



**BERMUDA
BAKERY Ltd**

Annual Report 2005



Chairman's Report to Shareholders

April 26, 2006

The operating income for the Company in 2005 increased by \$752,630 to \$887,743 if compared to the consolidated results for the year 2004 of \$135,114. The Rental Division operating income without the now closed Bakery Division increased by \$149,468 or 20%. The net income for Bermuda Bakery Limited for the year 2005 show a net income of \$1,016,530 compared to previous year's net income of \$1,028,649.

Last year's (2004) net income of \$1,028,641 reflects the net effect of redundancy pay of \$570,786, gain on sale of assets of \$217,660, write-off of redundant assets and inventories of \$211,014, a one-time gain of the sale of the Bank of Bermuda shares of \$1,089,904, and the special dividend of \$225,282 received from the Bank of Bermuda.

Earnings were \$3.52 per share for the year 2005, a minor decrease of \$0.04 or 1.2% compared to \$3.57 per share in 2004. Dividends paid last year amounted to \$288,606 or \$1.00 per share, an increase of \$144,390 or \$0.50 cents per share. Trading in Bermuda Bakery shares on the Bermuda Stock exchange was modest with 2% of outstanding shares trading in the range of \$55.00 to \$65.00. The weighted average trade price increased to \$60.31 from \$35.08 in 2004, an increase of 71.9 %.

Net Capital Assets increased by \$76,821 or 2.8%, and Investments by \$2,272,640 or 279.2%. Total Assets increased by 707,757 or 12.4% and Shareholder's Equity by \$744,667 or 13.3%.

During the year 2005 the Bakery's old equipment was disposed, the Building partitioned, renovated and fitted with a new fire alarm system. The Building was rented on short-term leases (two years), while the Company is evaluating its options for the future utilization and development of the Pitts Bay Road property, which is the largest undeveloped commercial property west of Hamilton.

The Belvedere Building, and other investments of the Company, continued to perform well as a result of the significant improvement in the control of costs, cash flow and the capital investments made to improve energy efficiency over the past years.

