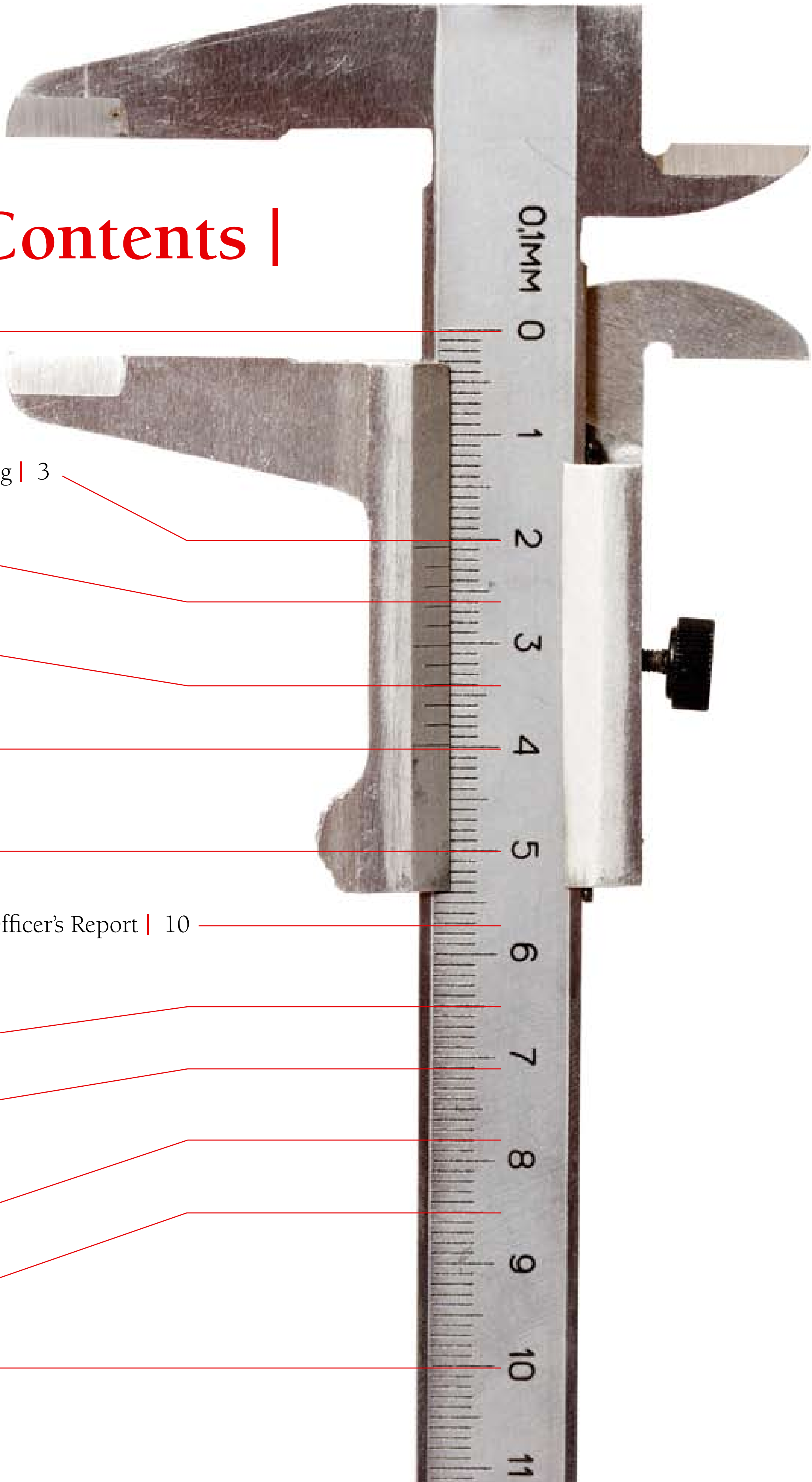
HARDWARE & LUMBER

ANNUAL REPORT | 2006

Contents |



Our mission | to improve people's lives by providing agricultural, building and lifestyle solutions

Our vision | we will maximze shareholder value over the long-term, by satisfying the agriculture, home improvement and building needs of our customers, which is all about delivering quality, choice and convenience, and the that depends on us having great people with the right skills, necessary tools, and shared vision.

Notice of Annual General Meeting |

Notice is hereby given that the seventy-ninth Annual General Meeting of Hardware & Lumber Limited will be held at the Registered Office, 697 Spanish Town Road, Kingston on Monday 25 June 2007 at 10:30 a.m. for the following purposes:

1. To receive and consider the Directors' Report and Financial Statements for the year ended 31 December 2006, and the Report of the Auditors thereon.

   To consider and (if thought fit) pass the following Resolution:

   Resolution 1
   "THAT the Balance Sheet and the Profit and Loss Account together with the Reports of the Directors and the Auditors circulated with the Notice convening the meeting be and are hereby adopted."

2. To elect Directors and fix their remuneration.

   (i) Pursuant to Article 100 of the Articles of Association Mr. Gordon K.G. Sharp having been appointed to the Board since the last Annual General Meeting will retire at this meeting and, being eligible offers himself for re-election.

   To consider and (if thought fit) pass the following Resolution:

   Resolution 2 (a)
   "THAT retiring Director Mr. Gordon K.G. Sharp be and is hereby re-elected a Director of the Company."

   (ii) The Directors retiring from office by rotation pursuant to Article 96 of the Articles of Association are Messrs. Erwin M. Burton, Stephen B. Facey and Donald G. Wehby and being eligible, offer themselves for re-election.

To consider and (if thought fit) pass the following Resolutions: -

Resolution 2 (b)
"That retiring Director Mr. Erwin M. Burton be and is hereby re-elected a Director of the Company."

Resolution 2 (c)
"That retiring Director Mr. Stephen B. Facey be and is hereby re-elected a Director of the Company."

Resolution 2 (d)
"That retiring Director Mr. Donald G. Wehby be and is hereby re-elected a Director of the Company."

3. To confirm the remuneration of the Directors

   To consider and (if thought fit) pass the following Resolutions:-

   Resolution 3 (a)
   "THAT the Directors be and are hereby empowered to fix the remuneration of the Directors."

   Resolution 3 (b)
   "THAT the amount shown in the accounts for the year ended December 31, 2006 for Directors' fees be and is hereby approved."

4. To appoint Auditors and authorize the Directors to fix the remuneration of the Auditors.
   To consider and (if thought fit) pass the following Resolution: -

   Resolution 4
   "THAT the Directors be authorized to fix the remuneration of the Auditors, PricewaterhouseCoopers, who have signified their willingness to continue in office".

5. To consider any other business of an Annual General Meeting.

By Order of the Board

Gene M. Douglas, Secretary
Kingston, Jamaica
20 April 2007

A member entitled to attend and vote at the above-mentioned meeting is entitled to appoint one or more proxies to attend and on a poll to vote instead of him. Such proxy must be lodged at the Company's Registered Office not less than forty-eight hours before the meeting. A proxy need not be a member. A suitable form of proxy is enclosed.

Corporate Data | As at 31 March 2007

Board of Directors
Douglas R. Orane, C.D., B.Sc., M.B.A., J.P.
Chairman

A. Anthony Holness, F.C.A., F.C.C.A.
Chief Executive Officer

Erwin M. Burton, B.Sc., M.Sc., J.P.
Rodney St. A. Davis, B.B.M., C.I.C.A., I.C.A.O.
William G. B. Ewen, F.C.A.
Stephen B. Facey, M. Arch.
Gordon K. G. Sharp, B.Sc. (Eng.), M.B.A.
Donald G. Wehby, B.Sc. (Hons.), M.Sc. (Acctg.) C.A.

Secretary
Gene M. Douglas, F.C.I.S., M.B.A.

