HARDWARE & LUMBER
Annual Report

07

Vision & Mission

Our Vision

We will maximize 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 that depends on us having great people with the right skills, necessary tools and shared vision.

Our Mission

To improve people's lives by providing agricultural, building and lifestyle solutions.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the eightieth Annual General Meeting of Hardware & Lumber Limited will be held at the Registered Office, 697 Spanish Town Road, Kingston on Monday, June 16, 2008 at 10.30a.m. for the following purposes:

1. To receive and consider the Directors' Report and Financial Statements for the year ended December 31, 2007, and the Report of the Auditors thereon.

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

   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. Dividend

   To declare the interim dividend of 32 cents paid during the year, as final dividend for the year ended 31 December 2007.

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

   "That the interim dividend of 32 cents paid 28 December 2007, be declared as final dividend for the year ended 31 December 2007".

3. To elect Directors and fix their remuneration.

   i. Pursuant to Article 100 of the Articles of Association Messrs. Paul Hanworth and Joseph Taffe having been appointed to the Board since the last Annual General Meeting will retire from Office and, being eligible offer themselves for re-election.

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

   Resolution 3 (a)
   "That retiring Director Mr. Paul Hanworth be and is hereby elected a Director of the Company."

   Resolution 3 (b)
   "That retiring Director Mr. Joseph Taffe be and is hereby 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. A Anthony Holness, Rodney St A Davis and Gordon K G Sharp and being eligible, offer themselves for re-election

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

   Resolution 3 (c)
   "That retiring Director Mr. A Anthony Holness be and is hereby re-elected a Director of the Company."

   Resolution 3 (d)
   "That retiring Director Mr. Rodney St A Davis be and is hereby re-elected a Director of the Company."

Resolution 3 (e)
"That retiring Director Mr. Gordon K G Sharp be and is hereby re-elected a Director of the Company."

4. To confirm the remuneration of the Non Executive Directors.

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

Resolution 4 (a)
"THAT the Directors be and are hereby empowered to fix the remuneration of the non executive Directors."

Resolution 4 (b)
"THAT the amount shown in the accounts for the year ended December 31, 2007 for Directors' fees be and is hereby approved.

5. 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 5
"THAT the Directors be authorized to fix the remuneration of the Auditors, PricewaterhouseCoopers, who have signified their willingness to continue in office."

6. Amendment to the Articles of Association and the adoption of the New Articles of Incorporation.

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

(a) "RESOLVED THAT the Memorandum of Association of the Company be and is hereby deleted in its entirety".

(b) "RESOLVED THAT the Articles of Association of the company be and are hereby adopted in their entirety as the Articles of Incorporation of the Company, save that the said adopted Articles of Incorporation be and are hereby altered and added to in the manner as appears in the APPENDIX HEREIN, which is signed by the Secretary for the purposes of identification and is deemed to be incorporated in and to form part of this Notice."

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

By Order of the Board

Gene M. Douglas
Secretary

Kingston, Jamaica
8 April, 2008

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.

The following are the alterations and additions referred to in Resolution 6 of the Notice of Annual General Meeting and deemed to be incorporated in the said Notice:

1. Interpretation:

(a) That the meaning of the words "the Act" be altered and read:

"means the Companies Act 2004 and any statutory modification thereof in force from time to time, and shall include every other statute hereafter repealing and replacing same (and in case of such repeal and replacement the references in these Articles to the provisions of the Act shall be read as references to the equivalent provisions in the new statute)."

(b) That the following be added after the definition for "the Act":

"these Articles" means these Articles of Incorporation as originally framed or as from time to time altered by special resolution."

"the Company" means Hardware & Lumber Limited.

"the Board" means the Board of Directors of the Company for the time being in forum.

"Director" unless otherwise stated and as the context admits or requires means a director of the Company.

"the Chairman" means the Chairman of the Board, being such persons appointed in accordance with these Articles.

"member" unless otherwise stated and as the context admits or requires means a member of the Company.

"paid up" means credited as paid up.

"bankrupt" shall include a person becoming bankrupt or entering into or making any composition or arrangement statutory or otherwise with or without assignment of all his property for the benefit of his creditors generally, and "bankruptcy" shall have a corresponding meaning.

"the Rules of any Stock Exchange" means the rules of the Jamaica Stock Exchange and any other recognized stock exchange on which the Company's shares are listed.

(c) That the meaning of the word "Secretary" be altered and read:

"means any person appointed by the Directors to perform the duties of the Secretary of the Company and includes any assistant or deputy secretary and any person appointed to perform the duties or any particular duty of Secretary temporarily."

(d) That the following paragraph be altered and read:

"Share" and "shareholder" include "stock" and "stockholder".

(e) That the following paragraphs be altered and underlined to read:

"Words importing the masculine gender include the feminine gender and vice versa."

"Words importing individuals include corporations and vice versa."

2. Table A not to apply

That the existing Article 2 be deleted in its entirety and replaced by the following new Article 2 with the sub-title "HEADINGS":

"The headings are inserted for convenience only and shall not affect the construction of these Articles."

3. Existing Capital

That the existing Article 3 be deleted in its entirety.

4. Share Capital and Variation of Rights

(a) That the existing Article numbered 4 be renumbered 3 and be altered by deleting the references "and either at a premium or at par" and "either at par or at a premium".

(b) That the following new Article be inserted as Article 5 with sub-title "POWER TO ISSUE SHARES":

"5. Subject to the provisions of sections 56 and 57 of the Act and to the Rules of any Stock Exchange, the Company may issue shares which by the terms of their issue will be redeemed, or at the option of the Company, may be redeemed provided that where by such terms power is reserved to purchase for redemption any such share:

(a) Purchases not made through any stock exchange or by tender shall be limited to a maximum price;

(b) If purchases are by tender, tenders shall be available to all shareholders alike."

