HARDWARE & LUMBER LTD

Notes to the Financial Statements 31 December 2004

1. Identification and Principal Activities

Hardware & Lumber Limited (the company) is a 69.7% subsidiary of Grace, Kennedy & Company Limited (Grace). The company and its subsidiaries trade in hardware, lumber, household items, agricultural products and provide construction related and janitorial services. The company is listed on the Jamaica Stock Exchange.

In June 2004, the company sold the office maintenance operations of its subsidiary, Office Services Limited (OSL). In accordance to the sale agreement, the name was then changed to OSL Scaffolding Limited. In November 2004, the scaffolding operation of OSL was transferred to the company. Subsequent to these transactions, OSL became dormant.

During 2003, Pan Jamaican Investment Trust Limited (the former parent company) sold the majority of its holding in the company to Grace. The company also increased its authorised share capital and issued new shares to Grace as consideration for its acquisition of Agro-Grace Limited (Agro) and Rapid & Sheffield Company Limited (Rapid) from Grace.

On 1 July 2003 the company disposed of all its ordinary shares in Scott's Preserves Limited to Pan Jamaican Investment Trust Limited (Note 4).

The company, its holding company and its subsidiaries are all incorporated and domiciled in Jamaica. The registered office of the company is located at 697 Spanish Town Road, Kingston 11, Jamaica.

All amounts are stated in Jamaican dollars unless otherwise indicated.

The consolidated financial statements present the results of operations and financial position of the company and its subsidiaries (the group) as detailed below:

	Principal Activities	Shareholding
H. & L. True Value Limited	Trading	100%
H&L Agri and Marine Company Limited	Trading	100%
Hole-In-The-Wall Limited	Trading (Dormant	100%
OSL Scaffolding Limited (formerly, Office Services Limited)	Construction and Janitorial Services (Dormant)	100%
Wherry Wharf Sales Company Limited	Trading (Dormant	93%
Rapid & Sheffield Company Limited	Trading	100%
Agro-Grace Limited	Trading	100%

2. Significant Accounting Policies

(a) Basis of preparation

These financial statements have been prepared in accordance with and comply 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 management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and action, actual results could differ from those estimates.

(b) Foreign currency translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the dates of the transactions. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated using the Bank of Jamaica weighted average closing exchange rate.

Exchange differences arising from the settlement of transactions at rates different from those at the dates of the transactions and unrealised foreign exchange differences on unsettled foreign currencies monetary assets and liabilities are recognised in the profit and loss account.

(c) Consolidation

Subsidiaries, which are those entities in which the group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies, are consolidated.

Subsidiaries are consolidated from the date on which control is transferred to the group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up,shares issued or liabilities undertaken at the date of acquisition. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered.

(d) Property, plant and equipment

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

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

Increases in the carrying amount on revaluation of land and buildings are credited to revaluation reserve in stockholders' equity. Decreases that offset previous increases of the same asset are charged against revaluation reserve in stockholders' equity; all other decreases are charged to the profit and loss account. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the profit and loss account) and depreciation based on the asset's original cost is transferred from revaluation reserve in stockholders' equity to retained earnings.

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	5 - 10 years
Leasehold improvements	5 - 10 years
Equipment and scaffolding	10 - 20 years
Vehicles and forklift trucks	5 - 7 years

Land is not depreciated.

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with the carrying amount and are included in profit from operations. When revalued assets are sold, the amounts included in the revaluation reserves are transferred to retained earnings.

Repair and maintenance expenditures are charged to the profit and loss account 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 group.

(e) Impairment of non-current assets
Property, plant and equipment and other non-current assets 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 carrying amount of the asset exceeds its recoverable amount,which is the greater of an asset's net selling price and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identified cash flows.

(f) Trade receivables
Trade receivables are carried at original invoice amount less provision made for impairment of these receivables based on a review of all outstanding amounts at the year end. A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all the amounts due according to the original terms of the receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowings. Bad debts are written-off during the year in which they are identified.

(g) 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.

(h) Leases
Leases of property, plant and equipment where the group has substantially all the risk and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in obligations under finance leases. The interest element of the finance cost is charged to the profit and

loss account over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit and loss account on a straight line basis over the period of the lease.

(i) Employee benefits

(i) Pension obligations

The group participates in a defined benefit plan operated by Grace, the assets of which are generally held in a separate trustee-administered fund. The pension plan is funded by payments from employees and by the relevant companies, taking into account the recommendations of qualified actuaries.