Registered Office
697 Spanish Town Road
Kingston 11, Jamaica

Registrar
Pan Caribbean Merchant Bank Limited
Corporate Trust Division
60 Knutsford Boulevard
Kingston 5

Bankers
The Bank of Nova Scotia (Jamaica) Limited
Citigroup, N.A.
FirstCaribbean International Bank (Jamaica) Limited
National Commercial Bank Jamaica Limited
First Global Bank Limited

Auditors
PricewaterhouseCoopers

Attorneys-at-Law
DunnCox

Executive Team
A. Anthony Holness, F.C. A., F.C.C.A.
Chief Executive Officer
Hardware & Lumber Limited

Errol Alliman
Distribution Manager
Hardware & Lumber Limited

Executive Team cont'd

Dean Clarke, J.P.
Merchandise Manager – Retail Department
Hardware & Lumber Limited

Glenford Clarke, M.B.A., B.Sc. (Econ. & Mgmt.)
Sales & Special Projects Manager – Wholesale Dept.
Hardware & Lumber Limited

Codrick Farquharson, Dip. (J.S.A.), B.Sc. (Agri.Sc.)
Sales Manager – Agro-Grace
Hardware & Lumber Limited

Yvette Johnson, M.B.A., B.Sc. (Elec. & Comp. Engineering)
Chief Information Officer
Hardware & Lumber Limited

Oscar P. Kerr Jnr., B.Sc.
General Manager – Retail & Purchasing Departments
Hardware & Lumber Limited

Stephen Lewis, B.Sc., (Comp.Std. & Mgmt.)
Manager, Information Systems
Hardware & Lumber Limited

Kelly McIntosh, B.Sc., (Agron.), M. Phil. (Botany)
Purchasing Manager – Agro-Grace
Hardware & Lumber Limited

Garnet Malcolm, B.Sc., (Agri.Sc.)
General Manager – Agro-Grace
Hardware & Lumber Limited

Kenneth Myrie
Financial Controller
Hardware & Lumber Limited

Olive Walsh, Assoc. Degree (Agri.Sc.), B.Sc., (Agri. Sc.)
Retail Development & Marketing Manager – Agro-Grace
Hardware & Lumber Limited

Fay Williams, M.B.A.
Group Human Resource Manager
Hardware & Lumber Limited

Report of the Directors |

1. The Directors submit herewith their Annual Report and the Audited Financial Statements for the year ended December 31, 2006.

	$'000
The net profit before Tax	55,452
The charge for taxation was	17,734
Making the profit after taxation	37,718
To which is added the retained profits brought forward from the previous year of	1,065,782
Leaving retained earnings to be carried forward to the next yaer of	1,103,500

2. Directors
At the end of the year Mr. John P. Mahfood re signed from the Board of Directors.

The Directors as at December 31, 2006 were as follows:

Messrs. Douglas R. Orane, A. Anthony Holness, Erwin M. Burton, Mr. Rodney St. A. Davis, W. G. Bryan Ewen, Stephen B. Facey, Gordon K. G. Sharp and Donald G. Wehby.

Mr. Gordon K. G. Sharp was appointed to the Board of Directors effective 27 November 2006.

In accordance with Article 100 of the Company's Articles of Association, Mr. Gordon K. G. Sharp having been appointed to the Board since the last Annual General Meeting will retire from office, and being eligible, offers himself for re-election.

In accordance with Article 96 of the Company's Articles of Association, Messrs. Erwin M. Burton, Stephen B. Facey and Donald G. Wehby will retire by rotation and being eligible, offer them selves for re-election.

3. Auditors
Messrs. PricewaterhouseCoopers, have ex pressed their willingness to continue in office in accordance with Section 154 of the Companies Act.

4. The Directors wish to express their appreciation to the management and staff for the work done during the year.

By order of the Board Dated this 20 day of April 2007

Gene M. Douglas
Secretary

INTEREST OF DIRECTORS & SENIOR MANAGEMENT AS AT 31 DECEMBER 2006 |

DIRECTORS	PERSONAL SHAREHOLDINGS	STOCKHOLDINGS IN WHICH DIRECTOR/OFFICER HAS AN INTEREST
Douglas R. Orane	11,080	-
John P. Mahfood	10,000	-
A. Anthony Holness	60,000	-
Erwin M. Burton	1,000	-
Rodney St. A. Davis	Nil	-
W. G. Bryan Ewen	1,000	-
Stephen B. Facey	1,000	-
Gordon K. G. Sharp	60,000	-
Donald G. Wehby	1,000	-

SENIOR MANAGEMENT		
John P. Mahfood	10,000	-
A. Anthony Holness	60,000	-
Errol Alliman	Nil	-
Geddes Brown	Nil	-
Dean Clarke	Nil	-
Glenford Clarke	Nil	-
Codrick Farquharson	Nil	-
Yvette Johnson	Nil	-
Oscar P. Kerr	Nil	-
Stephen Lewis	Nil	-
Kelly McIntosh	Nil	-
Garnett Malcolm	Nil	-
Kenneth Myrie	Nil	-
Olive Downer Walsh	2,000	-
Fay Williams	977	-

TEN YEAR FINANCIAL REVIEW |

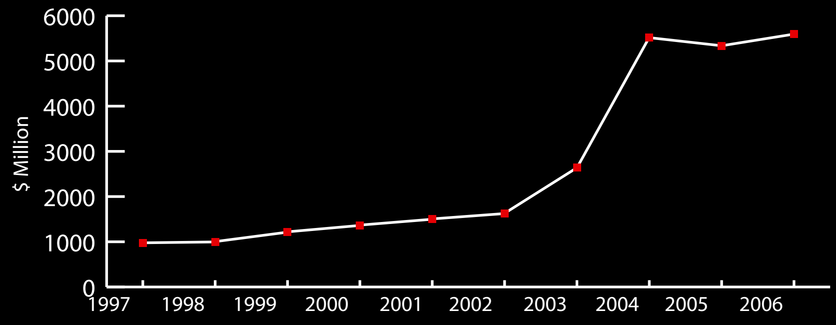
	Restated 1997	1998	1999	Restated 2000	Restated 2001
Revenue - J$'000	973,364	1,000,464	1,216,599	1,365,206	1,502,411
Net Profit - J$'000	6,221	12,452	31,901	19,361	16,352
Stockholder's Equity - J$'000	281,952	294,404	370,172	369,593	273,615
Net Current Assets - J$'000	138,215	122,944	117,181	95,702	139,434
Earnings per Stock Unit	$ 0.16	$ 0.31	$ 0.80	$ 0.48	$ 0.41
Dividend per Stock Unit	$ -	$ -	$ -	$ 0.22	$ 0.15

	Restated 2002	2003	Restated 2004	Restated 2005	2006
Revenue - J$'000	1,628,081	2,639,811	5,518,947	5,332,857	5,597,276
Net Profit - J$'000	48,892	44,583	156,045	20,268	37,718
Stockholder's Equity - J$'000	313,507	605,351	707,412	1,065,782	1,103,500
Net Current Assets - J$'000	172,901	297,552	369,295	625,223	686,629
Earnings per Stock Unit	$ 1.22	$ 0.95	$ 2.32	$ 0.26	$ 0.47
Dividend per Stock Unit	$ 0.23	$ 0.11	$ 0.32	$ -	$ -

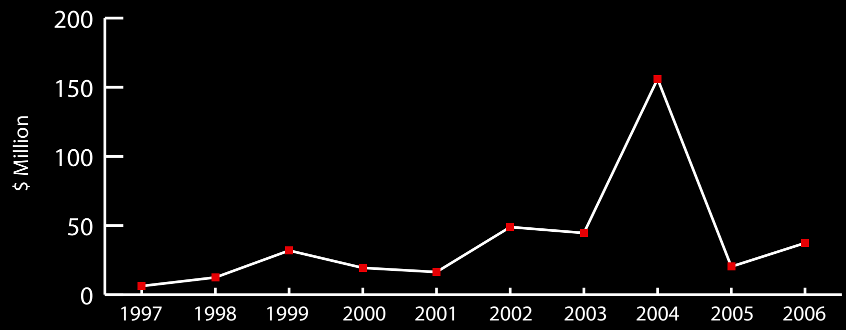
Years prior to 2002 are prepared under JGAPP