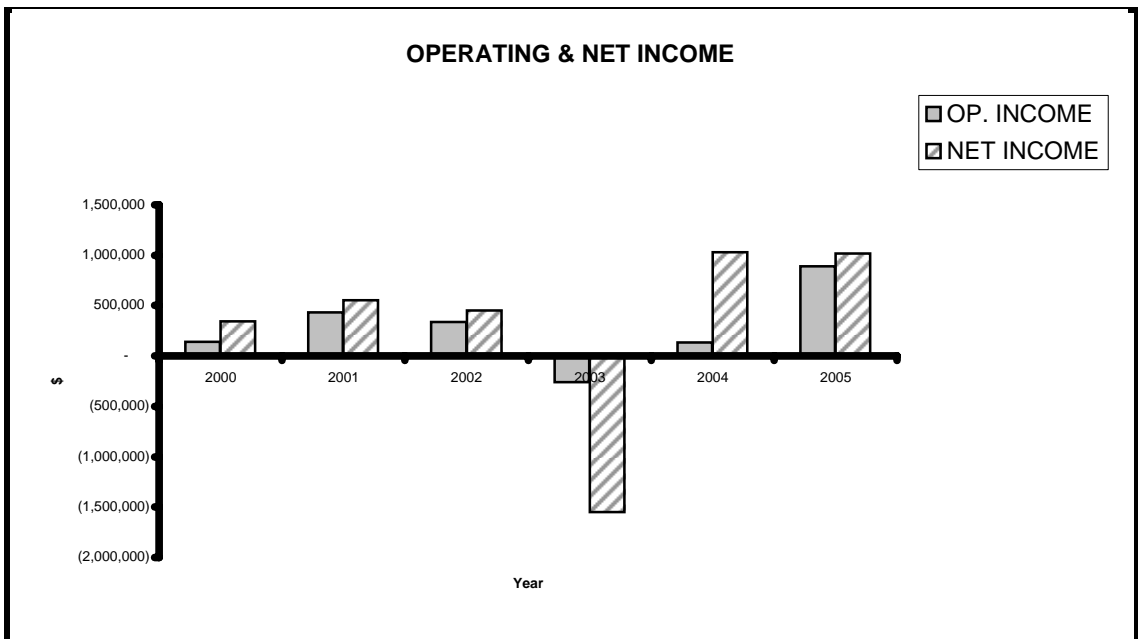
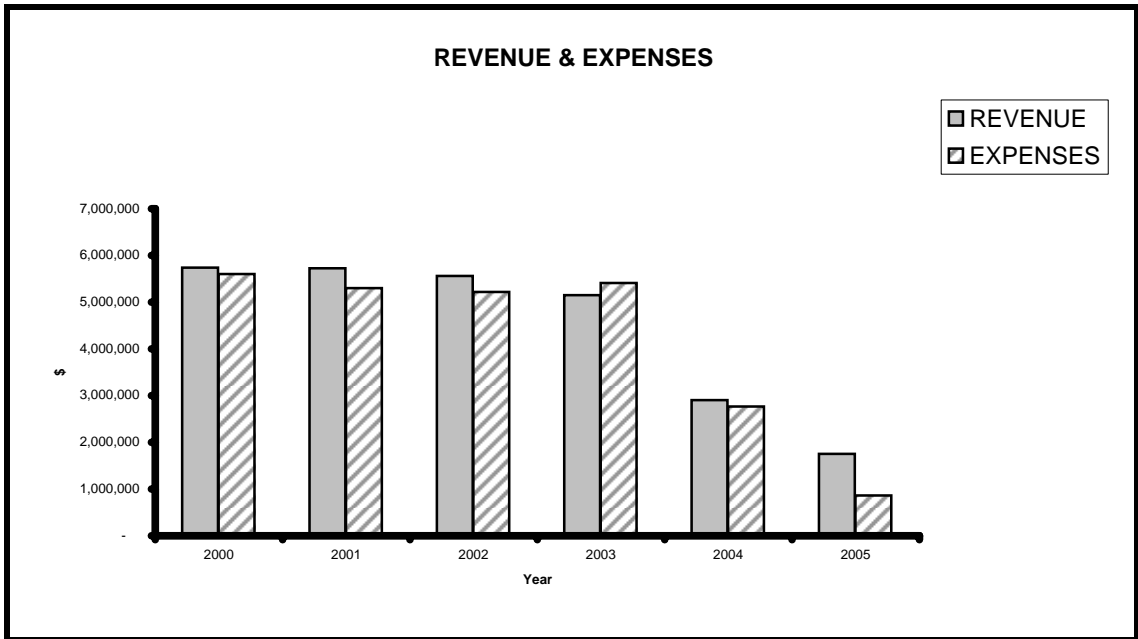
In 2006 the Company will make further improvements to its existing facilities and parking lots. The Bakery Building and Belvedere Building land (lots # 71 and 69 Pitts Bay Road) were recently surveyed and the Company has commenced an invitation only design competition for a concept and a site plan for the Pitts Bay Road properties future development.

I wish to thank the Directors, management and staff for their dedication and support throughout the successful year.

