Hardware & Lumber Limited

Financial Statements
31 December 2007

Hardware & Lumber Limited
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31 December 2007

Hardware & Lumber Limited

Profit and Loss Account

Year ended 31 December 2007

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2007 $'000	2006 $'000
Revenue		6,648,066	5,597,276
Cost of sales		(5,021,281)	(4,206,994)
Gross Profit		1,626,785	1,390,282
Other operating income	6	42,662	57,922
		1,669,447	1,448,204
Direct expenses		(895,092)	(887,438)
Administrative expenses		(487,294)	(399,088)
		(1,382,386)	(1,286,526)
Profit from Operations		287,061	161,678
Finance costs	9	(88,429)	(106,226)
Profit before Tax		198,632	55,452
Taxation	10	(65,082)	(17,734)
NET PROFIT		133,550	37,718
EARNINGS PER STOCK UNIT	11	$1.65	$0.47

Hardware & Lumber Limited

Balance Sheet

31 December 2007

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2007 $'000	2006 $'000
NET ASSETS EMPLOYED			
Non-current Assets			
Property, plant and equipment	12	418,859	425,823
Intangible assets	13	124,785	43,920
Retirement benefit asset	14	204,725	180,408
		748,369	650,151
Current Assets			
Inventories	16	1,818,413	1,605,896
Trade and other receivables	17	485,882	397,123
Group companies	18	20,763	49,590
Taxation recoverable		-	57,222
Cash and bank balances	19	274,257	215,152
		2,599,315	2,324,983
Current Liabilities			
Bank overdrafts	19	83,692	181,176
Trade and other payables	20	949,014	826,214
Provisions	21	591	1,540
Short term loans	22	691,666	594,940
Taxation payable		3,204	-
Group companies	18	13,322	13,361
Current portion of long term loans	25	18,191	13,917
Current portion of obligations under finance leases	26	-	7,206
		1,759,680	1,638,354
Net Current Assets		839,635	686,629
		1,588,004	1,336,780

Hardware & Lumber Limited

Balance Sheet

31 December 2007

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2007 $'000	2006 $'000
FINANCED BY			
Stockholders' Equity			
Share capital	23	616,667	616,667
Capital reserve	24	94,348	94,348
Retained earnings		500,251	392,485
		1,211,266	1,103,500
Non-current Liabilities			
Long term loans	25	163,677	44,569
Obligations under finance leases	26	-	9,834
Deferred tax liabilities	27	20,897	18,585
Retirement benefit obligation	14	192,164	160,292
		376,738	233,280
		1,588,004	1,336,780

Approved for issue by the Board of Directors on 27 March 2008 and signed on its behalf by:

Douglas Orane Director

A. Anthony Holness Director

Hardware & Lumber Limited

Statement of Changes in Stockholders' Equity

Year ended 31 December 2007

(expressed in Jamaican dollars unless otherwise indicated)

	Note	Share Capital $'000	Share Premium $'000	Capital Reserve $'000	Retained Earnings $'000	Total $'000
Balance at 1 January 2006		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
Net profit		-	-	-	133,550	133,550
Total recognised income for 2007		-	-	-	133,550	133,550
Dividend Paid		-	-	-	(25,784)	(25,784)
Balance at 31 December 2007		616,667	-	94,348	500,251	1,211,266

Hardware & Lumber Limited

Statement of Cash Flows

Year ended 31 December 2007

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2007 $'000	2006 $'000
Cash Generated from Operating and Investing Activities:			
Net profit		133,550	37,718
Items not affecting cash:			
Depreciation of property, plant and equipment	12	54,386	50,554
Interest income	6	(9,354)	(8,111)
Warranties		-	4,000
Interest expense	9	89,927	93,707
Goodwill impairment	13	-	3,703
Amortisation of computer software	13	22,705	20,426
Taxation expense	10	65,082	17,734
Loss on disposal of computer software		-	2,067
Profit on disposal of property, plant and equipment		(258)	(290)
		356,038	221,508
Changes in non-cash working capital components:			
Change in retirement benefit assets/obligation		7,555	(2,507)
Inventories		(212,517)	(179,937)
Trade and other receivables		(89,592)	(72,805)
Group companies		28,788	(46,127)
Trade and other payables		110,679	78,911
Provisions (warranties settled)	21	(949)	(3,380)
		(156,036)	(225,845)
Tax paid		(2,344)	(36,017)
Net cash provided by(used in) operating activities		197,658	(40,354)
Cash Flows from Investing Activities			
Proceeds from sale of property, plant and equipment		498	2,070
Purchase of property, plant and equipment	12	(47,662)	(30,625)
Purchase of computer software	13	(103,570)	(1,210)
Interest received		10,187	8,187
Net cash used in investing activities		(140,547)	(21,578)
Cash provided by/(used in) operating and investing activities (carried forward to page 6)		57,111	(61,932)