The asset or liability in respect of defined benefit plans is the difference between the present value of the defined benefit obligation at the balance sheet date and the fair value of plan assets, adjusted for unrecognised actuarial gains/losses and past service cost. Where a pension asset arises, the amount recognised is limited to the net total of any cumulative unrecognised net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reduction in future contributions to the plan. The pension costs are assessed using the Projected Unit Credit Method. Under this method, the cost of providing pensions is charged to the profit and loss account so as to spread the regular cost over the service lives of the employees in accordance with the advice of the actuaries, who carry out a full valuation of the plan every year in accordance with International Accounting Standards 19, Employee Benefits (IAS 19). The pension obligation is measured at the present value of the estimated future cash outflows using estimated discount rates based on market yields on government securities which have terms to maturity approximating the terms of the related liability.

A portion of actuarial gains and losses is recognised in the profit and loss account if the net cumulative unrecognised actuarial gains or losses at the end of the previous reporting period exceeded 10 percent of the greater of the present value of the gross defined benefit obligation and the fair value of plan assets at that date. Any excess actuarial gains or losses are recognised in the profit and loss account over the average remaining service lives of the participating employees.

(ii) Termination obligations

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without the possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than twelve (12) months after the balance sheet date are discounted to present value.

(iii) Other post-retirement obligations

The group also provides supplementary health, life insurance and other benefits to qualifying employees upon retirement. The entitlement to these benefits is usually based 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. These obligations are valued annually by qualified actuaries.

(j) Income taxes

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 group's liability to current tax is calculated at tax rates that have been enacted at balance sheet date.

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 is provided on temporary differences arising from investments in subsidiaries, except where the timing of reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future. 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.

Current and deferred tax assets and liabilities are offset when they arise from the same taxable entity, relate to the same tax authority and when the legal right of offset exists.

Current and deferred taxes are recognised as income tax expense or benefit in the profit and loss account.

(k) Revenue and other income recognition
Revenue represents the invoice value of goods and services sold to external customers of the group and is recognised upon delivery of products and customer acceptance or performance of services, if any, net of General Consumption Tax and discounts.

Other income is recognised as it accrues unless collectability is in doubt.

(l) Goodwill
Goodwill is the excess of purchase consideration over the fair value of assets acquired. Amortisation is calculated on a straight-line basis to write-off the carrying value over the expected useful life of 5 years.

(m) Negative goodwill
Negative goodwill represents the excess of the fair value of the net assets of the acquired subsidiaries at the date of acquisition over the cost of acquisition. Negative goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

(n) Borrowings
Borrowings are recognised initially at cost, being their issue proceeds, 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 and loss account over the period of the borrowings using the effective yield method.

(o) Cash and cash equivalents
Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand and at bank, net of bank overdrafts.

(p) Provisions

Provisions 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.

(q) Dividends

Dividends are recorded in the financial statements in the period in which they are approved.

(r) Segment reporting

Business segments provide products or services that are subject to risks and returns that are different from those of other business segments.

(s) Financial instruments

Financial instruments carried on the balance sheet include cash, bank overdraft, receivables, payables, short term loans, long term loans, obligations under finance leases and group balances.

The fair values of the group's and the company's financial instruments are discussed in Note 29.

(t) Trade payables

Trade payables are carried at original invoice amount.

(u) Comparative Information

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

3. Segment Reporting

The Group is organised into three main business segments:

(a) Wholesale of hardware and building products
(b) Retail of household and hardware products
(c) Agricultural products and equipment

Other operations of the group include the provision of construction related equipment and janitorial services.

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

	2004					
	Wholesale of Hardware and Building Products $'000	Retail Of Household and Hardware Products $'000	Agricultural Products and Equipment $'000	Others $'000	Eliminations $'000	Consolidated $'000
External operating revenue	995,902	3,633,546	839,129	50,370	-	5,518,947
Operating revenue from other segments	1,012,383	131,682	4,030	-	(1,148,095)	-
Operating revenue	2,008,285	3,765,228	843,159	50,370	(1,148,095)	5,518,947
Profit from operations	110,123	150,423	55,559	13,372	-	329,477
Finance cost, net						(63,408)
Profit before tax						266,069
Taxation						(97,065)
Net profit						169,004
Segment assets	1,705,779	1,582,194	362,067	48,608	(1,376,360)	2,322,288
Unallocated assets						274,148
Total assets						2,596,436
Segment liabilities	959,891	1,056,580	158,059	2,808	(967,464)	1,209,874
Unallocated liabilities						643,825
Total liabilities						1,853,699
Capital expenditure	94,996	19,704	14,966	-	(5,163)	124,503
Depreciation	11,882	28,888	3,850	845	-	45,465
Amortisation	-	1,541	610	-	-	2,151