(c) That the following new Article be inserted as Article 6 with sub-title "PURCHASE OR ACQUISITION OF SHARES:

"6. Subject to the provisions of section 58 of the Act and to the Rules of any Stock Exchange, the Company may purchase or otherwise acquire shares issued by it in such manner and on such terms as the Company may from time to time determine."

(d) That the following new Article be inserted as Article 7 with sub-title "ACQUISITION OF OWN SHARES":

"7. Subject to the provisions of section 59 of the Act and to the Rules of any Stock Exchange, the Company may acquire its own shares of any class:

(1) to settle or compromise a debt or claim asserted by or against the Company;

(2) eliminate fractional shares;

(3) fulfill the terms of an non-assignable agreement under which the Company has an option or is obligated to purchase shares owned by an officer or an employee of the Company."

(e) That the existing Article numbered 6 be renumbered 8 and be altered and underlined to read as follows:

"8. Subject to the provisions of <u>section 62</u> of the Act <u>and the Rules of any Stock Exchange</u>, any preference shares may, with the sanction of an ordinary resolution, be issued on the terms that they are, or at the option of the Company are liable, to be redeemed on such terms and in such manner as the Company before the issue of the shares may by special resolution determine." <u>Provided that where by such terms, power is reserved to purchase for redemption any such share:</u>

(a) <u>Purchases not made through any stock exchange or by tender shall be limited to a maximum price;</u>

(b) <u>If purchases are by tender, tenders shall be available to all shareholders alike.</u>

(f) That the following new Article be inserted as Article 9 with sub-title "PURCHASE OF SHARES OUT OF PROFITS":

"9. Subject to the provisions of section 70 of the Act, the Company may purchase its own shares out of profits available for distribution or out of a fresh issue of shares in exercise of the Company's rights and obligations under the Employee Share Ownership Plan Act or an employee share ownership plan approved thereunder."

(g) That the existing Article numbered 7(a) be renumbered 10 and be altered by deleting the reference "7(a)" and replacing it with the reference "10" and by deleting the reference "(b)" in its entirety.

(h) That the existing Article numbered 11 be renumbered 14(a) and be followed by new Articles 14(b), (c), (d) and (e) as follows:

"14(b) The Directors may in their absolute discretion, serve a notice in writing on a member requiring him to make a voluntary statutory declaration within fourteen days of receipt of the notice as regards the following:

(i) Whether he beneficially holds all the shares in the capital of the Company entered in the register of members in his name;

(ii) Whether, in case the member does not beneficially own all or some of the shares, the identity of the person who holds the beneficial interest in the said shares;

(iii) Where his interest is a past interest to give (so far as lies within his knowledge) particulars of the identity of the person who held that interest immediately upon his ceasing to hold it;

(iv) Whether the member is an affiliate or associate of any member or beneficial owner of the shares in the capital of the Company; and

(v) Such other information or other facts that may be relevant.

(c) The Directors may also by such notice require any person seeking to have a share issued or a transfer of a share registered in his name to make a declaration as regards the matters mentioned in Article 14(b).

(d) Where a member or a person mentioned in Article 14(b) and 14(c) fails to make a declaration as required, until the requirements of the notice shall have been complied with to the satisfaction of the Directors:

(i) No voting rights shall be exercisable in respect of the relevant shares; and

(ii) The Directors may withhold payment of any dividend or other monies payable in respect of the relevant shares.

(e) The Directors shall cause to be entered against the name of the registered holder of the shares the following:
(i) The fact that a notice was served on a member or a person pursuant to Article 14(b) or 14(c) and the date on which the notice was served;

(ii) Any information provided pursuant to the notice and the date provided; and

(iii) Any other relevant information."

(i) That the existing Article numbered 12 be renumbered 15 and be altered and underlined to read as follows:
"15. Every person whose name is entered as a member in the Register shall be entitled without payment to receive within two months after allotment or lodgement of transfer (or within such other period as the conditions of issue shall provide) one certificates for all his shares registered in his name or several certificates each for one or more of his shares being registered in his name, to a separate certificate for each class of shares so registered upon payment of such reasonable sum, but subject always to the Rules of any Stock Exchange, for every certificate after the first or such less sum as the Directors shall from time to time determine. Every certificate shall be under the Seal and shall specify the shares to which it relates and the amount paid thereon provided that in respect of a share or shares held jointly by several persons the Company shall not be bound to issue more that one certificate, and delivery of a certificate for a share to one of several joint holders shall be sufficient delivery to all such holders."

(j) That the existing Article numbered 13 be renumbered 16 and be altered and underlined to read as follows:
"16. If a share certificate be defaced, lost or destroyed, it may be renewed on payment of a reasonable sum as the Rules of any Stock Exchange may determine, and the person requiring the new certificate shall surrender the defaced or worn-out certificate on such terms (if any) as to evidence and indemnity and the payment of out-of-pocket expenses of the Company of investigating evidence as the Directors think fit."

(k) That the existing Article numbered 14 renumbered 17 be deleted in its entirety and replaced to read as follows:
"17. Subject to the restrictions imposed on the Company by the provisions of the Act, the Company or any company with which it is affiliated may directly or indirectly give financial assistance by means of a loan, guarantee or otherwise:

a. to a shareholder, director, officer or employee of the Company or affiliated Company, or to an associate of any person for any purpose; or
b. to any person for the purpose of, or in connection with a purchase of a share issued or to be issued by the Company or a company with which it is affiliated."

5. Calls on Shares:

(a) That the existing Article numbered 19 be renumbered 22 and be altered by deleting the words "(whether on account of the nominal value of the shares or by way of premium)" and "nominal".

(b) That the existing Article numbered 23 be renumbered 26 and be altered by deleting the words "whether on account of the nominal value of the share or by way of premium,".

6. Transmission of Shares:

That the existing Article numbered 33 be renumbered 36 and be altered by deleting the reference "28" and replacing it with the reference "31".