Hardware & Lumber Limited

Statement of Cash Flows

Year ended 31 December 2007

(expressed in Jamaican dollars unless otherwise indicated)

	2007	2006
	$'000	**$'000**
Cash Provided by/(Used in) Operating and Investing Activities (carried forward from Page 5)	57,111	(61,932)
Cash Flows from Financing Activities		
Short term loans received	1,128,892	594,940
Interest paid	(77,876)	(87,150)
Short term loans repaid	(1,032,166)	(449,617)
Long term loans received	154,645	30,127
Long term loans repaid	(31,263)	(105,372)
Dividend paid	(25,784)	-
Finance leases repaid	(17,040)	(4,536)
Net cash provided by/(used in) financing activities	99,408	(21,608)
Effects of exchange rate changes on cash and cash equivalents	70	537
Net increase/(decrease) in cash and cash equivalents	156,589	(83,003)
Cash and cash equivalents at beginning of year	33,976	116,979
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	190,565	33,976
Comprised of:		
Cash	274,257	215,152
Bank overdraft	(83,692)	(181,176)
	190,565	33,976

Hardware & Lumber Limited

Notes to the Financial Statements
31 December 2007
(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 and agricultural products. 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.

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, interpretations and amendments to published standards effective in 2007

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 and interpretations, which are relevant to its operations.

IFRS 7 - Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures;

IFRIC 8 - Scope of IFRS 2

IFRIC 10 - Interim Financial Reporting and Impairment.

- The adoption of IFRS 7 has resulted in additional disclosures (Note 3). IFRIC 8 and IFRIC 10 have no impact on the company's financial statements.

Amendments and interpretations effective in 2007 but not relevant

The following amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but are not relevant to the company's operations:

- IFRS 4 (Amendment), 'Insurance contracts';
- IFRIC 7, 'Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies
- IFRIC 9, 'Re-assessment of embedded derivatives
- IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2008).

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

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued which are not yet effective, 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:

- 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 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 standards that are not yet effective **(continued)**

- IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008). IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The company will apply IFRIC 14 from 1 January 2008, but it is not expected to have any significant impact on the company's accounts.

- IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The company will apply IAS 23 (Amended) from 1 January 2009 but it is currently not applicable to the company, as it does not access borrowings to acquire qualifying assets.

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

- 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).

- IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2008).

(b) 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.

(c) 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)

(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.

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.

(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 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.

2. Significant Accounting Policies (Continued)

(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 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.

(i) Employee benefits

(i) Pension plan assets

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 benefit plan is typically a pension plan that defines 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.

2. Significant Accounting Policies (Continued)

(i) Employee benefits (continued)

(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. These obligations are valued annually by independent qualified actuaries.

(j) Income taxes

Taxation expense in the profit and loss comprises current and deferred tax charges.

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.

Deferred tax is charged or credited in the profit and loss account, except where it relates to items charged or credited to equity, in which case, deferred tax is also dealt with in equity.

2. Significant Accounting Policies (Continued)

(k) 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.

(l) 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).

(m) 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.

(n) 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.

Hardware & Lumber Limited
Notes to the Financial Statements
31 December 2007
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(o) 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.

(p) Segment reporting
Business segments are groups 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.

(q) 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 29.

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

(s) 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.

(t) Comparative Information
Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. In particular, comparative notes have been included to take into account the adoption of IFRS 7 (Note 3).

3. Financial Risk Management

The company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity 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.

The company's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The company regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Board of Directors is ultimately responsible for the establishment and oversight of the company's risk management framework. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity. The Board has established committees/departments for managing and monitoring risks, as follows:

(i) Audit Committee

The Audit Committee oversees how management monitors compliance with the company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the company. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the result of which are reported to the Audit Committee.

The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

3. Financial Risk Management (Continued)

(a) Credit risk

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

Credit review process

The company has established a credit committee whose responsibility involves regular analysis of the ability of borrowers and other counterparties to meet repayment obligations.