2003

	Wholesale of	Retail Of

	Hardware and Building Products $'000	Household and Hardware Products $'000	Agricultural Products and Equipment $'000	Other $'000	Eliminations $'000	Consolidated $'000
External operating revenue	610,203	1,550,523	383,887	95,198	-	2,639,811
Operating revenue from other segments	229,435	9,727	1,185	1,977	(242,324)	-
Operating revenue	839,638	1,560,250	385,072	97,175	(242,324)	2,639,811
Profit/(loss) from operations	34,125	81,747	8,899	(8,673)	-	116,098
Finance cost, net						(51,112)
Profit before tax						64,986
Taxation						(20,403)
Net profit						44,583
Segment assets	537,474	960,060	241,738	56,124	(16,375)	1,779,021
Unallocated assets						11,648
Total assets						1,790,669
Segment liabilities	203,725	500,848	91,213	21,861	(16,375)	801,272
Unallocated liabilities						384,046
Total liabilities						1,185,318
Capital expenditure	11,619	22,870	2,407	3,136	-	40,032
Depreciation	7,156	17,503	1,789	1,854	-	28,302
Amortisation	-	537	-	-	-	537

4. Profit from Operations

Profit from operations is arrived at after charging/(crediting) the following items:

	The Group	
	2004	2003
	$'000	$'000
Depreciation	45,465	28,302
Profit/(loss) on disposal property, plant and equipment	(2,233)	511
Directors' emoluments -		
Fees	96	96
Management remuneration (included in staff costs)	11,541	12,626
Staff costs (Note 5)	393,554	321,437
Surplus on termination of pension fund	19,944	-
Auditors' remuneration	6,561	6,655
Gain on disposal of subsidiary	-	(2,525)
Provision for doubtful debts, net	19,673	(450)

5. Staff Costs

	The Group	
	2004	2003
	$'000	$'000
Wages and salaries	275,856	208,891
Payroll taxes, employer's contribution	27,369	21,238
Pension costs (Note 14)	(1,832)	957
Staff welfare	81,838	17,560
Redundancy costs	10,323	72,791
	393,554	321,437
Number of employees at end of year:		
Regular	234	266
Contract	485	712
	719	978

6. Finance Costs, net

	The Group	
	2004	2003
	$'000	$'000
Interest expense	74,556	29,142
Interest income	(9,575)	(1,059)
	64,981	28,083
Foreign exchange (gain)/losses	(1,573)	23,029
	63,408	51,112

7. Taxation

Taxation is based on profit for the year adjusted for taxation purposes and comprises income tax at 33 1/3%:

	The Group	
	2004	2003
	$'000	$'000
Current	88,071	22,624
Adjustment to prior year's provision	(959)	(354)
Deferred (Note 13)	9,953	1,867
	97,065	20,403

	The Group	
	2004	2003
	$'000	$'000
Profit before tax	266,069	64,986
Tax calculated at 33 1/3%	88,690	21,662
Adjusted for the effect of:		
Income not subject to tax	(728)	(3,524)
Expenses not deductible for tax	951	4,663

Adjustment to prior year's provision	(959)	(354)
Under/(Over) provision of prior year deferred tax	8,256	(1,833)
Net effect of other charges and allowances	855	(211)
Taxation	97,065	20,403

8. Net Profit and Retained Earnings

(a) The net profit is dealt with in the financial statements as follows:

	2004	2003
	$'000	$'000
Parent company	54,674	89,037
Subsidiaries	114,330	(44,454)
	169,004	44,583

(b) The retained earnings is reflected in the financial statements as follows:

	2004	2003
	$'000	$'000
Parent company	146,337	111,930
Subsidiaries	228,487	114,157
	374,824	226,087

9. Earnings per Stock Unit

Earnings per stock unit are calculated by dividing the net profit attributable to stockholders by the weighted average number of ordinary stock units in issue during the year.

