolidated financial statements for the year ended August 31, 2004.

2. The consolidated net income for the year was	\$ 2,827,662
To which is added the retained earnings brought forward of	31,623,639
Giving retained earnings available for appropriation of	<u>34,451,301</u>

3. The directors recommend the following appropriation:

To pay dividend of 21 cents per share, absorbing	(993,201)
Leaving retained earnings to be carried forward of	<u><u>33,458,100</u></u>

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:
E.R. Cumberbatch, P.D. Davis, D.B. Stoute

5. At August 31, 2004 and December 16, 2004 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	
	31.08.04	16.12.04
Banks Holdings Limited	3,960,587 (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 16, 2004

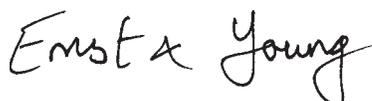
Auditors' Report

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, 2004 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, 2004 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



CHARTERED ACCOUNTANTS

Barbados
December 16th, 2004



USE BY 10/14/2014

PINEHILL
PASTEURIZED
PURE 100% MILK

KEEP REFRIGERATED

Nutrition Facts	
Total Fat	3g
Cholesterol	15mg
Sodium	10mg
Total Carbohydrate	12g
Protein	8g

1 gal. (128 fl. oz.)

USE BY 10/14/2014

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1 gal. (128 fl. oz.)

WILSON
MAX

WILSON
MAX

WILSON
MAX

WILSON
MAX

WILSON
MAX

Consolidated Statement of Income
Year ended August 31, 2004

	Notes	2004 \$	2003 \$
Sales	3	58,470,583	58,416,375
Profit from operations before undernoted items	3	2,950,179	3,996,454
Interest income		9,634	29,832
Interest expense		(350,797)	(412,627)
Unrealised loss on long-term investment		(91,630)	-
Income before taxation		2,517,386	3,613,659
Taxation	4	310,276	(171,969)
Net income for the year		2,827,662	3,441,690
Earnings per share	16	\$0.60	\$0.73

The accompanying notes form part of these financial statements.

Consolidated Balance Sheet
As at August 31, 2004

	Notes	2004 \$	2003 \$
Current assets			
Cash		23,938	26,168
Accounts receivable		3,185,044	2,705,140
Prepaid expenses		348,935	92,349
Corporation tax refundable	4	22,729	22,729
Inventories	5	12,382,473	14,686,156
Current portion of loans receivable	6	145,622	82,200
Due from related companies	7	2,027,969	2,253,837
		<u>18,136,710</u>	<u>19,868,579</u>
Current liabilities			
Bank overdraft	8	677,134	1,351,386
Accounts payable and accrued expenses		5,096,388	6,315,602
Due to related companies	7	476,587	137,687
Current portion of long-term liabilities	9	1,886,406	1,594,102
		<u>8,136,515</u>	<u>9,398,777</u>
Working capital		10,000,195	10,469,802
Deferred taxation	4	1,573,590	1,263,314
Loans receivable	6	321,697	489,096
Long-term investments	10	134,751	226,381
Fixed assets	11	24,922,660	26,075,343
Pension plan	12	586,074	416,592
Long-term liabilities	9	(2,081,462)	(5,317,484)
		<u>35,457,505</u>	<u>33,623,044</u>
Shareholders' equity			
Share capital	13	1,006,204	1,006,204
Proposed dividend		993,201	993,201
Retained earnings		33,458,100	31,623,639
		<u>35,457,505</u>	<u>33,623,044</u>

The accompanying notes form part of these financial statements.

Approved by the Board of Directors on December 16, 2004 and signed on its behalf by:

.....ChairmanDirector

Consolidated Statement of Changes in Equity
Year ended August 31, 2004

	Share capital \$	Proposed dividend \$	Retained earnings \$	Total \$
Balance at August 31, 2002	1,006,204	993,201	29,175,150	31,174,555
Net income for the year	-	-	3,441,690	3,441,690
Ordinary dividend paid	-	(993,201)	-	(993,201)
Ordinary dividend proposed (21¢ per share)	-	993,201	(993,201)	-
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

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows
Year ended August 31, 2004

