Directors' Circular

TO THE ORDINARY STOCKHOLDERS IN

HARDWARE & LUMBER LIMITED

RECOMMENDING ACCEPTANCE OF THE MANDATORY OFFER

BY

ARGYLE INDUSTRIES INC.

TO ACQUIRE THE OUTSTANDING ORDINARY STOCK UNITS IN THE CAPITAL OF HARDWARE & LUMBER LIMITED NOT ALREADY HELD BY ARGYLE INDUSTRIES INC.

This Directors' Circular is issued pursuant to the requirements of the Securities (Take-overs and Mergers) Regulations and the provisions of Appendix 1 of the Rules of the Jamaica Stock Exchange. ***THIS DOCUMENT IS IMPORTANT.*** *If you have any questions regarding how you should act in respect of the matters set out herein, you should consult a licensed investment adviser, attorney-at-law, accountant or other professional adviser authorized to provide advice on such matters under applicable securities laws.*

INTRODUCTION

1. Stockholders of Hardware & Lumber Limited ("H&L Stockholders") were advised via press statement issued on January 29, 2016, that your Board had received on that date an Offer Circular dated January 29, 2016 from Argyle Industries Inc., ("Argyle") containing a cash offer by Argyle to purchase the 33,764,719 outstanding issued ordinary stock units in the capital of Hardware & Lumber Limited ("H&L") not already owned by Argyle (the "Offer").

2. We understand that a copy of the Offer Circular in its entirety was dispatched by Argyle to all H&L Stockholders on the same date, and a copy has also been delivered by Argyle to the Jamaica Stock Exchange ("JSE") and the Financial Services Commission ("FSC"). However, if any H&L Stockholder has not yet seen the Offer Circular, we advise that it may be viewed on the JSE's website at www.jamstockex.com.

THE OFFER

3. The Offer Circular states that Argyle offers to purchase from the H&L stockholders (other than Argyle) all their H&L stock units not already owned by Argyle at a price of **J$18.50** per stock unit, payable in Jamaican currency by either a banker's draft drawn on a local bank or by wire transfer. If the Offer is accepted by you, the Offer Circular states that "*…H&L stock units will be acquired free and clear of all liens, charges, encumbrances and equitable interest and with all rights attached thereto (including the right to receive any dividend or other distribution made or declared after the date of this Offer Circular)*."

4. The Offer Circular further states on page 7 that Argyle will bear all stockbroking fees payable to the sponsoring broker to the Offer, GK Capital Management Limited, whether on the sell or buy side, although if an H&L Stockholder elects to use their own broker, such H&L Stockholder will be responsible for paying that broker's fees, and the JSE fees and cess applicable to the "sell" side.

5. The Offer opened on **February 1, 2016** at **9:00 a.m.**, and is scheduled to close on **March 4, 2016** at **4:30 p.m**. The procedure and requirements relating to acceptance of the Offer by H&L Stockholders are set forth in paragraph 7 of the Offer Circular, commencing on page 8 thereof.

6. Argyle has stated in its Offer Circular that it has made the Offer because it is obliged to do so under the Securities (Take-Overs and Mergers) Regulations 1999, as amended (the "TOM Regulations") and the provisions of Appendix 1 of the Rules of the Jamaica Stock Exchange (the "JSE Take-over Rules"), as a result of its December 30, 2015 acquisition of GraceKennedy Limited's approximately 58.23% stockholding in H&L, amounting to 47,077,304 H&L stock units. The price per stock unit in the Offer is the same price per stock unit as the purchase price disclosed by GraceKennedy Limited as having been received from Argyle at the time of that transaction.

7. The members of the Audit Committee have had an opportunity to review the letter of undertaking from Belgravia International Bank and Trust Company Limited

("Belgravia"), as respects the funding arrangements put in place for the benefit of Argyle to enable it to implement the Offer in full. While the Audit Committee has not been able to do a full due diligence on Belgravia in the time available for the completion of this Directors' Circular, it advises that it has no basis on which to doubt the credibility of the letter of undertaking from Belgravia, or its ability to honour the undertaking set out therein, and it is satisfied after due enquiry that Belgravia is a bank and trust company licensed by the Central Bank of The Bahamas to do business in that territory.

8. Please note that although your Board has included in this Directors' Circular certain references to the content of the Offer Circular for your convenience, **all H&L Stockholders are strongly advised to read the Offer Circular in its entirety for the full terms and conditions of the Offer.**

THE DIRECTORS' CIRCULAR & RECOMMENDATION TO H&L STOCKHOLDERS

9. Your Board has issued this Directors' Circular in compliance with the requirements of the TOM Regulations and the JSE Take-Over Rules, the combined effect of which is to mandate your Board to provide H&L Stockholders (via this Directors' Circular) with a recommendation as to acceptance or rejection of Argyle's Offer. Our recommendation as to **acceptance** is set out herein.

10. Recognising that Argyle was obliged to make a mandatory Offer following its acquisition of H&L stock units from GraceKennedy Limited, your Board took the decision that if the Offer was received from Argyle, in order to ensure independence of opinion, the Audit Committee of the Board (which does not contain any directors connected with Argyle) would be tasked with the responsibility of coordinating the process of reviewing and considering the Offer and preparing on behalf of the Board this Directors' Circular containing a recommendation to H&L Stockholders as to acceptance or rejection of the Offer. Notwithstanding this delegation of function to the Audit Committee, your Board retains ultimate responsibility for the contents of this Directors' Circular.

11. The members of the Audit Committee are Paul Hanworth (the chairman), Michael Ammar, and Harry Smith. Mr. Hanworth is a senior officer and director of Pan-Jamaican Investment Trust Limited ("Pan-Jam"), which owns the largest block of H&L stock units (excluding Argyle), and which has indicated its intention to accept the Offer. Mr. Paul Facey a director of H&L, is also a senior officer and director of Pan Jam. Messrs. Hanworth and Facey have also indicated their intention to resign as directors of H&L once Pan-Jam sells its H&L stock units to Argyle.

12. Accordingly, in keeping with the aim of ensuring independence of opinion and as communicated in our press statement of January 29, 2016, the Audit Committee agreed to form a special sub-committee (the "Offer Sub-Committee") comprising those directors of H&L who were unconnected with either Argyle or Pan-Jam (i.e., Messrs. Burton, Ammar and Smith) to take primary responsibility for developing the necessary recommendation for inclusion in this Directors' Circular for adoption by the Audit Committee, which recommendation would thereafter be advised to the full Board. The Offer Sub-Committee

was chaired by Mr. Harry Smith. The Audit Committee also engaged the services of Hart Muirhead Fatta, Attorneys-at-Law, to advise it on legal and regulatory issues in respect of the preparation of the Directors' Circular and in respect of the Offer generally.

13. The recommendation as to acceptance contained in this Directors' Circular is therefore a result of the deliberations of the Offer Sub-Committee, which recommendation has been accepted by the Audit Committee and, ultimately, by your Board.

14. The primary bases of this recommendation as to acceptance are set out in the following sub-paragraphs, and the recommendation was arrived at by considering all of these bases as a whole:

A. Comparison to reported Earnings per Stock Unit ("EPS")

1) H&L's net earnings per stock unit for the five (5) year period beginning in the 2010 financial year and ending in the 2014 financial year have been as set out in the following table:

Financial Year	Earnings per stock unit ("EPS")
2010	J$0.24
2011	J$0.08
2012	J$0.03
2013	J$7.55*
2014	J$2.69

* ***J$2.89*** *excluding after-tax effect of one-time pension credit of $502.5 million*

2) The Offer price of J$18.50 per stock unit represents a price to earnings ("P/E") ratio of 6.9 based on 2014 net earnings and 6.4 based on 2013 net earnings (excluding for this purpose the after-tax effect of the one-time pension credit of $502.5 million). The EPS for the years 2010, 2011 and 2012 were not considered meaningful for the purposes of evaluating the Offer.

3) H&L's unaudited net EPS for the twelve (12) months ended September 30, 2015 (being the first nine months of 2015 and the last three months of 2014) were J$2.08 per stock unit. This represents an annualized P/E ratio of 8.9.

4) H&L's audited results for the year ended December 31, 2015 are expected to be available on or about February 29, 2016, prior to the close of the Offer, but all indications currently available to the Audit Committee suggest that H&L's performance for the last three (3) months of 2015 was similar to the same period in 2014.

5) The members of the Offer Sub-Committee believe, therefore, (and the Audit Committee and the Board accept) that the Offer price of J$18.50 approximates a P/E ratio of 8.9 based on H&L's most recent performance.

6) While no perfectly comparable companies to H&L are listed on the JSE, the members of the Offer Sub-Committee consider certain companies listed on the JSE's main market to be generally comparable to H&L in terms of P/E ratio and trading price compared to book value per share. Those companies are GraceKennedy Limited, Jamaica Producers Group Limited, Berger Paints Jamaica Limited, Jamaica Broilers Group, Salada Foods Jamaica Limited, and Seprod Limited.

7) P/E ratios (based on published earnings history) for those companies which the members of the Offer Sub-Committee consider to be generally comparable to H&L currently range from 7 to 12. The estimated P/E ratio of 8.9 represented by the Offer price is therefore within the range of P/E ratios for companies regarded by the Offer Sub-Committee as comparable to H&L.

B. Comparison to reported Book Value per stock unit

8) H&L's book value per stock unit (stockholders' equity divided by number of stock units outstanding) was J$17.62 as at December 31, 2014 based on the audited financial statements issued by H&L for the financial year ending on that date. This incorporates, *inter alia*, the value attributed to H&L's freehold land and buildings located at 697 Spanish Town Road, Kingston 11, representing its entire real estate portfolio, which were valued at J$530 million in November 2014 by D. C. Tavares & Finson Realty Company Limited, independent qualified real estate brokers and appraisers. A copy of the summary pages of this valuation is included in this Directors' Circular at **Appendix 5**, and the report in its entirety is available for inspection as stated herein.

9) Using H&L's last released unaudited financial statements for the nine (9) month period ending September 30, 2015, book value per stock unit was J$18.26 as at that date.

10) The members of the Offer Sub-Committee believe that H&L's net profit after tax for the three (3) month period commencing October 1, 2015 and ending on December 31, 2015 is likely to approximate the amount for the comparable period in the prior year of J$1.29 per stock unit, and that Other Comprehensive Income is likely to approximate a charge of J$0.78 per stock unit for the same period. In that event, estimated book value per stock unit would increase to J$18.77 at December 31, 2015. However, in January 2016, the Board of Directors approved a dividend payment of J$1.09 per stock unit to stockholders on record at January 15, 2016, which was paid on January 29, 2016, the effect of which is to reduce estimated book value per stock unit in January 2016 by J$1.09 to J$17.68.

11) Prices to book value ratios (based on published financial statements) for those companies listed on the Jamaica Stock Exchange's Main Market

which the members of the Offer Sub-Committee consider to be generally comparable to H&L currently range from 0.73 to 1.48.

12) As a result of the foregoing, the members of the Offer Sub-Committee are of the opinion that the Offer price per stock unit of J$18.50 represents an approximately 4.64% premium over the estimated book value per stock unit (or, expressed in another way, reflects a price to book value ratio of 1.05) and on that basis, may be regarded as a fair and reasonable offer, having regard to the price to book value ratios of those listed companies which the members of the Offer Sub-Committee consider comparable. If this Offer is not accepted, there is no certainty that there will be an opportunity in the future to receive a price which represents such a premium over the estimated book value per stock unit.

C. The position of minority stockholders

13) At the launch of the Offer, Argyle owned H&L stock units amounting to approximately 58.23% of the outstanding H&L stock units, while Pan-Jam owns 16,840,106 H&L stock units amounting to an approximately 20.83% stake. As indicated previously in this Directors' Circular, Pan-Jam has given a written notification that it intends to accept the Offer. Argyle is therefore assured of ownership of at least 79.06% of the outstanding H&L stock units as a result of the Offer.

14) The members of the Offer Sub-Committee are therefore of the opinion that H&L stockholders should carefully consider the position that would result in the event they decline to accept the Offer. As a 79.06% stockholder of H&L, Argyle would have complete control over the affairs of the company, subject only to legal remedies available where it has been established that those affairs are being conducted in ways that amount to oppression of minority stockholders. As a practical matter, Argyle would be in a position to, for example, pass special resolutions affecting the rights of stockholders, without having to take into account the opposing views of minority stockholders. In addition, and even without Pan-Jam's acceptance of the Offer, the composition of the Board of the company would be entirely in Argyle's hands, as a minority stockholder would be powerless to have candidates for election to the Board elected without Argyle's approval or non-opposition.

D. Risk of de-Listing from the JSE

15) As a result of Pan-Jam's intention to accept the Offer, the members of the Offer Sub-Committee are of the opinion that Argyle has a strong likelihood of being able to cross the 80% ownership threshold which would result in H&L's stock units becoming at risk of being delisted from the JSE. Argyle has referred to this risk at paragraph 5 of its Offer Circular. If the H&L stock units are delisted, an H&L Stockholder's ability to trade them will be

negatively affected by – (i) the absence of an established market for these stock units, as they cannot be traded on the floor of the JSE, and – (ii) the significantly increased transaction costs resulting from the imposition of transfer tax (currently computed at 5% of the higher of either the stated consideration or the market value of the H&L stock units as accepted by the revenue authorities) and stamp duty of 1% of the stated consideration on a sale transaction. Transfer tax is, by law, borne by the seller. By comparison, the transaction costs involved in accepting the Offer are significantly less, and the seller's position is enhanced by Argyle's stated agreement to bear some of the transaction costs involved in transferring the H&L stock units across the floor of the JSE, as detailed in paragraph 27 of the Offer Circular.

E. Unconditional nature of Offer as at the date hereof

16) Argyle has stated in paragraph 4 of its Offer Circular that its Offer is not conditional on a minimum number of H&L stock units being received for acceptance. Each H&L stockholder who tenders H&L stock units in conformance with the procedures for acceptances is therefore eligible to have those H&L stock units accepted by Argyle and paid for in accordance with the terms of the Offer, provided the H&L stock units tendered are free and clear of all liens, charges, encumbrances and equitable interest and with all rights attached thereto, and their ability to receive payment is not contingent on what other H&L stockholders elect to do in terms of acceptance or rejection of the Offer.

GENERAL

15. Your Board accepts full responsibility, collectively and individually, for all the information in this Directors' Circular relating to H&L. The Directors have taken all reasonable care to ensure that, to the best of their knowledge and belief, the information given herein or in those portions for which they have particular responsibility, is in accordance with the facts and does not omit anything likely to affect, in a material way, the import of such information.