	2004	2003
Net profit attributable to stockholders ($'000)	169,004	44,583
Weighted average number of stock units in issue ('000)	67,368	46,842
Earnings per stock unit	$2.51	$0.95

10. Property, Plant and Equipment

THE GROUP

	Freehold Land $'000	Freehold Buildings $'000	Furniture and Office Equipment $'000	Leasehold Improvements $'000	Equipment and Scaffolding $'000	Vehicles and Forklift Trucks $'000	Construction Work in Progress $'000	Total $'000
Cost or Valuation								
1 January 2004	52,000	78,000	153,048	87,817	17,578	12,744	19,301	420,488
Additions	37,662	14,960	36,806	4,480	608	3,199	26,788	124,503
Disposals	-	-	(9,930)	(1,986)	(790)	(6,902)	-	(19,608)
Transfers	-	6,566	5,099	-	-	-	(11,665)	-
Revaluation adjustments	(14,662)	474	-	-	-	-	-	(14,188)
31 December 2004	75,000	100,000	185,023	90,311	17,396	9,041	34,424	511,195
Depreciation - 1 January 2004	-	-	43,639	27,533	5,328	6,960	-	(83,460)
Charge for the year	-	3,399	26,607	11,485	1,076	2,898	-	(45,465)
Relieved on disposals	-	-	(6,270)	(591)	(280)	(4,263)	-	(11,404)
Revaluation adjustment	-	(3,399)	-	-	-	-	-	(3,399)
31 December 2004	-	-	63,976	38,427	6,124	5,595	-	(114,122)
Net Book Value - 31 December 2004	75,000	100,000	121,047	51,884	11,272	3,446	34,424	397,073
31 December 2003	52,000	78,000	109,409	60,284	12,250	5,784	19,301	337,028

THE COMPANY

	Freehold Land $'000	Freehold Buildings $'000	Furniture and Office Equipment $'000	Vehicles & Forklift Trucks $'000	Work in Progress $'000	Total $'000
Cost or Valuation -						
1 January 2004	52,000	78,000	36,088	6,742	9,882	182,712
Additions	37,662	14,960	30,805	3,193	8,376	94,996
Transfers	-	6,566	3,155	-	(9,721)	-
Disposals	-	-	-	(2,770)	-	(2,770)
Revaluation adjustments	(14,662)	474	-	-	-	(14,188)
31 December 2004	75,000	100,000	70,048	7,165	8,537	260,750
Depreciation -						
1 January 2004	-	-	23,898	4,726	-	28,624
Charge for the year	-	3,399	6,914	1,569	-	11,882
Relieved on disposals	-	-	-	(2,197)	-	(2,197)
Revaluation adjustment	-	(3,399)	-	-	-	(3,399)
31 December 2004	-	-	30,812	4,098	-	34,910
Net Book Value -						
31 December 2004	75,000	100,000	39,236	3,067	8,537	225,840
31 December 2003	52,000	78,000	12,190	2,016	9,882	154,088

(a) Freehold land and buildings are stated at fair market value, as appraised by D.C. Tavares & Finson Realty Company Limited, independent qualified real estate brokers and appraisers in December 2004. The revaluation deficit net of applicable deferred income taxes was debited to the revaluation reserve in stockholders' equity. All other property, plant and equipment are stated at cost.

(b) Included in furniture and office equipment is equipment with a net book value of $7,783,108 and Nil for the group and the company respectively, which are held under finance leases.

(c) The historical cost of land and buildings is not available.

11. Goodwill

	Goodwill $'000	Negative Goodwill $'000	Total $'000
Year ended 31 December 2004			
Opening net book amount	7,590	(1,331)	6,259
Amortisation charge	(2,151)	-	(2,151)
Closing net book amount	5,439	(1,331)	4,108
At 31 December 2004			
Cost	8,127	(1,331)	6,796
Accumulated amortisation	(2,688)	-	(2,688)
Net book amount	5,439	(1,331)	4,108

	Goodwill $'000	Negative Goodwill $'000	Total $'000
Year ended 31 December 2003			
Opening net book amount	-	-	-
Acquisition of subsidiaries (Note 27)	8,127	(1,331)	6,796
Amortisation charge	(537)	-	(537)
Closing net book amount	7,590	(1,331)	6,259
At 31 December 2003			
Cost	8,127	(1,331)	6,796
Accumulated amortisation	(537)	-	(537)
Net book amount	7,590	(1,331)	6,259

The amortisation charge of $2,151,000 (2003 - $537,000) is included in administrative expenses in the profit and loss account.

12. Group Companies and Other Related Party Transactions and Balances

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related party transactions and balances are recognised and disclosed for the following:

(i) Enterprises and individuals owning directly or indirectly an interest in the voting power of the Group that gives them significant influence over the Group's affairs and close members of the family of these individuals.

(ii) Key management personnel, that is those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including directors and officers and close members of the families of these individuals.