(i) Trade receivables

The company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The credit committee has established a credit policy under which customers are analysed individually for creditworthiness prior to the company offering them a credit facility. Customers are required to provide a banker's guarantee and credit limits are assigned to each customer, which represents the maximum credit allowable without approval from the credit committee; these are reviewed quarterly. The company has procedures in place to restrict customer orders if the order will exceed their credit limits. Customers that fail to meet the company's benchmark creditworthiness may transact with the company on a prepayment or cash basis.

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

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

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

Hardware & Lumber Limited

Notes to the Financial Statements

31 December 2007

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

(ii) Cash and cash equivalents

The company limits its exposure to credit risk by investing mainly in liquid securities, with counterparties that have high credit quality and Government of Jamaica securities. Accordingly, management does not expect any counterparty to fail to meet its obligations.

Maximum exposure to credit risk

	2007 $'000	2006 $'000
Credit risk exposures are as follows:		
Trade Receivables	364,361	286,263
Cash and cash equivalents	190,565	33,976
	554,926	320,239

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

Ageing analysis of trade receivables that are past due but not impaired

Trade receivables that are less than 60 Days past due are not considered impaired. As of 31 December 2007, trade receivables $158,007 (2006 - $250,219) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2007 $'000	2006 $'000
1 to 30 days past due	123,173	143,752
31 to 60 days past due	20,526	27,375
Over 60 days past due	14,308	79,092
	158,007	250,219

Hardware & Lumber Limited
Notes to the Financial Statements
31 December 2007
(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Ageing analysis of trade receivables that are past due and impaired

As of 31 December 2007, trade receivables of $97,835 (2006 - $74,365) were past due and impaired. The amount of the provision was $75,006 (2006 – $55,174). The individually impaired receivables mainly relate to wholesalers who are in unexpected difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered.

The ageing of these receivables is as follows:

	2007 $'000	2006 $'000
Over 60 days past due	97,835	74,365

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

	2007 $'000	2006 $'000
At 1 January	55,174	45,266
Provision for receivables impairment	20,065	9,908
Receivables written off during the year as uncollectible	(233)	-
At 31 December	75,006	55,174

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

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

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)

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

	2007 $'000	2006 $'000
Agriculture, Fishing and Mining	68,570	81,626
Wholesalers	15,379	17,248
Retail distributors	355,418	242,563
	439,367	341,437
Less: Provision for credit losses	(75,006)	(55,174)
	364,361	286,263

All trade receivables are receivable from customers in Jamaica.

(b) Liquidity risk

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

Liquidity risk management process

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

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

(ii) Maintaining a portfolio of highly marketable and diverse assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

(iii) Maintaining committed lines of credit;

(iv) Optimising cash returns on investment;

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

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the company. It is unusual for companies ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of loss.

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3. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the company and its exposure to changes in interest rates and exchange rates.

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

	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Total $'000
As at 31 December 2007:						
Liabilities						
Bank Overdraft	83,692	-	-	-	-	83,692
Trade payables	549,725	309,122	-	-	-	858,847
Other payables	76,925	13,242	-	-	-	90,167
Short term loans	269,466	159,424	262,776	-	-	691,666
Group companies	-	-	13,322	-	-	13,322
Long term loans	-	-	18,191	47,158	116,519	181,868
	979,808	481,788	294,289	47,158	116,519	1,919,562

	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Total $'000
As at 31 December 2006:						
Liabilities						
Bank overdraft	181,176	-	-	-	-	181,176
Trade payables	458,150	257,710	-	-	-	715,860
Other payables	93,801	16,553	-	-	-	110,354
Short term loans	232,027	136,836	226,077	-	-	594,940
Group companies	-	-	13,361	-	-	13,361
Long term loans	-	-	13,917	44,569	-	58,486
Finance leases	-	-	7,206	9,834	-	17,040
	965,154	411,099	260,561	54,403	-	1,691,217

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

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3. Financial Risk Management (Continued)

(c) Market risk

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

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

(i) Currency risk

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

The company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

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

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3. Financial Risk Management (Continued)

(c) Market risk (continued)
(i) Currency risk (continued)

The table below summarises the company exposure to foreign currency exchange rate risk at 31 December.