16. Certain matters discussed in this Directors' Circular contain forward-looking statements. Forward-looking statements are statements that are not about historical facts and speak only as of the date they are made. Although your Board believes, when making any such statements, that its expectations are based on reasonable assumptions, any such statement may be influenced by factors that could cause actual outcomes and results to be materially different from those projected. H&L Stockholders are cautioned not to place undue reliance on these forward looking statements, which speak only as of their dates. Future events or circumstances could cause actual results to differ materially from historical or anticipated results. Forward looking statements are typically identified by words such as "believe", "expect", "foresee", "forecast", "anticipate", "intend", "estimate", "goal", "plan" and "project" and similar expressions of future or conditional verbs such as "will", "may", "should", "could" or "would". When used in this Directors' Circular, such

words and similar verbal expressions, as they relate to H&L and its business, are intended to identify those forward looking statements. By their very nature, forward looking statements require us to make assumptions and are subject to inherent risks and uncertainties, which give rise to the possibility that our predictions, forecasts, projections, expectations or conclusions will not prove to be accurate, that our assumptions may not be correct and that our forward looking statements will not be achieved. These forward looking statements are subject to numerous risks and uncertainties. Once this Directors' Circular has been signed by or on behalf of your Board, we undertake no obligation to update publicly or revise any of the forward looking statements in light of new information or future events, including changes in H&L's anticipated financial or actual position, or to reflect the occurrence of unanticipated events. There are important factors that could cause actual results to differ materially from those in forward looking statements, certain of which are beyond the control of your Board. When relying on our forward looking statements to make decisions with respect to the Offer, H&L Stockholders should carefully consider the foregoing qualifications.

APPENDICES & DOCUMENTS AVAILABLE FOR INSPECTION

17. **Appendix 1** to this Directors' Circular contains particular information that is expressly required to be included herein as a result of the TOM Regulations and the JSE Take-Over Rules.

18. H&L's financial controller has certified that the unaudited financial statements produced in this Directors' Circular as well as the other financial information for the period 2010-2014 reflect fairly the financial position of H&L over the periods in question. These unaudited financial statements for the nine (9) month period ending on September 30, 2015 are set out at **Appendix 2,** and the required certification in this regard is set out in **Appendix 3.**

19. H&L's profit and loss statements for the five (5) financial years commencing in 2010 and ending December 31, 2014, as extracted from the financial statements for the period are set out as **Appendix 4.** In addition, H&L Stockholders are reminded that page 2 of the company's 2014 Annual Report contains a ten (10) year financial review of the company's performance for the financial years 2005 through 2014.

20. The summary pages of the Valuation Report of November 24, 2014 prepared by D.C. Tavares & Finson Realty Limited in respect of the land and buildings comprising part of H&L's fixed assets (i.e., property, plant and equipment) are set out in **Appendix 5**. D.C Tavares & Finson Realty Limited have agreed in writing to the use of extracts from their Valuation Report in this Directors' Circular, and to their valuation report being made available for inspection in its entirety in connection with the issue of this Directors' Circular. Their agreement is set out in **Appendix 6**. There are no other material facts in respect of these assets not disclosed in the Valuation Report.

21. H&L's audited financial statements for the financial year ended December 31, 2014, being the last available audited financial statements as at the date hereof, are set out in **Appendix 7**. H&L's auditors, PricewaterhouseCoopers have given and not withdrawn

their written consent to the inclusion in this Directors' Circular of these financial statements, inclusive of their report thereon, and their consent is set out in **Appendix 8**.

22. All of the appendices referred to herein form part of this Directors' Circular.

23. H&L's Articles of Incorporation, its audited financial statements for the financial years 2010-2014 and the Valuation Report of November 24, 2014 prepared by D.C. Tavares & Finson Realty Limited are available for inspection at the offices of H&L at 697 Spanish Town Road, Kingston 11 during the hours of 9:00 a.m. and 4:00 p.m. from Mondays to Fridays (excluding public holidays) from the issue of this Directors' Circular until the closing of the Offer.

The Board of Directors of H&L has approved the contents of this Directors' Circular, and authorised its delivery to H&L's stockholders.

Dated the 4th day of February, 2016

On behalf of the Board of Directors

Erwin Burton
Chairman of the Board of Directors

Paul Hanworth
Chairman of the Audit Committee

APPENDIX 1

Particulars required pursuant to the TOM Regulations and the JSE Take-Over Rules

(a) (i) As far as the Board is aware, the number of H&L stock units owned directly or indirectly by each Director, Officer and Senior Manager of H&L as at the date of this Directors' Circular is outlined below:

Director	H&L Stock units owned directly	H&L Stock units owned indirectly
Erwin Burton	33,563	NIL
Paul Facey	NIL	NIL
Paul Hanworth	101,000	NIL
Harry A.J. Smith	NIL	NIL
Michael A. Ammar	50,000	NIL
Marcus Richards	NIL	NIL
Christopher D.R. Bovell	NIL	NIL
Joseph Bogdanovich	NIL	NIL
Anthony Bell	NIL	NIL
Patrick Williams	NIL	NIL

Other Officers/Senior Managers of H&L	H&L Stock units owned directly	H&L Stock units owned indirectly
Patrick Chambers	NIL	NIL
Donna Doran	NIL	NIL
Olive Downer-Walsh	2,000	NIL
Kerry Edwards	NIL	NIL
Marsha Evans	NIL	NIL
Tanya White-Martin	NIL	NIL
Johnathan Ruddock	NIL	NIL

(ii) As far as the Board is aware, the only person(s) or company(ies) who or which beneficially own(s) (directly or indirectly) equity shares in H&L carrying over 10% of the voting rights, are Argyle Industries Inc. (with 47,077,304 stock units or approximately 58.23%) and Pan-Jamaican Investment Trust Limited (with 16,840,106 stock units or approximately 20.83%).

(b) As far as the Directors are aware, of the persons or companies listed in (a) above, Pan-Jam intends to accept the Offer.

(c) As far as the Board of Directors is aware, the number of Argyle shares or other Argyle securities owned directly or indirectly by each Director, Officer and Senior Manager of H&L is outlined below:

Director	Argyle Shares/securities owned directly	Argyle Shares/securities owned indirectly
Erwin Burton	NIL	NIL
Paul Facey	NIL	NIL
Paul Hanworth	NIL	NIL
Harry A.J. Smith	NIL	NIL
Michael A. Ammar	NIL	NIL
Marcus Richards	NIL	NIL
Christopher D.R. Bovell	NIL	NIL
Joseph Bogdanovich	NIL	NIL
Anthony Bell	NIL	NIL
Patrick Williams	NIL	NIL

Other Officers/Senior Managers of H&L	Argyle Shares/securities owned directly	Argyle Shares/securities owned indirectly
Patrick Chambers	NIL	NIL
Donna Doran	NIL	NIL
Olive Downer-Walsh	NIL	NIL
Kerry Edwards	NIL	NIL
Marsha Evans	NIL	NIL
Tanya White-Martin	NIL	NIL
Johnathan Ruddock	NIL	NIL

As far as the Board of Directors is aware, there is no person(s) or company(ies) who or which beneficially own(s) (directly or indirectly) equity shares in Argyle carrying over 10% of the voting rights therein, save and except Abbeco Invest S.A., which is the beneficial owner of 100% of the issued equity shares of Argyle.

(d) As far as the Board of Directors is aware, no arrangement or agreement has been made or proposed between Argyle and any of the directors or officers of H&L, whether in connection with the success of the Offer or otherwise.

(e) No director or officer of H&L and, as far as the Board of Directors is aware, no person or company beneficially owning over 10% of the voting ordinary stock units of H&L for the time being outstanding, has any interest in any material contract to which H&L is a party, save and except that Pan-Jam’s wholly owned subsidiary, Jamaica Property Company Limited, is the lessor of premises in the Manor Park Shopping Centre which has been leased by H&L for many years on arms-length commercial terms for the operation of a Rapid Tru-Value retail store.

(f) The volume and price details of trading in H&L stock units in the six (6) month period preceding the opening date of the Offer is, in the opinion of the Board of Directors, accurately set out in paragraph (g) of Appendix 1 of the Offer Circular.

(g) There have been no material changes in the financial position and prospects of H&L since the date of its last published audited financial statements as at 31st December, 2014, save and except such changes as may have resulted from the acquisition of control of H&L by Argyle in December 2015.

(h) As far as the Board of Directors is aware, there has been no trading by any director or officer of H&L in the shares of Argyle or of H&L for at least 6 months prior to the date of the Offer.

(i) As at September 30, 2015, H&L's fixed assets (i.e., property, plant and equipment) were carried at a value of J$714,644,000. Details are outlined below:

Asset	Net Book Value (J$)
Land & Building	522,876,000
Machinery & Equipment	88,594,000
Leasehold Property	103,174,000
TOTAL	**J$714,644,000**

Freehold land and buildings are stated at fair value. The last appraisal of freehold land and buildings was done in November 2014 by D.C. Tavares & Finson Realty Limited, independent qualified real estate brokers and appraisers. A summary of this valuation is included in this Directors' Circular as **Appendix 5**.

The carrying value of all fixed assets (as defined herein) other than real estate is based on the historical cost less depreciation on a straight line basis, and as such no external valuation is conducted by management in respect of these assets.

(j) No other information has been requested by the FSC or the JSE.

APPENDIX 2

H&L's unaudited financial statements for the nine (9) month period ending on September 30, 2015

Hardware & Lumber Limited

Unaudited Financial Statements
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CEO's Report

9 months to 30 September 2015

(expressed in Jamaican dollars)

HARDWARE & LUMBER LIMITED
UNAUDITED FINANCIAL RESULTS
September 30, 2015

Following its announcement in May 2015 that it had entered into a conditional agreement for the sale of its 58.1% shareholding in Hardware & Lumber Ltd, GraceKennedy Limited has recently advised in a release that the divestment is anticipated to close by the end of the current year as the main conditions of the transaction have now been met. The company's operations have continued to perform well and with greater efficiency, with the maintenance of strong trading partnerships with suppliers, customers, developers, resellers and other stakeholders, supported by increased investments in marketing and promotional programs.

Total revenue for the nine months was $5,373.0 million or 2.3% more than the comparative period in the previous year. Of note, the 'Household, Hardware and Building products' segment, trading as Rapid True Value, performed 5.7% ahead of the same period in the previous year, recording revenue of $4,092.9 million. The 'Agricultural Products and Equipment' segment, trading as AgroGrace, recorded a revenue decline of 7.1%, to end the period at $1,280.1 million. The performance of this segment was severely affected by the extensive drought the country has been suffering since the start of the year, but improvement in performance is expected as the weather improves. In the third quarter, total revenue for both divisions grew by 7.8% compared to the same quarter in the previous year, led by the 'Household, Hardware and Building Products' segment.

Total year to date gross profit was $1,273.6 million representing 23.7% of revenue (2014: $1,224.0 million representing 23.3% of revenue), an increase of $49.6 million or 4.1%. Gross profit for the third quarter was $434.0 million or $11.9 million more than the $422.1 million recorded for the same period in 2014. The margin improvement would have been greater, but for the adverse impact of the drought on the sales of agricultural inputs. Improved sourcing, margin management and operational efficiencies continued to be key areas of focus.

Total operating profit for the nine-month period was $96.2 million representing a decrease of 44.6% compared to the same period in 2014, partly attributable to a reduction in 'other income' from $72.8 million in last year's nine-month period to $20.0 million in the current year. Last year's results benefitted from higher levels of supplier rebates, one-off credit adjustments in accounts receivable balances as well as greater exchange gains on funds held in foreign currency. In addition, there was a 6.6% increase in operating expenses to $1,197.3 million or $74.2 million more than the comparative period in the prior year. This increase was primarily due to inflation, higher staff costs, one-off expenses commencing with the shift to utilize 'Cloud Technology' and increased training of staff to improve product knowledge and customer service levels.

Profit after tax for the nine-month period ended September 30, 2015 was $64.1 million, 43.2% less than the $112.9 million for the same period last year. This was equivalent to earnings of $0.79 per stock unit, compared to $1.40 for the

Hardware & Lumber Limited

CEO's Report
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comparative period in 2014. Shareholders' equity increased to $1,475.8 million at September 30, 2015, up 14.6% over the same prior year period.

Working capital management continued to receive significant management focus, as strategies were implemented to improve the company's liquidity. The value of inventories at the end of the quarter was $1,905.7 million, or 17.0% more than at the same time last year, with accounts payable balances increasing commensurately by 16.3%. This increase reflected normal preparations for the busiest sales quarter of the year. Trade and other receivables increased by 14.1% to $715.1 million. Trade receivables increased by 7.5% in line with revenue while other receivables increased by 25.9% due to an increase in supplier pre-payments.

The company's cash reserves at the start of the year were $152.0 million. During the period, net cash of $75.1 million was generated from operating activities, most of which was used to purchase fixed assets, service loan commitments, pay taxes and dividends. The cash balance at the end of the period was $174.1 million.

During the quarter, the company, through its AgroGrace division, was awarded the trophy for the "Best Commercial Exhibition" at the Denbigh Agricultural, Industrial and Food Show. In addition to sharing information on crop care and innovations in agricultural technology, the display also provided greater visibility of the company's offerings of animal and public health solutions as well as small tools and equipment.

We appreciate the contribution of all our customers, suppliers and other stakeholders to the business and look forward to their continued support.