(a) Due to/from group companies comprises:

	The Group		The Company	
	2004	2003	2004	2003
	$'000	$'000	$'000	$'000
Due to holding company	(6,439)	(2,489)	1,389	(741)
Due to fellow subsidiaries	(4,981)	(4,455)	(385)	-
Due to subsidiaries	-	-	(421,101)	(19,414)
	(11,420)	(6,944)	(422,875)	(20,155)
Due from parent company	16,320	9,881	-	-
Due from fellow subsidiaries	30,486	32,618	2,898	957
Due from subsidiaries	-	-	601,516	116,040
	46,806	42,499	604,414	116,997

(b) The profit and loss includes the following transactions with group companies:

	2004	2003
	$'000	$'000
Income:		
Rental charges -		
Fellow subsidiaries	11,999	7,328
Sales -		
Fellow subsidiaries	4,331	19,130
Parent company	285	327
Management fees -		
Fellow subsidiaries	12,258	3,698

Parent company	1,278	-
Other operating income -		
Fellow subsidiary	13,536	6,097
Expenses:		
Interest expense -		
Fellow subsidiaries	16,058	2,345
Parent company	63	956
Other charges -		
Fellow subsidiary	19,569	2,639

13. Deferred Income Taxes

	The Group		The Company	
	2004	2003	2004	2003
	$'000	$'000	$'000	$'000
Deferred income tax assets	4,510	6,951	-	-
Deferred income tax liabilities	(31,236)	(24,453)	(25,245)	(24,429)
Net liability	(26,726)	(17,502)	(25,245)	(24,429)

Deferred income taxes are calculated in full on all temporary differences under the liability method using a tax rate of 33 1/3%. The movement in the deferred income tax balance is as follows:

	The Group		The Company	
	2004	2003	2004	2003
	$'000	$'000	$'000	$'000
Net liability at beginning of year	(17,502)	(16,143)	(24,429)	(16,995)
On acquisition of subsidiaries	-	2,849		
(Charged)/credited to the profit and loss account (Note 7)	(9,953)	1,867	(1,545)	(1,360)
Deferred tax credited/(charged) to stockholders' equity	729	(6,075)	729	(6,074)
Net liability at end of year	(26,726)	(17,502)	(25,245)	(24,429)

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

	The Group		The Company	
	2004	2003	2004	2003
	$'000	$'000	$'000	$'000
Deferred income tax assets:				
Property, plant and equipment	4,157	3,831	-	-
Interest payable	3,094	570	2,074	30
Tax loss carry forward	230	2,932	-	2,278
Accrued vacation	4,508	998	466	454
Unrealised foreign exchange losses	309	3,908	250	-
Retirement benefit obligations	36,942	3,832	299	3,110
	49,240	16,071	3,089	5,872
Deferred income tax liabilities:				
Property, plant and equipment	(29,425)	(30,280)	(777)	(28,301)
Unrealised foreign exchange gains	(21)	(59)	-	
Retirement benefit assets	(46,520)	(3,234)	(27,557)	(2,000)
	(75,966)	(33,573)	(28,334)	(30,301)
Net liability	(26,726)	(17,502)	(25,245)	(24,429)
Deferred tax assets to be recovered after more than one year	41,099	7,663	299	3,110
Deferred tax liabilities to be settled after more that one year	(75,945)	(33,514)	(28,334)	(30,301)

14. Retirement Benefit Plans

(Assets)/liabilities recognised on the balance sheet are as follows:

	The Group		The Company	
	2004	2003	2004	2003
	$'000	$'000	$'000	$'000
Pension scheme	(139,559)	(135,391)	(2,330)	(6,000)
Other post retirement benefits	110,825	111,357	895	9,330

Pension Scheme

The amounts recognised in the balance sheet are determined as follows:

	The Group		The Company	
	2004	2003	2004	2003
	$'000	$'000	$'000	$'000
Present value of funded obligations	211,965	217,265	4,985	50,228
Fair value of plan assets	(337,164)	(405,663)	(8,477)	(91,126)
	(125,199)	(188,398)	(3,492)	(40,898)
Unrecognised actuarial gains/(losses)	(14,360)	20,154	1,162	6,434
Limitation on asset due to uncertainty of obtaining economic benefits	-	32,853	-	28,464
Asset in the balance sheet	(139,559)	(135,391)	(2,330)	(6,000)

The amounts recognised in the profit and loss account are as follows:

	The Group		The Company	
	2004	2003	2004	2003
	$'000	$'000	$'000	$'000
Current service cost	(366)	10,568	(2,027)	7,568
Employee contributions	-	(7,172)	-	(4,947)
Interest cost	23,541	11,974	66	7,251
Expected return on plan assets	(36,040)	(15,539)	(162)	(8,253)
Termination of pension schemes	11,033	-	7,332	-
Change in limitation on asset	-	1,126	-	683
Total, included in staff costs (Note 5)	(1,832)	957	5,209	2,302

During the year, the pension schemes for the company and Office Services Limited that existed prior to the purchase of the company by Grace, were terminated. The affected employees were either paid-out or ported to the Grace scheme.