	2004	2003
	\$	\$
Cash flows from operating activities		
Income before taxation	2,517,386	3,613,659
Adjustments for:		
Depreciation	3,189,503	2,806,746
Gain on disposal of fixed assets	(17,013)	(8,550)
Unrealised loss on long-term investment	91,630	-
Interest income	(9,634)	(29,832)
Interest expense	350,797	412,627
Pension benefit	(169,482)	(194,634)
	<hr/>	<hr/>
Operating profit before working capital changes	5,953,187	6,600,016
(Increase) decrease in accounts receivable	(479,904)	7,713
(Increase) decrease in prepaid expenses	(256,586)	507,791
Decrease (increase) in inventories	2,303,683	(892,362)
Decrease (increase) in due from related companies	225,868	(1,523,025)
(Decrease) increase in accounts payable and accrued expenses	(1,219,214)	1,455,627
Increase (decrease) in due to related companies	338,900	(416,509)
	<hr/>	<hr/>
Cash generated from operations	6,865,934	5,739,251
Interest paid	(350,797)	(412,627)
Interest received	9,634	29,832
	<hr/>	<hr/>
Net cash from operating activities	6,524,771	5,356,456
	<hr/>	<hr/>
Cash flows from investing activities		
Proceeds from disposal of fixed assets	17,013	8,550
Purchase of fixed assets	(2,036,820)	(4,825,205)
Decrease (increase) in loans receivable	103,977	(395,392)
	<hr/>	<hr/>
Net cash used in investing activities	(1,915,830)	(5,212,047)
	<hr/>	<hr/>
Cash flows from financing activities		
Repayment of long-term liabilities	(2,943,718)	(856,947)
Proceeds from long-term liabilities	-	1,840,138
Dividend paid	(993,201)	(993,201)
	<hr/>	<hr/>
Net cash used in financing activities	(3,936,919)	(10,010)
	<hr/>	<hr/>
Decrease in bank overdraft less cash	672,022	134,399
Bank overdraft less cash - beginning of year	(1,325,218)	(1,459,617)
	<hr/>	<hr/>
Bank overdraft less cash - end of year	(653,196)	(1,325,218)
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The accompanying notes form part of these financial statements.

Notes to the Consolidated Financial Statements
Year ended August 31, 2004

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, 2004

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, 2004

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, 2004

3. Profit from operations

	2004	2003
	\$	\$
Sales	58,470,583	58,416,375
Cost of sales	(45,794,854)	(44,668,646)
	<hr/>	<hr/>
Gross profit	12,675,729	13,747,729
Other income	51,928	98,399
	<hr/>	<hr/>
	12,727,657	13,846,128
	<hr/>	<hr/>
Selling and distribution expenses	3,983,267	4,019,799
General and administrative expenses	5,794,211	5,829,875
	<hr/>	<hr/>
	9,777,478	9,849,674
	<hr/>	<hr/>
Profit from operations	2,950,179	3,996,454
	<hr/> <hr/>	<hr/> <hr/>
Profit from operations is after charging:	2004	2003
	\$	\$
Staff costs	10,103,437	9,506,291
	<hr/> <hr/>	<hr/> <hr/>
Depreciation	3,189,503	2,806,746
	<hr/> <hr/>	<hr/> <hr/>
	2004	2003
Average number of employees during the year was	195	190
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Consolidated Financial Statements
Year ended August 31, 2004

4. Taxation

	2004	2003
	\$	\$
Statement of income		
Deferred tax (recovery) charge	(310,276)	171,969
	<u> </u>	<u> </u>

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

	2004	2003
	\$	\$
Income before taxation	2,517,386	3,613,659
Taxed at the applicable rate of 33% (2003- 36%)	830,737	1,300,917
Effects of tax deductible items not reducing accounting profit:		
Capital allowances	(218,743)	(252,630)
Other	99,412	(4,765)
Over provision of prior year's deferred tax asset	63,140	-
Exempt profits	(1,115,060)	(1,484,937)
Exempt unrealized investment loss	30,238	-
Effect on deferred tax resulting from reduction in tax rate	-	613,384
	<u> </u>	<u> </u>
	(310,276)	171,969
	<u> </u>	<u> </u>

Notes to the Consolidated Financial Statements
Year ended August 31, 2004

4. Taxation (cont'd)

	2004	2003
	\$	\$
Balance sheet		
Corporation tax refundable	22,729	22,729
Deferred taxation		
Balance, beginning of year	1,263,314	1,435,283
Deferred tax recovery (charge)	310,276	(171,969)
Balance, end of year	1,573,590	1,263,314
Deferred tax balance is made up as follows:		
Pension asset	(146,519)	(104,148)
Unutilised tax losses	482,282	338,994
Accelerated depreciation for accounting purposes	1,237,827	1,028,468
	1,573,590	1,263,314

