Devonshire Industries Limited

Consolidated Financial Statements
March 31, 2008

Devonshire Industries Limited

Summary of Financial Information

For the year ended March 31, 2008

The following represents the results of operating and financial position for the past five years:

	Year ended December 31				
	2008	**2007**	**2006**	**2005**	**2004**
	$	**$**	**$**	**$**	**$**
Assets	3,006,836	3,142,851	3,068,808	3,070,170	3,142,445
Liabilities	220,835	187,928	184,765	143,866	129,038
Shareholders’ equity	2,786,001	2,954,923	2,884,043	2,926,304	3,013,407
Net earnings	440,303	508,880	395,739	350,897	464,928

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Auditors' Report

To the Shareholders of
Devonshire Industries Limited

We have audited the consolidated balance sheet of Devonshire Industries Limited as at March 31, 2008 and the consolidated statements of income and retained earnings, changes in shareholders' 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 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 consolidated financial statement presentation.

As described in note 4, 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 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 $285,000.

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, 2008 and the results of its operations, changes in shareholders' equity 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, 2008

	2008 $	2007 $
Current assets		
Cash	146,833	132,688
Deposits	808,747	923,740
Accounts receivable - trade	346,303	355,724
- other	25,878	33,100
Inventories (note 3)	704,005	716,612
Prepaid expenses	81,592	114,521
	2,113,358	2,276,385
Property, plant and equipment-net (note 4)	825,145	866,466
Intangible asset (note 10)	68,333	-
	3,006,836	3,142,851
Current liabilities		
Accounts payable and accrued liabilities	220,835	187,928
Shareholders' equity		
Capital stock		
Authorised -		
456,000 common shares of a par value of $0.50 each		
Issued and fully paid -		
441,675 (2007 - 438,000) common shares (note 5)	220,838	219,000
Contributed surplus	56,790	56,790
Share premium (note 5)	89,954	42,179
Excess of appraised value of property, plant and equipment over depreciated cost (note 5)	362,957	389,461
Retained earnings	2,055,462	2,247,493
	2,786,001	2,954,923
	3,006,836	3,142,851

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, 2008

	2008 $	2007 $
Sales	3,533,321	3,641,120
Cost of sales	2,020,719	2,105,245
Gross margin (2008 – 42.8%; 2007 – 42.2%)	1,512,602	1,535,875
Administrative and selling expenses (note 11)	1,127,192	1,068,805
Operating income	385,410	467,070
Other income	54,893	41,810
Net income for the year	440,303	508,880
Retained earnings - Beginning of year	2,247,493	2,150,109
Realisation of the excess of appraised value of property, plant and equipment over depreciated cost (note 4)	26,504	26,504
	2,714,300	2,685,493
Dividends	658,838	438,000
Retained earnings - End of year	2,055,462	2,247,493
Net income per share	1.00	1.16

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, 2008

	Capital stock $	Contributed surplus $	Share premium $	Revaluation reserve $	Retained earnings $	Total $
Balance, March 31, 2006	219,000	56,790	42,179	415,965	2,150,109	2,884,043
Net income for the year	-	-	-	-	508,880	508,880
Dividends paid	-	-	-	-	(438,000)	(438,000)
Realisation of revaluation reserve (note 5)	-	-	-	(26,504)	26,504	-
Balance, March 31, 2007	219,000	56,790	42,179	389,461	2,247,493	2,954,923
Net income for the year	-	-	-	-	440,303	440,303
Issuance of shares (note 5)	1,838	-	47,775	-		49,613
Dividends paid	-	-	-	-	(658,838)	(658,838)
Realisation of revaluation reserve (note 5)	-	-	-	(26,504)	26,504	-
Balance, March 31, 2008	220,838	56,790	89,954	362,957	2,055,462	2,786,001