The actual return on plan assets was $34,915,000 and (2003 - $27,199,000) and $5,774,000 (2003 - $9,905,000) for the Group and the Company, respectively.

The expected average remaining working lives of employees is 18 years.

Movements in the amounts recognised in the balance sheet:

	The Group		The Company	
	2004	2003	2004	2003
	$'000	$'000	$'000	$'000
Asset at beginning of year	(135,391)	(5,998)	(6,000)	(2,454)
On acquisition of subsidiaries	-	(124,100)	-	-
Total (credited)/expensed as above	(1,832)	957	5,209	2,302
Contributions paid	(2,336)	(6,250)	(1,539)	(5,848)
Asset at end of year	(139,559)	(135,391)	(2,330)	(6,000)

The principal actuarial assumptions used were as follows:

	The Group		The Company	
	2004	2003	2004	2003
Discount rate	12.5%	15.0%	12.5%	15.0%
Expected return on plan assets	12.0%	10.0-12.5%	12.0%	12.5%
Future salary increases	9.5%	9.5-10.0%	9.5%	9.5%
Future pension increases	3.5%	3.5%	3.5%	3.5%

Other post-retirement benefits
The group participates in a number of post-retirement health care and benefit schemes operated by Grace. Funds are not built-up to cover the obligations under these retirement benefit schemes. The method of accounting and frequency of valuations are similar to those used for defined benefit pension schemes.

In addition to the assumptions used for pension schemes, the main actuarial assumption is a long-term increase in health costs of 10.5% per year (2003 - 10.5%).

The amounts recognised in the balance sheet are determined as follows:

The Group The Company

	2004	2003	2004	2003
	$'000	$'000	$'000	$'000
Net present value of unfunded obligations	133,370	108,598	2,301	7,714
Unrecognised actuarial (losses)/gains	(22,545)	2,759	(1,406)	1,616
Liability in balance sheet	110,825	111,357	895	9,330

The amounts recognised in the profit and loss account in staff costs are as follows:

	The Group		The Company	
	2004	2003	2004	2003
	$'000	$'000	$'000	$'000
Current service costs	5,779	2,480	793	615
Interest costs	14,842	3,387	102	1,034
Termination of pension schemes	(11,497)	-	(9,330)	-
Net actuarial (gain)/loss recognised in the year	(83)	16	-	-
Total, included in staff costs	9,041	5,883	(8,435)	1,649

Movement in the liability recognised in the balance sheet.

	The Group		The Company	
	2004	2003	2004	2003
	$'000	$'000	$'000	$'000
At beginning of year	111,357	9,817	9,330	7,990
Acquisition of subsidiaries	-	98,675	-	-
Pension expense	9,041	5,883	(8,435)	1,649
Contribution paid	(9,573)	(3,018)	-	(309)
At the end of year	110,825	111,357	895	9,330

15. Inventories

The Group The Company

	2004	2003	2004	2003
	$'000	$'000	$'000	$'000
Merchandise	1,133,587	799,160	427,624	94,055
Provision for obsolescence	(38,030)	(24,930)	(4,474)	(5,634)
	1,095,557	774,230	423,150	88,421
Goods in transit	425,663	159,757	261,086	68,481
	1,521,220	933,987	684,236	156,902

16. Receivables

	The Group		The Company	
	2004	2003	2004	2003
	$'000	$'000	$'000	$'000
Trade	320,092	275,927	120,347	92,657
Provision for impairment	(37,103)	(22,519)	(6,085)	(553)
	282,989	253,408	114,262	92,104
Prepayments	34,118	15,995	6,146	271
Other	128,040	41,073	87,729	6,459
	445,147	310,476	208,137	98,834

17. Cash and Cash Equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise the following:

	The Group		The Company	
	2004	2003	2004	2003
	$'000	$'000	$'000	$'000
Cash	27,490	15,094	5,433	4,679
Bank overdrafts	(178,555)	(78,651)	(111,321)	(3,096)
	(151,065)	(63,557)	(105,888)	1,583

The bank overdrafts are secured by Letters of Comfort from Grace, agreeing to acknowledge and approve the granting of facilities to the group.