Tax losses

The company has unrelieved tax losses of \$1,929,128 (2003 - \$1,355,976) 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	605,240	2013
	1,929,128	

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, 2004

5. Inventories

	2004	2003
	\$	\$
Raw materials	6,251,043	8,267,747
Finished goods	2,485,993	2,123,025
Spares and supplies	3,645,437	4,295,384
	<u>12,382,473</u>	<u>14,686,156</u>

6. Loans receivable

	2004	2003
	\$	\$
Loans receivable due at end of year	529,995	586,165
Less: Deferred interest	(62,676)	(14,869)
	<u>467,319</u>	<u>571,296</u>
Less: Current portion	(145,622)	(82,200)
	<u>321,697</u>	<u>489,096</u>

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 7.65% (2003 – 7.90%) 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, 2004

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

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

	2004	2003
	\$	\$
Sales to a related company	16,686,044	16,645,161
Purchases from related companies	1,099,454	1,241,502
Management fees paid to parent company	108,000	108,000
Interest paid to parent company	181,948	232,008
Interest paid to a related company	67,023	101,837

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 8.15% (2003 – 6.40%).

9. Long-term liabilities

	2004	2003
	\$	\$
i) Grassland Development loans	287,875	494,648
ii) Banks (Barbados) Breweries Limited	623,605	1,116,494
iii) Banks Holdings Limited	881,162	2,249,860
iv) Tetra Pak S.A. 20-110	18,725	279,235
v) First Caribbean International Bank	961,389	1,243,905
vi) Tetra Pak TBA/8	1,195,112	1,527,444
	<hr/>	<hr/>
	3,967,868	6,911,586
Less: current portion	(1,886,406)	(1,594,102)
	<hr/>	<hr/>
Long-term portion	2,081,462	5,317,484
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Consolidated Financial Statements
Year ended August 31, 2004

9. Long-term liabilities (cont'd)

- i) There is a facility of \$1,000,000 with First Caribbean 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 7.65% (2003 – 7.90%) per annum is charged.
- ii) The loan from a related company bears interest at the rate of 7.5% (2003 – 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 loans from the parent company bear interest at the rates of 7.5% (2003 – 7.5% and 8.25%) per annum and are repayable in monthly instalments maturing at various intervals through 2007. The loans are unsecured.
- iv) The finance lease from Tetra Pak S.A. carries interest at the rate of 8% (2003 - 8%) per annum and is repayable over four years in varying quarterly instalments of principal and interest. It is secured by the assets related to the lease.
- v) The company has a loan facility of \$1.5 million from First Caribbean International Bank, of which \$961,389 (2003 - \$1,243,905) has been drawn down. The loan bears interest of 5.65% (2003 – 5.90%) 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

	2004	2003
	\$	\$
Barbados Agro Processing Company Limited (in receivership)	1	1
Little Bristol Investments Inc.	134,750	226,380
	<hr/>	<hr/>
	134,751	226,381
	<hr/> <hr/>	<hr/> <hr/>

Subsequent to the year end, the investment in Little Bristol Investments Inc. was sold for proceeds of \$134,750.

Notes to the Consolidated Financial Statements
Year ended August 31, 2004

11. Fixed assets

	At August 31, 2003	Additions	Disposals	At August 31, 2004
	\$	\$	\$	\$
Cost				
Buildings on leasehold				
land	10,471,771	845,486	-	11,317,257
Plant and machinery	36,203,439	500,665	(443,211)	36,260,893
Motor vehicles	1,504,093	255,009	(133,553)	1,625,549
Furniture, fixtures and equipment	5,579,942	247,009	-	5,826,951
Containers	3,521,412	188,651	-	3,710,063
	<u>57,280,657</u>	<u>2,036,820</u>	<u>(576,764)</u>	<u>58,740,713</u>
Accumulated depreciation				
Buildings on leasehold				
land	4,766,571	501,982	-	5,268,553
Plant and machinery	18,449,347	2,093,945	(443,211)	20,100,081
Motor vehicles	1,043,095	141,026	(133,553)	1,050,568
Furniture, fixtures and equipment	4,231,201	221,392	-	4,452,593
Containers	2,715,100	231,158	-	2,946,258
	<u>31,205,314</u>	<u>3,189,503</u>	<u>(576,764)</u>	<u>33,818,053</u>
Net book value				
Buildings on leasehold				
land	5,705,200			6,048,704
Plant and machinery	17,754,092			16,160,812
Motor vehicles	460,998			574,981
Furniture, fixtures and equipment	1,348,741			1,374,358
Containers	806,312			763,805
	<u>26,075,343</u>			<u>24,922,660</u>

The company has plant and equipment with a net book value of \$1,440,496 (2003-\$2,424,478) secured under finance lease.