7. Forfeiture of Shares:

That the existing Article numbered 42 be renumbered 45 and be altered by deleting the words "whether on account of the nominal value of the shares or by way of premium,".

8. Conversion of Shares into Stock:

(a) That the existing Article numbered 43 be renumbered 46 and be altered as underlined so as to read:
"46. The Company may by ordinary resolution convert and any paid-up shares into stock, and reconvert any stock into paid-up shares of any denomination. The rights conferred by this article may at any time be exercised by the Directors for and on behalf of the Company."

(b) That the existing Article numbered 44 be renumbered 47 and be altered by deleting the reference "nominal amount" and replacing it with the reference "price".

9. Alteration of Capital:

(a) That the existing Article numbered 47 be renumbered 50 and be altered as underlined so as to read:

"50. The Company may from time to time by ordinary resolution increase the share capital of the Company by such sum, to be divided into shares of such amount, as the resolution shall prescribe or may increase the number of shares which it is authorized to issue as the resolution shall prescribe."

(b) That the following new Article be inserted as Article 51 with sub-title "EXTENT OF RANKING OF NEW SHARES":

"51. Except so far as otherwise provided by the conditions of issue or by these Articles, any capital raised by the creation of new shares shall be considered part of the original capital, and shall be subject to the provisions herein contained with reference to the payment of calls and instalments, transfer and transmission, forfeiture, lien, surrender, and otherwise. Unless otherwise provided in accordance with these Articles the new shares shall be ordinary shares."

(c) That the existing Article numbered 48(b) be renumbered 52(b) and be altered by deleting the words "the Memorandum of Association" and replacing them with the words "these Articles".

10. General Meetings:

That the existing Article numbered 50 be renumbered 54 and be altered as underlined so as to read:

"54. The Company shall in each year hold an ordinary general meeting as its annual general meeting in addition to any other meetings in that year and shall specify the meeting as such in the notices calling it, and not more than fifteen months shall elapse between the date of one annual general meeting of the Company and that of the next. The annual general meeting shall be held at such time and place as the Directors shall appoint. All general meetings other than annual general meetings shall be called extraordinary general meetings."

11. Proceedings at General Meetings:

That the existing Article numbered 63 be renumbered 67 and be altered as underlined so as to read:

"67. Except as provided in Article 69 if a poll is duly directed or demanded it shall be taken at such time and in such manner as the Chairman directs, and the result of the poll shall be deemed to be the resolution of the meeting at which the poll was directed or demanded."

12. Votes of Members:

(a) That the existing Article numbered 74 be renumbered 78 and be altered by deleting the references "Ltd" and "19" and replacing them with the references "Limited" and "20" respectively.

(b) That the existing Article numbered 75 be renumbered 79 and be altered by deleting the references "Ltd" and "19" and replacing them with the references "Limited" and "20" respectively.

13. Directors:

That the existing Article numbered 79 be renumbered 83 and be altered and underlined to read:

"83. The number of Directors shall be determined by the Company in general meeting from time to time and until so determined shall be not less than one nor more than ten, unless some maximum is otherwise determined by the Company in general meeting in the event that the number of Directors is determined as one, or only one Director is appointed, any provision in these Articles relating to a quorum of Directors shall be inapplicable and that Director shall have all the rights and be entitled to exercise all the powers of Directors contained in these Articles."

14. Borrowing Powers:

That the existing Article numbered 83 be renumbered 87 and be altered and underlined to read:

"87. The Directors may exercise all the powers of the Company to borrow, for the purposes of the Company, money, and to mortgage or charge its undertaking, property and uncalled capital, or any part thereof, and to issue debentures, debenture stock, and other securities whether outright or as security for any debt, liability or obligation of the Company or of any third party (including its holding company)."

15. Powers and Duties of Directors:

(a) That the existing Article numbered 88 be renumbered 92 and be altered by deleting the reference "in the manner prescribed in Article 119".

(b) That the existing Article numbered 91(1) be renumbered 95(1) and be altered as underlined so as to read:

"95(1). A director or officer who is, in any way, whether directly or indirectly, interested in a contract or proposed contract with the company shall declare the nature and extent of his interest at a meeting of the directors or as soon as possible thereafter in accordance with section 193 of the Act and a record shall be kept of such interest at the registered office of the Company."

(c) Further, as regards the existing Article numbered 91(7) be renumbered 95(7) and be altered by inserting the reference "Subject to the approval of the Directors, any" before "Director" in the first line.

(d) That the existing Article numbered 93 be renumbered 97 and be altered by deleting the reference "and" at the end of the existing sub-Article numbered 93(b) renumbered 97(b) and that two new sub-Articles numbered 97(d) and 97(e) be added to read as follows after sub-Article 97(c):
"97(d). All contracts and proposed contracts disclosed by a Director or officer pursuant to section 193 of the Act;"

"97(e). All the interest disclosed by Directors pursuant to section 196 and the Fourteenth Schedule of the Act;"

16. Appointment and Removal of Directors:

(a) That the existing Article numbered 98 be renumbered 102 and be altered by deleting the reference "99" and replacing it with the reference "103".

(b) That the existing Article numbered 100 be renumbered 105 and be altered by deleting the reference "regulations" and replacing it with the reference "Articles".

(c) That the existing Article numbered 101 be renumbered 106 and be altered by deleting the reference "129(4)" and replacing it with the reference "130(4)".

(d) That the existing Article numbered 102 be renumbered 107 and be altered by deleting the references "100" and "99" and replacing it with the references "105" and "104" respectively.

(e) That the existing Article numbered 103 be renumbered 108 and be altered by deleting the reference " telegram or cable" and inserting the reference "facsimile transmission or any other electronic means".