18. Payables

	The Group		The Company	
	2004	2003	2004	2003
	$'000	$'000	$'000	$'000
Trade	951,964	526,587	498,105	113,050
Accruals	114,024	58,272	38,069	11,367
Other	18,087	37,381	10,473	7,772
	1,084,075	622,240	546,647	132,189

19. Provisions

	The Group			The Company	
	Redundancies	Warranties	Total	Redundancies	Total
	$'000	$'000	$'000	$'000	$'000
At 1 January 2004	58,243	4,200	62,443	42,052	42,052
Additional provisions	12,823	9,276	22,099	1,528	1,528
Unused amounts reversed	(2,500)	-	(2,500)	-	-
Utilised during the year	(68,566)	(10,576)	(79,142)	(43,580)	(43,580)
At 31 December 2004	-	2,900	2,900	-	-

Redundancies:
The purchase of the company by Grace in 2003 and the subsequent transfer of the relevant persons to the Grace salary platform, resulted in all employees being made redundant. The full amount of the estimated costs to be incurred was recognised in 2003.

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

20. Short Term Loans

		The Group		The Company	
		2004	2003	2004	2003
		$'000	$'000	$'000	$'000
Grace, Kennedy Trade Finance Limited	(a)	-	97,643	-	-

Grace, Kennedy Trade Finance Limited	(b)	48,991	-	48,991	
Citibank N. A.	(c)	-	28,000	-	-
Citibank N. A.	(d)	86,277	61,831	86,277	61,831
Graken Holding Limited	(e)	46,219	-	46,219	-
First Global Financial Services Limited	(f)	60,000	-	60,000	
First Global Bank Limited	(g)	1,368	-	-	
Graken Holding Limited	(h)	61,626	-	61,626	-
		304,481	187,474	303,113	61,831

(a) This loan was denominated in United States dollars. The loan was repaid during the year.

(b) This represents a revolving loan denominated in United States dollars. The revolving facility has a maximum tenor of 120 days. At 31 December 2004, the interest rate was 9.0%.

(c) This loan was repaid during the year.

(d) This represents a letter of credit denominated in United States dollars. At 31 December 2004 the interest rate was 7.0%.

(e) This represents promissory notes denominated in United States dollars. At 31 December 2004, the interest rate was 8.0%.

(f) This represents a commercial paper that was facilitated by First Global Financial Services Limited. The interest rate on this loan is 15.0% per annum and is secured by promissory notes of $60,000,000.

(g) This represents final installment for insurance premium financing. At 31 December 2004, the interest rate was 14.4%.

(h) This loan is denominated in United States dollars and is supported by promissory notes. At 31 December 2004, the interest rate was 9.0% per annum.

All short term loans with the exception of (f) are un-secured.

21. Share Capital

	2004	2003

	$'000	$'000
Authorised -		
82,500,000 (2003 - 70,000,000) Ordinary shares of 50 cents each	41,250	35,000
Issued and fully paid -		
67,368,000 (2003 - 67,368,000) Ordinary stock units of 50 cents each	33,684	33,684

At an Extraordinary General Meeting on 6 December 2004, a resolution was passed to increase the authorised share capital from 70,000,000 to 82,500,000 by the creation of 12,500,000 ordinary shares at 50 cents each. Such new shares to rank pari passu in all respects with the existing ordinary shares in the company.

22. Capital Reserve

	The Group		The Company	
	2004	2003	2004	2003
	$'000	$'000	$'000	$'000
Revaluation reserve	89,348	99,599	88,248	99,599
Other	-	1,100	-	-
	89,348	100,699	88,248	99,599
Opening balance	100,699	83,424	99,599	81,824
Net revaluation (deficit)/surplus	(10,060)	19,150	(10,060)	19,150
Net amortization of revaluation surplus	(1,291)	(1,375)	(1,291)	(1,375)
Capital reserve transferred to retained earnings	-	(500)	-	-
	89,348	100,699	88,248	99,599

The capital reserve is unrealised.

23. Long Term Loans

	The Group	The Company

		2004	2003	2004	2003
		$'000	$'000	$'000	$'000
The Bank of Nova Scotia Jamaica Limited	(a)	-	48,207	-	-
The Bank of Nova Scotia Jamaica Limited	(b)	42,841	-	42,841	-
FirstCaribbean International Bank (Jamaica) Limited	(c)	10,869	15,823	-	-
Citibank N. A.	(d)	-	5,052	-	5,052
First Life Insurance Company Limited	(e)	-	231	-	231
		53,710	69,313	42,841	5,283
Current maturities		(12,458)	(31,803)	(7,241)	(5,243)
		41,252	37,510	35,600	40

(a) This loan was supported by a comfort letter from Grace. The loan was repaid during the year.

