

# **Devonshire Industries Limited**

Consolidated Financial Statements  
**March 31, 2006**



July 6, 2006

**PricewaterhouseCoopers**  
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## To the Shareholders of Devonshire Industries Limited

We have audited the consolidated balance sheet of Devonshire Industries Limited as at March 31, 2006 and the consolidated statements of income and retained earnings and of 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.

As described in note 3, the land and buildings were restated at appraised value in 1976, 1981 and 1992. The adjustments in 1976 and 1981 were not deemed to be departures from generally accepted accounting principles. 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 realization 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 \$345,000.

In our opinion, except for the effects of restating land and buildings at appraised value in 1992 as described in the preceding paragraph, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at March 31, 2006 and the results of its operations and cash flows for the year then ended in accordance with accounting principles generally accepted in Bermuda and Canada.



**Chartered Accountants**

A list of partners can be obtained from the above address

PricewaterhouseCoopers refers to the members of the worldwide PricewaterhouseCoopers organization

# Devonshire Industries Limited

Consolidated Balance Sheet

As at March 31, 2006

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	2006 \$	2005 \$
<b>Current assets</b>		
Cash and time deposits (note 6)	1,037,762	867,298
Accounts receivable - trade	319,819	302,181
- other	14,516	44,064
Inventories (note 2)	655,196	759,117
Prepaid expenses	95,782	89,964
	<hr/>	<hr/>
	2,123,075	2,062,624
<b>Property, plant and equipment</b> (note 3)	945,733	1,007,546

**Current liabilities**

Accounts payable and accrued liabilities	184,765	143,866
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**Shareholders' equity**

Capital stock

Authorised -

456,000 common shares of a par value of \$0.50 each

Issued and fully paid -

438,000 (2005 - 438,000) common shares

Contributed surplus

Share premium

Excess of appraised value of property, plant and equipment over  
depreciated cost (note 4)

Retained earnings

	219,000	219,000
	56,790	56,790
	42,179	42,179
	415,965	442,469
	2,150,109	2,165,866
	2,884,043	2,926,304
	3,068,808	3,070,170

**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, 2006

	2006 \$	2005 \$
<b>Sales</b>	3,532,422	2,991,928
<b>Cost of sales</b>	2,105,158	1,688,135
<b>Gross margin</b> (2006 - 40.4%; 2005 - 43.6%)	1,427,264	1,303,793
<b>Administrative and selling expenses</b>	1,087,130	1,015,136
<b>Operating income</b>	340,134	288,657
Other income	55,605	62,240
<b>Net income for the year</b>	395,739	350,897
<b>Retained earnings - Beginning of year</b>	2,165,866	2,226,465
Realisation of the excess of appraised value of property, plant and equipment over depreciated cost (note 4)	26,504	26,504
	2,588,109	2,603,866
Dividends	438,000	438,000
<b>Retained earnings - End of year</b>	2,150,109	2,165,866
<b>Net income per share</b>	0.90	0.80

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

# Devonshire Industries Limited

Consolidated Statement of Cash Flows

For the year ended March 31, 2006

	2006	2005
	\$	\$
<b>Cash flows from operating activities</b>		
Net income for the year	395,739	350,897
Add items not affecting cash:		
Depreciation	112,770	110,402
Gain on disposal of property, plant and equipment	-	11,276
Changes in non-cash working capital items:		
Accounts receivable - trade and other	11,910	(42,240)
Inventories	103,921	(164,966)
Prepaid expenses	(5,818)	15,297
Accounts payable and accrued liabilities	40,899	14,828
	<u>659,421</u>	<u>295,494</u>
<b>Cash flows from investing activities</b>		
Disposal of property, plant and equipment	-	500
Purchase of property, plant and equipment	(50,957)	(89,464)
	<u>(50,957)</u>	<u>(88,964)</u>
<b>Cash flow from financing activity</b>		
Dividends paid	(438,000)	(438,000)
<b>Decrease in cash and time deposits</b>	170,464	(231,470)
<b>Cash and time deposits - Beginning of year</b>	867,298	1,098,768
<b>Cash and time deposits - End of year</b>	<u>1,037,762</u>	<u>867,298</u>
<b>Cash and time deposits consist of:</b>		
Cash	308,643	99,089
Time deposits	729,119	768,209
	<u>1,037,762</u>	<u>867,298</u>

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

**Devonshire Industries Limited**  
Notes to Consolidated Financial Statements  
**March 31, 2006**

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**1. Significant accounting policies**

The accompanying financial statements are in accordance with accounting principles generally accepted in Bermuda and Canada. The preparation of these financial statements in accordance with generally accepted accounting principles requires 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.

(b) **Inventories**

Inventories are carried at the lower of cost (either average or actual cost as appropriate to the class of inventory) and net realizable value.

(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 3))	4%
Factory forklift and electrical improvements	10%
Factory and office equipment (diminishing balance method)	15%
Motor vehicles	20%
Computers	25%

**2. Inventories**

Inventories are classified as follows:

	2006 \$	2005 \$
Raw materials	286,382	375,486
Finished goods	368,814	383,631
	655,196	759,117



**Devonshire Industries Limited**  
Notes to Consolidated Financial Statements  
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**3. Property, plant and equipment**

	2006		2005	
	Cost or appraised value \$	Accumulated depreciation \$	Net \$	Net \$
Land (appraised value)	225,000	-	225,000	225,000
Buildings (appraised value)	766,035	415,434	350,601	381,242
Improvements (cost)	264,187	129,084	135,103	141,675
Factory equipment (cost)	640,009	487,834	152,175	152,226
Office equipment (cost)	130,203	103,146	27,057	29,737
Motor vehicles (cost)	90,414	60,610	29,804	46,480
Computer (cost)	94,973	68,980	25,993	31,187
	<u>2,210,821</u>	<u>1,265,088</u>	<u>945,733</u>	<u>1,007,547</u>

Depreciation in the amount of \$112,770 (2005 - \$110,402) has been charged against income during the year of which \$22,004 (2005 - \$24,364) is included in the calculation of 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 is 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 4). 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 (2005 - \$26,504) which represents the realization of the appraisal increase has been transferred to retained earnings (note 4).

**4. Excess of appraised value of property, plant and equipment over depreciated cost**

	2006 \$	2005 \$
Balance - Beginning of year	442,469	468,943
Portion realised through depreciation based upon appraised values	(26,504)	(26,504)
Balance - End of year	<u>415,965</u>	<u>442,469</u>

**5. Pension plan**

The company and its subsidiary has 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. The companies contributions are charged against income in the year contributed. The pension expense for the year was \$34,056 (2005 - \$31,297).

# Devonshire Industries Limited

Notes to Consolidated Financial Statements

March 31, 2006

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## 6. *Financial instruments*

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

The time deposits have varying interest rates and maturity dates, with none maturing more than 24 months after year end.

## 7. *Directors' share interests and service contracts*

The total interests of all the directors and officers of the company in the shares of the company at March 31, 2006 were 96,942 (2005 - 96,942) 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.



# Devonshire Industries Limited

## Summary of Financial Information

For the year ended March 31, 2006

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	2006 \$	2005 \$	2004 \$	2003 \$	2002 \$
Assets	3,068,808	3,070,170	3,142,445	3,124,430	3,304,668
Liabilities	184,765	143,866	129,038	137,951	217,432
Shareholders' equity	2,884,043	2,926,304	3,013,407	2,986,479	3,086,736
Net earnings	395,739	350,897	464,928	328,743	421,888