

Devonshire Industries Limited

Annual Report and
Consolidated Financial Statements
March 31, 2010

Devonshire Industries Limited

Unaudited

March 31, 2010

Summary of financial information

	Year ended March 31				2006 \$
	2010 \$	2009 \$	Restated 2008 \$	Restated 2007 \$	
Assets	3,057,386	2,875,050	2,946,001	3,095,608	3,068,808
Liabilities	371,454	146,673	220,835	187,928	184,765
Shareholders' equity	2,685,932	2,728,377	2,725,166	2,907,680	2,884,043
Net earnings	399,230	444,886	426,711	461,637	395,739

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, 2010 were 12,297 (2009 - 93,731) 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, 2010

July 22, 2010

Auditors' Report

To the Shareholders of Devonshire Industries Limited

We have audited the consolidated balance sheet of Devonshire Industries Limited as at March 31, 2010 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 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 \$245,000.

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, 2010 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.



Chartered Accountants

Street address: Dorchester House, 7 Church Street, Hamilton HM 11, Bermuda

A list of partners can be obtained from the above address.

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers (a Bermuda partnership) or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate and independent legal entity.

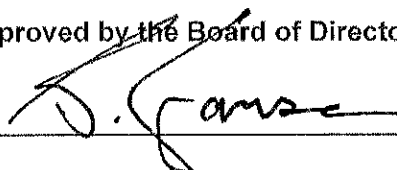
Devonshire Industries Limited

Consolidated Balance Sheet

As at March 31, 2010

	2010 \$	2009 \$
Current assets		
Cash	339,319	248,617
Deposits	490,302	574,335
Accounts receivable - trade - net (note 8)	322,340	302,656
- other	9,756	18,865
Inventories (note 3)	879,761	781,413
Prepaid expenses	50,787	60,837
	2,092,265	1,986,723
Property, plant and equipment-net (note 4)	899,988	839,994
Intangible assets (note 9)	65,133	48,333
	3,057,386	2,875,050
Current liabilities		
Accounts payable and accrued liabilities (note 8)	371,454	146,673
Shareholders' equity		
Capital stock		
Authorised -		
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)	309,949	336,453
Retained earnings	2,008,401	2,024,342
	2,685,932	2,728,377
	3,057,386	2,875,050

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, 2010

	2010 \$	2009 \$
Sales (note 8)	3,323,415	3,551,128
Cost of sales	1,935,489	2,057,121
Gross margin (2010 - 41.8%; 2009 - 42.1%)	1,387,926	1,494,007
Administrative and selling expenses (note 10)	1,035,629	1,101,706
Operating income	352,297	392,301
Other income	46,933	52,585
Net income for the year	399,230	444,886
Retained earnings - Beginning of year	2,024,342	1,994,627
Realisation of the excess of appraised value of property, plant and equipment over depreciated cost (note 5)	26,504	26,504
	2,450,076	2,466,017
Dividends	441,675	441,675
Retained earnings - End of year	2,008,401	2,024,342
Net income per share	0.90	1.01

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, 2010

	Capital stock \$	Contributed surplus \$	Share premium \$	Revaluation reserve \$	Retained earnings \$	Total \$
Balance, March 31, 2008	220,838	56,790	89,954	362,957	1,994,627	2,725,166
Net income for the year	-	-	-	-	444,886	444,886
Dividends paid	-	-	-	-	(441,675)	(441,675)
Realisation of revaluation reserve (note 5)	-	-	-	(26,504)	26,504	-
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)
Realisation 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

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, 2010

	2010 \$	2009 \$
Cash flows from operating activities		
Net income for the year	399,230	444,886
Add (deduct) items not affecting cash:		
Depreciation	92,355	79,046
Amortisation of intangible asset	20,000	20,000
Changes in non-cash working capital items:		
Accounts receivable - trade and other	(10,575)	(10,175)
Inventories	(98,348)	(77,408)
Prepaid expenses	10,050	20,755
Accounts payable and accrued liabilities	3,944	(74,162)
Net cash provided by operating activities	<u>416,656</u>	<u>402,942</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(152,349)	(93,895)
Intangible assets	(36,800)	-
Cash used in investing activities	<u>(189,149)</u>	<u>(93,895)</u>
Cash flow from financing activity		
Dividends paid	(220,838)	(441,675)
Cash used in financing activity	<u>(220,838)</u>	<u>(441,675)</u>
Increase (decrease) in cash and time deposits	6,669	(132,628)
Cash and time deposits - beginning of year	<u>822,952</u>	<u>955,580</u>
Cash and time deposits - end of year	<u><u>829,621</u></u>	<u><u>822,952</u></u>
Cash and time deposits consist of:		
Cash	339,319	248,617
Time deposits	490,302	574,335
	<u>829,621</u>	<u>822,952</u>
Supplemental cash flow		
Cash received from interest	<u>16,880</u>	<u>30,916</u>