	Jamaican$ J$'000	US$ J$'000	GBP J$'000	Total J$'000
At 31 December 2007:				
Financial Assets				
Trade receivables	364,361	-	-	364,361
Other receivables	46,239	19,313	-	65,552
Group companies	20,763	-	-	20,763
Cash and cash equivalents	169,208	105,049	-	274,257
Total financial assets	600,571	124,362	-	724,933
Financial Liabilities				
Bank overdraft	83,692	-	-	83,692
Trade payables	383,265	475,173	409	858,847
Other payables	90,167	-	-	90,167
Short term loans	140,000	551,666	-	691,666
Group companies	13,322	-	-	13,322
Long term loans	30,000	151,868	-	181,868
Total financial liabilities	740,446	1,178,707	409	1,919,562
Net financial position	(139,875)	(1,054,345)	(409)	(1,194,629)

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3. Financial Risk Management (Continued)

(c) Market risk (continued)
(i) Currency risk (continued)

	Jamaican$ J$'000	US$ J$'000	Total J$'000
At 31 December 2006:			
Financial Assets			
Trade receivables	286,263	-	286,263
Other receivables	46,434	11,638	58,072
Group companies	49,590	-	49,590
Cash and cash equivalents	97,126	118,026	215,152
Total financial assets	479,413	129,664	609,077
Financial Liabilities			
Bank overdraft	181,176	-	181,176
Trade payables	384,418	331,442	715,860
Other payables	110,354	-	110,354
Short term loans	91,162	503,778	594,940
Group companies	13,361	-	13,361
Long term loans	28,269	30,217	58,486
Finance leases	17,040	-	17,040
Total financial liabilities	825,780	865,437	1,691,217
Net financial position	(346,367)	(735,773)	(1,082,140)

Foreign currency sensitivity

The following tables indicate the currencies to which the company had significant exposure on its monetary assets and liabilities and its forecast cash flows. The change in currency rate below represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis represents outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a 5% change in foreign currency rates. The sensitivity of the profit was as a result of foreign exchange losses on translation of US dollar-denominated trade payables, long and short term loans.

	The Company					
	% Change in Currency Rate 2007	Effect on Net Profit 2007 $'000	Effect on Equity 2007 $'000	% Change in Currency Rate 2006	Effect on Net Profit 2006 $'000	Effect on Equity 2006 $'000
Currency:						
USD	5	(40,811)	(40,811)	5	(22,785)	(22,785)

Hardware & Lumber Limited
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3. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk

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

Floating rate instruments expose the company to cash flow interest risk, whereas fixed interest rate instruments expose the company to fair value interest risk.

The company's interest rate risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest bearing financial assets and interest bearing financial bearing liabilities. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken.

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

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3. Financial Risk Management (Continued)

(c) Market risk (continued)
(ii) Interest rate risk (continued)

	The Company						
	Within 1 Month $'000	**1 to 3 Months $'000**	**3 to 12 Months $'000**	**1 to 5 Years $'000**	**Over 5 Years $'000**	**Non-Interest Bearing $'000**	**Total $'000**
At 31 December 2007:							
Assets							
Trade receivables	-	-	-	-	-	364,361	364,361
Other receivables	-	-	-	-	-	65,552	65,552
Group companies	-	-	-	-	-	20,763	20,763
Cash and cash	274,257	-	-	-	-	-	274,257
Total financial assets	274,257	-	-	-	-	450,676	724,933
Liabilities							
Bank overdraft	83,692	-	-	-	-	-	83,692
Trade payables	-	-	-	-	-	858,847	858,847
Other payables	-	-	-	-	-	90,167	90,167
Short term loans	269,466	159,424	262,776	-	-	-	691,666
Group companies	-	-	-	-	-	13,322	13,322
Long term loans	-	-	134,710	47,158	-	-	181,868
Total financial liabilities	353,158	159,424	397,486	47,158	-	962,336	1,919,562
Total interest repricing gap	(78,901)	(159,424)	(397,486)	(47,158)	-	(511,660)	(1,194,629)

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3. Financial Risk Management (Continued)

(c) Market risk (continued)
(ii) Interest rate risk (continued)