David A.J.G. White
Chairman of the Board

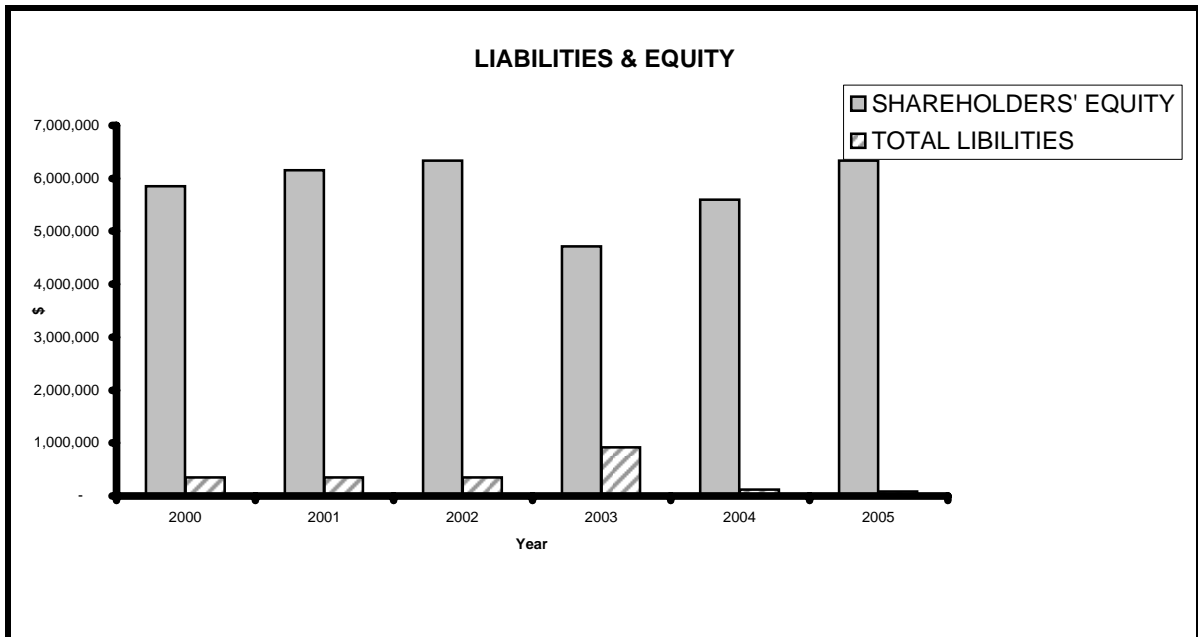
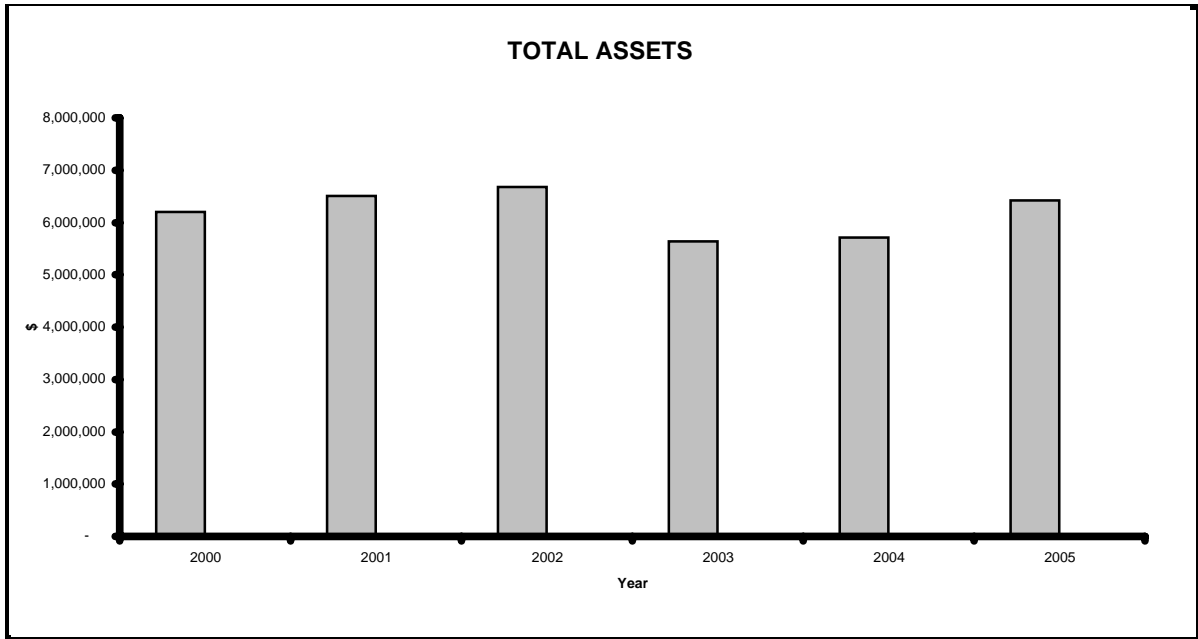
FINANCIAL

Year	Revenue \$	Expenses \$	Operating Income \$	Net Income \$
2000	5,738,639	5,599,626	139,013	341,497
2001	5,726,786	5,295,692	431,094	553,678
2002	5,562,583	5,222,033	340,550	454,395
2003	5,154,748	5,416,456	(261,708)	(1,547,607)
2004	2,898,286	2,763,173	135,114	1,028,640
2005	1,749,078	861,336	887,742	1,016,530