Erwin Burton
Chairman

Donna Doran
Chief Executive Officer

Hardware & Lumber Limited

Unaudited Income Statement

9 months to 30 September 2015

(expressed in Jamaican dollars)

	3 months to 30 September 2015 $'000	9 months to 30 September 2015 $'000	3 months to 30 September 2014 $'000	9 months to 30 September 2014 $'000
Revenue	**1,854,502**	**5,373,007**	**1,720,456**	**5,250,068**
Cost of sales	(1,420,444)	(4,099,376)	(1,298,315)	(4,026,074)
Gross Profit	**434,058**	**1,273,631**	**422,141**	**1,223,994**
Other operating income	3,923	19,974	13,336	72,845
Operating expenses	(414,380)	(1,197,333)	(369,810)	(1,123,137)
Profit from Operations	**23,601**	**96,272**	**65,667**	**173,702**
Interest expense	(5,519)	(16,012)	(6,926)	(23,113)
Profit before Taxation	**18,082**	**80,260**	**58,741**	**150,589**
Taxation	(3,255)	(16,119)	(14,685)	(37,647)
Net Profit after Taxation	**14,827**	**64,141**	**44,056**	**112,942**
Earnings per Stock Unit	**$0.18**	**$0.79**	**$0.54**	**$1.40**

Hardware & Lumber Limited
Unaudited Statement of Comprehensive Income
9 months to 30 September 2015
(expressed in Jamaican dollars)

	3 months to 30 September 2015 $'000	9 months to 30 September 2015 $'000	3 months to 30 September 2014 $'000	9 months to 30 September 2014 $'000
Net Profit after Taxation	**14,827**	**64,141**	**44,056**	**112,942**
Other Comprehensive Income:				
Remeasurement of retirement benefit obligation	(5,731)	(17,190)	(684)	(2,052)
Deferred tax on retirement benefit obligation remeasurements	1,433	4,298	171	513
Total Income, being Total Comprehensive Income for the Period	**10,529**	**51,249**	**43,543**	**111,403**

Hardware & Lumber Limited
Unaudited Statement of Financial Position
30 September 2015
(expressed in Jamaican dollars)

	Note	30 September 2015 $'000	30 September 2014 $'000	(Audited) 31 December 2014 $'000
NET ASSETS EMPLOYED				
Non-Current Assets				
Property, plant & equipment		714,644	647,183	721,620
Intangible assets		1,898	3,329	2,053
Deferred tax asset		75,686	65,532	66,794
		792,228	716,044	790,467
Current Assets				
Inventories		1,905,713	1,628,146	1,797,995
Trade and other receivables	4	715,147	626,672	609,015
Group companies	6	6,246	5,952	702
Taxation recoverable		21,869	14,475	14,666
Cash and bank balances		174,182	256,751	152,015
		2,823,157	2,531,996	2,574,393
Current Liabilities				
Trade and other payables	5	1,481,733	1,273,627	1,346,417
Provision		-	1,518	-
Taxation payable		-	5,695	3,537
Short-term loans		113,299	69,552	13,910
Group companies	6	3,317	7,725	2,694
Current portion of long-term debt		101,734	102,003	101,923
		1,700,083	1,460,120	1,468,481
Net Current Assets		1,123,074	1,071,876	1,105,912
		1,915,302	1,787,920	1,896,379
Financed by:				
Share capital		616,667	616,667	616,667
Capital reserve		358,815	305,342	358,815
Other reserve		5,259	5,259	5,259
Accumulated surplus		495,085	360,857	443,836
		1,475,826	1,288,125	1,424,577
Non-Current Liabilities				
Long-term debt		50,000	150,000	125,000
Retirement benefit obligation		389,476	349,795	346,802
		439,476	499,795	471,802
		1,915,302	1,787,920	1,896,379

Approved for issue by the Board of Directors on and signed on its behalf by:

Erwin Burton Chairman

Paul Hanworth Director

Hardware & Lumber Limited

Unaudited Statement of Changes in Stockholders' Equity

9 Months to 30 September 2015

(expressed in Jamaican dollars)

	2015				
	Share Capital $'000	Other Reserve $'000	Capital Reserve $'000	Accumulated Surplus $'000	Total $'000
Balance at 1 January 2015	616,667	5,259	358,815	443,836	1,424,577
Net Profit after taxation for the period	-	-	-	64,141	64,141
Remeasurement of retirement benefit obligation, net of deferred tax	-	-	-	(12,892)	(12,892)
Balance at 30 September 2015	616,667	5,259	358,815	495,085	1,475,826

	2014				
	Share Capital $'000	Other Reserve $'000	Capital Reserve $'000	Accumulated Surplus $'000	Total $'000
Balance at 1 January 2014	616,667	5,259	305,342	249,454	1,176,722
Net Profit after taxation for the period	-	-	-	112,942	112,942
Remeasurement of retirement benefit obligation, net of deferred tax	-	-	-	(1,539)	(1,539)
Balance at 30 September 2014	616,667	5,259	305,342	360,857	1,288,125

Hardware & Lumber Limited

Unaudited Statement of Cash Flows

9 Months to 30 September 2015

(expressed in Jamaican dollars)

	30 September 2015 $'000	30 September 2014 $'000
Cash Generated from Operating and Investing activities:		
Operating activities:		
Net Profit	64,141	112,942
Items not affecting cash	74,813	98,286
	138,954	211,228
Changes in non-cash working capital components	(63,809)	(193,180)
Net cash provided by operating activities	75,145	18,048
Net cash used in investing activities	(35,550)	(71,274)
Cash provided by/(used in) operating and investing activities	39,595	(53,226)
Cash used in financing activities	(17,428)	(107,914)
Net increase/(decrease) in cash and cash equivalents	22,167	(161,140)
Cash and cash equivalents at the beginning of the period	152,015	417,891
Cash and cash equivalents at the end of the period	174,182	256,751
Comprised of:		
Cash at bank	174,182	256,751
Cash and cash equivalents at the end of the period	174,182	256,751

Hardware & Lumber Limited

Notes to the Unaudited Financial Statements
30 September 2015
(expressed in Jamaican dollars)

1. Identification and Principal Activities

Hardware & Lumber Limited (the company) is a 58.1% subsidiary of GraceKennedy Limited. The company trades in hardware, lumber, household items and agricultural products. The company is a public company listed on the Jamaica Stock Exchange.

The company and GraceKennedy Limited are incorporated and domiciled in Jamaica. The registered office of the company is located at 697 Spanish Town Road, Kingston 11, Jamaica.

2. Accounting Policies

Basis of preparation
The accounting policies used in the preparation of these unaudited interim financial statements are consistent with those used in the audited financial statements for the year ended 31 December 2014 and comply with the requirements of IAS 34, Interim Financial reporting.

These financial statements are presented in Jamaican dollars unless otherwise indicated.

Hardware & Lumber Limited

Notes to the Unaudited Financial Statements
30 September 2015
(expressed in Jamaican dollars)

3. Segment Reporting

The company is organised into two main segments:

a) Household, Hardware and Building Products ("Rapid True Value")
b) Agricultural Products and Equipment ("AgroGrace")

The company's operations are located in Jamaica. The summary financial details of its segments are as follows:

	9 months to 30 September 2015		
	Household Hardware & Building Products	Agricultural Products & Equipment	Consolidated
	$' 000	$' 000	$' 000
External operating revenue	4,092,904	1,280,103	5,373,007
(Loss)/profit from operations	(14,886)	111,158	96,272
Interest expense	(12,194)	(3,818)	(16,012)
(Loss)/profit before tax	(27,080)	107,340	80,260

	9 months to 30 September 2014		
	Household Hardware & Building Products	Agricultural Products & Equipment	Consolidated
	$' 000	$' 000	$' 000
External operating revenue	3,872,353	1,377,715	5,250,068
(Loss)/profit from operations	(15,623)	189,325	173,702
Interest expense	(17,030)	(6,083)	(23,113)
(Loss)/profit before tax	(32,653)	183,242	150,589

Hardware & Lumber Limited

Notes to the Unaudited Financial Statements
30 September 2015
(expressed in Jamaican dollars)

4. Trade and Other Receivables

	September 2015 $'000	September 2014 $'000
Trade receivables	430,942	400,935
Other receivables	284,205	225,737
	715,147	626,672

5. Trade and Other Payables

	September 2015 $'000	September 2014 $'000
Trade payables	1,261,612	1,163,806
Other payables	220,121	109,821
	1,481,733	1,273,627

Hardware & Lumber Limited

Notes to the Unaudited Financial Statements
30 September 2015
(expressed in Jamaican dollars)

6. Group Companies and Other Related Party Transactions and Balances

(a) Due (to)/from group companies comprises:

	September 2015 $'000	September 2014 $'000
Due to GraceKennedy Ltd	(1,265)	(6,269)
Due to fellow subsidiaries	(2,052)	(1,456)
	(3,317)	(7,725)
Due from GraceKennedy Ltd	4,475	390
Due from fellow subsidiaries	1,771	5,562
	6,246	5,952

(b) The statement of comprehensive income includes the following transactions with related parties;

	September 2015 $'000	September 2014 $'000
Income:		
Fellow subsidiaries	1,755	21,678
Parent company	39	38
Expenses:		
Fellow subsidiaries	-	1,040
Parent company	43,788	40,317
Directors and key management	50,525	48,683

APPENDIX 3

Certification of financial statements

February 4, 2016

TO: THE ORDINARY STOCKHOLDERS IN
HARDWARE & LUMBER LTD.

I am currently the Financial Controller of Hardware & Lumber Limited and thus the chief financial officer of the company. I hereby certify that:

(a) the unaudited financial statements of Hardware & Lumber Limited as set out in this Director's Circular reflect fairly the financial position of the company over the nine (9) month period ending September 30, 2015, and

(b) the extracts from the financial statements of the Company for the five year period ending December 31, 2014, (in particular the profit and loss statements) reflect fairly the financial position of the company over the period.

Johnathan Ruddock
Financial Controller

APPENDIX 4

H&L's profit and loss statements for the five (5) financial years commencing in 2010 and ending December 31, 2014, as extracted from its financial statements for the period

	Year ending 31/12/2014 $'000	Year ending 31/12/2013 $'000	Year ending 31/12/2012 $'000	Year ending 31/12/2011 $'000	Year ending 31/12/2010 $'000
Revenue	7,137,578	6,810,599	6,284,052	6,055,922	5,728,987
Cost of Sales	(5,454,422)	(5,064,288)	(4,655,902)	(4,492,409)	(4,237,059)
Gross Profit	1,683,156	1,746,311	1,628,150	1,563,513	1,491,928
Other operating income	94,538	64,755	48,616	47,140	40,816
	1,777,694	1,811,066	1,676,766	1,610,653	1,532,744
Direct expenses	(1,081,341)	(1,041,011)	(1,084,674)	(1,044,578)	(1,025,214)
Administrative expenses	(411,701)	94,415	(394,177)	(485,647)	(415,540)
	(1,493,042	(946,596)	(1,478,851)	(1,530,225)	(1,440,754)
Profit from Operations	284,652	864,470	197,915	80,428	91,990
Finance cost	(29,924)	(46,753)	(72,523)	(70,730)	(67,815)
Profit before Tax	254,728	817,717	125,392	9.698	24,175
Taxation	(37,412)	(207,754)	(122,580)	(3,402)	(4,834)
Profit for the Year	217,316	609,963	2,812	6,296	19,341
Other Comprehensive income: **Items that will not be reclassified to profit and loss**					
Net gain on revaluation of land and buildings, net of taxes	53,473	-	14,723	-	28,413
Remeasurement of retirement benefit obligation, net of taxes	2,935	(93,774)	53,486	-	-
	56,408	(93,774)	68,209	-	28,413
Total Comprehensive Income for the year	273,724	516,189	71,021	6,296	47,754
Earnings per stock unit attributable to owners of the company	$2.69	$7.55	$0.03	$0.08	$0.24

APPENDIX 5

Summary pages of the Valuation Report of November 24, 2014 prepared by D.C. Tavares & Finson Realty Limited in respect of H&L's land and buildings

D.C. Tavares & Finson Realty

REAL ESTATE AGENTS, APPRAISERS, AUCTIONEERS, CONSULTANTS

KINGSTON:
1 Belmont Road, Kingston 5
Jamaica, W.I.
Tel: (876) 926-7200
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MANDEVILLE:
Shop 37, Elethe Mall
25 Caledonia Avenue
Mandeville, Jamaica, W.I.
Tel: (876) 962-8726, 962-9696

E-mail: dctf@cwjamaica.com

VALUATION REPORT

of

**No. 697 SPANISH TOWN ROAD,
in the Parish of ST. ANDREW**

for

HARDWARE & LUMBER LIMITED

NOVEMBER, 2014

REPORT AND VALUATION

of

No. 697 SPANISH TOWN ROAD, in the Parish of ST. ANDREW

VALUATION SUMMARY

ITEM	
TITLE REFERENCE:	VOLUME 1189 FOLIO 834
NAME OF OWNER:	HARDWARE & LUMBER LIMITED
CATEGORY OF USE:	COMMERCIAL/PROFESSIONAL OFFICES
PRESENT USE OF PREMISES:	MANUFACTURING AND STORAGE OF HARDWARE
TOTAL AREA OF BUILDINGS:	11,993.78 square metres (131,469.0 square feet) approx.
STATE OF REPAIR:	Generally good condition
ESTIMATED AGE:	Ranging approximately two to forty-six years old
ESTIMATED REMAINING USEFUL LIFE:	Ranging approximately eight to fifty-five years
APPRAISED VALUE:	**J$530,000,000.00**
FORCED SALE VALUE:	J$440,000,000.00
REINSTATEMENT COST:	J$1,127,550,000.00

24th November, 2014

No. 697 SPANISH TOWN ROAD,
in the Parish of ST. ANDREW

SUMMARY

APPROACHES TO VALUE:

METHOD No. 1: **PROPERTY VALUE BY THE COST APPROACH**

This is based on the principle of substitution whereby a purchaser with perfect knowledge would pay no more than the cost of constructing a substitute facility with the same utility as the subject. The Cost Approach requires an estimate of the current replacement cost of the improvements with the same utility as the subject. Accrued depreciation - economic, physical, and functional is then deducted. The resulting depreciated figure is added to the current Market value of the bare site.

VALUATION A: **PROPERTY VALUE BY COST APPROACH**

Given the current effective levels of construction cost, we estimate the replacement cost (less depreciation) of the buildings together with the market Value of the land, but not including moveable machinery, equipment, furniture or fittings, etc., to be in the amount of ONE BILLION AND THIRTY-TWO MILLION DOLLARS (J$1,032,000,000.00), apportioned as follows:

BUILDINGS	J$617,000,000.00
LAND	J$415,000,000.00

METHOD No. 2: **PROPERTY VALUE BY INCOME APPROACH:**

The Income approach to property valuation is whereby the estimated or actual future cash benefits (rent) generated by an income property is capitalised to arrive at a present worth or current value.

VALUATION B: **INCOME APPROACH**

We estimate the annual net rental likely to be generated by this property would be approximately SIX MILLION, FOUR HUNDRED AND TWENTY-SIX THOUSAND DOLLARS (J$60,426,000.00) per annum and after capitalizing at an appropriate rate, we arrive at a value of FIVE HUNDRED AND THREE MILLION, THREE HUNDRED AND FORTY-EIGHT THOUSAND, FIVE HUNDRED AND EIGHTY DOLLARS rounded to FIVE HUNDRED MILLION DOLLARS (J$500,000,000.00).

