Devonshire Industries Limited

Annual Report and
Consolidated Financial Statements
March 31, 2011

Devonshire Industries Limited
Unaudited
March 31, 2011

Summary of financial information

	Year ended March 31				
			Restated	Restated	
	2011	2010	2009	2008	2007
	$	$	$	$	$
Assets	2,909,781	3,057,386	2,875,050	2,946,001	3,095,608
Liabilities	201,027	371,454	146,673	220,835	187,928
Shareholders’ equity	2,708,754	2,685,932	2,728,377	2,725,166	2,907,680
Net earnings	133,239	399,230	444,886	426,711	461,637

Directors’ share interests and service contracts

Pursuant to Regulation 6.8(3) of Section 11B of the Bermuda Stock Exchange Listing Regulations, the total interests of all the directors and officers of the Company in the shares of the Company at March 31, 2011 were 12,297 (2010 - 12,297) shares. No rights to subscribe for shares in the Company have been granted to or exercised by any director or officer. There are no service contracts with directors.

Consolidated Financial Statements
March 31, 2011

September 9, 2011

Independent Auditor's Report

To the Shareholders of
Devonshire Industries Limited

We have audited the accompanying consolidated financial statements of **Devonshire Industries Limited** and its subsidiary, which comprise the consolidated balance sheet as at March 31, 2011 and the consolidated statement of income and retained earnings, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Bermuda and Canada, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated 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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Shareholders of Devonshire Industries Limited
September 9, 2011

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for qualified opinion

As described in note 4, the land and buildings were restated at appraised value in 1992. With effect from 1991, generally accepted accounting principles preclude restating property, plant and equipment at appraised value, and therefore the restatement in 1992 is not in accordance with generally accepted accounting principles. If the land and buildings had not been restated at the 1992 appraised value, depreciation and the realisation of the excess of appraised value of property, plant and equipment over depreciated cost would be decreased by $20,000, net income would be increased by $20,000, and property, plant and equipment and the excess of appraised value of property, plant and equipment over depreciated cost would be decreased by $225,000.

Opinion

In our opinion, except for the effects of the matter described in the basis for qualified opinion paragraph, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of **Devonshire Industries Limited** and its subsidiary as at March 31, 2011 and its financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Bermuda and Canada.

PricewaterhouseCoopers

Chartered Accountants

Devonshire Industries Limited
Consolidated Balance Sheet
As at March 31, 2011

	2011 $	2010 $
Current assets		
Cash	185,341	339,319
Deposits	388,474	490,302
Accounts receivable - net (note 8)	363,855	322,340
Other receivables	22,786	9,756
Inventories (note 3)	942,604	879,761
Prepaid expenses	68,342	50,787
	1,971,402	2,092,265
Property, plant and equipment (note 4)	858,194	899,988
Intangible assets (note 9)	80,185	65,133
	2,909,781	3,057,386
Current liabilities		
Accounts payable and accrued liabilities (note 8)	201,027	371,454
Shareholders' equity		
Capital stock		
Authorized -		
456,000 common shares of a par value of $0.50 each		
Issued and fully paid -		
441,675 common shares	220,838	220,838
Contributed surplus	56,790	56,790
Share premium (note 5)	89,954	89,954
Excess of appraised value of property, plant and equipment over depreciated cost (note 5)	283,445	309,949
Retained earnings	2,057,727	2,008,401
	2,708,754	2,685,932
	2,909,781	3,057,386

Approved by the Board of Directors

_______________ Director _______________ Director

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

Devonshire Industries Limited

Consolidated Statement of Income and Retained Earnings

For the year ended March 31, 2011

	2011 $	2010 $
Sales (note 8)	3,268,328	3,323,415
Cost of sales	1,975,073	1,935,489
Gross margin (2011 – 39.6%; 2010 - 41.8%)	1,293,255	1,387,926
Administrative and selling expenses (note 10)	1,188,864	1,035,629
Operating income	104,391	352,297
Other income	28,848	46,933
Net income for the year	133,239	399,230
Retained earnings - Beginning of year	2,008,401	2,024,342
Realization of the excess of appraised value of property, plant and equipment over depreciated cost (note 5)	26,504	26,504
	2,168,144	2,450,076
Dividends	110,417	441,675
Retained earnings - End of year	2,057,727	2,008,401
Net income per share	0.30	0.90