17. Proceedings of Directors:

(a) That the following new Article numbered 109(1), (2) (3) and (4) be inserted with sub-title "PARTICIPATION":

"109(1). A Director may if all the Directors of the Company consent, participate in a meeting of Directors of the Company or of a committee of the Directors for the purpose of the dispatch of its business by means of such telephone or other electronic communication facilities as permit all persons participating in the meeting to hear and/or see each other.

(2) A Director who participates in a meeting of Directors by such means as are described above is for the purpose of these Articles and under the Act deemed present at the meeting and shall be counted to constitute a quorum.

(3) For the purpose of this Article, the laws of Jamaica shall apply to a meeting of Directors of the Company and the meeting whatsoever held is deemed to take place in Jamaica.

(4) Such electronic meetings as are regulated by this Article shall be otherwise regulated by Articles 110 to 118, inclusive.

(b) That the existing Article numbered 104 be renumbered 110 and be altered by deleting the reference "cable or telegram" and inserting the reference "facsimile transmission or any other electronic means" in its place.

(c) That the existing Article numbered 106 be renumbered 112 and be altered by deleting the reference "the regulations of the Company" and replacing it with the reference "these Articles".

18. Secretary:

That the existing Article numbered 116 be renumbered 122 and be altered as underlined to read as follows:
"122. The Secretary shall be appointed by the Directors for such term, at such remuneration and upon such conditions as they think fit, to perform the duties of the Secretary of the Company and if the office is vacant or if there is no secretary, to appoint an assistant or deputy secretary so capable of acting, and any secretary so appointed may be removed by them."

19. Dividends and Reserve:

(a) That the existing Article numbered 121 be renumbered 127 and be altered by inserting the reference "Subject to section 158 of the Act, the" before the reference "Directors" in the first line.

(b) That the a new Article numbered 136 with sub-title "FORFEITURE" be inserted as follows:

"136. All dividends unclaimed for twelve years after the date of declaration of the dividend may be forfeited and retained by the Company and may be invested or otherwise made use of by the Directors for the benefit of the Company."

20. Accounts:

That the existing Article numbered 133 be renumbered 140 and that the reference "in accordance to sections 145 and 147" be inserted after the reference "year" and before the reference "cause" in the first line of the said article.

21. Capitalisation of Profits:

That the existing Article numbered 135 be renumbered 142 and that the reference "share premium account and a" be deleted in its entirety from the said article.

22. Notices:

That the existing Article numbered 141 be renumbered 148 and be altered by deleting the reference "telegram or cable" and replacing it with the reference "facsimile transmission or any other electronic means".

23. Indemnity:

(a) That the existing Article numbered 147 be deleted in its entirety and be replaced by the following new Article numbered 154 with sub-title "INDEMNITY":

"154. Subject to the provisions of the Act but without prejudice to any indemnity which a Director may otherwise be entitled the Company shall indemnify every Director and other officer or servant of the Company against all losses, costs and expenses (including traveling expenses) in any way incurred by him in the proper discharge of his duties, and the Directors shall pay or retain the same out of the funds of the Company. If any Director or other officer of the Company is guilty of actual fraud or dishonesty whereby the Company incurs any loss or damage, such Director or other officer shall be liable to recoup the same to the Company. Except as aforesaid, no officer of the Company shall be liable to the Company for any loss, damage, costs or expenses that may happen to or be incurred by the Company in consequence of any act, omission or default by such officer while purporting to act as such."

(b) That a new Article numbered 155 with sub-title "INSURANCE" be inserted and read as follows:

"155. Without prejudice to the provisions of these Articles and the Act, the Board may procure the Company to purchase, establish and maintain and/or participate in or contribute to the cost of insurance for or for the benefit of any person who are or were at any time Directors, officers or employees of the Company, including insurance against any liability incurred by such persons in relation howsoever to any act or omission the actual or purported execution and/or discharge of the duties of any such person and/or in the exercise or purported exercise of the powers of any such person and/or otherwise in relation to the Company or such other Company as aforesaid or to such pension fund and to the extent by law to indemnify or to exempt any such person from or against any such liability."

(c) That a new Article numbered 156 with sub-title "PERSONS TO BE INDEMNIFIED" be inserted and read as follows:

"156. Subject to section 201 of the Act, the Company may indemnify: -

(a) A Director or officer of the Company or any persons employed by the Company as an auditor;

(b) A former Director, officer or auditor of the Company; or

(c) A person who acts or acted at the Company's request as a Director or officer of a body corporate of which the Company is or was a shareholder or creditor and his legal representative, against all costs, charges and expenses (including an amount paid to settle an action or satisfy a judgment) reasonably incurred by him in respect of any civil, criminal or administrative action or proceeding to which he is made a party by reason of being, or having been a Director or officer of the Company or any person employed by the Company as an auditor PROVIDED THAT the Director or officer to be so indemnified:-

(i) acted honestly and in good faith with a view to the best interests of the Company; and

(ii) in the case of a criminal or administrative or proceeding that is enforced by a monetary penalty had reasonable grounds for believing that this conduct was lawful."

24. That the Articles of the Adopted Articles of Incorporation be numbered consecutively from Article 1 to 156 taking into account the above several alterations and additions.

Gene M. Douglas
Company Secretary
8 April 2008

Rationale for Adopting Articles of Incorporation

1. The Articles of Incorporation (the Articles) is a single document which replaces the Memorandum and Articles of Association. By adopting Articles of Incorporation, the Memorandum of Association, which provided detailed objects and powers of the Company, becomes obsolete, in so far that, under the Companies Act 2004 (the Act), a company has the powers of an individual.

2. The Act provides the Company with the ability to purchase or buy back its own shares. However, this cannot be done unless permitted by the Articles. The Company, by virtue of the adoption of the Articles, now has the ability to purchase or buy back its own shares. The practical benefit of a buy back power is that it gives directors a measure of control over the market price of the shares and the shares bought back may be retained by the Company as treasury stock.