24th November, 2014

No. 697 SPANISH TOWN ROAD,
in the Parish of ST. ANDREW

SUMMARY (continued)

APPROACHES TO VALUE:
(continued)

METHOD No. 3: **PROPERTY VALUE BY SALES COMPARISON APPROACH**

A process of analysing sales of similar recently sold properties in order to derive an indication of the most probable sales price of the property being appraised. However as no two properties are exactly alike, adjustments will have to be made with the subject property for differences with the comparables, such as time of sale, location, size of parcel of land, quality of land and improvements.

The subject property is located in an area zoned for industrial purposes which has only experienced a limited amount of sales of developed properties in recent times and what has been mainly sold is considered to be reasonable size vacant industrial lots apart from one or two transactions which are special conditions. (Buy and lease back). Comparables four and five falls within this group of transactions.

Out research indicates that properties in this area are being transferred as follows:

427 Spanish Town Road (Toyota Jamaica) Buildings approx. 97.016 square feet Land 291,851.45 sq. ft. (6.7 acres)	Feb. 2013	J$495,000,000.00
383 Spanish Town Road Vacant commercial/industrial lot 4.29 acres	Sept. 2013	J$120,000,000.00
385 Spanish Town Road Vacant commercial/industrial lot 77,336.31 sq. ft. or 1.77 acres	May, 2014	J$ 83,700,000.00
109 Marcus Garvey Drive (T. Geddes Grant) Buildings Approx. 108,000 square feet Land 4.64 acres	May, 2013	J$ 1,000,000,000.00
61 Newport Boulevard (Facey Commodity Co. Ltd.) Buildings 85,369 square feet Land 96, 336 square feet or 2.21 acres	May, 2014	J$900,000,000.00

Based on our research and applying what we consider suitable adjustments for the subject property, we arrive at an appraised value **FIVE HUNDRED AND FIFTY MILLION DOLLARS (J$550,000,000.00)**.

24th November, 2014

No. 697 SPANISH TOWN ROAD,
in the Parish of ST. ANDREW

SUMMARY (continued)

APPROACHES TO VALUE:
(continued)

INTERPRETATION & CORRELATION OF ESTIMATES:

COST APPROACH (LAND + DEPREC. REPLACEMENT COST)	J$1,032,000,000.00
INCOME APPROACH	J$500,000,000.00
SALES COMPARISON APPROACH	J$550,000,000.00

The subject property consist of a substantial industrial holding presently utilized as offices, warehousing, retailing and to a lesser extent, manufacturing purposes with surplus land for future expansion.

The Cost Approach is utilized in this instance only as support to the Sales Comparison and Income Approaches. The Sales Comparison Approach is usually considered the most accurate indicator of value for commercial/industrial properties such as the subject, however, as a potential income generating concern, based on the layout of the property, the Income Approach is also a good guide in reconciling the market value.

FINAL ESTIMATE OF MARKET VALUE:

Based on factors examined and guided by the level of prices being realized for similar properties, we are of the opinion that if offered for sale on bona fide terms the unencumbered freehold interest in this property, **as at 30th November, 2014** would fetch a negotiated price in the region of **FIVE HUNDRED AND THIRTY MILLION DOLLARS (J$530,000,000.00)**.

MORTGAGE WORTHINESS:

We would advise a loan on this property which we consider a safe investment as a First Mortgage on same. This property is suitable for the investment of Trust Moneys under Section 3 of the Trustee Act in the 1973 Revised Edition of the Acts of Jamaica.

FORCED SALE VALUE:

We value this property for Forced Sale Purposes in the amount of FOUR HUNDRED AND FORTY MILLION DOLLARS (J$440,000,000.00).

24th November, 2014

No. 697 SPANISH TOWN ROAD,
in the Parish of ST. ANDREW

SUMMARY (continued)

INSURANCE REPLACEMENT:

FULL REPLACEMENT COST

Given the current effective level of construction cost, we estimate the Full Replacement cost of the buildings and site improvements as described herein, including professional fees, demolition and removal of debris to be in the amount of **ONE BILLION, ONE HUNDRED AND TWENTY-SEVEN MILLION, FIVE HUNDRED AND FIFTY THOUSAND DOLLARS (J$1,127,550,000.00)**, allocated as follows:

BUILDING A/OFFICE	J$217,400,000.00
BUILDING B/SPORTS CLUB	J$ 28,000,000.00
BUILDING C/FORKLIFT SERVICE WORK SHED/ OFFICE	J$ 6,600,000.00
BUILDING D/ SAW MILL/LUMBER SHEDS	J$ 4,800,000.00
BUILDING E/SAW MILL WORKSHOP/STOREROOM	J$ 1,000,000.00
BUILDING F/LUMBER SHED	J$ 81,000,000.00
BUILDING G/IRON & STEEL STORAGE SHED	J$ 2,100,000.00
BUILDINGS H/ WAREHOUSE No. 2	J$ 86,000,000.00
BUILDINGS I LUMBER SHEDS	J$ 66,900,000.00
BUILDING J/WAREHOUSE/ RETAIL OUTLET & OFFICE BLOCK	J$293,600,000.00
BUILDING K/AGRO GRACE WAREHOUSE	J$116,300,000.00

24th November, 2014

No. 697 SPANISH TOWN ROAD,
in the Parish of ST. ANDREW

SUMMARY (continued)

INSURANCE REPLACEMENT: (continued)

FULL REINSTATEMENT VALUE

BUILDING L/WORKSHOP/ BATHROOM	J$ 14,900,000.00
BUILDING M/TILE/SHED	J$ 23,300,000.00
BUILDING N/PARKING SHED/DOCUMENT STORE/ JANITORIAL OFFICE	J$ 5,600,000.00
BUILDING O/GENERATOR ROOM	J$ 600,000.00
BUILDING P/GATE HOUSE	J$ 450,000.00
SITE IMPROVEMENTS	J$ 56,000,000.00
PROFESSIONAL FEES	J$ 76,000,000.00
DEMOLITION & REMOVAL OF DEBRIS	J$ 47,000,000.00

APPENDIX 6

Consent of D.C. Tavares & Finson Realty Limited to use of Valuation Report of November 24, 2014 and extracts therefrom

D.C. Tavares & Finson Realty Ltd.
REAL ESTATE AGENTS, APPRAISERS, AUCTIONEERS, CONSULTANTS
KINGSTON:
1 Belmont Road, Kingston 5
Jamaica, W.I.
Tel: (876) 926-7200
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Shop 37, Elethe Mall
25 Caledonia Avenue
Mandeville, Jamaica, W.I.
Tel: (876) 962-8726, 962-9696
E-mail: dctf@cwjamaica.com

3rd February, 2016

Hardware & Lumber Limited
697 Spanish Town Road
Kingston 11

Attention: Mr. Johnathan Ruddock

Dear Sirs:

Re: Valuation of 697 Spanish Town Road, in the Parish of St Andrew

We hereby give our consent to the inclusion of references to, and the summary pages of our Valuation Report dated November 24, 2014 in your Directors' Circular to be issued to the Stockholders of Hardware & Lumber Limited, and to the Valuation Report being made available in its entirety for inspection by the Stockholders of the Company.

Yours truly,
D.C. TAVARES & FINSON REALTY LTD.

WILLIAM TAVARES-FINSON
CHAIRMAN

APPENDIX 7

H&L's audited financial statements as at and for the year ended December 31, 2014

pwc

Hardware & Lumber Limited

Financial Statements
31 December 2014

Hardware & Lumber Limited
Index
31 December 2014

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Independent Auditors' Report

To the Members of
Hardware & Lumber Limited

Report on the Financial Statements
We have audited the accompanying financial statements of Hardware & Lumber Limited, set out on pages 1 to 51, which comprise the statement of financial position as at 31 December 2014 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and with the requirements of the Jamaican Companies Act, 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.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. 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 of financial statements that give a true and fair view 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.

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

PricewaterhouseCoopers, Scotiabank Centre, Duke Street, Box 372, Kingston, Jamaica
T: (876) 922 6230, F: (876) 922 7581, www.pwc.com/jm

pwc

Members of Hardware & Lumber Limited
Independent Auditors' Report
Page 2

Opinion
In our opinion, the financial statements give a true and fair view of the financial position of Hardware & Lumber Limited as at 31 December 2014, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Jamaican Companies Act.

Report on Other Legal and Regulatory Requirements
As required by the Jamaican Companies Act, we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

In our opinion, proper accounting records have been kept, so far as appears from our examination of those records, and the accompanying financial statements are in agreement therewith and give the information required by the Jamaican Companies Act, in the manner so required.

Pricewaterhouse Coopers

Chartered Accountants
2 March 2015
Kingston, Jamaica

Hardware & Lumber Limited

Statement of Comprehensive Income

Year ended 31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2014 $'000	2013 $'000
Revenue		7,137,578	6,810,599
Cost of sales		(5,454,422)	(5,064,288)
Gross Profit		1,683,156	1,746,311
Other operating income	6	94,538	64,755
		1,777,694	1,811,066
Direct expenses		(1,081,341)	(1,041,011)
Administrative expenses		(411,701)	94,415
		(1,493,042)	(946,596)
Profit from Operations		284,652	864,470
Finance cost	9	(29,924)	(46,753)
Profit before Tax		254,728	817,717
Taxation	10	(37,412)	(207,754)
Profit for the Year		217,316	609,963
Other Comprehensive Income:			
Items that will not be reclassified to profit and loss			
Net gain on revaluation of land and buildings, net of taxes	12	53,473	-
Remeasurement of retirement benefit obligation, net of taxes	14	2,935	(93,774)
		56,408	(93,774)
Total Comprehensive Income for the Year		273,724	516,189
Earnings per stock unit attributable to owners of the company	11	2.69	7.55

Hardware & Lumber Limited

Statement of Financial Position

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2014 $'000	2013 $'000
NET ASSETS EMPLOYED			
Non-current Assets			
Property, plant and equipment	12	721,620	608,806
Intangible assets	13	2,053	7,059
Deferred tax asset	14	66,794	59,474
		790,467	675,339
Current Assets			
Inventories	16	1,797,995	1,233,338
Trade and other receivables	17	609,015	498,332
Group companies	18	702	1,685
Taxation recoverable		14,666	18,262
Cash and cash equivalents	19	152,015	417,891
		2,574,393	2,169,508
Current Liabilities			
Trade and other payables	20	1,346,417	932,157
Provisions	21	-	618
Taxation payable		3,537	24,389
Short term loans	22	13,910	13,434
Group companies	18	2,694	1,868
Current portion of long term loans	23	101,923	145,097
		1,468,481	1,117,563
Net Current Assets		1,105,912	1,051,945
		1,896,379	1,727,284

Hardware & Lumber Limited

Statement of Financial Position

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2014 $'000	2013 $'000
FINANCED BY			
Stockholders' Equity			
Share capital	24	616,667	616,667
Capital reserve	25	358,815	305,342
Other reserve	26	5,259	5,259
Retained earnings		443,836	249,454
		1,424,577	1,176,722
Non-current Liabilities			
Long term loans	23	125,000	225,000
Retirement benefit obligation	15	346,802	325,562
		471,802	550,562
		1,896,379	1,727,284

Approved for issue by the Board of Directors on 2 March 2015 and signed on its behalf by:

Erwin Burton — Director

Paul Hanworth — Director

Hardware & Lumber Limited

Statement of Changes in Stockholders' Equity

Year ended 31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

	Note	Share Capital	Capital Reserve	Other Reserve	(Accumulated Deficit)/Retained Earnings	Total
		$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2013		616,667	305,342	4,961	(242,482)	684,488
Total comprehensive income		-	-	-	516,189	516,189
Transactions with owners						
Dividends	28	-	-	-	(24,253)	(24,253)
Employee stock option scheme: value of employee services received	26	-	-	298	-	298
Balance at 31 December 2013		616,667	305,342	5,259	249,454	1,176,722
Total comprehensive income		-	53,473	-	220,251	273,724
Transaction with owners						
Dividends	28	-	-	-	(25,869)	(25,869)
Balance at 31 December 2014		616,667	358,815	5,259	443,836	1,424,577

Hardware & Lumber Limited

Statement of Cash Flows

Year ended 31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2014 $'000	2013 $'000
Cash Generated from Operating and Investing Activities:			
Profit for the year		217,316	609,963
Items not affecting cash:			
Amortisation of computer software	13	5,193	5,076
Change in retirement benefit obligation		25,153	(471,988)
Depreciation of property, plant and equipment	12	46,782	42,679
Foreign exchange gain		(15,557)	(21,025)
Withholding tax write-off		-	2,284
Interest expense	9	29,924	46,752
Interest income	6	(3,665)	(5,919)
Loss on disposal of property, plant and equipment	6	58	2,324
Stock option expense		-	298
Taxation charge	10	37,412	207,754
Warranty provisions	21	-	58
		342,616	418,256
Changes in non-cash working capital components:			
Inventories (*)		(576,301)	(134,365)
Group companies		1,809	6,855
Trade and other receivables		(110,683)	(65,573)
Trade and other payables		412,597	224,251
Warranties	21	(618)	(58)
		69,420	449,366
Interest received		3,665	5,919
Tax paid		(70,791)	-
Net cash provided by operating activities		2,294	455,285
Cash Flows from Investing Activities			
Proceeds from sale of property, plant and equipment		-	699
Purchase of computer software	13	(187)	(282)
Purchase of property, plant and equipment (*)		(86,712)	(29,930)
Net cash used in investing activities		(86,899)	(29,513)
Cash (used in)/provided by operating and investing activities (carried forward to page 6)		(84,605)	425,772

Hardware & Lumber Limited
Statement of Cash Flows
Year ended 31 December 2014
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2014 $'000	2013 $'000
Cash (Used in)/Provided by Operating and Investing Activities (brought forward from Page 5)		(84,605)	425,772
Cash Flows from Financing Activities			
Dividends paid		(24,206)	(10,105)
Interest paid		(31,431)	(49,284)
Long term loans repaid		(141,667)	(183,333)
Short term loans received		83,463	80,605
Short term loans repaid		(82,987)	(67,171)
Net cash used in financing activities		(196,828)	(229,288)
Effects of exchange rate changes on cash and cash equivalents		15,557	15,472
Net (decrease)/increase in cash and cash equivalents		(265,876)	211,956
Cash and cash equivalents at beginning of year		417,891	205,935
Cash and Cash Equivalents at End of the Year	19	152,015	417,891

The principal non-cash transactions –
(*) During the year $11,644,000 (2013 - $8,848,000) was transferred from inventories to property, plant and equipment.