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

Devonshire Industries Limited

Consolidated Statement of Changes in Shareholders' Equity

For the year ended March 31, 2011

	Capital stock $	Contributed surplus $	Share premium $	Revaluation reserve $	Retained earnings $	Total $
Balance, March 31, 2009	220,838	56,790	89,954	336,453	2,024,342	2,728,377
Net income for the year	-	-	-	-	399,230	399,230
Dividends paid	-	-	-	-	(220,838)	(220,838)
Dividends declared	-	-	-	-	(220,837)	(220,837)
Realization of revaluation reserve (note 5)	-	-	-	(26,504)	26,504	-
Balance, March 31, 2010	**220,838**	**56,790**	**89,954**	**309,949**	**2,008,401**	**2,685,932**
Net income for the year	-	-	-	-	133,239	133,239
Dividends paid	-	-	-	-	(110,417)	(110,417)
Realization of revaluation reserve (note 5)	-	-	-	(26,504)	26,504	-
Balance, March 31, 2011	**220,838**	**56,790**	**89,954**	**283,445**	**2,057,727**	**2,708,754**

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

Devonshire Industries Limited

Consolidated Statement of Cash Flows

For the year ended March 31, 2011

	2011 $	2010 $
Cash flows from operating activities		
Net income for the year	133,239	399,230
Add (deduct) items not affecting cash:		
Depreciation	100,079	92,355
Amortisation of intangible asset	20,000	20,000
Changes in non-cash working capital items:		
Accounts receivable and other receivables	(54,545)	(10,575)
Inventories	(62,843)	(98,348)
Prepaid expenses	(17,555)	10,050
Accounts payable and accrued liabilities	50,412	3,944
Net cash provided by operating activities	168,787	416,656
Cash flows for investing activities		
Purchase of property, plant and equipment	(58,285)	(152,349)
Purchase of intangible assets	(35,052)	(36,800)
Cash used in investing activities	(93,337)	(189,149)
Cash flow for financing activity		
Dividends paid	(331,254)	(220,838)
Cash used in financing activity	(331,254)	(220,838)
Increase (decrease) in cash and deposits	(255,806)	6,669
Cash and deposits - beginning of year	829,621	822,952
Cash and deposits - end of year	573,815	829,621
Cash and deposits consist of:		
Cash	185,341	339,319
Deposits	388,474	490,302
	573,815	829,621
Supplemental cash flow		
Cash received from interest	9,712	16,880

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

1. Nature of business

Devonshire Industries Limited ("the Company") and Bermuda Paint Company Limited ("the subsidiary") (note 2(a)) are incorporated under the laws of Bermuda. The Company is primarily engaged in the management of the Bermuda Paint Company Limited, which is primarily engaged in the manufacture and sale of architectural and related products. The Company is listed on the Bermuda Stock Exchange.

2. Significant accounting policies

The accompanying consolidated financial statements are in accordance with accounting principles generally accepted in Bermuda and Canada applicable to a going concern. The preparation of these consolidated financial statements require management to make estimates and assumptions that affect reported amounts of assets, liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements. Estimates also affect the reported amounts of income and expenses for the reporting period. Actual results could differ from those estimates. Outlined below are those policies considered particularly significant.

(a) **Principles of consolidation**
These consolidated financial statements include the financial statements of Devonshire Industries Limited and its wholly-owned subsidiary, Bermuda Paint Company Limited. All material intercompany accounts and transactions are eliminated on consolidation.

(b) **Inventories**
Inventories are carried at the lower of cost (either average or actual cost as appropriate to the class of inventory) and net realisable value. Cost comprises direct materials and, where applicable, directs labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realizable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(c) **Property, plant and equipment**
Property, plant and equipment are carried at cost or appraised value, less accumulated depreciation. Depreciation is charged on a straight-line basis, unless noted below, over the estimated useful lives of the assets as follows:

Buildings (based on gross book value after appraisals (note 4))	4%
Factory forklift and electrical improvements	10%
Factory and office equipment (diminishing balance method)	15%
Motor vehicles	20%
Computers	25%

(d) **Revenue recognition**
Sales comprise the fair value of the consideration for the sale of products in the ordinary course of the Company's activities. Allowance for trade discounts is provided for during the month of sale.

