Hardware & Lumber Ltd

AGROGRACE
Your Complete Farm & Garden Centre

RAPID True Value.
HARDWARE & HOME CENTRE

HARDWARE & LUMBER LIMITED

ANNUAL REPORT 2008

HARWARE & LUMBER LTD ANNUAL REPORT 2008

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"

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Hardware & Lumber Limited
Ten Year Financial Review

				Restated	Restated
	2008	**2007**	**2006**	**2005**	**2004**
Revenue - J$'000	6,788,162	6,648,066	5,597,276	5,332,857	5,518,947
(Loss)/Net Profit - J$'000	(259,956)	133,550	37,718	20,268	156,045
Stockholders' Equity - J$'000	1,119,168	1,211,266	1,103,500	1,065,782	707,412
Net Current Assets - J$'000	607,265	839,635	686,629	625,223	369,295
(Loss)/Earnings per Stock Unit	($3.21)	$1.65	$0.47	$0.26	$2.32
Dividend per Stock Unit	$0.00	$0.32	$0.00	$0.00	$0.32

		Restated	Restated	Restated	
	2003	**2002**	**2001**	**2000**	**1999**
Revenue - J$'000	2,639,811	1,628,081	1,502,411	1,365,206	1,216,599
Net Profit - J$'000	44,583	48,892	16,352	19,361	31,901
Stockholders' Equity - J$'000	605,531	313,507	273,615	369,593	370,172
Net Current Assets - J$'000	297,552	172,901	139,434	95,702	117,181
Earnings per Stock Unit	$0.95	$1.22	$0.41	$0.48	$0.80
Dividend per Stock Unit	$0.11	$0.23	$0.15	$0.22	$0.00

Notice of Annual General Meeting

Notice is hereby given that the eighty-first Annual General Meeting of Hardware & Lumber Limited will be held at the Registered Office, 697 Spanish Town Road, Kingston 11 on Monday June 15, 2009 at 10:30 a.m. for the following purposes:

1. To receive and consider the Directors' Report and Financial Statements for the year ended December 31, 2008, and the Report of the Auditors thereon.

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

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

2. To elect Directors and fix their remuneration

(i) The Directors retiring from office by rotation pursuant to Article 100 of the Articles of Incorporation are Messrs. Erwin M Burton, Stephen B Facey and Paul R Hanworth and being eligible, offer themselves for re-election.

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

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

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

Resolution 2 (c)
"THAT retiring Director Mr. Paul R Hanworth be and is hereby re-elected a Director of the Company."

ii) Pursuant to Article 105 of the Articles of Incorporation Mr. Courtney Campbell having been appointed to the Board since the last Annual General Meeting will retire from office and, being eligible offers himself for election.

Resolution 2 (d)
To consider and (if thought fit) pass the following Resolution:

"THAT retiring Director Courtney Campbell be and is hereby elected a Director of the Company"

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

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

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

Resolution 3 (b)
"THAT the amount shown in the accounts for the year ended December 31, 2008 for Directors' fees in the amount of $2,070,000 be and is hereby approved."

4. To appoint Auditors and authorize the Directors to fix the remuneration of the Auditors.

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

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

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

By Order of the Board

Gene M. Douglas
Secretary

Kingston, Jamaica
31st day of March 2009

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.

Chairman & Chief Executive Officer's Report

The financial results for the year ended 31st December 2008 showed revenues of $6,788 million, a marginal increase of $40 million or 2% compared to 2007. The net loss attributable to stockholders was $259.9 million as compared to net profit of $133.5 million recorded in 2007. The earnings per share for the year were ($3.21) compared to $1.65 for 2007.

The financial results were quite disappointing as the retail and wholesale divisions of the business suffered the effects of the general downturn in the economy and the decline in the construction industry which started in the third quarter of the year and continued through to year end. The agricultural division however held its strong market position and produced good results.

Results were also significantly impacted by the devaluation of the Jamaican dollar in the latter part of the year, an increase in interest rates and high inventory levels.