Hardware & Lumber Limited
Notes to the Financial Statements
31 December 2014
(expressed in Jamaican dollars unless otherwise indicated)

1. Identification and Principal Activities

Hardware & Lumber Limited (the company) is a 58.1% subsidiary of GraceKennedy Limited (Grace), the ultimate parent company. Both companies are public companies listed on the Jamaica Stock Exchange, incorporated and domiciled in Jamaica. The registered office is located at 697 Spanish Town Road, Kingston 11, Jamaica.

The company sells retail and wholesale building materials, home improvement supplies, household items and agricultural products.

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and have been prepared under the historical cost convention as modified by the revaluation of certain property, plant and equipment.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. Although these estimates are based on management's best knowledge of current events and actions, actual results could differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Standards, interpretations and amendments to published standards effective in the current year

Certain new standards, interpretations and amendments to existing standards that have been published, became effective during the current financial year. The company has assessed the relevance of all such new standards, interpretations and amendments and has put into effect the following IFRS, which are immediately relevant to its operations.

- Amendment to IAS 32, 'Financial instruments: Presentation', on offsetting financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2014). This amendment updates the application guidance in IAS 32, 'Financial instruments: Presentation', to clarify some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position. The standard did not have a significant impact on the company's financial statements.

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, interpretations and amendments to published standards effective in the current year (continued)

- IFRIC 21, 'Levies', (effective for annual periods beginning on or after 1 January 2014). IFRIC 21 addresses the accounting for a liability to pay a levy recognised in accordance with IAS 37, 'Provisions', and the liability to pay a levy whose timing and amount is certain. It excludes income taxes within the scope of IAS 12, 'Income taxes'. IFRIC 21 indicates that the obligating event that gives rise to a liability to pay a levy is the event identified by the legislation that triggers the obligation to pay the levy. It concludes that the fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern principle, does not create an obligation to pay a levy that will arise from operating in the future. Accordingly, a liability to pay a levy is recognised when the obligating event occurs. This might arise at a point in time or progressively overtime. The interpretation also requires that an obligation to pay a levy triggered by a minimum threshold is recognised when the threshold is reached. The standard did not have a significant impact on the company's financial statements as it is not currently subjected to any material levies.

There are no other standards, interpretations or amendments to existing standards that are effective that would be expected to have a significant impact on the company.

Standards, interpretations and amendments to published standards that are not yet effective
At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued which were not yet effective at reporting date, and which the company did not early adopt. The company has assessed the relevance of all such new standards, interpretations and amendments and has determined that the following may be relevant to its operations, and has concluded as follows:

- Amendment to IAS 1, 'Disclosure initiative'. These amendments clarify the existing requirements of IAS 1 and provide additional assistance to apply judgement when meeting the presentation and disclosure requirements in IFRS. The amendment does not affect recognition and measurement and is effective for accounting periods beginning on or after 1 January 2016. The amendment is not expected to have a significant impact on the financial statements.

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010 and is mandatory for accounting periods beginning on or after 1 January 2018. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the profit or loss in the statement of comprehensive income, unless this creates an accounting mismatch. The company is yet to assess IFRS 9's full impact but intends to adopt IFRS 9 no later than the mandatory adoption period.

Hardware & Lumber Limited

Notes to the Financial Statements
31 December 2014
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, interpretations and amendments to published standards that are not yet effective (continued)

- IFRS 15, 'Revenue from Contracts with Customers'. The IASB has published its new revenue standard, IFRS 15 'Revenue from Contracts with Customers'. The U.S. Financial Accounting Standards Board (FASB) has concurrently published its equivalent revenue standard which is the result of a convergence project between the two Boards. IFRS 15 applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. It specifies how and when an entity will recognise revenue. It also requires entities to provide more informative, relevant disclosures. The standard supersedes IAS 18, 'Revenue', IAS 11, 'Construction Contracts' and a number of revenue-related interpretations. Application of the standard is mandatory for accounting periods beginning on or after 1 January 2017. The company is assessing the impact of future adoption of the standard.

IASB Annual Improvements -
The IASB annual improvements project for the 2010 - 2012 cycle resulted in amendments to the following standards which may be relevant to the company's operations. These amendments are effective for the accounting periods beginning on or after 1 July 2014. The company is assessing the impact of future adoption of the amendments.

- IFRS 8, 'Operating Segments'. The standard is amended to require disclosure of the judgements made by management in aggregating operating segments. This includes a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics. The standard is further amended to require a reconciliation of segment assets to the entity's assets when segment assets are reported.

- IFRS 13, 'Fair value measurements'. When IFRS 13 was published, certain paragraphs of IAS 39 were deleted as consequential amendments. This led to a concern that entities no longer had the ability to measure short-term receivables and payables at invoice amounts where the impact of not discounting is immaterial. The IASB has amended the basis for conclusions of IFRS 13 to clarify that it did not intend to remove the ability to measure short-term receivables and payables at invoice amounts in such cases.

- IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets. Both standards are amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model. The carrying amount of the asset is to be restated to the revalued amount. The split between gross carrying amount and accumulated depreciation is treated in one of two ways. The gross carrying amount may restated in a manner consistent with the revaluation of the carrying amount, and the accumulated depreciation is adjusted to equal the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses. Alternatively, the accumulated depreciation may be eliminated against the gross carrying amount of the asset.

Hardware & Lumber Limited
Notes to the Financial Statements
31 December 2014
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, interpretations and amendments to published standards that are not yet effective (continued)

IASB Annual Improvements -
The IASB annual improvements project for the 2012 - 2014 cycle resulted in amendments to the following standards which may be relevant to the company's operations. These amendments are effective for the accounting periods beginning on or after 1 January 2016. The company is assessing the impact of future adoption of the amendments.

- IFRS 7, 'Financial instruments: Disclosures'. The amendment clarifies, among other things, that the additional disclosure required by the amendments to IFRS 7, 'Disclosure – Offsetting financial assets and financial liabilities' is not specifically required for all interim periods, unless required by IAS 34.

- IAS 19 (Revised), 'Employee benefits'. The amendment clarifies that, when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, and not the country where they arise. The assessment of whether there is a deep market in high-quality corporate bonds or not is based on corporate bonds in that currency, and not corporate bonds in a particular country. Similarly, where there is no deep market in high-quality corporate bonds in that currency, government bonds in the relevant currency should be used.

- IAS 34, 'Interim financial reporting'. The amendment clarifies what is meant by the reference in the standard to 'information disclosed elsewhere in the interim financial report'. The amendment further amends IAS 34 to require a cross-reference from the interim financial statements to the location of that information.

There are no other standards, interpretations or amendments to existing standards that are not yet effective that would be expected to have a significant impact on the company.

(b) Segment reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer who makes strategic decisions.

(c) Foreign currency translation
(i) Functional and presentation currency
Jamaica is the primary economic environment in which the company operates, and as such the functional and presentation currency is Jamaican dollars.

(ii) Transaction and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss in the statement of comprehensive income.

2. Significant Accounting Policies (Continued)

(d) Property, plant and equipment

Land and buildings comprise mainly warehouses, retail outlets and offices.

Property, plant and equipment are carried on the following basis less accumulated depreciation:

Freehold land and buildings	Valuation
Other property, plant and equipment	Historical cost

Increases in the carrying amount on revaluation of land and buildings are credited to other comprehensive income, in the year of revaluation. Decreases that offset previous increases of the same asset are charged against other comprehensive income; all other decreases are charged to the profit or loss in the statement of comprehensive income.

Depreciation is calculated on the straight-line method to write-off the cost or revalued amount of assets to their residual values over their estimated useful lives as follows:

Freehold buildings	10 – 50 years
Furniture and office equipment	3 -10 years
Leasehold improvements	5 -10 years
Equipment and scaffolding	10 -20 years
Vehicles and forklift trucks	4 - 10 years

Land is not depreciated.

The useful lives of the property, plant and equipment are reviewed and adjusted if necessary. Land is not depreciated.

Property, plant and equipment are reviewed for impairment as described in Note 2(f)(i).

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with the carrying amount and are included in profit or loss in the statement of comprehensive income. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

Repairs and maintenance expenditures are charged to the profit or loss in the statement of comprehensive income during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the company and the cost can be measured reliably.

(e) Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of the asset of three to five years.

(f) Impairment

(i) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffer impairment are reviewed for possible reversal of the impairment at each reporting date.

2. Significant Accounting Policies (Continued)

(f) Impairment (continued)

(ii) Impairment of financial assets
The company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indications that the assets are impaired.

(g) Financial assets

Classification

Financial assets
The company classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

Financial assets at fair value through profit or loss
This category has two sub-categories: financial assets held for trading, and those designated as fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the reporting date. These assets are classified as cash and cash equivalents and are included in current assets on the statement of financial position.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The company's loans and receivables comprise trade and other receivables and group balances in the statement of financial position (Notes 17 and 18).

Recognition and measurement
Regular purchases of financial assets are recognised on the trade date – the date on which the company commits to purchase or sell the asset. These are initially recognised at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method. Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

The fair values of the company's financial assets are discussed in Note 3(e) and impairment is discussed in Note 2(f)(ii).

Hardware & Lumber Limited

Notes to the Financial Statements
31 December 2014
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(h) Inventories

Inventories are stated at the lower of cost and net realisable value, cost being determined on the weighted average cost method. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

The company records an inventory provision for the loss associated with selling inventories below cost. This provision is based on management's current knowledge with respect to inventory levels, sales trends, historical experience, its ability to return inventory to suppliers and to sell inventory through a price reduction process. Management has the ability to adjust purchasing practices based on anticipated sales trends and general economic conditions. However, changes in consumer purchasing patterns could result in the need for adjustments to the basis of provisioning.

(i) Trade and other receivables

Trade and other receivables are amounts due from third parties for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less they are classified as current assets. Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

(j) Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost. Cash and cash equivalents comprise cash on hand and at bank, and short term deposits with maturities of less than 90 days, net of bank overdrafts.

(k) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are included in equity as a deduction from proceeds.

(l) Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired inthe ordinary course of business from suppliers. Payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(m) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Subsequently, borrowings are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the profit or loss in the statement of comprehensive income over the period of the borrowings using the effective interest method.

(n) Income taxes

Taxation for the period comprises current and deferred tax. Tax is recognised in the profit or loss in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In those cases the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current tax charges are based on taxable profits for the year which differ from the profit before tax reported because it excludes items that are taxable or deductible in other years, and items that are never taxable or deductible. The company's liability to current tax is calculated at tax rates that have been enacted at the reporting date.

Hardware & Lumber Limited

Notes to the Financial Statements
31 December 2014
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(n) Income taxes (continued)

Deferred tax liabilities are recognised for temporary differences between the carrying amounts of assets and liabilities and their amounts as measured for tax purposes, which will result in taxable amounts in future periods. Deferred tax assets are recognised for temporary differences which will result in deductible amounts in future periods, but only to the extent it is probable that sufficient taxable profits will be available against which these differences can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset will be realised or the liability will be settled based on enacted rates.

(o) Employee benefits

(i) Pension obligations

The company participates in a defined contribution plan operated by Grace, whereby it pays contributions to a privately administered fund. The regular contributions constitute net periodic costs for the year in which they are due and are included in staff costs.

The company also participated in a defined benefit pension plan operated by Grace. The plan was generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. During the prior year the company terminated its participation in the defined benefit plan operated by Grace.

A defined contribution plan is a pension plan under which a company pays fixed contributions into a separate entity. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The asset or liability recognised in the statement of financial position in respect of the defined benefit pension plan was the present value of the defined benefit obligation at the statement of financial position date less the fair value of plan assets. The defined benefit obligation was calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation was determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that were denominated in the currency in which the benefits would have been paid, and that had terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions were charged or credited to equity in other comprehensive income in the period in which they arose.

Past-service costs were recognised immediately in the profit and loss in the statement of comprehensive income.

For the defined contribution plan, the company pays contributions to privately administered pension insurance plans on a contractual basis. The company has no further payment obligations once the contributions have been paid. The contributions are charged to the profit and loss in the statement of comprehensive income in the period to which they relate.

2. Significant Accounting Policies (Continued)

(o) Employee benefits (continued)

(ii) Equity compensation benefits
Grace operates an equity-settled, share-based compensation plan. Share options are granted to management and key employees of Grace, its subsidiaries and its associated companies.The fair value of the employee services received in exchange for the grant of the options is expensed and credited to other reserve in stockholders equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of non-market vesting conditions. Options are granted to senior managers at the weighted average price of the shares on the Jamaica Stock Exchange for the previous ten (10) trading days before the grant date and are exercisable at that price.The grant price to other employees is the weighted average price of the shares on the Jamaica Stock Exchange for the previous ten (10) trading days before the date on which the grant of options is approved by the Board, with a 25% discount.

Options are exercisable beginning one year from the date of grant and have a contractual option term of six years.

(iii) Termination obligations
Termination benefits are payable when employment is terminated by the company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The company recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the reporting date are discounted to present value.

(iv) Other post-employment obligations
The company provides post-employment health care benefits to its retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries.

(p) Provisions

Provisions for redundancies, warranties and legal claims are recognised when there is a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Any increase in provisions due to passage of time is recognised as interest expense.

Hardware & Lumber Limited

Notes to the Financial Statements
31 December 2014
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(q) Revenue and other income recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the company's activities. Revenue is shown net of General Consumption Tax, returns, rebates and discounts. Revenue is recognised as follows:

Sales of goods – wholesale

Sales of goods are recognised when the company has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured. Wholesale sales are primarily granted on credit.

Sales of goods – retail

Sales of goods are recognised when the company sells a product to the customer. Retail sales are usually settled by cash or credit card.

Interest income

Interest income is recognised on the accrual basis.

(r) Dividend distributions

Dividend distributions to the company's stockholders are recognised in the company's financial statements in the period in which the dividends are approved by the Board of Directors.

(s) Leases

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

3. Financial Risk Management

The company's activities expose it to a variety of financial risks: credit risk liquidity risk and market risk (including currency risk and cash flow interest rate risk). The company's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems.

The Board of Directors is ultimately responsible for the establishment and oversight of the company's risk management framework. The Board has established an Audit Committee to oversee how management monitors compliance with the company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the company. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Additionally, management has established a Credit Committee which issues guidelines with respect to credit limits. The Credit Committee has established a credit policy under which customers are analysed individually for creditworthiness prior to the company offering them a credit facility.

(a) Credit risk

The company takes on exposure to credit risk, which is the risk that its customers will cause a financial loss for the company by failing to discharge their contractual obligations. Credit risk is a very important risk for the company's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally from the company's receivables from customers. The company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single counterparty or groups of related counterparties.