	The Company						
	Within 1 Month $'000	**1 to 3 Months $'000**	**3 to 12 Months $'000**	**1 to 5 Years $'000**	**Over 5 Years $'000**	**Non-Interest Bearing $'000**	**Total $'000**
At 31 December 2006:							
Assets							
Trade receivables	-	-	-	-	-	286,263	286,263
Other receivables	-	-	-	-	-	58,072	58,072
Group companies	-	-	-	-	-	49,590	49,590
Cash and cash equivalents	93,565	115,208	-	-	-	6,379	215,152
Total financial assets	93,565	115,208	-	-	-	400,304	609,077
Liabilities							
Bank overdraft	181,176	-	-	-	-	-	181,176
Trade payables	-	-	-	-	-	715,860	715,860
Other payables	-	-	-	-	-	110,354	110,354
Short term loans	198,601	168,036	228,303	-	-	-	594,940
Group companies	-	-	-	-	-	13,361	13,361
Long term loans	-	-	30,127	-	28,359	-	58,486
Finance leases	-	-	7,206	9,834	-	-	17,040
Total financial liabilities	379,777	168,036	265,636	9,834	28,359	839,575	1,691,217
Total interest repricing	(286,212)	(52,828)	(265,636)	(9,834)	(28,359)	(439,271)	(1,082,140)

Interest rate sensitivity

The following table indicates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, on the company's profit and loss account and stockholders' equity.

The company's interest rate risk arises from long term borrowing. The sensitivity of the profit or loss is the effect of the assumed changes in interest rates on net income based on floating rate borrowing.

Hardware & Lumber Limited
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3. Financial Risk Management (Continued)

(c) Market risk (continued)
(ii) Interest rate risk (continued)

	The Company			
	Effect on Net Profit 2007 $'000	**Effect on Equity 2007 $'000**	**Effect on Net Profit 2006 $'000**	**Effect on Equity 2006 $'000**
Change in basis points:				
-100	847	847	51	51
+100	(847)	(847)	(51)	(51)

(d) Capital management

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

Consistent with others in the industry, the company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt.

The gearing ratios at 31 December 2007 and 2006 were as follows:

	2007 $'000	**2006 $'000**
Total borrowings	957,226	851,642
Less: cash and cash equivalents	(274,257)	(215,152)
Net debt	682,969	636,490
Total equity	1,211,286	1,103,500
Total capital	1,894,255	1,739,990
Gearing ratio	36.1%	36.6%

There were no changes to the company's approach to capital management during the year.

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(n). 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(f). 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.

Hardware & Lumber Limited

Notes to the Financial Statements
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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:

	2007			
	Wholesale of Hardware and Building Products	**Retail of Household and Hardware Products**	**Agricultural Products and Equipment**	**Consolidated**
	$'000	**$'000**	**$'000**	**$'000**
External operating revenue	1,308,010	4,252,745	1,087,311	6,648,066
Profit from operations	66,286	158,408	62,367	287,061
Finance costs				(88,429)
Profit before tax				198,632
Taxation				(65,082)
Net profit				133,550
Segment assets	1,175,168	1,189,423	758,728	3,123,319
Unallocated assets				224,365
Total assets				3,347,684
Segment liabilities	7,504	931,964	68,824	1,008,292
Unallocated liabilities				1,128,126
Total liabilities				2,136,418
Capital expenditure	21,111	126,660	3,461	151,232
Depreciation	245	49,952	4,189	54,386
Amortisation	669	20,436	1,600	22,705

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5. Segment Reporting (Continued)

	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
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	26,228	4,631	31,835
Depreciation	304	26,228	3,843	50,554
Amortisation	1,017	18,878	531	20,426

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6. Other Operating Income

	2007	2006
	$'000	$'000
Profit on sale of property, plant and equipment	298	290
Rent	4,920	2,460
Management fees	4,192	18,225
Interest income	9,354	8,111
Purchase rebate	21,189	19,977
Other	2,709	8,859
	42,662	57,922

7. Expenses by Nature

Total cost of sales, direct and administrative expenses

	2007	2006
	$'000	$'000
Auditors' remuneration	5,350	5,300
Advertising and marketing	41,987	63,062
Cost of inventories recognised as expense	5,021,281	4,206,994
Depreciation and amortisation	77,091	70,980
Insurance	64,166	64,777
Occupancy – rent, utilities, etc.	222,508	250,610
Repairs, maintenance and renewals	34,146	52,054
Staff costs (Note 8)	463,259	474,536
Transportation	8,362	11,320
Other	465,517	293,887
	6,403,667	5,493,520

8. Staff Costs

	2007	2006
	$'000	$'000
Wages and salaries	339,105	356,208
Payroll taxes, employer's contribution	28,471	35,574
Pension costs (Note 14)	8,830	(27,817)
Other post-employment benefits (Note 14)	42,229	33,740
Staff welfare	42,313	67,849
Redundancy costs	2,311	8,982
	463,259	474,536

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9. Finance Costs

	2007	2006
	$'000	$'000
Interest expense	89,927	93,707
Foreign exchange (gains)/losses	(1,498)	12,519
	88,429	106,226

10. Taxation

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

	2007	2006
	$'000	$'000
Current	62,770	13,743
Deferred (Note 27)	2,312	3,991
	65,082	17,734

	2007	2006
	$'000	$'000
Profit before tax	198,632	55,452
Tax calculated at 33 1/3%	66,211	18,484
Adjusted for the effect of:		
Expenses not deductible for tax	413	-
Net effect of other charges and allowances	(1,542)	(750)
Taxation	65,082	17,734

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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.

