

HARDWARE & LUMBER LTD

Joint Chairman and Chief Executive Officer Report for 2003

The Hardware & Lumber Group had a successful and eventful year in 2003 with increased profitability and the merger of Hardware & Lumber Limited with Rapid & Sheffield Limited and Agro Grace Limited. The merger has produced an enlarged group, which comprises 15 hardware stores and 5 farm and garden stores.

The Group achieved profits before tax of \$137.8 million before redundancy costs compared to \$61.4 million for 2002. The profits were generated on sales in 2003 of \$2,639 million, compared to \$1,628 million for 2002. The redundancy cost total \$72.8 million and is discussed below. The financial results were affected by foreign exchange losses due to the devaluation of the Jamaican dollar and also merger related expenses. The profit after tax was \$44.6 Million for 2003 compared to \$48.9 Million for 2002.

Our accounting reporting standards changed in 2003 with the adoption of the International Financial Reporting Standards (IFRS), formerly International Accounting Standards. All financial statements for the comparative year 2002 have been restated to reflect this change in compliance with IFRS. The effect of adopting IFRS is explained in the notes to the accounts and in the Statement of Changes in Equity. The most significant change to the balance sheet include the adoption of IAS 19, which has resulted in the downward adjustment in the carrying value of our real estate by \$88 million.

Grace , Kennedy & Co. Ltd (Grace) acquired ordinary shares in Hardware & Lumber Ltd pursuant to an Agreement by way of Exchange of Securities with Hardware & Lumber and Pan Jamaican Investment Trust Limited (Pan Jam) dated September 4, 2003. The transaction was completed by (A) the transfer of Grace's 100% holding of shares in Rapid & Sheffield Company Limited and Agro Grace Limited to Hardware &

Lumber in exchange for 27,368,421 Shares in Hardware & Lumber and (B) by Grace's purchase of 18,142,732 Shares in Hardware & Lumber from Pan Jam. As a result of the acquisition of the Shares Grace acquired 67.4% of the issued Shares of Hardware & Lumber. Pan Jam retained 25% of the issued shares in the company.

Following the transaction in September 2003, Grace made a mandatory takeover offer to the minority shareholders. We are pleased to report that less than 3% of shareholders offered shares for sale. We believe that this is testament to the faith that you the shareholders have in the prospects for the new enlarged entity.

On December 7, 2003, the operational merger of the Agricultural Division comprising H&L Agri & Marine and Agro Grace Limited was completed; the Hardware Division merger is slated for the end of the first quarter of 2004. This enlarged H&L Group is now the largest retailer and wholesaler of hardware, home improvement and agricultural products in Jamaica.

Following the merger there was a change in the composition of the Board of Directors of the new Group, which was comprised of Douglas Orane (Chairman), Richard Byles, Professor Gordon Shirley, Don Wehby, Erwin Burton, Bryan Ewen and John Mahfood. John Mahfood was appointed Chief Executive Officer and in January 2004, A. Anthony Holness was appointed Chief Operating Officer.

With the merger the new Board agreed to create a common employment platform for all employees within the H&L Group, in order to conform to that of Grace, Kennedy & Company Limited. This will result in the redundancy of all positions held by staff employed to Hardware & Lumber Limited on March 31, 2004.

THE RETAIL DIVISION

The Retail Division continues to be the main driver for the H&L Group in the hardware and home improvement area. This Division continues to produce good growth in sales and gross profit margins particularly from our home improvement type stores.

The expansion of the product range and services in the home improvement sector of the business reflects the H&L Group's thrust towards satisfying an increasingly sophisticated consumer demand. In response, we upgraded the

Mandeville and Montego Bay stores in 2003 by relocating both to new and large retail stores. In addition, a new Ocho Rios store will be built in 2004 which will result in the consolidation of our existing H&L True Value and Rapid & Sheffield stores in the area.

WHOLESALE

The wholesale sector recorded substantial sales increase over 2002 while maintaining the gross profit margins. This strong sales showing is due in part to our wide product range and comprehensive distribution system. This has ensured the retention of this Division as the prime supplier to the retail hardware market. In light of our increased market presence, we will be working towards strengthening this bond with our trading partners and will also invest in the upgrading of our current facility to accommodate future expansion.

AGRICULTURE

The Agriculture Division achieved significant growth in sales and gross profit for 2003 compared to 2002. The improved sales performance was substantially attributable to the Mandeville branch, which was acquired in October 2002. This resulted in an 18% increase in gross profits.

Our expanded agriculture division is now positioned as the primary supplier to the agricultural sector. The decision was taken to sell the Marine side of the business in order to focus on our core business. This transaction was completed in January 2004.

OFFICE SERVICES

This Division, comprising janitorial services and scaffolding rentals, had a marginally profitable year due to falling janitorial rates.

PLANS FOR 2004

In addition to a new store in Ocho Rios, we intend to invest in a new information technology system in 2004. This is intended to greatly enhance our service to customers as well as improve the management of our information systems.

Also we will be upgrading our facility at 697 Spanish Town Road in order to accommodate our expanded hardware business.

On behalf of the entire Board, we take this opportunity to thank all our employees for their hard work, dedication and patience during this transition period. In particular, we wish to thank the Hardware & Lumber staff for their outstanding performance during the period of uncertainty leading up to the merger & the recent reorganization.

We also wish to recognize the contribution of the directors who led the company prior to the merger and who resigned from the board of directors at the time of the merger. These include Hon . Maurice Facey, C.A. Lloyd Facey , A. Anthony Holness Oscar Kerr, Cordell Samuels, Paul Facey, James Morrison & Cyril Thompson.

Mr. Richard Bytes who was actively involved in the merger resigned from our board in March 2004. We wish him the best for the future. We welcome Mr. Stephen Facey who was appointed to the board in place of Mr. Bytes .

Douglas Orane
Chairman

John Mahfood
Chief Executive Officer