3. **Financial Risk Management (Continued)**

(a) **Credit risk (continued)**

Credit review process
The company has established a credit quality review process and has credit policies and procedures which require regular analysis of the ability of credit customers and other counterparties to meet interest, capital and other repayment obligations.

(i) Trade and other receivables
The company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Credit limits are assigned to each customer, which represents the maximum credit allowable without approval from the credit committee; these are reviewed quarterly. The company has procedures in place to restrict customer orders if the order will exceed their credit limits. Customers that fail to meet the company's benchmark creditworthiness may transact business with the company on a prepayment or cash basis.

Customer credit risks are monitored according to their credit characteristics such as whether it is an individual or company, aging profile, and previous financial difficulties.

The company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The company addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

The company's average credit period on the sale of goods is 30 days. The company has provided for receivables based on an evaluation of the total past due balances and the historical experience with individual customers. Trade receivables are provided for based on an estimate of amounts that would be irrecoverable, determined by taking into consideration past default experience, current economic conditions and expected receipts and recoveries once impaired.

(ii) Cash and cash equivalents
The company limits its exposure to credit risk by investing mainly in liquid securities, with counterparties that have high credit quality. Accordingly, management does not expect any counterparty to fail to meet its obligations.

Maximum exposure to credit risk

	2014 **$'000**	**2013** **$'000**
Credit risk exposures are as follows:		
Trade receivables (Note 17)	379,774	318,684
Other receivables (Note 17)	144,364	70,991
Group companies (Note 18)	702	1,685
Cash and cash equivalents (Note 19)	152,015	417,891
	676,855	809,251

The above table represents a worst case scenario of credit risk exposure to the company.

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Aging analysis of trade receivables that are past due but not impaired:

Trade receivables that are less than 90 days past due are not considered impaired. As at 31 December 2014, trade receivables totalling $140,839,000 (2013 - $120,258,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	2014 $'000	2013 $'000
1 to 30 days past due	100,831	80,573
31 to 60 days past due	27,124	28,131
Over 60 days past due	12,884	11,554
	140,839	120,258

Aging analysis of trade receivables that are past due and impaired:

As at 31 December 2014, trade receivables of $83,660,000 (2013 - $62,886,000) were past due and impaired. The amount of the provision was $68,735,000 (2013 – $54,962,000). The individually impaired receivables mainly relate to wholesalers and developers who are experiencing difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered.

The aging of these receivables is as follows:

	2014 $'000	2013 $'000
91 to 120 days past due	7,873	4,889
Over 120 days past due	75,787	57,997
	83,660	62,886

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Movements on the provision for impairment of trade receivables are as follows:

	2014 $'000	2013 $'000
At 1 January	54,962	28,822
Provision for receivables impairment	21,711	32,791
Recoveries	(7,938)	(6,651)
At 31 December	68,735	54,962

The creation and release of provisions for impaired receivables have been included in administrative expenses in the profit or loss in the statement of comprehensive income. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

There are no financial assets other than those listed above that were individually impaired.

The following table summarises the company's credit exposure for trade receivables at their carrying amounts, as categorised by the customer sector:

	2014 $'000	2013 $'000
Agriculture, fishing and mining	102,114	101,137
Construction and real estate	70,104	60,765
Wholesalers	220,453	159,365
Retail distributors and others	55,838	52,379
	448,509	373,646
Less: Provision for credit losses	(68,735)	(54,962)
	379,774	318,684

All trade receivables are receivable from customers in Jamaica.

Hardware & Lumber Limited

3. Financial Risk Management (Continued)

(b) Liquidity risk

Liquidity risk is the risk that the company may be unable to meet its payment obligations associated with its financial liabilities when they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities.

Liquidity risk management process

The company's liquidity management process, as carried out within the company and monitored by the Board of Directors, includes:

(i) Monitoring future cash flows and liquidity on a regular basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral, which could be used to secure funding if required;

(ii) Maintaining committed lines of credit;

(iii) Managing the concentration and profile of debt maturities.

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3. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

The tables below summarise the maturity profile of the company's financial liabilities at 31 December based on contractual undiscounted payments.

	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Total $'000
As at 31 December 2014:					
Financial liabilities					
Trade payables	640,603	319,740	163,657	-	1,124,000
Other payables	144,941	-	-	-	144,941
Group companies	2,694	-	-	-	2,694
Short term loans	13,999	-	-	-	13,999
Long term loans	-	32,333	88,263	135,371	255,967
	802,237	352,073	251,920	135,371	1,541,601

	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Total $'000
As at 31 December 2013:					
Financial liabilities					
Trade payables	196,353	552,826	-	-	749,179
Other payables	111,662	-	-	-	111,662
Group companies	1,868	-	-	-	1,868
Short term loans	13,648	-	-	-	13,648
Long term loans	-	32,820	140,832	250,597	424,249
	323,531	585,646	140,832	250,597	1,300,606

Assets available to meet all of the liabilities and to cover financial liabilities include cash and cash equivalents.

3. Financial Risk Management (Continued)

(c) Market risk

The company takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk mainly arises from changes in foreign currency exchange rates and interest rates. Market risk is monitored by the company's finance department, which carries out research and monitors the price movement of financial assets on the local and international markets. Market risk exposures are measured using sensitivity analysis.

There has been no change to the company's exposure to market risks or the manner in which it manages and measures the risk.

(i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The company is exposed to foreign exchange risk primarily with respect to the United States (US) dollar. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.The statement of financial position at 31 December 2014 includes aggregate net foreign liabilities of $809,326,000 (2013 - $259,711,000) in respect of such transactions.

The company manages its foreign exchange risk by ensuring that the net exposure in foreign assets and liabilities is kept to an acceptable level by monitoring currency positions.

Foreign currency sensitivity

The change in currency rate below represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis represents outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a possible change in foreign currency rates. The sensitivity of the profit was mainly as a result of foreign exchange losses on translation of US dollar-denominated trade payables. There is no impact on other comprehensive income.

	% Change in Currency Rate	Effect on Profit before Tax	% Change in Currency Rate	Effect on Profit before Tax
	2014	2014 $'000	2013	2013 $'000
Devaluation	10	(80,933)	15	(38,957)
Revaluation	1	8,093	1	2,597

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3. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk
Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Floating rate instruments expose the company to cash flow interest risk.The company's interest rate risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest bearing financial assets and interest bearing financial liabilities.

The following tables summarises the company's exposure to interest rate risk. It includes the company's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Non-Interest Bearing $'000	Total $'000
At 31 December 2014:						
Financial assets						
Trade receivables	-	-	-	-	379,774	379,774
Other receivables	-	-	-	-	144,364	144,364
Group companies	-	-	-	-	702	702
Cash and cash equivalents	149,528	-	-	-	2,487	152,015
Total financial assets	149,528	-	-	-	527,327	676,855
Financial liabilities						
Trade payables	-	-	-	-	1,124,000	1,124,000
Other payables	-	-	-	-	144,941	144,941
Short term loans	13,910	-	-	-	-	13,910
Group companies	-	-	-	-	2,694	2,694
Long term loans	-	26,923	75,000	125,000	-	226,923
Total financial liabilities	13,910	26,923	75,000	125,000	1,271,635	1,512,468
Total interest repricing gap	135,618	(26,923)	(75,000)	(125,000)	(744,308)	(835,613)

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3. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Non-Interest Bearing $'000	Total $'000
At 31 December 2013:						
Financial assets						
Trade receivables	-	-	-	-	318,684	318,684
Other receivables	-	-	-	-	70,991	70,991
Group companies	-	-	-	-	1,685	1,685
Cash and cash equivalents	182,168	192,393	-	-	43,330	417,891
Total financial assets	182,168	192,393	-	-	434,690	809,251
Financial liabilities						
Trade payables	-	-	-	-	749,179	749,179
Other payables	-	-	-	-	111,662	111,662
Short term loans	13,434	-	-	-	-	13,434
Group companies	-	-	-	-	1,868	1,868
Long term loans	-	28,430	116,667	225,000	-	370,097
Total financial liabilities	13,434	28,430	116,667	225,000	862,709	1,246,240
Total interest repricing gap	168,734	163,963	(116,667)	(225,000)	(428,019)	(436,989)

Interest rate sensitivity

All the company's loans and cash and cash equivalents are at fixed rates, accordingly, they are not sensitive to changes in prevailing interest rates.

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3. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Non-Interest Bearing $'000	Total $'000
At 31 December 2013:						
Financial assets						
Trade receivables	-	-	-	-	318,684	318,684
Other receivables	-	-	-	-	70,991	70,991
Group companies	-	-	-	-	1,685	1,685
Cash and cash equivalents	182,168	192,393	-	-	43,330	417,891
Total financial assets	182,168	192,393	-	-	434,690	809,251
Financial liabilities						
Trade payables	-	-	-	-	749,179	749,179
Other payables	-	-	-	-	111,662	111,662
Short term loans	13,434	-	-	-	-	13,434
Group companies	-	-	-	-	1,868	1,868
Long term loans	-	28,430	116,667	225,000	-	370,097
Total financial liabilities	13,434	28,430	116,667	225,000	862,709	1,246,240
Total interest repricing gap	168,734	163,963	(116,667)	(225,000)	(428,019)	(436,989)

Interest rate sensitivity

All the company's loans and cash and cash equivalents are at fixed rates, accordingly, they are not sensitive to changes in prevailing interest rates.

3. Financial Risk Management (Continued)

(d) Capital management

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for stockholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital as well as meet externally imposed capital requirements. The Board of Directors monitors the return on capital, which the company defines as profit for the year divided by total stockholders' equity. The Board of Directors also monitors the level of dividends to ordinary stockholders (Note 28).

The company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

The company is not subjected to any external regulatory capital requirements.

The gearing ratios at 31 December were as follows:

	2014 $'000	2013 $'000
Total borrowings	240,833	383,531
Less: Cash and cash equivalents	(152,015)	(417,891)
Net debt	88,818	(34,360)
Total equity	1,424,577	1,176,722
Total capital	1,513,395	1,142,362
Gearing ratio	6%	(3%)

(e) Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable, willing parties in an arm's length transaction. Market price is used to determine fair value where an active market (such as a recognised stock exchange) exists as it is the best evidence of the fair value of a financial instrument.

Financial instruments that, subsequent to initial recognition, are measured at fair value are grouped into levels 1 to 3 based on the degree to which the fair values are observable, as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The amounts included in the financial statements for cash and cash equivalents, trade and other receivables, group companies, short term loans and trade and other payables reflect their approximate fair values because of the short-term maturity of these instruments.

The fair values of long term loans approximate their carrying values because interest rates at the year-end were at market rates.

3. Financial Risk Management (Continued)

(e) Fair value of financial instruments (continued)

Non-financial assets carried at fair value include property, plant and equipment, which fall within level 3 of the fair value hierarchy. The valuation has been performed using the sales comparison approach. There have been a limited number of similar sales in the local market, and consequently the sales comparison approach incorporates unobservable inputs, which in the valuator's judgement reflects suitable adjustments regarding size, age, condition, time of sale and quality of land, buildings and improvements. The most significant input into this valuation is the price per square foot. The higher the price per square foot the higher the fair value.

4. Critical Accounting Estimates and Judgments in Applying Accounting Policies

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Provision for impairment of inventories
Periodically the company assesses the usage and recoverability of its inventories. Provisions are created or increased as described in Note 2(h). This, however, does not necessarily mean that the company will be able to use or sell the total remaining unimpaired items, as some items that are estimated to be good at period end may subsequently be impaired. In addition, some items provided for may eventually be sold at values greater than their carrying values.

Provision for impairment of trade receivables
Periodically the company assesses the collectability of its trade receivables. Provisions are established or increased as described in Note 2(f). This, however, does not necessarily mean that the company will collect the total remaining unimpaired balance, as some balances that are estimated to be collectable as at the year-end may subsequently go bad. In addition some debts provided for may be collected subsequently.

Post-employment obligations
The cost of these benefits and the present value of the retirement benefit liabilities depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net periodic cost/income for retirement benefits include the discount rate and, in the case of the retirement medical benefits, the expected rate of increase in medical costs. Any changes in these assumptions will impact the net periodic cost/income recorded for retirement benefits. Grace, its subsidiaries and its associated companies (the Group) determines the appropriate discount rate at the end of each year, which represents the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement benefit obligations. In determining the appropriate discount rate, the Group considered interest rate of high-quality Government of Jamaica bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related retirement benefit liability. The expected rate of increase of medical costs has been determined by comparing the historical relationship of the actual medical cost increases with the rate of inflation. Past experience has shown that actual medical costs have increased on average by one time the rate of inflation. Other key assumptions for the retirement benefits cost and credits are based in part on current market conditions. Additional assumptions and sensitivity information is disclosed in Note 15.

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4. Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

Deferred tax asset
A net deferred tax asset of approximately $66,794,000 (2013 - $59,474,000) has been recognised in the financial statements as management is of the view that sufficient future taxable profits will be available to fully utilise the asset given the company's profitability. The recoverability of the deferred tax asset will be reassessed at each reporting date.

Income taxes
Significant judgement is required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Revaluation of freehold land and buildings
Freehold land and buildings are carried in the statement of financial position at fair value. The company uses independent qualified property appraisers to value its land and buildings every two years, generally with reference to market prices. This approach takes into consideration various assumptions and factors including the nature, location and condition of the properties and recent comparable sales. Changes in these assumptions and factors could have an impact on the valuation of the properties.

Depreciable assets
Estimates of the useful life and residual value of property, plant and equipment are required in order to apply an adequate rate of transferring the economic benefits embodied in these assets in the relevant periods. The company applies a variety of rates in an effort to arrive at these depreciation estimates. Any changes in the useful lives and residual values may have an impact on the depreciation charge.

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5. Segment Information

Management has determined the operating segments based on the reports reviewed by the Chief Executive Officer (CEO) that are used to make strategic decisions.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

Effective 1 January 2013, the company re-organised its operations into two operating segments. As a result of the reorganisation the wholesale segment was subsumed into the retail segment. The operating segments were renamed Household, Hardware and Building Products and Agricultural Products and Equipment. These two segments represent the company's strategic business units. The strategic business units offer different products and services, and are managed separately because they require among other things, different marketing strategies. For each of the strategic business units, the company's CEO reviews internal management reports on at least a monthly basis. These reports do not include details of segment assets. The following summary describes the operations in each of the company's reportable segments: household, hardware and building products and agricultural products and equipment. The household, hardware and building products segments sells mainly household "do it yourself" items along with cement, lumber and heavy hardware products. The agricultural products and equipment segment sells mainly insecticides, fertilizers, fungicides and other such agricultural related items to the agricultural industry. There are no inter-divisional sales.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit/(loss) before income tax, not including non-recurring gains and losses, as included in the internal management reports that are reviewed by the company's CEO. Segment profit/(loss) is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Income and expenses that are directly related to segments are reported within those segments. Head office income and expenses are allocated to segments based on sales.