	2007	2006
Net profit attributable to stockholders ($'000)	133,550	37,718
Weighted average number of stock units in issue ('000)	80,842	80,842
Earnings per stock unit	$1.65	$0.47

12. Property, Plant and Equipment

	2007							
	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 2007	85,437	106,823	314,421	124,803	60,306	9,086	917	701,793
Additions	1,014	531	21,512	838	976	2,130	20,661	47,662
Disposals	-	-	(281)	-	(800)	-	-	(1,081)
Transfers	-	-	(17,540)	(125)	22,453	(4,788)	-	-
31 December 2007	86,451	107,354	318,112	125,516	82,935	6,428	21,578	748,374
Depreciation -								
1 January 2007	-	4,086	171,605	70,529	20,809	8,941	-	275,970
Charge for the year	-	2,077	35,733	9,269	6,220	1,087	-	54,386
Relieved on disposals	-	-	(203)	-	(638)	-	-	(841)
Transfers	-	-	(11,430)	(125)	17,306	(5,751)	-	-
31 December 2007	-	6,163	195,705	79,673	43,697	4,277	-	329,515
Net Book Value -								
31 December 2007	86,451	101,191	122,407	45,843	39,238	2,151	21,578	418,859

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12. Property, Plant and Equipment (Continued)

	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

(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. 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 Nil (2006 - $19,784,000) which were held under finance leases.

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13. Intangible Assets

	Computer Software $'000	Computer Software Work in Progress $'000	Goodwil l $'000	Total $'000
Year ended 31 December 2007				
Opening net book amount	42,184		1,736	43,920
Additions	11,580	91,9	-	103,570
Amortisation charge	(22,705)		-	(22,705)
Closing net book amount	31,059	91,9	1,736	124,785
At 31 December 2007				
Cost	114,948	91,9	1,736	208,674
Accumulated amortisation	(83,889)	-	-	(83,889)
Net book amount	31,059	91,990	1,736	124,785

	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

The amortisation charge of $22,705,000 (2006 - $20,426,000) is included in administrative expenses in the profit and loss account.

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14. Post-employment Benefits

	2007 $'000	2006 $'000
Assets/(liabilities) recognised in the balance sheet –		
Pension scheme	204,725	180,408
Medical benefits	(192,164)	(160,292)
Amounts recognised in the profit and loss account (Note 8) –		
Pension scheme	8,830	(27,817)
Medical benefits	42,229	33,740

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:

	2007 $'000	2006 $'000
Fair value of plan assets	(472,999)	(421,690)
Present value of funded obligations	288,744	325,817
	(184,255)	(95,873)
Unrecognised actuarial losses	(20,470)	(84,535)
	(204,725)	(180,408)

14. Post-employment Benefits (Continued)

Pension scheme benefits (continued)

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

	2007 $'000	2006 $'000
At beginning of year	421,690	1,159,374
Expected return on plan assets	46,744	129,870
Actuarial losses on plan assets	(1,954)	(794,845)
Contributions	16,818	16,430
Benefits paid	(10,299)	(7,606)
Adjustment to plan assets	-	(81,533)
At end of year	472,999	421,690

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

	2007 $'000	2006 $'000
At beginning of year	325,817	272,771
Current service cost	29,648	31,483
Interest cost	42,038	37,556
Actuarial gains on obligations	(98,460)	(8,387)
Benefits paid	(10,299)	(7,606)
At end of year	288,744	325,817

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14. Post-employment Benefits (Continued)

Pension scheme benefits (continued)

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

	2007 $'000	2006 $'000
Current service cost	11,204	16,132
Interest cost	42,038	37,556
Expected return on plan assets	(46,744)	(129,870)
Change in limitation on assets	-	81,533
Net actuarial gains recognised during the year	2,332	(33,168)
Total included in staff costs (Note 8)	8,830	(27,817)

The total debit, $8,830,000 (2006 – $27,817,000) was included in administrative expenses in the profit and loss account.