3. The Act provides the Company with the ability to issue redeemable shares. However, this cannot be done unless permitted by the Articles. The Company, by virtue of the adoption of the Articles, now has the ability to issue redeemable shares. The advantage of the Company being able to issue redeemable shares is to access capital from persons who are prepared to make an investment on the basis that the capital invested may be returned to them and is not treated as pure equity. Additionally, the Company continues to enjoy the ability to issue redeemable preference shares.

4. The Act introduced and provided for the creation of shares without a nominal or par value on a transitional basis. By operation of law, shares that the Company held became no par value as of August 1, 2006. Consequently, it became necessary to amend the Company's Articles of Association by deleting all references to shares having a nominal or par value and replacing it with references to the value of the shares.

5. To incorporate and provide for new fees in the Articles and to delete and replace all references to stated fees in the Articles of Association which needed amendment.

6. To delete all references to sections of the Companies Act 1967 in the Articles of Association which are inconsistent with sections in the Act. Usually, this would not be necessary as the interpretation section of the Articles of Association would provide for such changes. However, the existing Articles of Association did not state that in the event there is a replacement legislation, then references in the Articles of Association to provisions in the Companies Act 1967 must be read as references to the equivalent provisions in the new statute.

7. The Act provides for additional powers of the Company, such as, the ability of the Company to purchase and maintain insurance of directors and officers against any liability incurred by them in their respective capacity and secondly, the ability of the Company to indemnify directors and officers against costs incurred by them in respect of an action brought against either of them. By inserting these additional powers in the Articles of Incorporation, and notwithstanding that these provisions are by operation of law, shareholders have the benefit of ease of reference by virtue of these provisions being contained in the Articles of Incorporation and therefore, in these particular cases, do not have to refer to the Act.

8. To incorporate articles which enable Directors to determine the identity of true owners of shares and to impose sanctions for their failure to disclose their identity and ownership. These articles are added because there are strong concerns that money launderers can gain access to significant holdings in the Company without anyone being aware of this, thus hiding behind trusts and other instruments to camouflage their interests.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S REPORT

Douglas Orane | Chairman

The Directors are pleased to report an improvement in the Company's financial results for the year ended 31st December 2007. Revenues for the period were $ 6,648 Million, an increase of $ 1,052 Million or 19% compared to 2006. The net profit attributable to stockholders increased by $96 Million, moving from $37.7 Million to $ 133.5 Million. Earnings per share for the year were $1.65 compared to $0.47 for 2006.

Dividends paid to stockholders during the year were $25.8 million or 19% of profits attributable to stockholders in 2007.

The Company experienced strong growth in revenues and profit from the Retail, Wholesale and Agricultural divisions. All three divisions of the company displayed a strong focus on improving customer service, product availability and market presence during the year. The rebound of the construction sector along with the alleviation of the crisis with the supply of cement, which impacted the financial results for years 2005 and 2006, contributed to the significantly improved performance for the year.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S REPORT

The Management team was also strengthened during the year with placements in support of key functional areas of the business.

The Management Information System implemented in 2006 did not perform to expectations and a new system was identified and implemented in the first quarter of 2008. The new system is expected to enhance internal efficiencies, particularly in the area of supply chain management.

The Rapid True Value-St. Ann's Bay branch (formerly known as Colour Choice) was closed in March 2007. It was determined that the unit was no longer viable given its size, offerings, changing market conditions and the establishment of the new 33,000 square feet store in Ocho Rios.

We have significantly increased our investment in staff training and development in order to ensure the delivery of excellent customer service to our customers.

RAPID TRUE VALUE

Rapid True Value had brisk activity during the year with revenue growth of 13% over prior year and same-store sales increase of 15%.

Both Home Centre and Hardware store formats produced encouraging results. The Home Centres continue to appeal to both professionals and consumers with their mix of building materials and home improvement offerings. Investments in Kitchen & Bath displays along with the successful launch of the exclusive Ralph Lauren line of paints were two major initiatives implemented in these stores.

A new advertising campaign focused on communicating our Range, Service and Quality attributes, supported our drive to encourage consumers to undertake home improvement projects. The relaunch of our, do-it-yourself series of in store consumer product demonstrations was also geared at increasing our traffic flows and brand loyalty.

The Hardware format demonstrated strong recovery from the negative impact of the cement crisis, with same store sales growth of 20%.

The Retail division had brisk activity during the year with revenue growth of 13% over prior year and same-store sales increase of 15%.

A. Anthony Holness | Chief Executive Ofice

Both product availability and demand showed significant improvement.

Investments geared at improving the consumer experience along with the strengthening of Divisional support services, are areas of focus for 2008.

WHOLESALE AND PROJECTS DIVISION

The Wholesale and Special Projects Division experienced remarkable growth for the year 2007 with a sales increase in excess of fifty percent. This level of growth is directly related to a significant improvement in the level of service offered to the market.

During the aftermath of hurricane Dean we were able to partner with our customers in providing recovery solutions . Our strong distribution network, purchasing capabilities, integrity and an experienced sales team afforded the relevant support to the market.

The emphasis for 2008 will be on improving our supply chain capabilities in order to meet and surpass our customers expectations.

AGRO GRACE DIVISION

The Agricultural Division had a good year, surpassing its revenue and profit targets. This performance was particularly credible given the effects and fallout occasioned by hurricane Dean.
All our branches performed creditably as sales in all product categories, including herbicides, insecticides, fungicides and vegetable seeds contributed to the improved revenue position.

Agro Grace continues to be the largest supplier of inputs to the agricultural sector and in particular the crop sector. We placed much emphasis on customer service in general and on the availability of our products through our dealers and our five branches. Our quarterly customer satisfaction survey by an independent source showed high marks for 2007.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S REPORT

We increased significantly our sale of orchid and rose plants to the ornamental sector as we seek to achieve growth in this area.