Ten Year Financial Review |

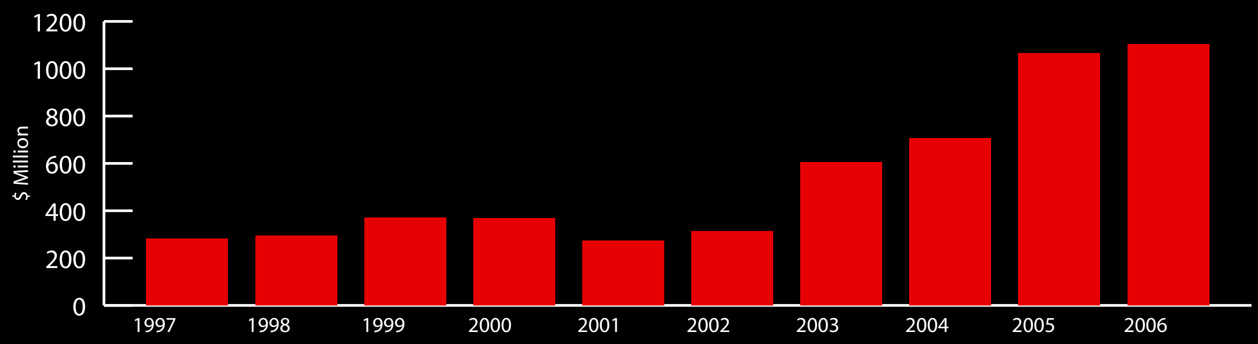
Revenue



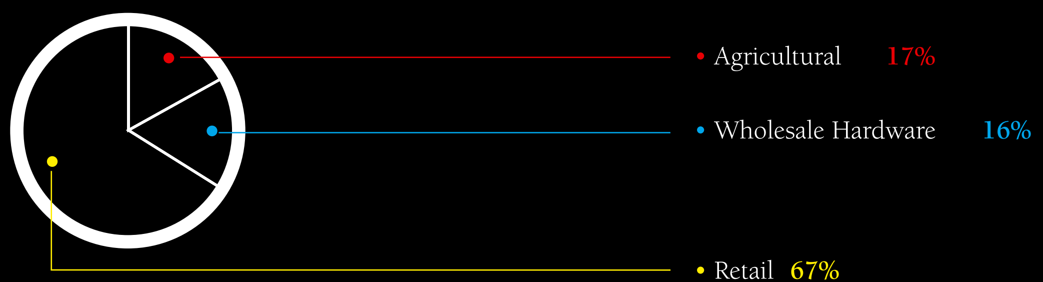
Net Profit



Stockholder's Equity



Revenue by Segment



Dear Shareholders |

The financial results for the year ended 31st December 2006, showed group revenues of $5,597 Million, an increase of $265 Million or 5% compared to 2005. The net profit attributable to stockholders was $38 Million compared to $20 Million in 2005. The earnings per share for the year was $0.47 compared to $0.26 for 2005.

The financial statements for years 2004 and 2005 were restated with net adjustments of $13 Million and $49 Million respectively. These adjustments represent the writing off of net differences emanating from the incomplete processing of transactions pertaining to inter-company transfers prior to the company's reorganisation in 2005.

The year's performance was quite disappointing, due primarily to the severe impact caused by the crisis with the supply of cement. The shortage of cement affected the business for the nine-month period, January to September 2006, after which the supply situation was alleviated with the private importation of the commodity. The effect on the business was also compounded by the reduced purchasing power of those consumers who were laid off due to the closure of construction sites.

The construction sector experienced a decline in activity during 2006, reflecting the challenges that confronted the industry during the year. The general downturn in the economy along with the devaluation of the dollar and increases in utility expenses also affected the business in 2006.

Notwithstanding the difficulties during the earlier part of the year, the company had a relatively strong performance in the last quarter of 2006, indicating the return to normality in the construction sector and the availability of key commodity products to support the industry.

The new Ocho Rios store, which opened its doors to the public in February, has been well received by consumers, as evidenced by its impressive sales and profit performance. With 33,000 square feet of covered space, the branch, located at 105 Main Street, is the largest in the 19-branch network. The store offers a complete range of home improvement and construction materials and boasts an attractive kitchen, bath and lighting showroom. As planned, the two small hardware stores, which the chain operated in Ocho Rios, were closed.

The new management information system was partially implemented in April 2006 but has not performed to expectations resulting in some additional inefficiencies in the business along with increased operating costs. A programme is underway to identify a replacement system, this should be completed with full implementation during the fourth quarter of 2007.

We continue to make substantial investment in staff training in order to provide excellent customer service.

RETAIL DIVISION

2006 proved to be a challenging year for our retail hardware and home improvement business. Although generating a sales increase of 7.4% over 2005 driven in part by a strong final quarter, the unit fell well below performance expectations.

The construction materials segment was hardest hit, a direct result of the impact caused by the cement shortage. As a consequence, our seven hardware

stores recorded a sales decline of 6.9% relative to 2005, Conversely, the home centre group posted same-store growth of 13% and overall sales growth of 16.9% over 2005.

Strong sales performance continued to flow from our regional home centres located in Portmore, Montego Bay, Mandeville and Ocho Rios, which combined, produced a positive variance of 18.6% over prior year.

Several new marketing initiatives were implemented during the year, including the 'Grand Frontier' Nissan Prize promotion and the increase in the frequency of promotional circulars. Both served to drive consumer traffic into our stores.

As we seek to improve the operational management of the business, special focus is being extended to :

a) Customer fill rates in order to ensure a high availability of merchandise;
b) Increased communication and enforcement of critical internal controls; and
c) Efforts to improve the visual merchandising of the stores. In this regard we have employed a merchandise coordinator who will commence with the Lane and Mandeville stores in early 2007.

WHOLESALE AND PROJECTS DIVISION

The Wholesale Division showed a marginal decline in sales over the previous year, due to industry related issues. Additionally, this sector of the business was very competitive, with many players exerting downward pressures on prices and margins.

The division was strengthened and restructured in 2006 to give focus to the projects side of the business, and we have already started to see positive results from this.

The traditional wholesale continues to enjoy excellent support from this customer group. With the rebound of the construction sector and positive signals from the economy and business community, we therefore anticipate improved performance by this Division in 2007.

AGROGRACE DIVISION

The Agro Grace Division had a good performance in 2006, surpassing both its revenue and profit targets. All major product categories, including herbicides, insecticides, fungicides and vegetable seeds, contributed significantly to our sales, as our products continue to be well accepted by the Agricultural Sector.

The division remained focused on the needs of its customers, paying special attention to product availability and customer service in general. We continued to introduce and develop new product lines, such as hybrid vegetable seeds and pesticides. We also introduced new technologies that assist in improving productivity in the sector. Much emphasis was placed on fieldwork, through field trials, field days and seminars with farmers and pest control operators.

During 2006 Agro Grace organized seven registered farmers' marketing groups in five parishes. The aim of this venture was to assist farmers in organizing production for marketing, improving post harvest handling of their products, and creating the linkage with potential markets, for example, hotels and supermarkets.

In order to achieve our goal of providing excellent customer service, much attention was paid to providing our staff with training in product knowledge and customer service. The results of our surveys indicate an improved level of customer satisfaction in line with our expectations.

Agro Grace remains the leading agricultural input supplier in Jamaica. Our five branches serve a wide range of customers, which include retailers, small and large farmers, estates, commodity boards, pest control operators and home gardeners. Our stores have now become popular for ornamental plant lovers shopping for high quality 'bare root' roses and orchids, imported at various times throughout the year from reputable suppliers.

With the growing trend towards hydroponics and greenhouse vegetable production, Agro Grace has been assisting in the introduction of these new technologies and provides products to satisfy these requirements.

The Company has consolidated the retail sector of the hardware business under the Rapid True Value brand and will be working towards representation of the brand in all key geographical areas in pursuit of our long-term strategic objectives.

AUDIT COMMITTEE

Governance

The Board has established an Audit Committee, which is responsible for assisting the Board in the oversight of the:

- Reliability and integrity of the accounting principles and practices, financial statements and other financial reporting;
- Internal Audit functions of the company;
- Reporting and internal control principles and for maintaining appropriate relationship with the Company's Auditor.

The main role and responsibilities of the Audit committee is to:

- Review the audited annual financial statements and the quarterly financial results of the Company and recommend the same for adoption by the Board of Directors.
- Review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and their impact on financial reports.
- Review the company's internal financial control and risk management systems.
- Monitor and review the external auditor's independence, objectivity and effectiveness.
- Make recommendations to the Board in relation to the appointment of the external auditor, and to approve the remuneration and terms of engagement of the external auditor

The Audit Committee comprises of four (4) members, all of whom are Non-Executive Directors of the Company. Its members are W.G. Bryan Ewen, Chairman, Stephen B. Facey, Rodney Davis and Donald G. Wehby. The Audit Committee met seven times during 2006 and reviewed the financial statements and internal control processes of the company focusing on inventory control issues, compliance, information systems and risk management.

MANAGEMENT AND STAFF

Mr. John Mahfood, Director of the Company resigned on 31st December 2006. The management team was strengthened in December 2006 with the addition of a new Chief Information Officer and Chief Human Resources Officer to provide much needed support in these critical areas.

The Directors wish to express gratitude to all employees for their hard work and commitment during 2006. The Board also wishes to thank our customers, suppliers, and other stakeholders for their continued loyalty and support.

Douglas Orane	A. Anthony Holness
CHAIRMAN	CHIEF EXECUTIVE OFFICER

MAJOR STOCKHOLDERS AS AT 31 DECEMBER 2006 |

	NAME	STOCKHOLDINGS
1	GraceKennedy Limited	47,013,417
2	Pan-Jamaican Investment Trust Ltd.	16,840,106
3	Scotia Ja. Investment Mgmt. Ltd. A/C #542	1,622,631
4	Mayberry (Principal Trading A/C)	1,022,833
5	National Insurance Fund	1,000,000
6	The Jamaica Development Bank	800,000
7	LOJ Pooled Equity Fund # 1	795,997
8	Guardian Life Limited	756,700
9	Mayberry Investments Limited A/c 09022	671,171
10	Guardian Asset Management Jamaica Ltd.	585,390

DIRECTORS' PROFILES |

Douglas R. Orane, C.D., J.P.