In anticipation of an extended period of difficult economic condition, management has commenced a process of restructuring the business driven by cost rationalization at all levels. During the last quarter of the year the Agro Grace operation in Ocho Rios was consolidated within the local Rapid True Value store to benefit from the synergies of a wider and more diversified product offering to the consumer. In addition, the Rapid True Value branch in Savannah-La-Mar was closed due to its continued marginal performance.

A. Anthony Holness
Chief Executive Officer

We implemented a staff rationalization programme in December 2008 which resulted in the separation of 88 of our employees and contract staff. We wish to advise that at the board meeting of the company held on March 2, 2009 Mr. Douglas Orane stepped down as Chairman and Director of the company. At the same meeting, Mr. Erwin Burton, a Director of the company since September 2003 was appointed the new Chairman and Mr. Courtney Campbell was appointed a director of the company.

The focus for 2009 will be the turnaround of the financial performance of the company. This will be achieved through the implementation of category management to drive revenues and to improve inventory management along with further cost rationalization and improvements in our internal efficiencies.

We continue to make significant investment in staff training and development in order to ensure the delivery of excellent customer service to our customers.

RAPID TRUE VALUE
Revenue generated by the Retail Division declined by 2% relative to the prior year against the background of a significant decline in construction and home improvement activity.

Revenue gains generated in the first and second quarters of 4% and 13% respectively, were eroded in the second half of the year as the economic challenges impacted traffic and ultimately, transaction counts throughout the chain.

Notwithstanding, the economic challenges, the business made significant investments in preparing associates to better serve customers through the introduction of mandatory Product Knowledge training, new Service Standards and the installation of Project Centre desks in selected stores.

A new roofing line was introduced to the market in August 2008. The AllMet line of stone-coated metal roofing panels is doing well and has complemented the current range of roofing materials.

Marketing initiatives undertaken during 2008 were focused around stimulating consumer interest in completing simple projects around the home and included features such as staining concrete driveways and adding a Deck to your home.

WHOLESALE AND PROJECTS DIVISION

The Wholesale and Special Projects Division showed a marginal decrease in revenues of 2% compared to 2007. The division which achieved remarkable growth in 2007 failed to significantly improve the performance in 2008 due primarily to the postponement of construction of major hotel projects.

The division added new product lines to its complement in order to diversify the range and improve on gross margins.

The reseller market continues to be very competitive with new market entrants and aggressive price points on commodity products.

AGRO GRACE DIVISION

The Agro Grace Division had an excellent year with revenues surpassing prior year by 20%. All product categories performed at a consistently high level throughout the year, however, overall sales were negatively impacted by high fertilizer prices and to a lesser extent, animal feeds. Hurricane Gustav also negatively impacted the business as it destroyed the banana industry and damaged greenhouse structures.

The vegetable sector continues to be the main contributor to revenues, particularly in the delivery of vegetable seeds.

We maintained a high level of activity in the field in terms of testing, demonstrations and development of new products and the training of various farming groups. Agro Grace continues to hold a very strong position in the market due to the product range, availability and excellent customer service.

MANAGEMENT AND STAFF

The Directors wish to express gratitude to all employees for their hard work and commitment during 2008. The Board also wishes to thank our customers, suppliers, and other stakeholders for their continued loyalty and support.

Erwin rton Bu
CHAIRMAN

A. Anthony Ines Ho
CHIEF XECUTIVE CEOFFI

31st March 2009

H&L Implements Category Management In 2009

THE CATEGORY TEAM
LEFT TO RIGHT
Veronica Hughes, Olive Downer-Walsh, Dawn Harrisingh, Donna Taylor-Wright, Daniel A. Chambers, Megan Walcott, Carol Jamieson, Stacyann Tinglin, Orrett Virgo
INSET
Sheryl Chin, Head Category Management & Marketing

Two of H&L's main objectives in 2009 are (1) to improve operational efficiency; and (2) to use team effort to meet customers' needs. In order to meet these objectives, H&L has started to implement a strategic approach known as Category Management. Category management is a tried and proven retailing concept which has been in use for many years across the world. Category management involves:

- **CREATING/IDENTIFYING CATEGORIES**
  Taking the total range of products carried by H&L and breaking them down into groups of related products