Another area of focus was the Pest Control Operators, line of products. A new termiticide, Imax Pro was introduced with much success. New machinery and equipment for this sector was also introduced.

Our work in the field continued with our farmers by way of introducing new products and technologies in order to assist in improving productivity.

GOVERNANCE AUDIT COMMITTEE

The Audit Committee is responsible for assisting the Board of Directors in the oversight of the:

i. Reliability and integrity of the accounting principles and practices, financial statements and other financial reporting;

i. Internal audit functions of the Company;

i. Risk management functions and processes of the Company;

iv) Qualifications, independence and performance of the external auditors of the Company;

v. System of internal controls and procedures established by Management and reviewing their effectiveness;

vi) Company's compliance with legal and regulatory requirements.

Composition:
The Committee is appointed by the Board from the Directors of the Company and shall comprise no more than 5 or less than 3 members all of whom shall be non-executive Directors who are financially literate and the majority of whom are identified by the Board as independent. At least one member of the Committee shall be an Audit Committee Financial Expert.

The current Audit Committee is comprised of four (4) members all of whom are Non-Executive Directors of the Company. Its members are Rodney Davis (Chairman), Paul Hanworth, Joseph Taffe and Stephen Facey.

During the year the Committee met six (6) times and reviewed quarterly and audited financial statements and recommended same for approval by the Board of Directors. It reviewed the internal control processes of the company focusing on inventory control, compliance, information systems and risk management, and approved the actions of management where appropriate. It also made recommendations through the Board to management for improvements to these functions where necessary.

MANAGEMENT AND STAFF

The Directors wish to express gratitude to all employees for their hard work and commitment during 2007. 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*

8 April 2008

FAST TRACK TO EFFICIENCY

New Information Technology System puts Hardware & Lumber on the Fast Track to Efficiency

In a move to increase efficiencies across all divisions, the Hardware & Lumber Group has deployed a new Information Technology System: S2K Enterprise. Developed by Vormittag Associates, an IBM Premier Business Partner based in Long Island, New York.

S2K Enterprise is an enterprise resource planning solution system which will increase efficiencies across the business, beginning with the procurement of goods, inventory control, distribution, financial management right to the final point of sale to the consumer.

The acquisition of software that can fully satisfy the needs of our business is critical. Previous systems have proven to be inadequate and inefficient. The fully integrated S2K Enterprise solution is expected to address the complex nature of the H&L business model, which involves retail as well as wholesale operations along with a centralized distribution system.

With the successful implementation of S2K, we expect greater efficiencies in key areas of the business. Areas for expected improvement are inventory management, procurement and our distribution operations. Concurrent with the S2K implementation is a warehouse improvement project, which will see physical improvements and will complement the technological efficiencies to be gained through the new software. The end result will be an overall improvement in the customer experience.

S2K training in progress

LUXURY STYLE COMES TO RAPID TRUE VALUE

Rapid True Value, Jamaica's leading hardware and home store, is the exclusive distributors of the Ralph Lauren line of premium paints. Recognized as one of the highest quality paints available, this is the first time that Ralph Lauren paint will be sold in True Value stores outside of the US.

The portfolio of distinctive paints includes a full colour palette and an exciting range of finishes, including Regent Metallics, a luminous paint with a shimmering richness; Suede which evokes a supple textured finished; Candlelight, which has as subtle glow and nuance; and River Rock which captures the worn look of rocks.

"We are proud of our exclusive relationship with Ralph Lauren Paints. Our hallmark is to provide customers with the quality products. This is a great opportunity to reinforce our position as the leader in hardware and home goods. There is simply no other brand with the cachet and inspiration offered by Ralph Lauren Paints, because for this brand its not about just 'covering a wall' it's about creating a lifestyle," said Oscar Kerr, General Manager, Retail and Procurement of Hardware and Lumber Limited of which Rapid True Value is a division.

Ralph Lauren Paints are supported by a range design resources including look books, tools and instructional videos all offering homeowners and interior designers techniques on how to get the best possible results.

The paints are available at the Lane Plaza, Mandeville, Montego Bay, Ocho Rios and Portmore stores.

TEN YEAR FINANCIAL REVIEW

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

Years prior to 2002 are prepared under JGAPP

REPORT OF THE DIRECTORS

The Directors submit herewith their Annual Report and the Audited Financial Statements for the year ended December 31, 2007.

	$'000
The net profit before Tax	198,632
The charge for taxation was	(65,082)
Making the profit after taxation	133,550
Dividend Paid	(25,784)
To which is added the retained profits brought forward from the previous year of	392,485
Leaving retained earnings to be carried forward to the next year of	500,251

DIRECTORS

The Directors as at December 31, 2007 were as follows:

Messrs. Douglas R. Orane, A. Anthony Holness, Erwin M. Burton, Mr. Rodney St. A. Davis, Paul Hanworth, Stephen B. Facey, Gordon K. G. Sharp and Joseph Taffe.

Mr. Joseph Taffe was appointed to the Board of Directors effective 1st October 2007.

Mr. Paul Hanworth was appointed to the Board of Directors effective 3rd December 2007.

In accordance with Article 100 of the Company's Articles of Association, Mr. Joseph Taffe and Mr Paul Hanworth having been appointed to the Board since the last Annual General Meeting will retire from

Restated 2002	2003	Restated 2004	Restated 2005	2006	2007
1,628,081	2,639,811	5,518,947	5,332,857	5,597,276	6,648,066
48,892	44,583	156,045	20,268	37,718	133,550
313,507	605,531	707,412	1,065,782	1,103,500	1,211,266
172,901	297,552	369,295	625,223	686,629	839,635
$1.22	$0.95	$2.32	$0.26	$0.47	$1.65
$0.23	$0.11	$0.32	$ -	$ -	$0.32

REPORT OF THE DIRECTORS

office, and being eligible, offer themselves for re-election.