SUMMARY

Year	Assets \$	Liabilities \$	Shaholders' Equity \$
2000	6,203,348	352,936	5,850,412
2001	6,505,510	350,877	6,154,633
2002	6,680,030	347,683	6,332,347
2003	5,633,224	922,359	4,710,865
2004	5,711,073	115,783	5,595,290
2005	6,418,830	78,853	6,339,977



The Bermuda Bakery, Limited

Financial Statements
December 31, 2005

March 7, 2006

Auditors' Report

**To the Shareholders of
The Bermuda Bakery, Limited**

We have audited the balance sheet of **The Bermuda Bakery, Limited** as at December 31, 2005 and the statements of income, retained earnings 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 auditing standards generally accepted in Bermuda and Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether 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.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in Bermuda and Canada.



Chartered Accountants

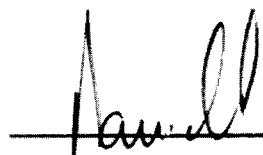
The Bermuda Bakery, Limited

Balance Sheet

As at December 31, 2005

	Note	2005 \$	2004 \$
Assets			
Current assets			
Cash and cash equivalents		350,708	2,040,656
Accounts receivable		76,268	120,564
Prepaid expenses		101,374	8,834
		<u>528,350</u>	<u>2,170,054</u>
Investments, at cost			
(market value - \$4,528,261; 2004 - \$1,801,889)		3,086,568	813,928
Property, plant and equipment	3	<u>2,803,912</u>	<u>2,727,091</u>
		<u>6,418,830</u>	<u>5,711,073</u>
Liabilities			
Current liabilities			
Accounts payable and accrued charges		<u>78,853</u>	<u>115,783</u>
Shareholders' equity			
Share capital	4	1,443,890	1,442,150
Retained earnings		4,827,435	4,099,511
Contributed surplus		<u>68,652</u>	<u>53,629</u>
		<u>6,339,977</u>	<u>5,595,290</u>
		<u>6,418,830</u>	<u>5,711,073</u>

Approved by the Board of Directors



Director



Director

The accompanying notes are an integral part of these financial statements.

The Bermuda Bakery, Limited

Statement of Income

For the year ended December 31, 2005

	Note	2005 \$	2004 \$
Rental division			
Rental income		1,749,078	1,402,530
Expenses			
Depreciation		303,427	197,895
General and administrative		98,623	97,614
Insurance		27,848	30,825
Utilities		75,126	87,795
Maintenance, cleaning and wages		356,312	250,126
		<u>861,336</u>	<u>664,255</u>
Net income before undernoted items		<u>887,742</u>	<u>738,275</u>
Income (expense)			
Interest and dividend income		166,760	335,717
Recognition of deferred revenue		-	32,046
Gain on sale of investments		690	1,089,904
Other		(38,662)	-
		<u>128,788</u>	<u>1,457,667</u>
Net income before discontinued operations		<u>1,016,530</u>	<u>2,195,942</u>
Discontinued operation (Bakery division)			
Sales		-	1,495,756
Cost of sales		-	1,274,722
		<u>-</u>	<u>-</u>
Gross profit (Nil%; 2004 - 14.7%)		<u>-</u>	<u>221,034</u>
Expenses			
Operating expenses		-	762,497
Depreciation		-	61,699
Write-off of redundant assets	8	-	211,014
Gain on sale of assets	8	-	(217,660)
Redundancy and restructuring expense	8	-	570,786
		<u>-</u>	<u>1,388,336</u>
Bakery division loss		<u>-</u>	<u>(1,167,302)</u>
Net income for the year		<u>1,016,530</u>	<u>1,028,640</u>
Basic earnings per share before discontinued operations		<u>3.52</u>	<u>7.61</u>
Basic earnings per share after discontinued operations		<u>3.52</u>	<u>3.57</u>

The accompanying notes are an integral part of these financial statements.

The Bermuda Bakery, Limited

Statement of Retained Earnings

For the year ended December 31, 2005

	2005 \$	2004 \$
Retained earnings - beginning of year	4,099,511	3,215,086
Net income	1,016,530	1,028,640
Dividends	(288,606)	(144,215)
Retained earnings - end of year	<u>4,827,435</u>	<u>4,099,511</u>

The accompanying notes are an integral part of these financial statements.

