

HARDWARE & LUMBER LTD.

Joint Chairman and Chief Executive Officer Report

We are pleased to report that the Group achieved revenues of \$5.519 billion (2003-\$2.639 billion) an increase of \$2.880 billion or 109% for the year. The net profit attributable to stockholders increased by \$124.4 million over the corresponding period of 2003, moving from \$44.6 million to \$169.0 million an increase of 279%. This represents earnings per stock unit of \$2.51 (2003: \$0.95).

Dividends paid to stockholders during the year totalled \$21.6 million, compared to \$4.520 million paid in 2003. The market value of the company increased from \$640 million at the end of 2003 to \$2,011 million at the end of 2004, an increase of 314%.

On March 31, 2004 the operational merger of the hardware business was completed. All administrative, warehousing and distribution activities have been consolidated at 697 Spanish Town Road, Kingston 11.

VWith the merger, the Board created a common employment platform for all employees within the H&L Group, in order to conform to that of Grace, Kennedy & Co. Ltd. This resulted in the redundancy of all positions held by staff employed to Hardware & Lumber Ltd, on March 31, 2004.

Commencing on April 1, 2004, all permanent employees of Hardware & Lumber Ltd. were enrolled on the GraceKennedy Pension Scheme and now enjoy all the benefits of employment within the GraceKennedy Group.

Staff below supervisory level in the retail stores and at the Distribution Centre are now provided under contract by a third party employer.

Accordingly, the decision was made to wind up both the Hardware & Lumber Ltd. and Office Services Ltd. Pension Plans.

During the year we disposed of the janitorial and marine businesses in order to focus our attention on our core businesses of hardware and agriculture. In addition, we transferred the agriculture business from H&L Agri & Marine Ltd. to Agro-Grace Ltd. The operating subsidiaries now comprise Rapid & Sheffield Co. Ltd., H&L True Value Ltd. and Agro-Grace Ltd.

We completed the paving of the lumberyard and made a number of capital improvements in order to improve efficiency. We also commenced preparation for implementation of our new information technology system for the company, which is expected to bring significant benefit to the Group in terms of improved efficiency and customer service, The cost of capital additions was \$124.5 million during the year.

Jamaica was significantly impacted by the effect of Hurricane Ivan in September 2004. Fortunately, our property damage was minimal and is adequately covered by insurance. A number of our staff members suffered significant damage to their places of residence. The company provided assistance to staff through food vouchers, loans and grants. Notwithstanding their losses, our staff performed admirably and this allowed us to resume operations quickly.

The agriculture sector suffered significant damage. Along with our overseas partners, we contributed \$11 million to the Office of National Reconstruction.

The Retail Division

The Division had excellent results for the year. We selected True Value as our buying partner to go forward and commenced converting our stores. Our Portmore and Montego Bay stores have been reset and remerchandised and we have begun to benefit from this in terms of increased sales. The remaining stores will be remerchandised during 2005. Construction work commenced on our new store in Ocho Rios and completion is expected in mid 2005.

Wholesale

The strong performance experienced in 2003 continued into 2004. We also benefitted from the demand for building materials following Hurricane Ivan.

We faced some challenges in meeting our customers' demand due to worldwide shortages from our suppliers, as the wider Caribbean and South Florida were also severely impacted by Hurricanes Ivan and Charley.

Agriculture

The agriculture sector was severely impacted by Hurricanes Ivan and Charley. We were pleased to note that our small farmers bounced back quickly and a number of them were in full production by the end of the year. This once again demonstrates the resilience of the farming community. Agro-Grace was negatively impacted by these events, but was still able to produce commendable results.

Board Changes

Professor Gordon Shirley resigned from the Board and has been appointed Ambassador to the United States. We congratulate Ambassador Shirley on his appointment and thank him for his invaluable assistance during the early phase of the merger. Mr. Anthony Holness was appointed to the Board on February 28, 2005.

Adoption of Balanced Scorecard and New mission statement

We have adopted the Balanced Scorecard to help guide us with our future strategy. The Balanced Scorecard is a management tool, which assists us in identifying the cause and effect relationship between the learning and knowledge of our employees, the efficiency of internal processes and the understanding of customer needs, which ultimately lead to the financial results that our shareholders desire. This will allow us to align the entire organization with our strategy for the future.

We have also adopted a new Mission Statement which is, "To improve people's lives by providing agricultural, building and lifestyle solutions".

Renounceable Rights Issue

On December 6, 2004 approval was granted in an Extraordinary General Meeting to increase the authorized share capital by 12.5 million shares to 82.5 million shares. We are well advanced in our plans to do a Renounceable Rights Issue in the first half of 2005. The proceeds of this issue will be used to fund future capital expenditure and pay down bank debt.

Human Resource Development

The merger of the Hardware & Lumber Group has proved to be both an opportunity and a challenge for all stakeholders. The challenge faced by this move was not only the chance to chart a new path and greater success, but at the same time retaining benefits and advantages from both entities for the mutual satisfaction of employees and the company.

One of the main features of the merger was the introduction of a new organizational structure in order to facilitate the new entity. This new design was

necessary to ensure that the positions and personnel would be in place to accommodate the level of efficiency, growth and profits, which were anticipated,

The Human Resource Department was also required to place greater emphasis on its recruitment, training and development roles as it prepared staff at all levels to realize the goals and objectives of this new venture. Customer Service, Product Knowledge and Supervisory Management training will continue to receive special attention in recognition of its integral role in the business environment.

Thanks to our Stakeholders

On behalf of the entire Board, we take this opportunity to thank all our employees for their hard work and dedication in particular during the period following the Hurricane. Also we thank our customers, suppliers and other stakeholders for their continued loyalty and support.

Douglas Orane
Chairman

John Mahfood
Chief Executive Officer