During the year Messrs. Donald G. Wehby and William G. Bryan Ewen resigned as Directors of the Company.

In accordance with Article 96 of the Company's Articles of Association, Messrs. A Anthony Holness, Rodney St. A. Davis and Gordon K. G. Sharp will retire by rotation and being eligible, offer themselves for re-election.

AUDITORS

Messrs. PricewaterhouseCoopers, have expressed their willingness to continue in office in accordance with Sections 154 and 155 of the Companies Act.

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 8th day of April 2008

Gene M. Douglas
Secretary

CORPORATE DATA
As at 23 January 2008

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. Auburn Davis, B.B.M., C.I.C.A., I.C.A.O.

Paul Hanworth, MA., M.Sc., A.C.A., C.P.A.,

Stephen B. Facey, M. Arch.

Gordon K. G. Sharp, B.Sc. (Eng.), M.B.A.

Joseph Taffe, BSc., F.C.A., F.C.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
Citiigroup, N.A.
FirstCaribbean International (Jamaica) Limited
National Commercial Bank Jamaica Limited
First Global Bank Limited

Auditors

PricewaterhouseCoopers

Attorneys-at-Law

DunnCox

CORPORATE DATA

As at 23 January 2008

INTEREST OF DIRECTORS AND SENIOR MANAGEMENT

As at 31 December 2007

Directors	PERSONAL SHAREHOLDINGS	STOCKHOLDINGS IN WHICH DIRECTOR/OFFICER HAS AN INTEREST
Douglas R. Orane	31,080	-
A. Anthony Holness	60,000	-
Erwin M. Burton	1,000	-
Rodney St. A. Davis	5,218	-
Stephen B. Facey	1,000	-
Paul Hanworth	Nil	-
Gordon K. G. Sharp	60,000	-
Joseph Taffe	20,000	-

Senior Management	PERSONAL SHAREHOLDINGS	STOCKHOLDINGS IN WHICH DIRECTOR/OFFICER HAS AN INTEREST
A. Anthony Holness	60,000	-
Jacqueline Johnson	Nil	-
Dave Myrie	Nil	-
Oscar P. Kerr	Nil	-
Garnett Malcolm	Nil	-
Glenford Clarke	Nil	-
Yvette Johnson	Nil	-
Christopher Bond	Nil	-
Kelly McIntosh	Nil	-
Olive Downer-Walsh	2,000	-
Codrick Farquharson	Nil	-

MAJOR SHAREHOLDERS

As at 31 December 2007

NAME	STOCKHOLDINGS
GraceKennedy Limited	47,013,417
Pan-Jamaican Investment Trust Ltd.	16,840,106
MF&G Trust & Finance Limited A/C #528	1,872,631
Mayberry (Principal Trading A/C)	1,022,833
National Insurance Fund	1,000,000
LOJ PIF Equity Fund	995,997
Mayberry Investments Limited A/C 09022	922,404
The Jamaica Development Bank	800,000
Guardian Life Limited	761,700
Alumina Partners of Jamaica Hourly Pension	505,840

EXECUTIVE TEAM

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

Jacqueline Leckie Johnson,
B.Sc.(Actg.), FCCA, CIA, CISA, M.Sc.MIS
Chief Financial Officer

Dave Myrie,
M.A. (Management), A.Sc.Ed., Dip Ed. Cert. Ed.
Prinicpal, GK Investments

Oscar P. Kerr Jnr.,
B.Sc.(Accounting)
General Manager, Retail

Garnet Malcom, B.Sc., (Agri.Sc.)
General Manager, Agro Grace

Glenford Clarke,
M.B.A., B.Sc. (Econ. & Mgmt.)
General Manager, Wholesale

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

Christopher Bond,
B.A. (Modern Languages)
Chief Human Resources Officer

Kelly McIntosh,
B.Sc., (Agronomy), M. Phil. (Botany)
Supply Chain Manager

PROFILE OF DIRECTORS

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 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).

Rodney St. A. Davis, B.B.M., C.I.C.A., I.C.A.O., is the President and Chief Executive Officer of the Cool Group of Companies, a privately-held conglomerate headquartered in Jamaica with operations throughout the Caribbean and North America. Mr. Davis has a strong track record of successful change management with extensive experience in strategic planning, turnarounds, corporate restructuring and mergers and acquisitions. Prior to heading Cool Mr. Davis was the Chief Executive Officer of Cable & Wireless Jamaica, a publicly-held company and the sole full-service telephony provider in Jamaica, with annual revenues of US$400 million. Prior to heading Cable & Wireless Jamaica, he was the Chief Financial Officer of Cable & Wireless Barbados.