- **MANAGING/RUNNING EACH CATEGORY LIKE A BUSINESS**
  Set objectives for each category (turn over, profitability, growth) and develop and implement strategies to achieve the set objectives

- **USING CROSS FUNCTIONAL TEAMS TO DRIVE PERFORMANCE**

  Category Managers and Buyers, will work closely with:

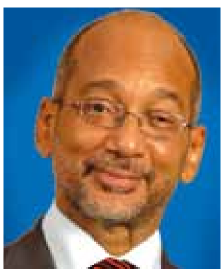
- Suppliers
- Supply Chain
- Retail & Merchandising
- Marketing

The concept of managing categories in "bite sized pieces" involves a greater mining of data to provide a deeper understanding of our business. This provides the basis for and analysis of areas that need improvement. Such improvement contributes to higher levels of operational efficiency. The people behind category management, who are referred to as the Category Team, measure results, with a view of improving performance. In implanting category strategies H&L will leverage the following tools to ensure success:

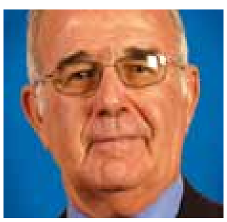
- Merchandising (shelf, display, Point of Sale)
- Assortment (right variety, SKU management)
- Pricing
- Promotion
- Inventory management to improve inventory turns and gross margin returns on inventory investments
- More effective retailer/vendor partnerships (Information sharing, involvement and partnership on all category initiatives)

H&L will manage its categories of products more effectively with the successful implementation of category management in 2009. With the category management initiative fully implemented, the company is expected to increase its profits on each dollar of revenue as a direct result of operational efficiency gains. In the long term, it should be easy for H&L to sustain the benefits of category management because the process allows for greater oversight at the core of our business.

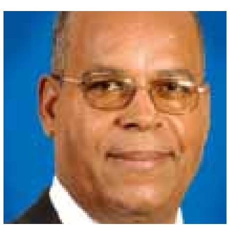
THE BOARD OF DIRECTORS
Hardware & Lumber Limited



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 trading company.

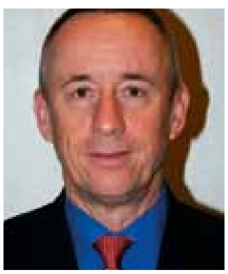


Erwin Burton, J.P., Mr. Erwin Burton is Deputy CEO, GraceKennedy Limited and CEO, GK Foods. He was appointed to the Board of GraceKennedy Ltd in 1995. He also serves on the boards of several GraceKennedy subsidiaries, including Grace Foods International Ltd., World Brands Services Ltd., National Processors 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).

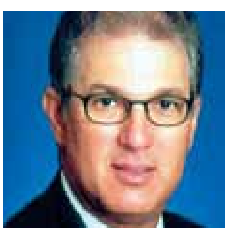
Rodney St. Auburn Davis, B.B.M., C.I.C.A., I.C.A.O., is the President and Chief Executive Officer of the Cool Group of Companies, a privately-held conglomerate headquartered in Jamaica with operations throughout the Caribbean and North America. Mr. Davis has a strong track record of successful change 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.

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.

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 Sagicor Life 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.

Courtney Campbell is an accomplished and dynamic banking executive with a strong track record in leading business growth and strategic management. Mr. Campbell joined the GraceKennedy Group in July 2008 as CEO of First Global Holdings Ltd. In February 2009, he was appointed CEO, GK Investments Ltd and to the Board of Directors of GraceKennedy Ltd. He also serves on the Boards of several GraceKennedy subsidiaries namely GK Financial Group Ltd, First Global Holdings Ltd., First Global Bank Ltd., First Global Financial Services Ltd., First Global Trinidad & Tobago Ltd and Hardware & Lumber Ltd. Prior to joining the GraceKennedy Group, he spent twenty three years with National Commercial Bank Jamaica. Ltd. where he had served in several management positions in Retail, Corporate and Investment Banking. Mr. Campbell graduated from the University of the West Indies in 1984 with a BSc in Management Studies. He has an MBA in Finance (Distinction) from the University of Wales /Manchester Business School and is also a member of the Chartered Institute of Bankers, London.