The company's operations are located entirely in Jamaica.

	2014		
	Household Hardware and Building Products	**Agricultural Products and Equipment**	**Total**
	$'000	**$'000**	**$'000**
External operating revenue	5,296,481	1,841,097	7,137,578
Profit from operations	40,068	244,584	284,652
Interest expense	(22,155)	(7,769)	(29,924)
Profit before tax	17,913	236,815	254,728
Other segment disclosures -			
Interest income	2,726	939	3,665
Depreciation and amortisation	42,153	9,822	51,975
Capital expenditure (*)	84,838	13,705	98,543

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5. Segment Information (Continued)

No single customer accounted for 10% or more of total revenues of the company either in 2014 or in 2013.

	2013		
	Household Hardware and Building Products	Agricultural Products and Equipment	Total
	$'000	$'000	$'000
External operating revenue	5,004,489	1,806,110	6,810,599
Profit from operations	480,565	383,905	864,470
Interest expense	(34,356)	(12,397)	(46,753)
Profit before tax	446,209	371,508	817,717
Other segment disclosures -			
Interest income	4,389	1,530	5,919
Depreciation and amortisation	(37,296)	(10,459)	(47,755)
Capital expenditure (*)	24,271	14,789	39,060

(*) Included in these balances are amounts transferred from inventory of $11,644,000 (2013 - $8,848,000).

6. Other Operating Income

	2014	2013
	$'000	$'000
Loss on sale of property, plant and equipment	(58)	(2,324)
Rental income	2,618	1,834
Interest income	3,665	5,919
Purchase rebate	35,262	22,448
Agent commission	4,673	8,631
Write back of credits in accounts receivable	22,113	-
Foreign exchange gains	15,557	21,025
Other	10,708	7,222
	94,538	64,755

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7. Expenses by Nature

Total cost of sales, direct and administrative expenses

	2014 $'000	2013 $'000
Advertising and marketing	42,013	40,563
Auditors' remuneration	7,604	7,804
Bags and straps	9,349	8,471
Cost of inventories recognised as expenses	5,335,925	4,957,764
Demurrage	282	(1,475)
Depreciation and amortisation	51,975	47,755
Equipment rental	9,946	10,228
Freight	108,866	99,528
Impairment charge for receivables	13,748	26,140
Insurance	70,388	67,413
Licences and taxes	20,111	12,292
Occupancy – rent, utilities, etc.	329,601	313,966
Parent company charges (Note 18(e))	55,111	57,666
Processing and facility	46,310	44,171
Professional and contractual	162,537	158,851
Repairs, maintenance and renewals	39,941	44,783
Security	46,552	44,660
Staff costs (Note 8)	516,084	(11,333)
Stationery and computer expense	42,030	67,637
Other	39,091	14,000
	6,947,464	6,010,884

The prior year administrative expenses totaled $408,076,000; however, this balance was reduced by the pension credit for $502,491,000 (Note 8) thus resulting in the administrative expenses being a credit of $94,415,000.

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8. Staff Costs

	2014 $'000	2013 $'000
Wages and salaries	348,170	338,534
Payroll taxes, employer's contribution	38,194	36,655
Pension credit – defined benefit plan (Note 15)	-	(502,491)
Contribution to defined contribution plan (Note 15)	26,166	7,297
Other retirement benefits (Note 15)	37,367	44,162
Staff welfare	62,035	58,067
Gratuity	3,947	2,247
Stock option expense (Note 26)	-	298
Redundancy costs	205	3,898
	516,084	(11,333)

9. Finance Cost

	2014 $'000	2013 $'000
Interest expense	29,924	46,753

10. Taxation

Taxation is based on the profit for the year adjusted for taxation purposes and comprises:

	2014 $'000	2013 $'000
Current income tax charge	53,535	54,863
Deferred tax (Note 14)	(16,123)	152,891
	37,412	207,754

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10. Taxation (Continued)

The actual tax expense differs from the theoretical amount as follows:

	2014 $'000	2013 $'000
Profit before tax	254,728	817,717
Tax calculated at 25%	63,682	204,429
Adjusted for the effects of:		
Employment tax credit	(23,302)	-
Effect of change in tax rate	-	7,156
Adjustment to prior year deferred tax	(2,869)	(2,506)
Expenses not deductible for tax purposes	526	983
Income not subject to tax	(36)	(185)
Net effect of other charges and allowances	(589)	(2,123)
Taxation	37,412	207,754

During the 2014/15 budget presentation, the Government of Jamaica announced the following:

An Employment tax credit (ETC) is now available to unregulated entities. These entities are now able to claim a credit of up to a maximum of 30% of the tax liability resulting from trading income, if statutory deductions (employee and employer) are paid in full by the due date. This has the potential to reduce the effective tax rate. The ETC is not available to carry forward. There are some provisions for the credit to be restricted based on dividend payments and/or other distributions. The company has recognised an employment tax credit in the amount of $23,302,000.

11. Earnings per Stock Unit

Earnings per stock unit is calculated by dividing the profit for the year, by the number of ordinary stock units in issue during the year.

	2014	2013
Net profit attributable to stockholders ($'000)	217,316	609,963
Number of stock units in issue ('000)	80,842	80,842
Earnings per stock unit ($)	2.69	7.55

12. Property, Plant and Equipment

	2014							
	Freehold Land	Freehold Buildings	Furniture and Office Equipment	Leasehold Improvements	Equipment and Scaffolding	Vehicles and Forklift Trucks	Construction in Progress	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cost or Valuation -								
1 January 2014	220,000	227,456	386,691	208,580	102,534	7,716	11,193	1,164,170
Additions	-	12,410	14,207	9,070	14,814	-	47,855	98,356
Revaluation	30,000	21,581	-	-	-	-	-	51,581
Disposals	-	-	(96)	-	-	-	-	(96)
Transfers	-	18,553	11,303	24,432	-	-	(54,288)	-
31 December 2014	250,000	280,000	412,105	242,082	117,348	7,716	4,760	1,314,011
Depreciation -								
1 January 2014	-	4,549	331,999	133,590	77,510	7,716	-	555,364
Charge for the year	-	5,168	18,886	15,116	7,612	-	-	46,782
Revaluation	-	(9,717)	-	-	-	-	-	(9,717)
Relieved on disposals	-	-	(38)	-	-	-	-	(38)
31 December 2014	-	-	350,847	148,706	85,122	7,716	-	592,391
Net Book Value -								
31 December 2014	250,000	280,000	61,258	93,376	32,226	-	4,760	721,620

	2013							
	Freehold Land	Freehold Buildings	Furniture and Office Equipment	Leasehold Improvements	Equipment and Scaffolding	Vehicles and Forklift Trucks	Construction in Progress	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cost or Valuation -								
1 January 2013	220,000	220,000	391,496	208,536	101,676	7,716	-	1,149,424
Additions	-	7,456	8,038	8,355	3,736	-	11,193	38,778
Disposals	-	-	(12,843)	(8,311)	(2,878)	-	-	(24,032)
31 December 2013	220,000	227,456	386,691	208,580	102,534	7,716	11,193	1,164,170
Depreciation -								
1 January 2013	-	-	324,166	129,257	72,555	7,716	-	533,694
Charge for the year	-	4,549	19,629	11,937	6,564	-	-	42,679
Relieved on disposals	-	-	(11,796)	(7,604)	(1,609)	-	-	(21,009)
31 December 2013	-	4,549	331,999	133,590	77,510	7,716	-	555,364
Net Book Value -								
31 December 2013	220,000	222,907	54,692	74,990	25,024	-	11,193	608,806

12. Property, Plant and Equipment (Continued)

If freehold land and buildings were stated on the historical cost basis, the amounts would be as follows:

	2014		2013	
	Freehold Land $'000	**Freehold Buildings $'000**	**Freehold Land $'000**	**Freehold Buildings $'000**
Cost	45,000	184,298	45,000	153,335
Accumulated depreciation	-	33,308	-	29,622
Net book value	45,000	150,990	45,000	123,713

Freehold land and buildings are stated at fair value, as appraised by D.C. Tavares & Finson Realty Company Limited, independent qualified real estate brokers and appraisers in November 2014. Fair value is determined by reference to market based evidence. This means that valuations performed by the valuer are based on active market prices, adjusted for any difference in the nature, location or condition of the specific property.The revaluation gain of $53,473,000, net of applicable deferred income taxes, was credited to other comprehensive income. All other property, plant and equipment are stated at cost.

Hardware & Lumber Limited

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13. Intangible Assets

	2014		
	Computer Software $'000	Computer Software Work in Progress $'000	Total $'000
Cost -			
1 January 2014	254,144	282	254,426
Additions	187	-	187
Transfers	282	(282)	-
31 December 2014	254,613	-	254,613
Amortisation -			
1 January 2014	247,367	-	247,367
Amortisation charge for the year	5,193	-	5,193
31 December 2014	252,560	-	252,560
Net Book Value -			
31 December 2014	2,053	-	2,053

	2013		
	Computer Software $'000	Computer Software Work in Progress $'000	Total $'000
Cost -			
1 January 2013	254,144	-	254,144
Additions	-	282	282
31 December 2013	254,144	282	254,426
Amortisation -			
1 January 2013	242,291	-	242,291
Amortisation charge for the year	5,076	-	5,076
31 December 2013	247,367	-	247,367
Net Book Value -			
31 December 2013	6,777	282	7,059

The amortisation charges of $327,000 and $4,866,000 (2013 - $336,000 and $4,740,000) are included in direct and administrative expenses, respectively, in the profit or loss in the statement of comprehensive income.

Hardware & Lumber Limited

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14. Deferred Income Taxes

Deferred income taxes are calculated in full on all temporary differences under the liability method using a tax rate of 25%. The movement in the deferred income tax balance is as follows:

	2014 $'000	2013 $'000
Net asset at beginning of year	59,474	193,575
Credit/(charge) to profit or loss (Note 10)	16,123	(152,891)
(Charge)/credit to other comprehensive income	(8,803)	18,790
Net asset at end of year	66,794	59,474

The company recognises the deferred tax asset as it is of the opinion that sufficient taxable profits will be made in the future against which these assets will be utilised.

Deferred income tax assets and liabilities are due to the following items:

	2014 $'000	2013 $'000
Deferred income tax assets:		
Interest payable	481	858
Provision for warranties	-	155
Accrued vacation	2,081	2,050
Stock option expense	1,314	1,314
Bad debt general provision	637	216
Retirement benefit obligations	86,700	81,390
	91,213	85,983
Deferred income tax liabilities:		
Unrealised foreign exchange gains	(515)	(2,673)
Property, plant and equipment	(23,904)	(23,836)
	(24,419)	(26,509)
Net asset	66,794	59,474
Deferred tax assets to be recovered after more than one year	86,700	81,390
Deferred tax liabilities to be settled after more than one year	(23,904)	(23,836)

Hardware & Lumber Limited
Notes to the Financial Statements
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14. Deferred Income Taxes (Continued)

Deferred income tax credited/(charged) to the profit or loss in the statement of comprehensive income is as follows:

	2014 $'000	2013 $'000
Deferred income tax assets:		
Statutory tax loss	-	(42,985)
Interest payable	(377)	(633)
Provision for warranties	(155)	-
Accrued vacation	31	(1,136)
Stock option expense	-	75
Bad debt general provision	421	97
Retirement benefit obligations	6,288	(108,646)
	6,208	(153,228)
Deferred income tax liabilities:		
Unrealised foreign exchange gains	2,158	(1,590)
Property, plant and equipment	7,757	1,927
	9,915	337
Net deferred tax charged to the profit or loss in the statement of comprehensive income	16,123	(152,891)

The following table reflects the deferred tax effect on items (charged)/credited to other comprehensive income:

	Before Tax $'000	Tax $'000	After Tax $'000
		2014	
Fair value gain on revaluation of land and buildings (Note 25)	61,298	(7,825)	53,473
Remeasurement of retirement benefit obligation (Note 15)	3,913	(978)	2,935
	65,211	(8,803)	56,408
		2013	
Remeasurement of retirement benefit obligation (Note 15)	(112,564)	18,790	(93,774)

Hardware & Lumber Limited

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15. Retirement Benefits

	2014 $'000	2013 $'000
Liabilities recognised in the statement of financial position –		
Retirement benefit obligation - medical benefits	(346,802)	(325,562)
Amounts recognised in the profit or loss in the statement of comprehensive income (Note 8) –		
Retirement benefit obligation - pension plan	-	(502,491)
Retirement benefit obligation - medical benefits	37,367	44,162
Amounts recognised in the other comprehensive income (Note 14) –		
Retirement benefit obligation - pension plan	-	(101,082)
Retirement benefit obligation - medical benefits	3,913	(11,482)
	3,913	(112,564)

Pension plan benefits

In November 2013 the Board of Directors took the decision to exit the defined benefit pension plan operated by Grace for all permanent employees who were employed prior to 1 April 2010. As a result of this decision the obligations in relation to the defined benefit pension plan was extinguished in the prior year.

The company participates in the defined contribution pension plan started by Grace and administered by Proven Investment Limited, which is open to all Jamaican based employees hired on or after 1 April 2010. Employees contribute 5% of pensionable earnings with the option to contribute an additional voluntary contribution of 5%. The employer contributions are currently set at 10%. The company's contribution for the year was $26,166,000 (2013 - $7,297,000) (Note 8).

The movement in the fair value of plan assets during the prior year was as follows:

	2014 $'000	2013 $'000
At beginning of year	-	741,380
Interest income	-	75,405
Remeasurement of the plan assets	-	(45,147)
Contributions	-	20,401
Reallocation of plan assets	-	(430,286)
Benefits paid	-	(65,739)
Asset transfer due to curtailment	-	(296,014)
At end of year	-	-

15. Retirement Benefits (Continued)

Pension plan benefits (continued)

The movement in the present value of the defined benefit obligation during the prior year was as follows:

	2014 $'000	2013 $'000
At beginning of year	-	1,142,856
Current service cost	-	61,473
Interest cost	-	121,877
Remeasurements -		
Gain due to change in financial assumptions	-	34
Experience gains/(losses)	-	55,900
Benefits paid	-	(65,739)
Curtailment	-	(1,316,401)
At end of year	-	-

The amounts recognised in profit or loss in the statement of comprehensive income were as follows:

	2014 $'000	2013 $'000
Current service cost	-	41,138
Interest cost	-	121,877
Interest income	-	(75,405)
Reallocation of plan assets	-	726,300
Curtailment	-	(1,316,401)
Total included in staff costs (Note 8)	-	(502,491)

In the prior year a credit of $502,491,000 was included in administrative expense in the profit or loss in the statement of comprehensive income.