Notes to the Consolidated Financial Statements
Year ended August 31, 2004

12. Pension plan

	2004	2003
	\$	\$
Balance sheet		
Present value of funded obligations	10,240,335	10,723,043
Fair value of plan assets	(12,003,741)	(10,109,636)
	<u>(1,763,406)</u>	<u>613,407</u>
Unrecognised actuarial gains (losses)	1,177,332	(1,029,999)
	<u>(586,074)</u>	<u>(416,592)</u>
Statement of income		
Current service cost	346,638	308,465
Interest cost	653,275	557,262
Expected return on plan assets	(722,718)	(630,233)
	<u>277,195</u>	<u>235,494</u>
Total, included in staff costs	277,195	235,494
	<u>1,464,305</u>	<u>568,169</u>

Movement in the net amount recognised in the balance sheet:

	2004	2003
	\$	\$
Net asset, beginning of year	(416,592)	(221,958)
Net expense recognised in the income statement	277,195	235,494
Contributions paid	(446,677)	(430,128)
	<u>(586,074)</u>	<u>(416,592)</u>

	2004	2003
Principal actuarial assumptions as at August 31, were:		
Discount rate at end of year	6.0%	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	2.5%	2.5%
Future increases in NIS ceiling for earnings	2.5%	2.5%
Future pension increases	2.0%	2.0%

Notes to the Consolidated Financial Statements
Year ended August 31, 2004

13. Share capital

Authorised:

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

	2004	2003
	\$	\$
Stated and issued:		
4,729,529 (2003 – 4,729,529) common shares	1,006,204	1,006,204
	<u>1,006,204</u>	<u>1,006,204</u>

14. Operating lease commitment

The lease expense for the year for motor vehicles was \$329,765 (2003 - \$375,042).

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

	2004	2003
	\$	\$
Within one year	314,834	366,462
After one year but not more than five years	219,447	534,282
	<u>534,281</u>	<u>900,744</u>

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 \$1,451,000 (2003 – \$1,228,750) was approved by the Directors but not subject to contract.

Notes to the Consolidated Financial Statements
Year ended August 31, 2004

16. Earnings per share

Earnings per share are based on net income of \$2,827,662 (2003 - \$3,441,690) and 4,729,529 shares (2003 - 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

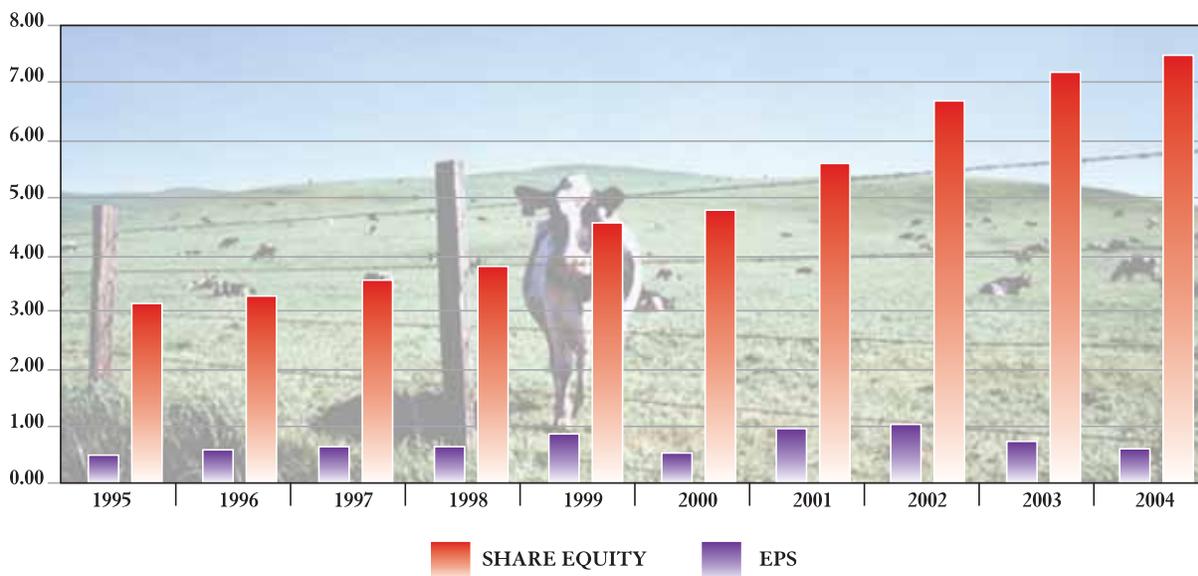
The company sells its products to customers primarily in Barbados and provides loans as detailed in Note 6. Credit risk arises from the possibility that customers and counterparties may default on their obligations to the company. The amount of the company's maximum exposure to credit risk is indicated 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