Corporate Data

As at 10 February 2009

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

Stephen B. Facey, M. Arch.

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

Joseph Taffe, BSc., FCA., FCCA

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

Registered Office
697 Spanish Town Road
Kingston 11, Jamaica

Registrar
PanCaribbeanBank 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

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

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

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

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

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

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

Andrew Wynter
Risk & Governance Manager
Hardware & Lumber Limited

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

Christopher Bond,
Group Human Resource Officer
Hardware & Lumber Limited

Interest of Directors and Senior Management

As at 31 December 2008

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	1,000	-
Gordon K. G. Sharp	60,000	-
Joseph Taffe	20,000	-
SENIOR MANAGEMENT		
A. Anthony Holness	60,000	-
Christopher Bond	Nil	-
Glenford Clarke	Nil	-
Codrick Farquharson	Nil	-
Yvette Johnson	Nil	-
Oscar P. Kerr	Nil	-
Stephen Lewis	Nil	-
Kelly McIntosh	Nil	-
Garnett Malcolm	Nil	-
Olive Downer-Walsh	2,000	-

Major Shareholders

As at 31 December 2008

	NAME	STOCKHOLDINGS
1	GraceKennedy Limited	47,013,417
2	Pan-Jamaican Investment Trust Ltd	16,840,106
3	Mayberry Investments Limited A/C 09022	3,084,135
4	Mayberry (Principal Trading A/C)	1,022,833
5	Trading A/C - National Insurance Fund	1,000,000
6	Sagicor Pooled Equity Fund	995,997
7	The Jamaica Development Bank	800,000
8	Guardian Life Limited	761,700
9	NCB Insurance Co. Ltd. A/C WT 105	600,000
10	P.A.M. Ltd - JPS Employees Superannuation Fund	593,406

Report of the Directors

1. The Directors submit herewith their Annual Report and the Audited Financial Statements for the year ended December 31, 2008.

	$'000
The net loss before Tax	(416,910)
The charge for taxation was	156,954
Making the loss after taxation	(259,956)
To which is added the retained profits brought forward from the previous year of	500,251
Leaving retained earnings to be carried forward to the next year of	240,295

2. Directors

The Directors as at December 31, 2008 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.

In accordance with Article 100 of the Company's Articles of Association, Messrs. Erwin M Burton, Stephen B Facey and Paul R Hanworth will retire by rotation and being eligible, offer themselves for re-election.

On March 2, 2009, Mr. Douglas Orane stepped down as Chairman and Director of the company. At the same time Mr. Courtney Campbell was appointed a director of the company. Pursuant to Article 105 of the Articles of Incorporation he will retire at this Annual General Meeting and being eligible offers himself for election.

3. Auditors

Messrs. PriceWaterhouseCoopers, have expressed their willingness to continue in office in accordance with Section 154 of the Companies Act.

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

By order of the Board
Dated this 31st day March 2009

Gene M. Douglas
Secretary

Audit Committee Terms of Reference

1. Mandate

The Audit Committee shall be 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;
ii) Internal audit functions of the Company and the Group;
iii) Risk management functions and processes of the Company and the Group;
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.

2. Composition:

The Committee shall be 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, that is, a person with the following attributes:

i) An understanding of financial statements and applicable accounting principles;
ii) The ability to assess the general application of such principles in connection with accounting for estimates, accruals and reserves;
iii) Experience in preparing, auditing, analyzing, or evaluating financial statements that present accounting issues of a breadth and level of complexity generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the company's financial statements, or experience actively supervising one or more persons engaged in such activities;
iv) An understanding of internal controls and procedures for financial reporting;
v) An understanding of Audit Committee functions.

3. Responsibilities

The duties of the Committee shall include the following:

(A) Financial Reporting

i) To review the audited annual financial statements and the quarterly financial results of the Company and recommend the same for adoption by the Board of Directors;
ii) To review the Company's operating, financial and accounting policies and practices;
iii) To review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and their impact on financial reports.