Hardware & Lumber Limited
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15. Retirement Benefits (Continued)

Medical and other benefits
In addition to pension benefits, the company offers retirees medical and other benefits. Funds are not built up to cover the obligations under these benefit plans. The method of accounting and frequency of valuations are similar to those used for the pension plan. The liability recognised in the statement of financial positionwas determined as follows:

	2014 $'000	2013 $'000
Present value of unfunded obligations	346,802	325,562

The movement in the present value of the defined benefit obligation during the year was as follows:

	2014 $'000	2013 $'000
At beginning of year	325,562	283,510
Current service cost	15,093	13,632
Past service cost	(7,911)	-
Interest cost	30,183	30,530
Actuarial (gains)/losses on obligations	(3,913)	11,482
Benefits paid	(12,212)	(13,592)
At end of year	346,802	325,562

The amounts recognised in the profit or loss in the statement of comprehensive income are as follows:

	2014 $'000	2013 $'000
Current service cost	15,095	13,632
Past service cost	(7,911)	-
Interest cost	30,183	30,530
Total included in staff costs (Note 8)	37,367	44,162

The total charge of $37,367,000 (2013 – $44,162,000) was included in administrative expenses in the profit or loss in the statement of comprehensive income.

15. Retirement Benefits (Continued)

Medical and other benefits (continued)

The composition of the liability recognised in relation to the retirement obligations in the statement of financial position is as follows:

	2014 $'000	2013 $'000
Gratuity Plan	41,357	44,565
Group Life Plan	49,029	47,091
Insured Group Health	95,974	80,178
Self Insured Health Plan	117,716	110,882
Supplementary Pension Plan	42,726	42,846
Liability in the statement of financial position	346,802	325,562

Risks associated with pension plans and post-employment plans

Through its post-employment obligation plans, the company is exposed to a number of risks, the most significant of which are detailed below:

Inflation risk

Higher inflation will likely lead to higher liabilities.

Life expectancy

The majority of the plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plan's liabilities. This is particularly significant, where inflationary increases result in higher sensitivity to changes in life expectancy.

The weighted average duration of the obligation in years is as follows:

	2014
Gratuity Plan	10.1
Group Life Plan	14.2
Insured Group Health	19.1
Self Insured Health Plan	12.9
Supplementary Pension Plan	7.1

15. Retirement Benefits (Continued)

Principal actuarial assumptions used in valuing retirement benefits

The principal actuarial assumptions used in valuing retirement benefits were as follows:

	2014	2013
Discount rate	9.5%	9.5%
Long term rate of inflation	5.5%	5.5%
Future salary increases	6.0%	6.0%
Future pension increases	5.5%	5.5%
Medical cost trend rate	7.0%	7.0%

The average life expectancy in years of a pensioner retiring at age 60 is 23 and 26 years for males and females, respectively (2013 - 23 and 26 years for males and females).

Assumptions regarding future mortality experience are set based on advice, published statistics and experience.

The sensitivity of the defined benefit obligation in respect of the Insured Group Health and Self-insured Health plans (the most significant plans) to changes in the principal assumptions is:

	Impact on defined benefit obligation – medical benefits		
	Change in assumption	Increase in assumption	Decrease in assumption
		$'000	$'000
Discount rate	1%	(27,812)	34,960
Medical cost rate	1%	35,476	(28,611)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the retirement benefit obligation recognised within the statement of financial position.

16. Inventories

	2014 $'000	2013 $'000
Merchandise	1,731,488	1,120,516
Provision for obsolescence	(136,875)	(131,370)
	1,594,613	989,146
Goods in transit	203,382	244,192
	1,797,995	1,233,338

The cost of inventory written off during the year amounted to $42,807,000 (2013 - $40,342,000).

17. Trade and Other Receivables

	2014 $'000	2013 $,000
Trade	448,509	373,646
Provision for impairment	(68,735)	(54,962)
	379,774	318,684
Prepayments	84,877	108,657
Other	144,364	70,991
	609,015	498,332

Other receivables includes General Consumption Tax recoverable (GCT) of $66,049,000 (2013 – GCT payable of $4,120,000).

18. Group Companies and Other Related Party Transactions and Balances

(a) Due (to)/from group companies comprises:

	2014 $'000	2013 $'000
Due to Grace	-	(430)
Due to fellow subsidiaries	(2,694)	(1,438)
	(2,694)	(1,868)
Due from Grace	9	263
Due from fellow subsidiaries	693	1,422
	702	1,685

The payables to related parties arose primarily from purchase transactions and were due 15 days after the invoice date. The payables bore no interest.

The receivables due from related party arose mainly from shared costs that were not yet due as at 31 December 2014. The receivable balances were not interest bearing. There were no provisions held against receivables from group companies.

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18. Group Companies and Other Related Party Transactions and Balances (Continued)

(b) Due (to)/from other related parties

	2014 $'000	2013 $'000
Due from directors and key management	475	795
Due from other related parties	103	107
	578	902

The amounts due from directors, key management and other related parties arose from sales transactions and are included receivables in the statement of financial position. The receivable balances were not interest bearing and there were no provisions held against these receivables.

(c) Loans from fellow subsidiary

	2014 $'000	2013 $'000
Long term loans (Note 23)	-	3,250
Interest payable on long term loans (Note 23)	-	65
	-	3,315

(d) Dividends

	2014 $'000	2013 $'000
Dividends proposed and payable	25,869	24,253

The company declared dividends to its shareholders as disclosed in Note 28. Amounts payable at the year end are included in other payables in the statement of financial position.

(e) The profit or loss in the statement of comprehensive income includes the following transactions with related parties:

	2014 $'000	2013 $'000
Income:		
Rental charges -		
Fellow subsidiaries	1,457	1,235
Commissions		
Fellow subsidiaries	4,673	8,631
Sales -		
Fellow subsidiaries	6,350	2,061
Parent company	1,042	1,235
Directors and key management	3,217	3,672
Other related parties	1,015	759
	11,624	7,727
Interest income -		
Fellow subsidiary	2,527	3,767
Parent company	50	51
	2,577	3,818

Hardware & Lumber Limited

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18. Group Companies and Other Related Party Transactions and Balances (Continued)

(d) The profit or loss in the statement of comprehensive income includes the following transactions with related parties (continued);

	2014 $'000	2013 $'000
Expenses:		
Purchases -		
Fellow subsidiaries	8,076	7,799
Parent company	2,881	4,431
	10,957	12,230
Payroll cost -		
Parent company	-	10,477
Interest expense -		
Fellow subsidiaries	165	679
Key management compensation -		
Salary and wages and other short term benefits	41,242	48,576
Directors' emoluments -		
Fees	4,385	4,185
Management remuneration (included above)	6,480	20,892
	10,865	25,077
Property and equipment rental -		
Fellow subsidiary	-	6,873
Other related parties	14,374	13,920
	14,374	20,793
Insurance expense -		
Fellow subsidiary	67,813	65,639
Other charges -		
Parent company	55,111	57,666

Payroll cost represented charges by Grace for preparation of the fortnightly and month payroll on behalf of the company for which 4% of the payroll was charged as an administration fee. In 2014, the company took a decision to prepare its own fortnightly and monthly payroll.

Interest expense resulted from loan facilities offered to the company by fellow subsidiaries (Note 23).

Key management includes the Chief Executive Officer, Chief Financial Officer and the general managers of the main business segments.

Other charges relate to various services provided by Grace exclusively to its subsidiaries and associated companies.

Hardware & Lumber Limited
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19. Cash and Cash Equivalents

Cash and cash equivalents comprise the following:

	2014 $'000	2013 $'000
Cash on hand and at bank	152,015	225,498
Short term deposits	-	192,393
	152,015	417,891

The weighted average interest rate on short term deposits was 2.8%.

20. Trade and Other Payables

	2014 $'000	2013 $'000
Trade	1,124,000	749,179
Accruals	77,476	71,316
Other	144,941	111,662
	1,346,417	932,157

21. Provisions

	2014 $'000	2013 $'000
Balance at beginning of year	618	618
Additional provisions	-	58
Amounts reversed	(618)	-
Utilised during the year	-	(58)
Balance at end of year	-	618

Prior to 1997, the company sold and installed concrete roof tiles under 40 year warranty agreements. Provisions are created as claims are made and verified. The company is no longer in this line of business and the warranties expire fully in 2036.

Hardware & Lumber Limited

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22. Short Term Loans

	2014 $'000	2013 $'000
Sagicor Bank Limited	-	13,434
Bank of Nova Scotia Jamaica Limited	13,910	-
	13,910	13,434

The loans represent insurance premium financing and attract fixed interest rates at 7.6% (2013 – 7.8%). The loans, which are denominated in Jamaican dollars, are unsecured and repayable within one month of the year end.

23. Long Term Loans

	2014 $'000	2013 $'000
(a) National Commercial Bank Jamaica Limited	225,000	325,000
(b) Commercial paper	-	41,667
	225,000	366,667
Interest payable	1,923	3,430
	226,923	370,097
Current portion	(101,923)	(145,097)
	125,000	225,000

(a) This loan is denominated in Jamaican dollars. The annual interest rate is 9.75% and it is repayable by 2017 in quarterly installments. It is supported by a comfort letter from Grace.

(b) This facility was arranged by First Global Financial Services Limited. It was denominated in Jamaican dollars. The annual interest rate was 10.05% per annum. The loan was repaid in 2014. Allied Insurance Brokers Limited (Allied), a fellow subsidiary, participated in this facility. The balance owed to Allied at 31 December 2013 was $3,250,000.

All long term loans are unsecured. The prior year interest payable included an amount of $65,000 due to related parties.

Hardware & Lumber Limited
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24. Share Capital

	Number of Authorised Shares	Number of Issued Shares	Stated Capital – Ordinary Shares	Total
	000	**000**	**$'000**	**$'000**
Balance at the beginning and end of the year	82,500	80,842	616,667	616,667

All issued shares have been fully paid up. The shares have no par value.

25. Capital Reserve

	2014 $,000	2013 $,000
Revaluation reserve	352,715	299,242
Other	6,100	6,100
	358,815	305,342
At beginning of year	305,342	305,342
Revaluation gain (Note 12)	61,298	-
Deferred taxation (Note 14)	(7,825)	-
At end of year	358,815	305,342

The capital reserve is unrealised, however, there are no restrictions on the distribution of the balance to the shareholders.

The properties revaluation reserve arises on the revaluation of freehold land and buildings. When revalued land or buildings are sold, the portion of the revaluation reserve that relates to that asset, and that is effectively realised, is transferred directly to retained earnings.

26. Other Reserve

Grace operates a stock option plan for managers and employees of the group, inclusive of employees at subsidiaries. Managers and employees of the company were granted Grace stock options as a part of the plan.

Senior managers
In 2011 options were granted at a subscription price of $50.83, being the weighted average price of Grace's shares on the Jamaica Stock Exchange for the previous ten days prior to the grant date, and are exercisable over a period of six years, at the end of which time unexercised options will expire. One-third of the total of the grant to each senior manager will vest on each anniversary of the grant. The plan provides for equitable adjustment of the allocated number of shares by reason of stock splits, combinations or exchanges of shares, stock dividends, bonus issue, and reclassifications or similar corporate changes.

Movement on this option:

	2014 '000	2013 '000
At beginning of year	79	99
Forfeited/expired	-	(20)
At end of year	79	79

All options in respect of other permanent employees have expired or been forfeited.

The value of all options at the end of the year was $5,259,000 (2013 – $5,259,000). The significant inputs into the model were the weighted average share price of $51.00 at the grant dates, exercise price of $50.83, standard deviation of expected share price returns of 33.2%, option life of six years and risk-free interest rates of 7.48%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the term of the options. The expense recognised in profit or loss in the statement of comprehensive income is nil (2013 - $298,000).

27. Commitments and Guarantees

(a) Letter of credit
The company has a letter of credit facility with First Caribbean International Bank of US$750,000 as at 31 December 2014 (2013 – US$750,000). These facility expires within one year.

(b) Guarantee
Scotiabank Jamaica Limited has guaranteed $5,000,000 on behalf of the company in favour of Collector of Customs.

(c) Operating lease commitments
The company leases various retail outlets and a distribution centre under non-cancellable operating lease agreements. The minimum lease payment for 2014 was $216,417,000 (2013 -$200,356,000). The leases expire between 2014 and 2021 with renewal options at the end of the lease periods. Included in lease payments for 2014 are amounts totaling $73,654,000 (2013 - $48,467,000) for locations whose leases expired within the year for which the new lease agreements have not been finalised.

The future aggregate minimum lease payments under the operating leases are as follows:

	2014 $'000	2013 $'000
No later than 1 year	130,164	98,870
Later than 1 year and no later than 5 years	312,789	248,841
Over five years	23,352	96,770
	466,305	444,481

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28. Ordinary Dividends

	2014 $'000	2013 $'000
30.0 cents per stock unit – 2 December 2013	-	24,253
32.0 cents per stock unit – 18 December 2014	25,869	-
	25,869	24,253

The Board declared dividends of $0.32 per ordinary share on 18 December 2014 in relation to the 2014 financial year. Accordingly, these financial statements reflect this resolution. The amounts were paid on 23 January 2015.

APPENDIX 8

Consent of PricewaterhouseCoopers

pwc

The Board of Directors
Hardware & Lumber Limited
697 Spanish Town Road
Kingston 11

4 February 2016

ATTENTION: MR. ERWIN BURTON

Dear Sirs:

Re: Consent letter for inclusion of 'Auditors' Report' in Directors' Circular to the Ordinary Shareholders in Respect of the Mandatory Offer by Argyle Industries Inc. to Acquire the Outstanding Ordinary Stock Units in the Capital of Hardware & Lumber Limited

We hereby consent to the inclusion of our 'Auditors' Report' as set out in ***Appendix 7*** of this directors' circular.

We further confirm that this statement of consent has not been withdrawn prior to the submission of this directors' circular.

Yours very truly

PricewaterhouseCoopers

PEW:JAR:cc