Interest income is accrued by reference to the principal outstanding and at the effective interest rate applicable.

(e) **Accounts receivable**
Accounts receivable are carried at the original invoice amount to customers less an estimate made for doubtful receivables based on periodic review of all outstanding amounts, which includes an analysis of historical bad debt and customer creditworthiness. Bad debts are written off when identified.

(f) **Cash**
Cash comprises cash on hand and bank deposits.

(g) **Deposits**
Deposits are fixed term deposits in the bank with maturity of less than one year.

(h) **Financial instruments**
Financial assets and financial liabilities are recognized on the balance sheet when the Company becomes a party to the contractual provisions of the instrument.

(i) **Capital management**
The Company's policy is to maintain strong capital structure. The Company manages its capital to safeguard the entity's ability to continue as a going concern, to provide an adequate return to shareholders, to meet its financial obligations, and to have the financial flexibility to take advantage of growth opportunities.

The Company defines capital as the amount presented in the equity section of the balance sheet.

In order to maintain or adjust its capital structure, the Company may adjust the amount of dividends paid to shareholders or issue new shares.

The Company is not subject to any external capital requirements as at the year end.

(j) **Intangible assets**
Intangible asset are initially recognized at cost. Intangible assets that have indefinite useful lives are tested for impairment on an annual basis. Intangible assets that have finite useful lives are amortized over those lives on a straight-line basis.

(k) **Research and development**
Expenditure on research is recognized as an expense in the period in which it is incurred. Costs that are directly attributable to the development phase are recognized as intangible assets provided they meet the following recognition requirements:

- Completion of the intangible asset is technically feasible so that it will be available for use or sale,
- The Company intends to complete the intangible asset and use or sell it;
- The Company has the ability to use or sell the intangible assets;
- The intangible asset will generate probable future economic benefits. Among other things, this requires that there is a market for the output from the intangible asset or for the intangible asset itself, or if it is to be used internally, the asset will be used in generating such benefits;
- There are adequate technical, financial and other resources to complete the development and to use or sell the intangible assets; and
- The expenditure attributable to the intangible asset during its development can be measured reliably.

Development costs not meeting above criteria for capitalization are expensed as incurred. The capitalization of development costs is initiated when all the criteria mentioned are met. Directly attributable costs include employee costs incurred in the development along with appropriate portion of relevant overheads. The assets are subject to impairment testing on an annual basis.

(l) **New accounting pronouncements**
The CICA has decided to transition to International Financial Reporting Standards ("IFRS") for publicly accountable entities effective January 1, 2011. The Company currently meets the definition of a publicly accountable entity. The Company expects to adopt IFRS in its financial statements for the year ending March 31, 2012. The Company's transition date for the conversion to IFRS will be April 1, 2011 and will require the restatement of comparative purposes of amounts reported by the Company for the year ended March 31, 2011. While the Company is continuing to assess the adoption of IFRS, the financial reporting impact of the transition cannot be reasonably estimated at this time.

3. *Inventories*

Inventories are classified as follows:

	2011 $	2010 $
Raw materials	447,902	315,496
Trading goods	310,944	347,645
Finished goods	183,758	216,620
	942,604	879,761

Cost of sales comprises inventories expensed during the year in the amount of $1,655,737 (2010 - $1,623,727). There are $9,843 of inventories written down during the year (2010 - $2,751).

4. *Property, plant and equipment*

	2011			2010
	Cost or appraised value $	Accumulated depreciation $	Net book value $	Net book value $
Land (appraised value)	225,000	-	225,000	225,000
Buildings (appraised value)	766,036	568,641	197,395	228,037
Improvements (cost)	347,317	188,214	159,103	150,006
Factory equipment (cost)	801,046	619,723	181,323	197,837
Office equipment (cost)	195,926	136,495	59,431	49,360
Motor vehicles (cost)	94,908	91,687	3,221	4,120
Computer (cost)	163,921	131,200	32,721	45,628
	2,594,154	1,735,960	858,194	899,988

Depreciation in the amount of $100,079 (2010 - $92,355) has been charged against income during the year of which $25,162 (2010 - $25,463) is included in the cost of sales.