In discharging its duties for reviewing financial statements and reporting the Committee does not provide any expert or special assurance as to financial statements concerning compliance with laws, regulations or generally accepted accounting principles. It is the responsibility of the Company's management to prepare consolidated financial statements that are complete and accurate and in accordance with International Financial Reporting Standards (IFRS), and it is the responsibility of the external auditor to audit those financial statements. The Committee's responsibility in this regard is one of oversight and review.

(B) Internal Control

i) To review the Company's system of internal control (including financial, operational, compliance, information systems and risk management) and make recommendations to the Board;

ii) To meet with the Company's Auditors at least once in every year and more often as required to discuss the Annual Audited Financial Statements and other audits conducted of the company's operations and internal control weaknesses or other observations identified from the same and otherwise to carry out its mandate;

iii) To meet with the Chief Internal Auditor of the Company or other officer or employee acting in a similar capacity and with other members of management to discuss the effectiveness of the internal control procedures established;

iv) To meet with the Chief Risk Officer of the Company or other officer or employee acting in similar capacity and other members of management as appropriate to review the company's risk assessment and risk management policies and procedures and the major financial and other risks and exposures affecting the Company and to ensure the monitoring and control of such risks and exposures.

(C) External Audit

i) To make recommendations to the Board for the appointment, reappointment or termination of the appointment of the external auditors and to approve the remuneration and terms of engagement of the external auditors;

ii) To review with the external auditors the scope of their audit and to review and evaluate their performance;

iii) To review the external auditors' management letter and management's response;

iv) To review any significant findings made by the external auditors and managements' proposed response, and ensure that steps are taken to address these findings;

v) To consider the independence and objectivity of the external auditors and any potential conflicts of interest, and to monitor the effectiveness of the audit process;

vi) To review policies for the provision of non-audit services by the external auditor and, where applicable, the framework for the pre-approval of audit and non-audit services;

vii) To oversee the resolution of disagreements between management and the independent auditor regarding financial reporting.

viii) To report to the Board any matter, which it considers is need of improvement or review, and to make recommendations regarding steps to be taken.

(D) Internal Audit

i) To review the proposed internal audit plan for the coming year and ensure that it addresses key areas of risk and that there is appropriate co-ordination with the external auditor.

ii) Meet with the Internal Auditors to discuss any matters that the committee or internal auditors believe should be discussed;

iii) To ensure that significant findings and recommendations made by the internal auditors and management's proposed response are received, discussed and appropriately acted on;

iv) To ensure that the Internal Auditor has direct access to the Board Chairman and the Committee.

(E) Compliance

i) To obtain regular updates from the Internal Auditor regarding compliance matters that may have a material impact on the company's financial statements or compliance policies;
ii) To review Management reports of any regulatory examinations or audits and correspondence with regulators or government agencies which raise material issues regarding the company's financial statements, accounting policies and practices, risk management practices or compliance with laws and regulations affecting the businesses within the Company and to ensure that steps are taken to address all weaknesses detected;

(F) Other assigned functions
i) To undertake on behalf of the Chairman or the Board such other related tasks as the Chairman or the Board may from time to time entrust to it.
ii) To review the composition, powers, duties and responsibilities of other Audit Committees within the Group, where applicable; To review the effectiveness of the procedures in place under the Company's Whistle-blowing Policy.

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

During the year the Committee met 8 times and reviewed quarterly and audited financial statements on behalf of the Board of Directors. It reviewed the new information technology software which was implemented in March 2008, reviewed the internal control processes of the company focusing on inventory control, compliance and risk management and approved actions of the management where appropriate.

Auditor´s Report

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 1 to 49, which comprise the balance sheet as of 31 December 2008 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 controls 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 controls. 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.