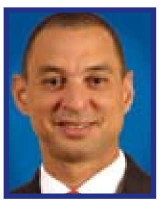
Mr. Douglas Orane was appointed Chief Executive Officer of GraceKennedy Limited in 1995, and Chairman of the Board in 1998. He also serves as Chairman of Hardware & Lumber Ltd. and First Global Bank Ltd. and as a board member of several GraceKennedy subsidiaries. He served as President of the Private Sector Organisation of Jamaica from 1992 to 1994, and as Vice President from 2001 to 2003. He was an Independent Senator in the Senate from 1998 to 2002.

Gordon K. G. Sharp, J.P.

Gordon Sharp has been a director of GraceKennedy Limited since 1976 and a member of the Corporate Governance and Compensation Committees of the Board. He is a Founding Member of both the Private Sector Organisation of Jamaica (PSOJ) and the Jamaica Institute of Management (JIM). He has served as Chairman of the Coffee Industry Board from 1981 to 1985. He is currently Chairman of Trout Hall Limited, an agricultural and export trdaing company.

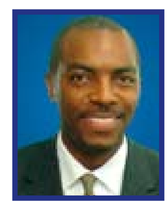
Erwin M. Burton, J.P.

Mr. Erwin Burton is Deputy CEO, GraceKennedy Limited and CEO, GK Foods. He was appointed to the Board of GraceKennedy Ltd in 1995. He also serves on the boards of several GraceKennedy subsidiaries, including Grace Foods International Ltd., World Brands Services Ltd., National Processors Ltd., Grace Food Processors Ltd., Grace Food Processors (Canning) Ltd., and Grace Kennedy (Belize) Ltd. He is a director of the Jamaica Agricultural Development Foundation (JADF).



Donald G. Wehby

Mr. Don Wehby is Deputy CEO, GraceKennedy Limited and CEO, GraceKennedy Investments. He was appointed to the Board of GraceKennedy in 1997. He is a member of the Board of Hardware and Lumber Limited, Chairman of the Board of GraceKennedy Remittance Services Limited, Deputy Chairman of First Global Bank Limited and Deputy Chairman of First Global Financial Services Limited. He is also a member of several other GraceKennedy subsidiaries.



Rodney St. A. Davis, B.B.M., C.I.C.A., I.C.A.O.

Mr. Rodney Davis was appointed President and CEO of Cable & Wireless Jamaica in July 2005. Prior to joining Cable & Wireless, he held various senior positions including Partner in Charge of the Jamaica Office and Director of Corporate Finance – Mergers & Acquisition with Ernst & Young, Chief Financial Officer (CFO) at Cable & Wireless in Barbados and at MGI Software in Canada, Vice President Corporate Development at Maxxcom Inc in Canada and Vice President and Corporate Controller at Southam Inc also in Canada. In 2003, Mr. Davis became a member of the Institute of Chartered Accountants of Jamaica. He serves on the board of directors of Hardware & Lumber Limited.

William G. B. Ewen, F.C.A.

Mr. Ewen is a past CEO of First Life Insurance Company Ltd. and was formerly Financial Director at Pan-Jamaican Investment Trust Ltd. He sits on the boards of First Jamaica Investments Ltd., Life of Jamaica Ltd., Pan-Jamaican Investment Trust Ltd. and Jamaica Property Company Ltd. He is a member of the Board of Hardware and Lumber Limited.

Stephen B. Facey, B.A., M.Arch.

Mr. Facey is the CEO of Pan-Jamaican Investment Trust since 2004 and First Jamaican Investments Limited. He is also a director of Life of Jamaica Limited. He brings over 25 years of business experience to the Board. He has substantial expertise in real estate and became CEO of Jamaica Property Company in 1990, one of the most successful local property management companies today. He is a director of Pan-Jamaican, First Jamaica Investment Limited, Hardware & Lumber Limited, Kingston Restoration Company, Kingston City Centre Improvement Company (KCCIC) and the New Kingston Civic Association.

A. Anthony Holness, F.C.A., F.C.C.A.

Mr. A. Anthony Holness is the Chief Executive Officer of Hardware & Lumber Limited. Prior to his appointment as CEO in August 2005, he was Chief Operating Officer of the merged Hardware & Lumber Limited and Rapid & Sheffield Co. Limited as well as Agro-Grace Limited in September 2003. Mr. Holness occupied the position of Managing Director of Hardware & Lumber having joined the Pan Jam Group of companies in 1991 as Financial Controller of Wherry Wharf Ltd., a subsidiary of Pan Jam. He was the former Chairman of the Hardware Merchants Association.

Auditors' Report |

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
Scotiabank Centre
Duke Street
Box 372
Kingston Jamaica
Telephone (876) 922 6230
Facsimile (876) 922 7581

Independent Auditor's Report

To the Members of
Hardware & Lumber Limited

We have audited the accompanying financial statements of Hardware & Lumber Limited set out on pages 22 to 62, which comprise the balance sheet as of 31 December 2006 and the profit and loss account, statements of changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's 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 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 and fair presentation of the financial statements 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.

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the company as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Jamaican Companies Act.

Report on Additional Requirements of the Jamaican Companies Act

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 Act, in the manner so required.

PricewaterhouseCoopers

Chartered Accountants

18 April 2007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Financial Statements |

Hardware & Lumber Limited

Profit and Loss Accounts
Year ended 31 December 2006
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2006	Restated 2005
		$'000	$'000
Revenue		5,597,276	5,332,857
Cost of sales		(4,099,503)	(3,989,669)
Gross Profit		1,497,773	1,343,188
Other operating income	6	57,922	60,269
		1,555,695	1,403,457
Direct expenses		(994,929)	(850,786)
Administrative expenses		(399,088)	(416,430)
		(1,394,017)	(1,267,216)
Profit from Operations		161,678	136,241
Finance costs	9	(106,226)	(109,626)
Profit before Tax		55,452	26,615
Taxation	10	(17,734)	(6,347)
NET PROFIT		37,718	20,268
EARNINGS PER STOCK UNIT	11	$0.47	$0.26

Hardware & Lumber Limited

Balance Sheet
31 December 2006
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2006	Restated 2005
		$'000	$'000
NET ASSETS EMPLOYED			
Non-current Assets			
Property, plant and equipment	12	425,823	427,410
Intangible assets	13	43,920	68,906
Retirement benefit asset	14	180,408	151,512
		650,151	647,828
Current Assets			
Inventories	16	1,605,896	1,425,959
Trade and other receivables	17	397,123	324,394
Group companies	18	49,590	8,773
Taxation recoverable		57,222	34,948
Cash and bank balances	19	215,152	233,074
		2,324,983	2,027,148
Current Liabilities			
Bank overdrafts	19	181,176	116,095
Trade and other payables	20	826,214	740,209
Provisions	21	1,540	920
Short term loans	22	594,940	449,617
Group companies	18	13,361	18,671
Current portion of long term loans	25	13,917	75,146
Current portion of obligations under finance leases	26	7,206	1,267
		1,638,354	1,401,925
Net Current Assets		686,629	625,223
		1,336,780	1,273,051

Hardware & Lumber Limited

Balance Sheet
31 December 2006
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2006 $'000	Restated 2005 $'000
FINANCED BY			
Stockholders' Equity			
Share capital	23	616,667	40,421
Share premium		-	576,246
Capital reserve	24	94,348	94,348
Retained earnings		392,485	354,767
		1,103,500	1,065,782
Non-current Liabilities			
Long term loans	25	44,569	58,585
Obligations under finance leases	26	9,834	187
Deferred tax liabilities	27	18,585	14,594
Retirement benefit obligation	14	160,292	133,903
		233,280	207,269
		1,336,780	1,273,051

Approved for issue by the Board of Directors on 18 April 2007 and signed on its behalf by:

Douglas Orane Director

Don Wehby Director

Hardware & Lumber Limited

Statement of Changes in Stockholders' Equity
Year ended 31 December 2006

(expressed in Jamaican dollars unless otherwise indicated)