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

Devonshire Industries Limited

Notes to Consolidated Financial Statements

March 31, 2010

1. Nature of business

Devonshire Industries Limited ("the company") and Bermuda Paint Company Limited ("the subsidiary") (note 2(b)) 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 financial statements are in accordance with accounting principles generally accepted in Bermuda and Canada applicable to a going concern. The preparation of these financial statements 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) Adoption of New Accounting Standards

During the year, the following standards of the Canadian Institute of Chartered Accountants (CICA) Handbook were adopted by the company:

Intangibles

The CICA issued 3064, "Goodwill and Intangible Assets", which will apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. This section establishes standards for the recognition, measurement and disclosure applicable to intangible assets. It replaces Section 6032, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs". The company has included the requirements of this new standard in note 9 of these financial statements.

(b) Principles of consolidation

These consolidated financial statements include the financial statements of Devonshire Industries Limited and its wholly-owned subsidiary, Bermuda Paint Company Limited.

(c) 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, direct 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.

(d) 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%

Devonshire Industries Limited

Notes to Consolidated Financial Statements

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(e) **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.

(f) **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.

(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) **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.

(k) **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.

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Notes to Consolidated Financial Statements

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(l) **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 these 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.

3. Inventories

Inventories are classified as follows:

	2010 \$	2009 \$
Raw materials	315,496	285,672
Trading goods	347,645	325,781
Finished goods	216,620	169,960
	<u>879,761</u>	<u>781,413</u>

Cost of sales comprises inventories expensed during the year. There are no inventories written down during the year (2009 - \$Nil).

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Notes to Consolidated Financial Statements
March 31, 2010

4. Property, plant and equipment

	2010		2009	
	Cost or appraised value \$	Accumulated depreciation \$	Net \$	Net \$
Land (appraised value)	225,000	-	225,000	225,000
Buildings (appraised value)	766,036	537,999	228,037	258,678
Improvements (cost)	324,964	174,958	150,006	115,519
Factory equipment (cost)	787,008	589,171	197,837	189,129
Office equipment (cost)	176,347	126,987	49,360	40,062
Motor vehicles (cost)	94,908	90,788	4,120	-
Computer (cost)	161,726	116,098	45,628	11,606
	<u>2,535,989</u>	<u>1,636,001</u>	<u>899,988</u>	<u>839,994</u>

Depreciation in the amount of \$ 92,355 (2009 - \$79,046) has been charged against income during the year of which \$25,581 (2009 - \$16,667) is included in the cost of manufactured goods.

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 (2009 - \$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 shares of the company issued.

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

	2010 \$	2009 \$
Balance - Beginning of year	336,453	362,957
Portion realised through depreciation based upon appraised values	(26,504)	(26,504)
Balance - End of year	<u>309,949</u>	<u>336,453</u>

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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 \$33,822 (2009 - \$35,007).

7. Financial instruments

The estimated fair value of cash, deposits, accounts receivable - trade, accounts receivable - other 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, 2010, the maximum exposure is \$322,340. 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, 2010, 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

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

	2010	2009
	\$	\$
Sale of goods	251,212	268,255
Purchases of goods	175,075	153,555
Amounts receivable from related parties	16,338	16,023
Amounts payable to related parties	1,110	319
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.

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Notes to Consolidated Financial Statements
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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 amortised on straight-line basis over four years.
- (b) The company started to undertake a research and development in the later part of 2008. Costs incurred in research phase of \$31,600 were charged to income in 2009. As of March 31, 2010, \$36,800 has been incurred in the development phase and these costs will start to be amortised once the project is completed and put into use.

	Development \$	Distribution rights \$	Total value \$
Year ended March 31, 2009			
Opening net book amount	-	68,333	68,333
Acquisitions	-	-	-
Disposals	-	-	-
Amortization	-	(20,000)	(20,000)
Closing net book amount	-	48,333	48,333
At March 31, 2009			
Cost	-	80,000	80,000
Accumulated Amortization	-	(31,667)	(31,667)
Net book amount	-	48,333	48,333
Year ended March 31, 2010			
Opening net book amount	-	48,333	48,333
Transfers	-	-	-
Acquisitions	36,800	-	36,800
Disposals	-	-	-
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

There was no impairment of intangible assets for the years ended March 31, 2010 and 2009.

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10. Administrative and selling expenses

	2010	2009
	\$	\$
Payroll and other related expenses	700,332	703,707
Depreciation and amortisation	86,774	82,379
Advertising and promotions	24,494	59,326
Maintenance expenses	72,348	53,023
Insurance expenses	35,627	35,872
Audit fee	35,675	37,965
Bank charges	17,122	17,044
Other expenses	63,257	112,390
	<u>1,035,629</u>	<u>1,101,706</u>