The Bermuda Bakery, Limited

Statement of Cash Flows

For the year ended December 31, 2005

	2005 \$	2004 \$
Cash flows from operating activities		
Net income	1,016,530	1,028,640
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	303,427	259,594
Deferred revenue	-	(32,046)
Gain on sale of assets	(3,331)	(217,660)
Loss (gain) on sale of investments	4,461	(1,089,904)
Write off of redundant assets	-	211,014
Add (deduct) net changes in assets and liabilities:		
Accounts receivable	44,296	526,033
Inventories	-	31,754
Prepaid expenses	(92,540)	4,128
Accounts payable and accrued charges	(36,930)	(583,722)
Net cash provided by operating activities	<u>1,235,913</u>	<u>137,831</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(415,717)	(143,428)
Proceeds from sale of assets	38,800	581,421
Proceeds from sale of investments	22,414	1,802,255
Purchase of investments	<u>(2,299,515)</u>	<u>(2,400)</u>
Net cash provided by (used in) investing activities	<u>(2,654,018)</u>	<u>2,237,848</u>
Cash flows from financing activities		
Cash dividends paid	(288,606)	(144,215)
Proceeds from issuance of share capital	<u>16,763</u>	<u>-</u>
Net cash used in financing activities	<u>(271,843)</u>	<u>(144,215)</u>
Increase (decrease) in cash	(1,689,948)	2,231,464
Cash - beginning of year	<u>2,040,656</u>	<u>(190,808)</u>
Cash - end of year	<u>350,708</u>	<u>2,040,656</u>

The accompanying notes are an integral part of these financial statements.

The Bermuda Bakery, Limited

Notes to Financial Statements

December 31, 2005

1. General

The Bermuda Bakery, Limited (the "Company") is incorporated under the laws of Bermuda and in conjunction with its wholly owned subsidiary, Bermuda Bakery (Operations) Limited and carried on business as a manufacturer and distributor of bakery products until the closure of the subsidiary, Bermuda Bakery (Operations) Limited in June 2004. The Company is traded on the Bermuda Stock Exchange. The Company also owns a commercial property known as the "Belvedere Building" in which space is generally let under medium and long-term commercial leases.

2. Significant accounting policies

These financial statements have been prepared in accordance with accounting principles generally accepted in Bermuda and Canada. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The significant accounting policies are summarized as follows:

(a) Property, plant and equipment

Property, plant and equipment are recorded at cost. Depreciation is calculated using the straight-line method over the following estimated useful lives:

Bakery roof	25 years
Buildings	40 - 50 years
Equipment	3 - 25 years
Furniture and fixtures	10 years
Improvements to premises	3 - 20 years
Computers	4 years

On an ongoing basis, costs of normal repairs and maintenance are expensed while expenditures which extend the estimated useful lives of the assets are capitalized and depreciated in accordance with the related asset.

(b) Interest and dividend income

Interest income and dividends declared are accrued to the balance sheet date.

(c) Rental income

Rental income is accrued to the balance sheet date.

(d) Investments

Investments primarily comprise securities traded on The Bermuda Stock Exchange and a portfolio of U.S. dollar bonds investments which are carried at cost. Where a decline in value is considered to be other than temporary, the carrying value is reduced accordingly.

The Bermuda Bakery, Limited

Notes to Financial Statements

December 31, 2005

(e) **Pension costs**

The Company sponsors a defined contribution pension covering all eligible employees. The cost of the Plan is expensed as related benefits are earned by the employees. The Company makes monthly contributions in accordance with the Plan Agreement to the employees individual accounts, which are administered by an insurance company pursuant to and in accordance with the National Pension Scheme (Occupational Pensions) Act 1998 Applicable and Amendments and regulations thereto.

(f) **Financial instruments**

The carrying value of cash, accounts receivable, inventory, prepaid expenses, bank overdraft and accounts payable and accrued charges approximate fair value due to the short-term maturity of these instruments.

3. **Property, plant and equipment**

	Cost	Accumulated depreciation	2005 Net	2004 Net
	\$	\$	\$	\$
Land	95,004	-	95,004	95,004
Building	2,293,767	1,405,846	887,921	653,050
Computers	3,130	848	2,282	3,065
Furniture and fixtures	322,622	221,448	101,174	128,455
Improvements to premises	1,013,143	644,030	369,113	426,900
Equipment	1,998,835	650,417	1,348,418	1,420,617
	5,726,501	2,922,589	2,803,912	2,727,091

Total additions to capital assets during the year were \$415,717 (2004 - \$143,428).