	Note	Share Capital	Share Premium	Capital Reserve	Retained Earnings	Total
		$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2005, as previously reported		33,684	244,881	94,348	347,458	720,371
Prior year adjustment	28	-	-	-	(12,959)	(12,959)
As restated		33,684	244,881	94,348	334,499	707,412
Net profit, as previously reported		-	-	-	69,478	69,478
Prior year adjustment	28	-	-	-	(49,210)	(49,210)
Net profit, as restated		-	-	-	20,268	20,268
Total recognised income for 2005, as restated		-	-	-	20,268	20,268
Issue of share capital	23	6,737	331,365	-	-	338,102
Balance at 31 December 2005, as restated		40,421	576,246	94,348	354,767	1,065,782
Net profit		-	-	-	37,718	37,718
Total recognised income for 2006		-	-	-	37,718	37,718
Transfer of share premium on conversion of shares to no par value	23	576,246	(576,246)	-	-	-
Balance at 31 December 2006		616,667	-	94,348	392,485	1,103,500

Hardware & Lumber Limited

Statement of Cash Flows
Year ended 31 December 2006
(expressed in Jamaican dollars unless otherwise indicated)

	2006 $'000	Restated 2005 $'000
Cash Generated from Operating and Investing Activities:		
Net profit	37,718	20,268
Items not affecting cash:		
Depreciation of property, plant and equipment	50,554	46,203
Interest income	(8,111)	(17,784)
Redundancies	-	4,572
Warranties	4,000	7,294
Interest expense	93,707	91,460
Goodwill impairment	3,703	-
Amortisation of computer software	20,426	21,156
Taxation expense	17,734	6,347
Loss on disposal of computer software	2,067	-
Profit on disposal of property, plant and equipment	(290)	(161)
	221,508	179,355
Changes in non-cash working capital components:		
Change in retirement benefit assets/obligation	(2,507)	11,125
Inventories	(179,937)	95,261
Receivables	(72,805)	98,400
Group companies	(46,127)	21,643
Payables	78,911	(341,394)
Provisions (redundancies paid)	-	(4,572)
Provisions (warranties settled)	(3,380)	(9,274)
	(225,845)	(128,811)
Tax paid	(36,017)	(106,430)
Net cash used in operating activities	(40,354)	(55,886)
Cash Flows from Investing Activities		
Proceeds from sale of property, plant and equipment	2,070	383
Purchase of property, plant and equipment	(30,625)	(110,562)
Purchase of computer software	(1,210)	(50,823)
Interest received	8,187	17,784
Net cash used in investing activities	(21,578)	(143,218)
Cash used in operating and investing activities (carried forward to page 27)	(61,932)	(199,104)

Hardware & Lumber Limited

Statement of Cash Flows
Year ended 31 December 2006
(expressed in Jamaican dollars unless otherwise indicated)

	2006 $'000	Restated 2005 $'000
Cash Used in Operating and Investing Activities (carried over from page 26)	(61,932)	(199,104)
Cash Flows from Financing Activities		
Short term loans received	594,940	449,617
Interest paid	(87,150)	(91,875)
Short term loans repaid	(449,617)	(304,481)
Long term loans received	30,127	181,551
Long term loans repaid	(105,372)	(101,530)
Proceeds from issuance of ordinary stock units	-	338,102
Finance leases repaid	(4,536)	(4,911)
Net cash (used in)/provided by financing activities	(21,608)	466,473
Effects of exchange rate changes on cash and cash equivalents	537	858
Net (decrease)/increase in cash and cash equivalents	(83,003)	268,227
Cash and cash equivalents at beginning of year	116,979	(151,248)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	33,976	116,979

(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 company trades in hardware, lumber, household items, agricultural products and provides construction services. The company is a public company listed on the Jamaica Stock Exchange.

Effective 1 August 2005, Grace implemented a reorganisation of the Hardware & Lumber Group. Under a scheme of reconstruction, the assets, liabilities, and entire businesses and undertaking of all the subsidiaries, with the exception of Wherry Wharf Sales Company Limited (WWS), were transferred to the company. Details of the participating subsidiaries were as follows:

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

These subsidiaries are in the process of being wound up.

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

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 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 and financial assets.

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 managements' best knowledge of current events and action, 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.

Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Interpretations and amendments to published accounting standards effective in 2006
Certain interpretations and amendments to existing standards have been published that became effective during the current financial year. The company has assessed the relevance of all such new interpretations and amendments, and has adopted the following IFRS, which are relevant to its operations.

- IAS 19 (Amendment) Employees Benefit
- IFRIC 4 Determining whether an Arrangement contains a Lease

The adoption of IAS 19 and IFRIC 4 did not result in substantial changes to the company's accounting policies. In summary:

- **IAS 19 (Amendment) - Employee Benefits**, introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the company does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment only impacts the format and extent of disclosures presented in the accounts.

- **IFRIC 4 - Determining whether an Arrangement contains a Lease**, IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. The company assessed the impact of IFRIC 4 and concluded that there are no transactions to which this applies.

  There was no impact on opening retained earnings at 1 January 2006 from the adoption of the above-mentioned standard/interpretation.

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, interpretations and amendments to published accounting 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 balance sheet date, and which the company has not early adopted. 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:

- **IFRIC 10, Interim Financial Reporting and Impairment** (effective for annual periods beginning on or after 1 November 2006). IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The company will apply IFRIC 10 from 1 January 2007, but it is not expected to have an impact on the company's accounts.

- **IFRS 7 Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures** (effective from 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The company assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1. The company will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007;

- **IFRS 8 Operating Segments** (effective for annual periods beginning on or after 1 January 2009) IFRS 8 sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. It requires identification of operating segments on the basis of internal reports that are regularly reviewed by, and the amount reported for each operating segment item to be the measure reported to, the entity's chief operating decision maker in order to allocate resources to the segment and assess its performance. IFRS 8 will replace IAS 14 – Segment Reporting. The company assessed the impact of IFRS 8 and concluded that it will only result in some additional disclosures. The company will apply IFRS 8 from 1 January 2009, but it is not expected to have any significant impact on the company's accounts.

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, interpretations and amendments to published accounting standards that are not yet effective

The company has concluded that the following interpretations to existing standards, which are published but not yet effective, are not relevant to its operations:

- **IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies** (effective for annual periods beginning on or after 1 March 2006)
- **IFRIC 9 Reassessment of Embedded Derivatives** (effective for annual periods beginning on or after 1 June 2006)
- **IFRIC 11 IFRS 2 - Group and Treasury Share Transactions** (effective for annual periods beginning on or after 1 March 2007)
- **IFRIC 12 Service Concession Arrangements** (effective for annual periods beginning on or after 1 January 2008)

(b) Business reorganisation

In 2005, the pooling of interest method was used to account for the reorganisation of the subsidiaries (Note 1) as the reorganisation involved entities under common control. In applying the pooling of interests method, the financial statement items of the combining enterprises for the period in which the reorganisation occurred and for any comparative periods disclosed have been included in the financial statements of the combined entity as if the reorganisation had occurred from the beginning of the earliest period presented.

(c) Dividend distribution

Dividend distribution to the company's stockholders' is recognised in the company's financial statements in the period in which the dividends are approved.

(d) Foreign currency translation

(i) Functional and presentation currency

The company trades primarily in Jamaica, 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 and loss account.

2. Significant Accounting Policies (Continued)

(e) 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.

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	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 expenditure 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 company.

(f) 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.

2. Significant Accounting Policies (Continued)

(g) 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 company will not be able to collect all the amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy of financial reorganisation, and default or delinquency in payments are considered indications that the trade receivable is impaired. 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.

(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.

(i) Leases

Leases of property, plant and equipment where the company 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.

2. Significant Accounting Policies (Continued)

(j) Employee benefits

(i) Pension obligations

The company participates in a defined benefit pension scheme operated by Grace. The scheme is generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations

A defined contribution plan is a pension plan under which a company pays fixed contributions into a separate entity. That 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 balance sheet in respect of defined benefit pension 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, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability..

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

(ii) 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 balance sheet date are discounted to present value.

(iii) Other post-employment obligations

The company also provides supplementary health, life insurance and other benefits to qualifying employees upon retirement. 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 the same accounting methodology as used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation, are charged or credited to income over the expected average remaining working lives of the related employees. These obligations are valued annually by independent qualified actuaries.

2. Significant Accounting Policies (Continued)

(k) 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 company'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 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 taxes are recognised as income tax expense or benefit in the profit and loss account.

(l) 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 collectibility of the related receivables is reasonably assured.

Sales of goods – retail

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

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

2. Significant Accounting Policies (Continued)

(m) Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the company's share of the net identifiable assets of the acquired company's operations at the date of acquisition. Goodwill on acquisitions is included in 'intangible assets'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from the business in which the goodwill arose.

Computer software

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 (three to five years).

(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 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. The increase in the provision due to passage of time is recognised as interest expense.

(q) Segment reporting

Business segments is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

2. Significant Accounting Policies (Continued)

(r) Financial instruments

Financial instruments carried on the balance sheet include cash, bank overdrafts, trade and other receivables, trade and other payables, provisions, short term loans, long term loans, obligations under finance leases and group balances. The fair values of the company's financial instruments are discussed in Note 3(b).