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, 2008

	2008 $	2007 $
Cash flows from operating activities		
Net income for the year	440,303	508,880
Add (deduct) items not affecting cash:		
Depreciation	92,437	107,085
Amortisation of intangible asset	11,667	-
Shares issued	49,613	-
Changes in non-cash working capital items:		
Accounts receivable - trade and other	16,643	(54,488)
Inventories	12,607	(61,416)
Prepaid expenses	21,473	(18,740)
Accounts payable and accrued liabilities	32,907	3,163
Net cash provided by operating activities	677,650	484,484
Cash flows from investing activities		
Purchase of property, plant and equipment	(20,823)	(16,362)
Asset in progress	(18,837)	(11,456)
Intangible asset	(80,000)	-
Cash used in investing activities	(119,660)	(27,818)
Cash flow from financing activity		
Dividends paid	(658,838)	(438,000)
Cash used in financing activity	(658,838)	(438,000)
Increase (decrease) in cash and time deposits	(100,848)	18,666
Cash and time deposits- beginning of year	1,056,428	1,037,762
Cash and time deposits- end of year	955,580	1,056,428
Cash and time deposits consist of:		
Cash	146,833	132,688
Time deposits	808,747	923,740
	955,580	1,056,428
Supplemental cash flow		
Cash received from interest	47,579	13,564

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. The Company is listed on the Bermuda Stock Exchange.

2. 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 realisable 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 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 received for the sale of products in the ordinary course of the company's activities.

Interest income is accrued on a timely basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(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) **Intangible assets**
Intangible asset are initially recognised 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 amortised over those lives on a straight-line basis.

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

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

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

(j) **Accounting Standards effective for 2007**
During the year, the following standards of the CICA Handbook were adopted by the company, however they do not have an impact on the current year's financial statements, as the company does not have investments affected by these standards:

Section 1530- Comprehensive Income, Section 3855- Financial Instruments - Recognition and Measurement, Section 3865 - Hedges.

3. *Inventories*

Inventories are classified as follows:

	2008 **$**	**2007** **$**
Raw materials	307,670	325,243
Finished goods	396,335	391,369
	704,005	716,612

4. Property, plant and equipment

	2008			2007
	Cost or appraised value $	**Accumulated depreciation $**	**Net $**	**Net $**
Land (appraised value)	225,000	-	225,000	225,000
Buildings (appraised value)	766,036	476,717	289,319	319,962
Improvements (cost)	264,186	151,181	113,005	124,049
Factory equipment (cost)	653,851	533,235	120,616	137,498
Office equipment (cost)	148,084	112,995	35,089	33,925
Motor vehicles (cost)	90,413	87,343	3,070	15,336
Computer (cost)	111,893	103,140	8,753	10,696
Asset in progress (cost)	30,293	-	30,293	-
	2,289,756	1,464,611	825,145	866,466

Depreciation in the amount of $92,437 (2007 - $107,085) has been charged against income during the year of which $11,845 (2007 - $12,951) 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 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 (2007 - $26,504) which represents the realisation of the appraisal increase has been transferred to retained earnings (note 5).

5. Shareholders' equity

(a) **Shares issued to employees**
On March 22, 2007, the Board of Directors approved the issuance of 3,675 shares to employees of the company. These shares were issued at the market value of $13.50 for a total consideration of $49,613 and is included in administrative expenses. Share capital increased by $1,838 and share premium by $47,775.

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

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

	2008 $	2007 $
Balance - Beginning of year	389,461	415,965
Portion realised through depreciation based upon appraised values	(26,504)	(26,504)
Balance - End of year	362,957	389,461

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. The companies contributions are charged against income in the year contributed. The pension expense for the year was $36,929 (2007 - $32,581).

7. 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.

8. Related Party Transactions

Transactions between the company and its related parties are disclosed below.

During the year, the company entered into the following transactions with related parties.

	2008 $	2007 $
Sale of goods	264,044	365,858
Purchases of goods	99,944	170,981
Amounts receivable from related parties	10,756	40,357
Amounts payable to related parties	504	-

Sales of goods to related parties were made at the company's usual list prices, less 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. 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, 2008 were 93,731 (2007 - 96,082) 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.

10. Intangible asset

The company purchased the distribution rights as a non-exclusive distributor on September 1, 2007.

The cost pertaining to this purchase is being amortised on straight-line basis over four years.

	$
Cost	80,000
Accumulated amortisation	(11,667)
	68,333

Amortisation in the amount of $ 11,667 has been charged during the year, which is included in administrative and selling expenses.

11. Administrative and selling expenses

	2008 $	2007 $
Employee benefits costs	159,172	105,931
Depreciation and amortisation	92,259	94,134
Other expenses	875,761	868,740
	1,127,192	1,068,805