On January 21, 2002, the Belvedere Building and the land, which was utilized for the bakery operation, were independently valued by Brian E. Madeiros, BSC., M.R.I.C.S. of J.W. Bermuda Realty at \$23,975,000. As at December 31, 2005 these assets are carried on the balance sheet at a net book value of \$1,848,658 (2004 - \$1,969,193).

Generally accepted accounting principles in Bermuda and Canada no longer allow the revaluation of capital assets on a periodic basis. However if the balance sheet as at December 31, 2005 was adjusted to reflect the building and land at their January 21, 2002 valuation, shareholders' equity per share would increase from \$21.95 (2004 - \$19.40) to \$98.57 (2004 - \$95.69).

From July to December 2005 the Bakery premises were leased to third parties. Associated rental income and expenses have been included in the Rental Division's results of operations for the year.

The Bermuda Bakery, Limited

Notes to Financial Statements

December 31, 2005

4. Share capital

	2005	2004
	\$	\$
Common shares		
Authorized-		
370,000 share of a par value of \$5 each		
Issued-		
288,780 (2004 - 288,430) shares	1,443,890	1,442,150

Employee share purchase plan

Effective May 22, 2003, the shareholders of Bermuda Bakery, Limited approved an employee share purchase plan whereby eligible employees may purchase the Company's common shares at a price 15% below the average market price. The average market price is determined by the average of the three closing prices of the Company's common shares, set out on the three days preceding the subscription date in which Company's share halted on the Bermuda Stock Exchange. Eligible employees may acquire shares in any calendar year up to a maximum value not exceeding 15% of their annual gross salary. Employees are restricted from selling the shares for a period of one year from the subscription date. The shares purchased are issued from authorized, unissued share capital. 10,000 common shares of the Company have been made available for sale to employees under the plan.

For the year ended December 31, 2005, employees subscribed for and were issued 348 (2004 - Nil) common shares for proceeds of \$16,763 (2004 - \$Nil).

5. Pension plan

As described in note 2. The Company sponsors a defined contribution plan covering all eligible employees. Contributions to these plans are made by the employee and the Company. The company matches employees' contributions to a maximum of 5% of the employees' annual earnings. The pension expense recognized by the Company in the current year was \$7,850 (2004 - \$30,569), representing the Company's share of contributions to the plan.

6. Earnings per share

Basic earnings per share presented in the statement of income is calculated by dividing net income by the weighted average number of common shares outstanding during the year, which was 288,605 shares (2004 - 288,430).

7. Directors' share interests

The directors and executive officers of the Company had combined interests in 70,448 of the Company's common shares as at December 31, 2005 (2004 - 69,100).

The Bermuda Bakery, Limited

Notes to Financial Statements

December 31, 2005

8. *Discontinued operations*

In September 2003, the Company restructured the Bakery Division by discontinuing the baking of breads and rolls. The Company continued to distribute imported breads, and to bake cake and snack products from its present location. The suspension of baking bread and rolls resulted in the redundancy of one-third of the Bakery Operations' employees.

In June 2004, the company closed the Bakery Division and sold its inventory, some plant equipment and other assets for consideration of \$581,421, resulting in a gain of \$217,660. The closure resulted in a charge of \$211,014 for the disposal of redundant plant equipment and materials inventory. Redundancy and restructuring expenses relating to the closure amounted to \$570,786.

DIRECTORS AND OFFICERS

Chairman & Director
David A. J. G. White

Vice Chairman & Director
Reid T. Young

Director
W. Roger Davidson

Director
David P. Gutteridge

Director
Peter A. Pearman

Director
Glenn M. Titterton

Director
B. W. Walker

Secretary
Michael Ashford, Codan Services Limited

Financial Controller
Eric O. Vauhkonen, MBSc, CMA

BERMUDA BAKERY LIMITED

71 Pitts Bay Road, Pembroke HM 08, Bermuda

P.O Box HM 833, Hamilton HM CX , Bermuda

Tel: (441) 295-5985 - Fax: (441) 295-7546

E-mail: info@bermudabakery.bm