The actual return on plan assets was $44,790,000 (2006 – $129,870,000).

Expected contributions to the plan for the year ended 31 December 2008 amount to $12,281,000.

The distribution of plan assets was as follows:

	2007 $'000	2006 $'000
Quoted equities	126,893	117,860
Government of Jamaica securities	266,694	264,143
Repurchase agreements	11,620	13,211
Other	67,792	26,476
	472,999	421,690

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.

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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:

	2007 $'000	2006 $'000	2005 $'000	2004 $'000	2003 $'000
Fair value of plan assets	472,999	421,690	1,159,374	337,164	405,663
Defined benefit obligation	(288,744)	(325,817)	(272,771)	(211,965)	(217,265)
Surplus	184,255	95,873	886,603	125,199	188,398
Experience adjustments –					
Fair value of plan assets	(1,954)	(794,845)	772,220	5,612	N/A
Defined benefit obligation	(57,356)	515,318	426,295	7,286	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:

	2007 $'000	2006 $'000
Present value of unfunded obligations	179,487	189,501
Unrecognised actuarial gains	12,677	(29,209)
	192,164	160,292

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

	2007 $'000	2006 $'000
At beginning of year	189,501	153,524
Current service cost	14,513	12,971
Interest cost	23,863	20,352
Actuarial (gains)/losses on obligations	(38,065)	10,005
Benefits paid	(10,325)	(7,351)
At end of year	179,487	189,501

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14. Post-employment Benefits (Continued)

Medical benefits (continued)

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

	2007 $'000	2006 $'000
Current service cost	16,342	12,971
Interest cost	23,863	20,352
Net actuarial losses recognised during the year	2,024	417
Total included in staff costs (Note 8)	42,229	33,740

The total charge, $42,229,000 (2006 – $33,740,000) 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	20,671	14,190
Effect on the defined benefit obligation	92,452	69,576

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

	2007 $'000	2006 $'000	2005 $'000	2004 $'000
Defined benefit obligation	179,487	189,501	153,524	133,570
Experience adjustments	(15,902)	(31,057)	20,164	4,151

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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:

	2007	2006
Discount rate	13.0%	12.0%
Long term rate of inflation	8.8%	8.5%
Expected return on plan assets	12.0%	12.0%
Future salary increases	9.5%	9.5%
Future pension increases	3.5%	3.5%
Medical cost trend rate	10.0%	10.0%

The average expected remaining service life of the employees is 19 years (2006 – 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	62	-	0.4	45	-	0.2
25	47	-	0.5	45	-	0.3
30	32	-	0.6	40	-	0.3
35	18	-	0.8	35	-	0.5
40	-	-	1.2	30	-	0.7
45	-	-	2.2	25	-	1.0
50	-	-	3.9	-	-	1.6
55	-	-	6.1	-	-	2.5

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15. Investment in Subsidiary

	2007	2006
	$'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

	2007	2006
	$'000	$'000
Merchandise	1,644,309	1,462,980
Provision for obsolescence	(56,090)	(65,986)
	1,588,219	1,396,994
Goods in transit	230,194	208,902
	1,818,413	1,605,896

17. Trade and Other Receivables

	2007	2006
	$'000	$'000
Trade	439,367	341,437
Provision for impairment	(75,006)	(55,174)
	364,361	286,263
Prepayments	55,969	52,788
Other	65,552	58,072
	485,882	397,123

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:

	2007	2006
	$'000	$'000
Due to Grace	(921)	(1,431)
Due to fellow subsidiaries	(12,401)	(11,930)
	(13,322)	(13,361)
Due from Grace	12,534	27,803
Due from fellow subsidiaries	8,229	21,787
	20,763	49,590

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

(b) The profit and loss includes the following transactions with related parties:

	2007 $'000	2006 $'000
Income:		
Rental charges -		
Fellow subsidiaries	194	203
Sales -		
Fellow subsidiaries	4,214	2,345
Parent company	384	54
Management fees -		
Fellow subsidiaries	7,362	17,941
Other operating income -		
Fellow subsidiary	7,362	18,144
Parent company	851	513
Expenses:		
Interest expense -		
Fellow subsidiaries	48,114	31,945
Key management compensation		
Salary and wages and other short term benefit	34,011	26,100
Post-employment benefits	319	245
Directors emoluments -		
Fees	2,030	279
Management remuneration (included above)	10,639	13,051
Other charges -		
Fellow subsidiary	72,118	59,462