PRICEWATERHOUSECOOPERS

To the Members of Hardware & Lumber Limited
Independent Auditors' Report
Page 2

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 2008, 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

30 March 2009
Kingston, Jamaica

HARDWARE & LUMBER LIMITED
Profit and Loss Account
Year ended 31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2008	2007
		$'000	$'000
Revenue		6,788,162	6,648,066
Cost of sales		(5,348,322)	(5,007,629)
Gross Profit		1,439,840	1,640,437
Other operating income	6	29,390	42,662
		1,469,230	1,683,099
Direct expenses		(1,053,688)	(908,744)
Administrative expenses		(641,564)	(487,294)
		(1,695,252)	(1,396,038)
(Loss)/Profit from Operations		(226,022)	287,061
Finance costs	9	(190,888)	(88,429)
(Loss)/Profit before Tax		(416,910)	198,632
Taxation	10	156,954	(65,082)
NET (LOSS)/PROFIT		(259,956)	133,550
(LOSS)/EARNINGS PER STOCK UNIT	11	($3.21)	$1.65

HARDWARE & LUMBER LIMITED
Balance Sheet
31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2008 $'000	2007 $'000
NET ASSETS EMPLOYED			
Non-current Assets			
Property, plant and equipment	12	625,798	418,859
Intangible assets	13	102,658	124,785
Deferred tax asset	25	84,835	-
Retirement benefit asset	14	238,789	204,725
		1,052,080	748,369
Current Assets			
Inventories	15	1,584,230	1,818,413
Trade and other receivables	16	347,081	485,882
Group companies	17	12,024	20,763
Taxation recoverable		82,504	-
Cash and bank balances	18	369,449	274,257
		2,395,288	2,599,315
Current Liabilities			
Bank overdrafts	18	60,867	83,692
Trade and other payables	19	821,295	949,014
Provisions	20	7,549	591
Short term loans	21	766,105	691,666
Taxation payable		-	3,204
Group companies	17	2,495	13,322
Current portion of long term loans	24	129,712	18,191
		1,788,023	1,759,680
Net Current Assets		607,265	839,635
		1,659,345	1,588,004

HARDWARE & LUMBER LIMITED
Balance Sheet
31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2008 $'000	2007 $'000
FINANCED BY			
Stockholders' Equity			
Share capital	22	616,667	616,667
Capital reserve	23	262,206	94,348
Retained earnings		240,295	500,251
		1,119,168	1,211,266
Non-current Liabilities			
Long term loans	24	308,000	163,677
Deferred tax liabilities	25	-	20,897
Retirement benefit obligation	14	232,177	192,164
		540,177	376,738
		1,659,345	1,588,004

Approved for issue by the Board of Directors on 30 March 2009 and signed on its behalf by:

A. Anthony Holness — Director

Rodney St. A. Davis — Director

HARDWARE & LUMBER LIMITED
Statement of Changes & Stockholder's Equity
Year ended 31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

	Note	Share Capital $'000	Capital Reserve $'000	Retained Earnings $'000	Total $'000
Balance at 1 January 2007		616,667	94,348	392,485	1,103,500
Net profit		-	-	133,550	133,550
Total recognised income		-	-	133,550	133,550
Dividend paid		-	-	(25,784)	(25,784)
Balance at 31 December 2007		616,667	94,348	500,251	1,211,266
Net loss		-	-	(259,956)	(259,956)
Net revaluation	12	-	167,858	-	167,858
Total recognised income/(expense)		-	167,858	(259,956)	(92,098)
Balance at 31 December 2008		616,667	262,206	240,295	1,119,168

HARDWARE & LUMBER LIMITED
Statement of Cash Flows
Year ended 31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2008 $'000	2007 $'000
Cash Generated from Operating and Investing Activities:			
Net (loss)/profit		(259,956)	133,550
Items not affecting cash:			
Depreciation of property, plant and equipment	12	54,396	54,386
Interest income	6	(9,673)	(9,354)
Warranties	20	7,158	-
Interest expense	9	108,481	89,927
Amortisation of computer software	13	54,733	22,705
Taxation expense	10	(156,954)	65,082
Profit on disposal of property, plant and equipment		(740)	(258)
		(202,555)	356,038
Changes in non-cash working capital components:			
Change in retirement benefit assets/obligation		5,949	7,555
Inventories		234,183	(212,517)
Trade and other receivables		138,801	(89,592)
Group companies		(2,088)	28,788
Trade and other payables		(124,355)	110,679
Provisions (warranties settled)	21	(200)	(949)
		252,290	(156,036)
Tax paid		(79,025)	(2,344)
Net cash (used in)/provided by operating activities		(29,290)	197,658
Cash Flows from Investing Activities			
Proceeds from sale of property, plant and equipment		740	498
Purchase of property, plant and equipment	12	(48,938)	(47,662)
Purchase of computer software	13	(32,606)	(103,570)
Interest received		9,673	10,187
Net cash used in investing activities		(71,131)	(140,547)
Cash (used in)/provided by operating and investing activities (carried forward to next page)		(100,421)	57,111