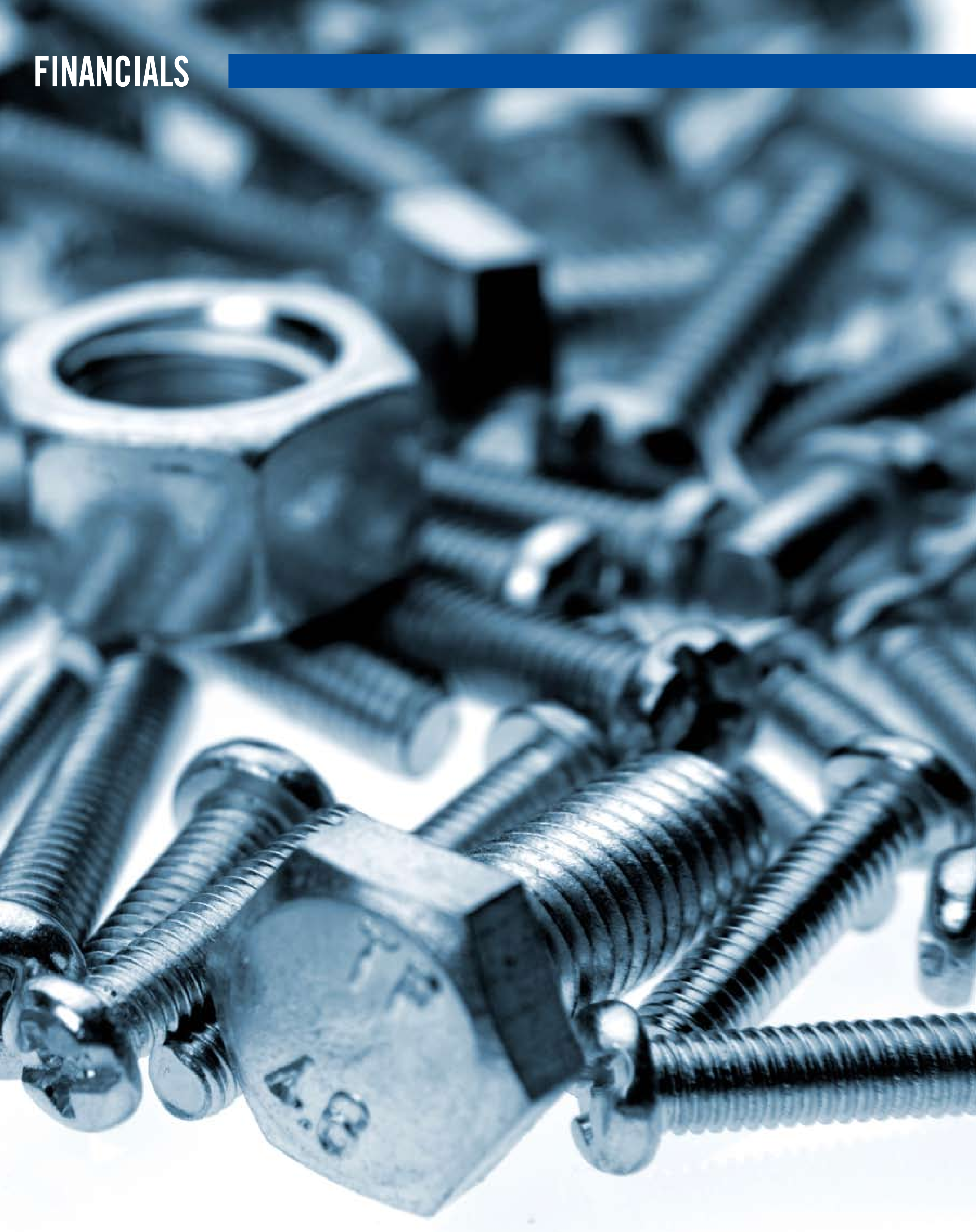
PROFILE OF DIRECTORS

Joseph Taffe, B.Sc., F.C.A., F.C.C.A., is acting CEO of GK Investments at GraceKennedy Co. Ltd. A Chartered Accountant, he has worked in senior management positions including Group Internal Audit Manager and Group Finance Manager. He serves as a director of several GraceKennedy subsidiaries and is also the President of Grace Co-operative Credit Union Limited. He holds a Bachelor of Science (Hons.) Degree in Management Studies from the University of the West Indies, is a chartered Accountant, a Fellow of the Institute of Chartered Accountants of Jamaica and the Association of Certified Chartered Accountants, UK.

Paul Hanworth, M.A., M.Sc., A.C.A., C.P.A., has been Chief Financial Officer for Pan-Jamaican Investment Trust Ltd. and First Jamaica Investments Ltd. since 2006. An accountant by training, Paul spent 14 years in the accounting profession with KPMG and 9 years in the wine and spirits industry with International Distillers and Vintners (now part of Diageo plc), in the United Kingdom, the USA and South Africa, before moving to Jamaica in 1998. He worked with Mechala Group (now ICD Group) as Chief Financial Officer and, from 2001, as Chief Operating Officer until 2004, at which time he established 1876 Wines, a leading importer and distributor of fine wines and Jamaica's principal wine club, with his wife Cynthia. Paul holds a Masters degree in Classics from Cambridge University, and is a member both of the Institute of Chartered Accountants in England and Wales and of the American Institute of Certified Public Accountants.

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.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PRICEWATERHOUSECOOPERS

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

Independent Auditors' Report

To the Members of
Hardware & Lumber Limited

We have audited the accompanying financial statements of Hardware & Lumber Limited set out on pages 26 to 71, which comprise the balance sheet as of 31 December 2007 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 2007, 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
27 March 2008
Kingston, Jam

PROFIT & 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

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

	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

STATEMENT OF CHANGES
IN STOCKHOLDERS' EQUITY

Year ended 31 December 2007
(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 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

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)

	2007 $'000	2006 $'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

(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.

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.

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.

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.

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	1,919,56

	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	-	1,691,21

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

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.

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)

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:						

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

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.

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)

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	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.

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.

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

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

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

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	-	2,077	35,733	9,269	6,220	1,087	-	54,386
Relieved on	-	-	(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

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)

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.

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

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.

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

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

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

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

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.

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.

26. Obligations under Finance Leases

The company entered into finance lease agreements for the purchase of motor vehides 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)

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.

I/We ____

of ____

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

Affix
$100
Stamp
Here

____

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 16 June 2008 at 10:30a.m. at 697 Spanish Town Road, Kingston 11.

SIGNED this _______________________ day of _______________________________ 2008

_______________________________________ Signature

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

Resolutions	**For**	**Against**
1		
2(a)		
2(b)		
2(c)		
2(d)		
2(e)		
3(a)		
3(b)		
4		
5		
6(a)		
6(b)		

N.B. the instrument appointing proxy must be produced at the meeting or adjourned meeting at which it is to be used, and in default not to be treated as valid.

Hardware & Lumber Ltd

RAPID True Value HARDWARE

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