(b) This loan is supported by a comfort letter from Grace. At 31 December 2004, the interest rate was 20.8% per annum. The loan is repayable in 2010.

(c) This loan is denominated in United States dollars. It is evidenced by promissory notes and supported by a comfort letter from Grace. At 31 December 2004, the interest rate was 4.5% per annum. The loan is repayable in 2007.

(d) This loan was denominated in United States dollars. It was supported by a composite debenture, which contained a fixed and floating charge over the assets of the company. The loan was repaid during the year.

(e) This was a related party loan that was used to acquire a motor vehicle and was secured by a Bill of Sale on the vehicle. The loan was repaid during the year.

24. Obligations Under Finance Leases

The group and the company entered into finance lease agreements for the purchase of motor vehicles and Office equipment. Obligations under these agreements are as follows:

The Group		The Company	
2004	2003	2004	2003

	$'000	$'000	$'000	$'000
In the year ending 31 December				
2005	5,904	11,078	188	884
2006	1,463	4,793	-	716
2007	192	308	-	-
Minimum lease payments	7,559	16,179	188	1,600
Less: Future interest payments	(1,194)	(2,746)	(16)	(796)
Net obligations under finance leases	6,365	13,433	172	804
Repayable within one year	(4,911)	(8,923)	(172)	(587)
	1,454	4,510	-	217

25. Dividends

At a meeting of the Board of Directors held on 2 November 2004, a resolution was passed to declare an interim dividend for the year 2004, in the amount of 32 cents per stock unit, payable on 30 November 2004, to stockholders on record as at 15 November 2004.

26. Lease Commitments

At 31 December 2004, the group had lease commitments in respect of certain properties. Minimum lease payment for 2004 was $92,288,000. These leases expire in 2008.

27. Acquisition of Subsidiaries

On 1 October 2003 the Group acquired 100% of the share capital of Agro and Rapid. The acquired businesses contributed combined revenues of $710,015,000 and operating profits of $47,370,000 to the Group for the period from 1 October 2003 to 31 December 2003, and their combined assets and liabilities at 31 December 2003 were $1,033,012,000 and $792,908,000, respectively, and details of net assets acquired and goodwill are as follows:

	2003
	$'000
Purchase consideration -	
Fair value of shares issued	232,631

Fair value of net assets acquired	(233,962)
Negative goodwill (Note 11)	(1,331)

The fair value of the net assets approximated to the book value of the net assets acquired, and no restructuring provisions were established.

28. Financial Risk Management

The group's activities expose it to a variety of financial risks, including the effects of changes in debt market prices, foreign currency exchange rates and interest rates. Management seeks to minimise potential adverse effects on the financial performance of the group by applying procedures to identify, evaluate and manage these risks, based on guidelines set by the Board of Directors.

(a) Currency risk
Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The group is primarily exposed to such risks arising from its US Dollar transactions for purchases.

The net foreign currency exposures as at 31 December 2004 are as follows, asset/(liability):

	The Group		The Company	
	2004	2003	2004	2003
United States ($'000):				
Cash	240	106	86	43
Other Balances	(11,078)	(8,151)	(7,160)	(2,795)
	(10,838)	(8,045)	(7,074)	(2,752)
Pound Sterling ('000)	-	(21)	-	(8)

(b) Credit risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The group has no significant concentrations of credit risk as the group has a large and diverse customer base, with no significant balances arising from any single economic or business sector, or any single entity or group of entities. The group has policies in place to ensure that sales of products

and services are made to customers with an appropriate credit history. Cash transactions are limited to high credit quality financial institutions.

(c) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. At 31 December 2004, the group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on their financial position and cash flows. The group has interest-bearing liabilities in the form of finance leases, as disclosed in Note 24, and loans as disclosed in Notes 20 and 23, the fair values for which are disclosed in Note 29.

The interest rate exposures of the borrowings are as follows:

	The Group		The Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Total borrowings:				
At fixed rates	253,724	241,487	347,374	5,856
At floating rates	289,387	215,960	104,467	66,343

Weighted average effective interest rates:	%	%	%	%
Bank overdrafts	22	23	22	23
Jamaican dollar loans	13	23	18	23
US dollar loans	8	10	8	10
Jamaican dollar leases	25	24	25	25

(d) Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. At 31 December 2004, the group had no significant exposure to such risks.

(e) Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, management aims at maintaining flexibility in funding by keeping committed credit lines available.

(f) Cash flow risk

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount. The group manages this risk by ensuring, as far as possible, that financial assets and liabilities are matched to mitigate any significant adverse cash flows.

29. Fair Values 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.

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

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