In 1976, 1981 and 1992 the land and buildings were appraised. In 1992, the value of the land and buildings was appraised by Woodbourne Associates Ltd. The person who carried out the appraisal was also a director of the Company. The revaluation resulted in an increase in the excess of appraised value of property, plant and equipment over depreciated cost of $601,633 (note 5). The excess of the appraised value over depreciated cost is included in shareholders' equity. The portion of the depreciation for the year of $26,504 (2010 - $26,504) which represents the realisation of the appraisal increases of the buildings in 1971, 1981 and 1992 has been transferred to retained earnings (note 5).

5. Shareholders' equity

(a) **Share premium**
The share premium balance relates to the excess over par value of the issued shares of the Company.

(b) **Excess of appraised value of property, plant and equipment over depreciated cost**

	2011 **$**	**2010** **$**
Balance - Beginning of year	309,949	336,453
Portion realized through depreciation based upon appraised values	(26,504)	(26,504)
Balance - End of year	283,445	309,949

6. Pension plan

The Company and its subsidiary have an administered defined contribution pension plan for their employees. Pension benefits are determined as a function of accumulated contributions made by both the companies and the employees and the investment returns earned by the invested contributions. The companies' contributions are charged against income in the year the employees provided the service. The pension expense for the year was $35,754 (2010 - $33,822).

7. Financial instruments

The estimated fair value of cash, deposits, accounts receivable, other receivables and accounts payable and accrued liabilities approximate their carrying values.

The Company could be exposed to credit risk if it failed to collect its accounts receivable from customers. As at March 31, 2011, the maximum exposure is $363,855. The Company maintains a provision of $66,093 (2010 - $57,418) for potential credit losses and any such losses to date have been within management's expectations. To manage this risk, granting of credit to customers is based on their credit standing. The Company reviews the creditworthiness of its customer on an ongoing basis. Any delinquent customers are forwarded to Bermuda Credit Association for collection. As at March 31, 2011, this exposure does not adversely affect the short-term liquidity of the Company due to sufficient other liquid assets being available to meet the Company's short-term obligations. In addition, the credit risk associated with cash and deposits is not significant as cash and deposits are placed with high credit quality financial institutions. The Company also maintains a conservative approach in managing working capital.

8. Related party transactions and balances

Transactions and balances between the Company and its related parties are disclosed below.

	2011 **$**	**2010** **$**
Sale of goods	228,353	251,212
Purchases of goods	215,587	175,075
Amounts receivable from related parties	25,044	16,338
Amounts payable to related parties	160	1,110
Dividends payable	-	220,837

Sales of goods to related parties were made at the Company's usual list prices, less normal trade discounts. Purchases were made at market price. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

9. Intangible assets

(a) The Company purchased distribution rights as a non-exclusive distributor on September 1, 2007. The cost pertaining to this purchase has been recorded as an intangible asset and is being amortized on a straight-line basis over four years.

(b) The Company started to undertake a research and development in the later part of 2009. As of March 31, 2011, $71,852 (2010 - $36,800) has been incurred in the development phase and these costs will start to be amortized once the project is completed and put into use.

	Development **$**	**Distribution rights** **$**	**Total value** **$**
Year ended March 31, 2010			
Opening net book amount	-	48,333	48,333
Acquisitions	36,800	-	36,800
Amortization	-	(20,000)	(20,000)
Closing net book amount	36,800	28,333	65,133
At March 31, 2010			
Cost	36,800	80,000	116,800
Accumulated Amortization	-	(51,667)	(51,667)
Net book amount	36,800	28,333	65,133
Year ended March 31, 2010			
Opening net book amount	36,800	28,333	65,133
Acquisitions	35,052	-	35,052
Amortization	-	(20,000)	(20,000)
Closing net book amount	71,852	8,333	80,185

	Development $	Distribution rights $	Total value $
At March 31, 2011			
Cost	71,852	80,000	151,852
Accumulated Amortization	-	(71,667)	(71,667)
Net book amount	71,852	8,333	80,185

There was no impairment of intangible assets for the years ended March 31, 2011 and 2010.

10. *Administrative and selling expenses*

	2011 $	2010 $
Payroll and other related expenses	754,460	700,332
Depreciation and amortisation	94,917	86,892
Advertising and promotions	15,932	24,494
Maintenance expenses	65,654	72,348
Insurance expenses	36,789	35,627
Audit fee	32,025	35,675
Bank charges	18,700	16,613
Other expenses	170,387	63,648
	1,188,864	1,035,629