(s) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(t) Share capital

Ordinary shares are classified as equity.

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

(u) Comparative Information

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year and to account for the prior year adjustment as outlined in Note 28.

3. Financial Risk Management

(a) Financial risk factors

The company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance.

Management seeks to minimise potential adverse effects on the financial performance of the company by applying procedures to identify, evaluate and manage these risks, based on guidelines set by the Board of Directors.

3. Financial Risk Management (Continued)

(a) Financial risk factors (continued)

(i) Market risk

Currency risk

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

The net foreign currency exposures as at 31 December 2006 are as follows, asset/(liability):

	2006	2005
United States ($'000):		
Cash	1,760	351
Other Balances	(9,556)	(8,001)
	(7,796)	(7,650)

Price risk

Price 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 instrument or its issuer or factors affecting all instruments traded in the market. At 31 December 2006, the company had no significant exposure to such risks.

(ii) 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 company has no significant concentrations of credit risk as the company 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 credit department assesses the credit quality of customers, taking into account their financial position, past experience and other factors, individual risk limits are set in accordance with limits set by the Board. The utilization of credit limits are regularly monitored. Sales to retail customers are settled in cash or using major credit cards.

(iii) Cash flow and fair value 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 2006, the company 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 company has interest-bearing liabilities in the form of finance leases, as disclosed in Note 26, and loans as disclosed in Notes 22 and 25.

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

3. Financial Risk Management (Continued)

(a) Financial risk factors (continued)

(iii) Cash flow and fair value interest rate risk (continued)

The interest rate exposures of the borrowings are as follows:

	2006	2005
	$'000	$'000
Total borrowings:		
At fixed rates	594,940	449,617
At floating rates	256,702	251,280
	%	%
Weighted average effective interest rates:		
Bank overdrafts	19.3	19.5
Jamaican dollar loans	15.5	19.0
US dollar loans	9.0	7.0
Jamaican dollar leases	19.8	25.0

(iv) 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.

(b) Fair value estimates

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 fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rates that is available to the company for similar financial instruments.

The amounts included in the financial statements for cash and bank balances, bank overdrafts, trade and other receivables, group companies, short term loans, provisions 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 and finance leases approximate their carrying values because interest rates at the year end were at market rates.

4. Critical Accounting Estimates and Judgements 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 significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimated impairment of goodwill
The company tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(m). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 13).

Income taxes
Significant judgement is required in determining the provision for income taxes. There are many 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.

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(g). This, however, doesn't 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.

Provision for impairment of inventories
Periodically the company assesses the usage and recoverability of its inventories. Provisions are created or increased as required. 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.

5. Segment Reporting

The company 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

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

	2006			
	Wholesale of Hardware and Building Products	Retail Of Household and Hardware Products	Agricultural Products and Equipment	Consolidated
	$'000	$'000	$'000	$'000
External operating revenue	873,716	3,766,846	956,714	5,597,276
Operating revenue from other segments	-	-	-	-
Operating revenue	873,716	3,766,846	956,714	5,597,276
Profit from operations	42,704	93,731	25,243	161,678
Finance costs				(106,226)
Profit before tax				55,452
Taxation				(17,734)
Net profit				37,718
Segment assets	1,355,863	937,975	359,332	2,653,170
Unallocated assets				321,964
Total assets				2,975,134
Segment liabilities	194,425	612,565	181,055	988,045
Unallocated liabilities				883,589
Total liabilities				1,871,634
Capital expenditure	976	46,350	4,631	51,957
Depreciation	304	46,407	3,843	50,554
Amortisation	1,017	18,878	531	20,426

5. Segment Reporting (Continued)

	2005				
	Restated				
	Wholesale of Hardware and Building Products	Retail Of Household and Hardware Products	Agricultural Products and Equipment	Eliminations	Consolidated
	$'000	$'000	$'000	$'000	$'000
External operating revenue	901,196	3,505,569	926,092	-	5,332,857
Operating revenue from other segments	869,716	93,560	3,094	(966,370)	-
Operating revenue	1,770,912	3,599,129	929,186	(966,370)	5,332,857
Profit from operations	22,753	33,427	80,061	-	136,241
Finance costs					(109,626)
Profit before tax					26,615
Taxation					(6,347)
Net profit					20,268
Segment assets	1,679,863	839,865	331,472	(327,736)	2,523,464
Unallocated assets					151,512
Total assets					2,674,976
Segment liabilities	638,818	446,145	129,760	(253,216)	961,507
Unallocated liabilities					647,687
Total liabilities					1,609,194
Capital expenditure	103,286	51,643	6,456	-	161,385
Depreciation	29,570	14,785	1,848	-	46,203
Amortisation	13,540	6,770	846	-	21,156

6. Other Operating Income

	2006	2005
	$'000	$'000
Profit on sale of property, plant and equipment	290	161
Rent	2,460	1,612
Management fees	18,225	6,055
Interest income	8,111	17,784
Accounting fees	-	3,780
Purchase rebate	19,977	8,464
Insurance recoveries	-	8,877
Other	8,859	13,536
	57,922	60,269

7. Expenses by Nature

Total cost of sales, direct and administrative expenses

	2006	Restated 2005
	$'000	$'000
Auditors' remuneration	5,300	5,552
Advertising and marketing	63,062	47,280
Cost of inventories recognised as expense	4,050,088	3,986,145
Depreciation and amortisation	70,980	67,359
Insurance	64,777	50,874
Occupancy – rent, utilities, etc.	250,610	223,829
Repairs, maintenance and renewals	52,054	36,305
Staff costs (Note 8)	556,283	552,090
Transportation	88,210	78,706
Other	292,156	208,745
	5,493,520	5,256,885

8. Staff Costs

	2006	2005
	$'000	$'000
Wages and salaries	422,220	413,015
Payroll taxes, employer's contribution	43,243	42,307
Pension costs (Note 14)	(27,817)	(10,745)
Other post-employment benefits (Note 14)	33,740	29,142
Staff welfare	75,763	73,799
Redundancy costs	9,134	4,572
	556,283	552,090

9. Finance Costs

	2006	2005
	$'000	$'000
Interest expense	93,707	91,460
Foreign exchange losses	12,519	18,166
	106,226	109,626

10. Taxation

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

	2006	Restated 2005
	$'000	$'000
Current	13,743	21,531
Adjustment to prior year's provision	-	(3,052)
Deferred (Note 27)	3,991	(12,132)
	17,734	6,347

	2006	2005
	$'000	$'000
Profit before tax	55,452	26,615
Tax calculated at 33 1/3%	18,484	8,871
Adjusted for the effect of:		
Income not subject to tax	-	(226)
Expenses not deductible for tax	-	78
Adjustment to prior years provision	-	(3,052)
Net effect of other charges and allowances	(750)	676
Taxation	17,734	6,347

In 2005 the current tax charge represented that of the profit making subsidiaries up to the time of reorganisation (Note 1). Although reflected as that of the company in these financial statements, separate income tax computations and filings were required and prepared of the relevant subsidiaries in respect of the tax charge for that year.

11. 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.

	2006	Restated 2005
Net profit attributable to stockholders ($'000)	37,718	20,268
Weighted average number of stock units in issue ('000)	80,842	76,966
Earnings per stock unit (2005 previously stated as $0.90)	$0.47	$0.26

12. Property, Plant and Equipment

	2006							
	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 2006	85,437	103,838	252,445	106,367	37,773	12,158	57,805	655,823
Additions	-	2,985	25,052	4,234	17,559	-	917	50,747
Disposals	-	-	(544)	(161)	-	(3,072)	(1,000)	(4,777)
Transfers	-	-	37,468	14,363	4,974	-	(56,805)	-
31 December 2006	85,437	106,823	314,421	124,803	60,306	9,086	917	701,793
Depreciation -								
1 January 2006	-	2,043	140,927	61,434	13,977	10,032	-	228,413
Charge for the year	-	2,043	31,892	9,147	6,832	640	-	50,554
Relieved on disposals	-	-	(1,214)	(52)	-	(1,731)	-	(2,997)
31 December 2006	-	4,086	171,605	70,529	20,809	8,941	-	275,970
Net Book Value -								
31 December 2006	85,437	102,737	142,816	54,274	39,497	145	917	425,823

12. Property, Plant and Equipment (Continued)

	2005							
	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 2005	75,000	100,000	220,511	105,967	33,392	10,677	450	545,997
Additions	10,437	3,838	31,934	400	3,931	2,217	57,805	110,562
Disposals	-	-	-	-	-	(736)	-	(736)
Transfers	-	-	-	-	450	-	(450)	-
31 December 2005	85,437	103,838	252,445	106,367	37,773	12,158	57,805	655,823
Depreciation -								
1 January 2005	-	-	109,973	54,068	9,772	8,911	-	182,724
Charge for the year	-	2,043	30,954	7,366	4,205	1,635	-	46,203
Relieved on disposals	-	-	-	-	-	(514)	-	(514)
31 December 2005	-	2,043	140,927	61,434	13,977	10,032	-	228,413
Net Book Value -								
31 December 2005	85,437	101,795	111,518	44,933	23,796	2,126	57,805	427,410

(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 $19,784,000 (2005 - $5,008,000) which are held under finance leases.