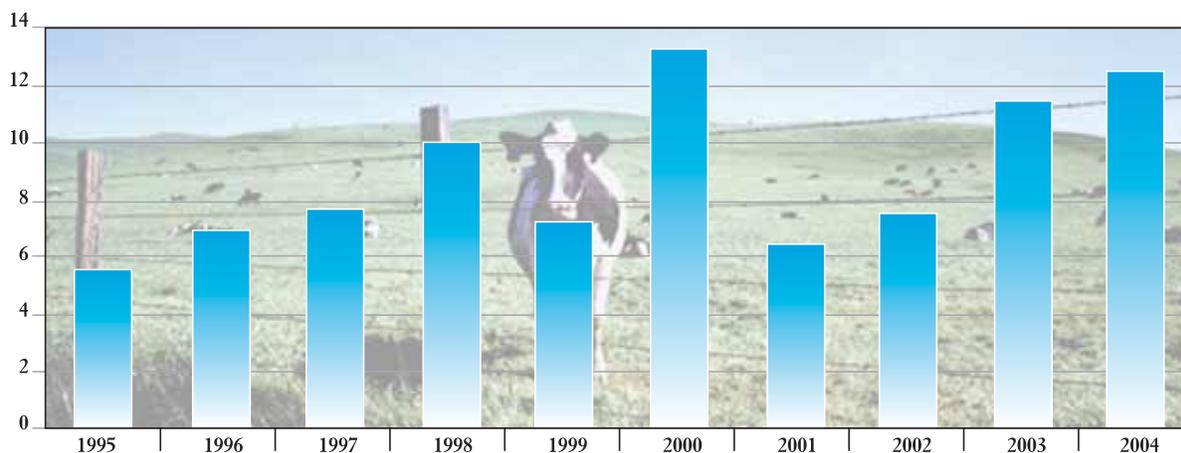
The company is exposed to interest rate risk as detailed in Notes 6, 8 and 9.

Selected Financial Information

SHARE EQUITY & EPS



P/E RATIO



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 Act, management is deemed to be soliciting proxies within the meaning of the Act.

This Management Proxy Circular accompanies the notice of the Fortieth Annual Meeting of Shareholders of Barbados Dairy Industries Limited (hereinafter called “the Company”) to be held on Monday, January 31st, 2005 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 28th, 2005 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 Thursday, December 23rd, 2004 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 Thursday, December 23rd, 2004, 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 16th 2004 there were seven (7) Board members. The number of Directors of the Company to be elected at the meeting is three (3). 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:-

(a) Nominee for Director	Present Principal Occupation
E.R. Cumberbatch	Non-Executive Director
P.D. Davis	Non-Executive Director
D.B. Stoute	Executive Director

With respect to the three (3) persons nominated, the term of office for each person so elected will expire at the close of the Third Annual General Meeting of the shareholders of the Company following his election or until his successor is elected or appointed. The management of the Company does not contemplate that any of the persons named above will, for any reason, become unable or unwilling to serve as a director. Mr. E.R. Cumberbatch and Mr. P.D. Davis two (2) of the above nominees are now directors of the Company and will retire at the close of the Fortieth 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 one year.

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Mr. D.B. Stoute the third nominee was appointed by the Board of Directors to fill the vacancy created by the death of Mr. N.G. Horsley, and is now a director of the Company. In accordance with the Companies Act Mr. Stoute holds office for the unexpired term of his predecessor and therefore will retire at the close of the Fortieth annual general meeting in accordance with the provisions of Clause 4.4 of By-law No 1 of the Company, but being qualified is eligible for re-election. Mr. N.G. Horsley was elected as a director at the Thirty-Ninth annual general meeting held on December 19th, 2003 for a period of one year.

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.

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 40th Annual General Meeting of the Shareholders of the said company to be held on Monday, January 31st, 2005, 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 2005

.....
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 28th, 2005.

CUT HERE