19. Cash and Cash Equivalents

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

	2007 $'000	2006 $'000
Cash	274,257	215,152
Bank overdrafts	(83,692)	(181,176)
	190,565	33,976

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

	2007	2006
	$'000	$'000
Trade	858,847	715,860
Accruals	49,033	69,023
Other	41,134	41,331
	949,014	826,214

21. Provisions

		Warranties
		2007
		$'000
At 1 January 2007	-	1,540
Utilised during the year		(949)
At 31 December 2007		591

Prior to 1997, Rapid & Sheffied Company Limited (Note 1) 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.

22. Short Term Loans

		2007	2006
		$'000	$'000
Grace, Kennedy Trade Finance Limited	(a)	134,173	127,581
Citibank N. A.	(b)	346,870	194,997
First Global Financial Services Limited	(c)	140,000	80,000
First Global Bank Limited	(d)	-	11,164
Grace, Kennedy (St. Lucia) Limited	(e)	70,623	100,722
Republic Bank of Trinidad and Tobago	(f)	-	80,476
		691,666	594,940

(a) This represents a revolving loan denominated in United States dollars. The revolving facility has a maximum tenor of 120 days. At 31 December 2007, the interest rate was 9.0%.

(b) This represents a letter of credit denominated in United States dollars. At 31 December 2007 the interest rate was 7.9%.

22. Short Term Loans (Continued)

(c) This represents a commercial paper that was facilitated by First Global Financial Services Limited. The interest rate on this loan is 14.8% per annum for $80M and 15.2% for the remaining $60M and is secured by promissory notes from the company.

(d) This represented final installment for insurance premium financing. At 31 December 2006, the interest rate was 14.0%. The amount was repaid during the year.

(e) This loan is denominated in United States dollars and is evidenced by a promissory note. At 31 December 2007, the interest rate was 10.0%.

(f) This loan was denominated in United States dollars and was evidenced by a promissory note. The amount was repaid during the year.

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	Total
	000	000	$'000	$'000
At the beginning and end of the year	82,500	80,842	616,667	616,667

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

	2007	2006
	$'000	$'000
Revaluation reserve	88,24	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.

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25. Long Term Loans

		2007	2006
		$'000	$'000
The Bank of Nova Scotia Jamaica Limited	(a)	-	28,359
First Caribbean International Bank (Jamaica) Limited	(b)	24,757	30,127
National Commercial Bank	(c)	127,111	-
First Global Financial Services	(d)	30,000	-
		181,868	58,486
Current maturities		(18,191)	(13,917)
		163,677	44,569

(a) A comfort letter from Grace supports this loan. At 31 December 2006, the interest rate was 18.8% per annum. The loan was repaid during the year.

(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 2007, the interest rate was 8.0% per annum. The loan is repayable in 2008.

(c) This loan is denominated in United States dollars. At 31 December 2007, the interest rate was 8.0% per annum.

(d) This represents a commercial paper that was facilitated by First Global Financial Services Limited. The interest rate on this loan is 14.1% per annum.

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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:

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

All finance leases repaid during the year.

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:

	2007	2006
	$'000	$'000
Net liability at beginning of year	(18,585)	(14,594)
Charge to the profit and loss account (Note 10)	(2,312)	(3,991)
Net liability at end of year	(20,897)	(18,585)

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27. Deferred Income Taxes (Continued)

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

	2007	2006
	$'000	$'000
Deferred income tax assets:		
Interest payable	8,138	4,121
Accrued vacation	3,648	5,685
Unrealised foreign exchange losses	5,386	367
Retirement benefit obligations	64,055	53,431
	81,227	63,604
Deferred income tax liabilities:		
Interest receivable	-	(277)
Unrealised foreign exchange gains on deposits	(2,888)	-
Property, plant and equipment	(30,994)	(21,776)
Retirement benefit asset	(68,242)	(60,136)
	(102,124)	(82,189)
Net liability	(20,897)	(18,585)

Deferred tax assets to be recovered after more than one year	64,055	53,431
Deferred tax liabilities to be settled after more that one year	(99,236)	(81,912)

28. Operating Lease Commitments

At 31 December 2007, the company had lease commitments in respect of certain properties. Minimum lease payment for 2007 was $105,810,000. These leases expire in 2013.

29. Fair Value of Financial Instruments

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

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.