13. Intangible Assets

	Computer Software $'000	Goodwill $'000	Total $'000
Year ended 31 December 2006			
Opening net book amount	63,467	5,439	68,906
Additions	1,210	-	1,210
Disposal	(2,067)	-	(2,067)
Impairment charge	-	(3,703)	(3,703)
Amortisation charge	(20,426)	-	(20,426)
Closing net book amount	42,184	1,736	43,920
At 31 December 2006			
Cost	103,368	1,736	105,104
Accumulated amortisation	(61,184)	-	(61,184)
Net book amount	42,184	1,736	43,920

	Computer Software $'000	Computer Software Work in Progress $'000	Goodwill $'000	Total $'000
Year ended 31 December 2005				
Opening net book amount	-	33,800	5,439	39,239
Additions	50,823	-	-	50,823
Transfers	33,800	(33,800)	-	-
Amortisation charge	(21,156)	-	-	(21,156)
Closing net book amount	63,467	-	5,439	68,906
At 31 December 2005				
Cost	104,225	-	5,439	109,664
Accumulated amortisation	(40,758)	-	-	(40,758)
Net book amount	63,467	-	5,439	68,906

The amortisation charge of $20,426,000 (2005 - $21,156,000) is included in administrative expenses in the profit and loss account.

The impaiment charge of $3,703,000 relates to the disposal of a branch that generated the goodwill. The amount is included in direct expenses in the profit and loss account.

14. Post-employment Benefits

	2006 $'000	2005 $'000
Assets/(liabilities) recognised in the balance sheet –		
Pension scheme	180,408	151,512
Medical benefits	(160,292)	(133,903)
Amounts recognised in the profit and loss account (Note 8) –		
Pension scheme	(27,817)	(10,745)
Medical benefits	33,740	29,142

Pension scheme benefits

The company participates in a pension plan operated by Grace and administered by Grace Kennedy Pension Management Limited, in which all permanent employees must participate. The plan, which commenced on 1 January 1975, is funded by employees contributions at 5% of salary with the option to contribute an additional 5% and employer contributions at 0.5% as recommended by independent actuaries. Pension at normal retirement age is based on 2% of final 3 – year average salary per year of pensionable service, plus any declared bonus pensions.

The defined benefit asset recognised in the balance sheet was determined as follows:

	2006 $'000	2005 $'000
Fair value of plan assets	(421,690)	(1,159,374)
Present value of funded obligations	325,817	272,771
	(95,873)	(886,603)
Unrecognised actuarial (losses)/gains	(84,535)	735,091
	(180,408)	(151,512)

14. Post-employment Benefits (Continued)

Pension scheme benefits (continued)

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

	2006 $'000	2005 $'000
At beginning of year	1,159,374	337,164
Expected return on plan assets	129,870	40,999
Actuarial (losses)/gains on plan assets	(794,845)	772,220
Contributions	16,430	20,290
Benefits paid	(7,606)	(11,299)
Adjustment to plan assets	(81,533)	-
At end of year	421,690	1,159,374

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

	2006 $'000	2005 $'000
At beginning of year	272,771	211,965
Current service cost	31,483	20,931
Interest cost	37,556	28,406
Actuarial (gains)/losses on obligations	(8,387)	22,768
Benefits paid	(7,606)	(11,299)
At end of year	325,817	272,771

14. Post-employment Benefits (Continued)

Pension scheme benefits (continued)

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

	2006 $'000	2005 $'000
Current service cost	16,132	1,848
Interest cost	37,556	28,406
Expected return on plan assets	(129,870)	(40,999)
Change in limitation on assets	81,533	-
Net actuarial gains recognised during the year	(33,168)	-
Total included in staff costs (Note 8)	(27,817)	(10,745)

The total credit, $27,817,000 (2005 – $10,745,000) was included in administrative expenses in the profit and loss account.

The actual return on plan assets was $664,975,000 (2005 – $813,219,000).

Expected contributions to the plan for the year ended 31 December 2007 amount to $2,077,000.

The distribution of plan assets was as follows:

	2006 $'000	2005 $'000
Quoted equities	117,860	324,281
Government of Jamaica securities	264,143	715,076
Repurchase agreements	13,211	33,536
Other	26,476	86,481
	421,690	1,159,374

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

14. Post-employment Benefits (Continued)

Pension scheme benefits (continued)

The five-year trend for the fair value of plan assets, the defined benefit obligation, the surplus in the plan, and the three-year experience adjustments for plan assets and liabilities is as follows:

	2006 $'000	2005 $'000	2004 $'000	2003 $'000	2002 $'000
Fair value of plan assets	421,690	1,159,374	337,164	405,663	85,459
Defined benefit obligation	(325,817)	(272,771)	(211,965)	(217,265)	(66,754)
Surplus	95,873	886,603	125,199	188,398	18,705
Experience adjustments –					
Fair value of plan assets	(794,845)	772,220	5,612	N/A	N/A
Defined benefit obligation	515,318	426,295	7,286	N/A	N/A

Medical benefits

In addition to pension benefits, the company offers retirees medical benefits. Funds are not built up to cover the obligations under the medical benefit scheme. The method of accounting and frequency of valuations are similar to those used for the pension scheme. The liability recognised in the balance sheet was determined as follows:

	2006 $'000	2005 $'000
Present value of unfunded obligations	189,501	153,524
Unrecognised actuarial gains	(29,209)	(19,621)
	160,292	133,903

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

	2006 $'000	2005 $'000
At beginning of year	153,524	133,370
Current service cost	12,971	10,937
Interest cost	20,352	17,661
Actuarial losses/(gains) on obligations	10,005	(2,379)
Benefits paid	(7,351)	(6,065)
At end of year	189,501	153,524

14. Post-employment Benefits (Continued)

Medical benefits (continued)

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

	2006 $'000	2005 $'000
Current service cost	12,971	10,937
Interest cost	20,352	17,661
Net actuarial losses recognised during the year	417	544
Total included in staff costs (Note 8)	33,740	29,142

The total charge, $33,740,000 (2005 – $29,142,000) was included in administrative expenses in the profit and loss account.

The effects of a 1% movement in the assumed medical cost trend rate were as follows:

	Increase $'000	Decrease $'000
Effect on the aggregate of the current service cost and interest cost	16,717	11,314
Effect on the defined benefit obligation	185,105	84,674

The three-year trend for the defined benefit obligation and experience adjustments is as follows:

	2006 $'000	2005 $'000	2004 $'000
Defined benefit obligation	189,501	153,524	133,370
Experience adjustments	(31,057)	20,164	4,151

(expressed in Jamaican dollars unless otherwise indicated)

14. Post-employment Benefits (Continued)

Principal actuarial assumptions used in valuing post-employment benefits

The principal actuarial assumptions used in valuing post-employment benefits were as follows:

	2006	2005
Discount rate	12.0%	12.5%
Long term rate of inflation	8.5%	8.5%
Expected return on plan assets	12.0%	12.0%
Future salary increases	9.5%	9.5%
Future pension increases	3.5%	9.5%
Medical cost trend rate	10.0%	10.0%

The average expected remaining service life of the employees is 18 years (2005 – 18 years).

At normal retirement age, 92.8% of males and 74.2% of females are assumed to be married. The age difference between husband and wife is assumed to average 3 years.

Post-employment mortality for active members and mortality for pensioners and deferred pensioners is based on the PA (90) Tables for Pensioners (British mortality tables) with ages rated down by 6 years.

The in-service specimen rates (number of occurrences per 1,000 members) are as follows:

	Males			Females		
Age	Withdrawals from service	Ill-health retirements	Deaths in service	Withdrawals from service	Ill-health retirements	Deaths in service
20	65	-	0.8	120	-	0.6
25	50	-	0.8	147	-	0.6
30	35	0.2	0.9	99	0.2	0.7
35	20	0.3	1.1	45	0.4	0.9
40	10	0.5	1.5	17	0.8	1.4
45	-	1.2	2.7	7	1.8	1.9
50	-	2.8	5.4	-	3.6	3.2
55	-	5.8	8.7	-	10.0	5.3

15. Investment in Subsidiary

	2006	2005
	$'000	$'000
At cost	206	206
Provision for impairment	(206)	(206)
	-	-

This relates to Wherry Wharf Sales Company Limited. This subsidiary has ceased trading and has an accumulated deficit, as such a full provision was created.

16. Inventories

	2006	2005
	$'000	$'000
Merchandise	1,462,980	1,311,730
Provision for obsolescence	(65,986)	(51,470)
	1,396,994	1,260,260
Goods in transit	208,902	165,699
	1,605,896	1,425,959

17. Trade and Other Receivables

		Restated
	2006	2005
	$'000	$'000
Trade	341,437	305,420
Provision for impairment	(55,174)	(45,266)
	286,263	260,154
Prepayments	52,788	33,308
Other	58,072	30,932
	397,123	324,394

18. 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 company that gives them significant influence over the company'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 company, including directors and officers and close members of the families of these individuals.

(a) Due to/from group companies comprises:

	2006	2005
	$'000	$'000
Due to Grace	(1,431)	(14,695)
Due to fellow subsidiaries	(11,930)	(3,976)
	(13,361)	(18,671)
Due from Grace	27,803	2,944
Due from fellow subsidiaries	21,787	5,829
	49,590	8,773

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

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

	2006 $'000	2005 $'000
Income:		
Rental charges -		
Fellow subsidiaries	203	173
Sales -		
Fellow subsidiaries	2,345	4065
Parent company	54	273
Management fees -		
Fellow subsidiaries	17,941	6,480
Other operating income -		
Fellow subsidiary	18,144	6,480
Parent company	513	-
Expenses:		
Interest expense -		
Fellow subsidiaries	31,945	32,652
Key management compensation		
Salary and wages and other short term benefit	26,100	27,160
Post-employment benefits	245	122
Other charges -		
Fellow subsidiary	59,462	44,267

19. Cash and Cash Equivalents

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

	2006 $'000	2005 $'000
Cash	215,152	233,074
Bank overdrafts	(181,176)	(116,095)
	33,976	116,979

The bank overdrafts are secured by letters of comfort from Grace, agreeing to acknowledge and approve the granting of facilities to the company.

20. Trade and Other Payables

	2006 $'000	Restated 2005 $'000
Trade	715,860	600,021
Accruals	69,023	101,140
Other	41,331	39,048
	826,214	740,209

21. Provisions

	Warranties 2006 $'000
At 1 January 2006	920
Additional provisions	4,000
Utilised during the year	(3,380)
At 31 December 2006	1,540

22. Short Term Loans

		2006 $'000	2005 $'000
Grace, Kennedy Trade Finance Limited	(a)	127,581	123,715
Citibank N. A.	(b)	194,997	133,529
First Global Financial Services Limited	(c)	80,000	85,529
First Global Bank Limited	(d)	11,164	9,972
Grace, Kennedy (St. Lucia) Limited	(e)	100,722	96,872
Republic Bank of Trinidad and Tobago	(f)	80,476	-
		594,940	449,617

(a) This represents a revolving loan denominated in United States dollars. The revolving facility has a maximum tenor of 120 days. At 31 December 2006, the interest rate was 9.0%.

(b) This represents a letter of credit denominated in United States dollars. At 31 December 2006 the interest rate was 9.4%.

(c) This represents a commercial paper that was facilitated by First Global Financial Services Limited. The interest rate on this loan is 13.8% per annum and is secured by promissory notes from the company.

22. Short Term Loans (Continued)

(d) This represents final installment for insurance premium financing. At 31 December 2006, the interest rate was 14.0%.
(e) This loan is denominated in United States dollars and is evidenced by a promissory note. At 31 December 2005, the interest rate was 9.0%.
(f) This loan is denominated in United States dollars and is evidenced by a promissory note. At 31 December 2005, the interest rate was 7.2%.

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

23. Share Capital

	Number of Authorised Shares	Number of Issued Shares	Stated Capital – Ordinary Shares	Share Premium	Total
	000	000	$'000	$'000	$'000
At the beginning of the year	82,500	80,842	40,421	576,246	616,667
Transfer of share premium on conversion of shares to no par value	-	-	576,246	(576,246)	-
At the end of the year	82,500	80,842	616,667	-	616,667

On 8 March 2005, the company announced a rights issue of one new share for every five held at an exercise price of $26.00, with a record date of 22 March 2005. The offer opened on 4 April 2005 and remained open until 15 April 2005. As a result of this rights offer, 13,473,598 shares were issued, which were then converted to stock units of identical denomination ranking pari passu with previously issued stock units. The excess of the amount received over the par value of the shares issued was credited to the share premium account.

In December 2006 the issued shares of the company were deemed to have been converted to shares without nominal or par value pursuant to Section 37(6) of the Companies Act. The share premium of $576,246,000 was transferred to Ordinary Share Capital at the date of this conversion.

24. Capital Reserve

	2006	2005
	$'000	$'000
Revaluation reserve	88,248	88,248
Other	6,100	6,100
	94,348	94,348
At the beginning and at the end of year	94,348	94,348

The capital reserve is unrealised.

25. Long Term Loans

		2006	2005
		$'000	$'000
The Bank of Nova Scotia Jamaica Limited	(a)	28,359	35,601
FirstCaribbean International Bank (Jamaica) Limited	(b)	30,127	5,923
Republic Bank Limited	(c)	-	92,207
		58,486	133,731
Current maturities		(13,917)	(75,146)
		44,569	58,585

(a) This loan is supported by a comfort letter from Grace. At 31 December 2006, the interest rate was 18.8% per annum. The loan is repayable in 2010.

(b) 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 2006, the interest rate was 8.0% per annum. The loan is repayable in 2008.

(c) This loan is denominated in United States dollars. It is evidenced by promissory notes and supported by a comfort letter form Grace. At 31 December 2006, the interest rate was 8.0%.

26. Obligations under Finance Leases

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

	2006	2005
	$'000	$'000
In the year ending 31 December		
2006	-	1,463
2007	10,122	192
2008	8,943	-
2009	2,236	-
Minimum lease payments	21,301	1,655
Less: Future interest payments	(4,261)	(201)
Net obligations under finance leases	17,040	1,454
Repayable within one year	(7,206)	(1,267)
	9,834	187

27. Deferred Income Taxes

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:

	2006	2005
	$'000	$'000
Net liability at beginning of year	(14,594)	(26,726)
(Charge)/credited to the profit and loss account (Note 10)	(3,991)	12,132
Net liability at end of year	(18,585)	(14,594)

27. Deferred Income Taxes (Continued)

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

	2006 $'000	2005 $'000
Deferred income tax assets:		
Interest payable	4,121	1,936
Tax loss carry forward	-	5,641
Accrued vacation	5,685	7,136
Unrealised foreign exchange losses	367	697
Retirement benefit obligations	53,431	44,634
	63,604	60,044
Deferred income tax liabilities:		
Interest receivable	(277)	-
Property, plant and equipment	(21,776)	(24,134)
Retirement benefit asset	(60,136)	(50,504)
	(82,189)	(74,638)
Net liability	(18,585)	(14,594)

Deferred tax assets to be recovered after more than one year	53,431	44,634
Deferred tax liabilities to be settled after more that one year	(81,912)	(74,638)

28. Prior Year Adjustment

The prior year adjustment represents the writing off of net differences emanating from the incomplete processing of transactions pertaining to inter-company transfers prior to the company's group reorganisation in 2005 (see note 1). The effect of the adjustment on the 2005 profit and loss account is summarised below. The opening retained earnings for 2005 have been reduced by $12,959,000 which is the amount of the adjustment relating to 2004.

	2005 $'000
Increase in cost of sales	73,816
Decrease in taxation	(24,606)
Decrease in profit after tax	49,210

29. Lease Commitments

At 31 December 2006, the company had lease commitments in respect of certain properties. Minimum lease payment for 2006 was $93,334,000. These leases expire in 2013.

Proxy Form

I/We ____

of ____

being a Member(s) of HARDWARE & LUMBER LIMITED hereby appoint

____

of ____

or failing him/her ____

of ____

as my/our Proxy, to vote for me/us on my/our behalf at the Annual General Meeting of the said Company to be held 25 June 2007 at 10:30 a.m. at 697 Spanish Town Road, Kingston 11.

SIGNED this ____________day of ______________________2007

______________________________ Signature

(If executed by a Corporation, the Proxy should be sealed)

Resolutions	For	Against
1		
2(a)		
2(b)		
2(c)		
2(d)		
3(a)		
3(b)		
4		

Place $100 Stamp Here

N.B. the instrument appointing proxy must be deposited at the registered office at least 48 hours before the meeting.