HARDWARE & LUMBER LIMITED

Statement of Cash Flows

Year ended 31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

	2008 $'000	2007 $'000
Cash (Used in)/Provided by Operating and Investing Activities (carried forward from previous page)	(100,421)	57,111
Cash Flows from Financing Activities		
Short term loans	74,439	96,726
Interest paid	(112,815)	(77,876)
Long term loans	255,844	123,382
Dividend paid	-	(25,784)
Finance leases repaid	-	(17,040)
Net cash provided by financing activities	217,468	99,408
Effects of exchange rate changes on cash and cash equivalents	970	70
Net increase in cash and cash equivalents	118,017	156,589
Cash and cash equivalents at beginning of year	190,565	33,976
Cash and Cash Equivalents at the End of the Year	308,582	190,565
Comprised of:		
Cash at bank	271,273	173,386
Short term deposits	98,176	100,871
	369,449	274,257
Bank overdraft	(60,867)	(83,692)
Cash and Cash Equivalents at the End of the Year	308,582	190,565

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.

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.

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 management's 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.

Standards, interpretations and amendments to published standards effective in the current year

Certain new standards, 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 standards, interpretations and amendments and has put into effect the following IFRS, which are immediately relevant to its operations.

- IFRIC 14 IAS 19, - The limit on a defined benefit asset, minimum funding requirements and their interaction. It provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset and explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation has no impact on the company's financial statements.

The following standards, interpretations and amendments to published standards are mandatory for the current and future accounting periods but are not relevant to the company's operations. The adoption of these pronouncements has not led to any changes in the company's accounting policies.

- IAS 39 (Amendment), 'Financial instruments: recognition and measurement'
- IFRS 7 (Amendment), 'Financial instruments: disclosures'
- IFRIC interpretation 11, 'IFRS 2, Group and treasury share transactions'
- IFRIC 12, 'Service concession arrangements'

2. **Significant Accounting Policies (Continued)**

(a) Basis of preparation (continued)
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 were not yet effective at balance sheet date, and which the company did not early adopt. 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:

- IAS 1 (Revised), 'Presentation of financial statements' and IAS 1 (Amendment), 'Presentation of financial statements' - effective for periods beginning on or after 1 January 2009. Recognised income and expenses to be presented in a single statement (a statement of comprehensive income) or in two statements (an income statement and a statement of comprehensive income), separately from owner changes in equity. Components of other comprehensive income may not be presented in the statement of changes in equity.

  Both the statement of comprehensive income and the statement of changes in equity to be included as primary statements.

  The balance sheet to be referred to as the 'statement of financial position' and the cash flow statement is referred to as the 'statement of cash flows'.

  Entities are required to disclose the income tax related to each component of other comprehensive income either in the statement of comprehensive income or in the notes.

  Entities should present a statement of financial position (that is, a balance sheet) as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement or reclassifies items in the financial statements.

The company has concluded that the following IFRS, amendments and interpretations to existing standards, which are published but not yet effective, are not relevant or will not have a material impact on the company's operations:

- IAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendment to IAS 7, 'Statement of cash flows')
- IAS 19 (Amendment), 'Employee benefits'
- IAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance'
- IAS 23 (Amendment), 'Borrowing costs'
- IAS 27 (Amendment), 'Consolidated and separate financial statements'
- IAS 27 (Revised), 'Consolidated and separate financial statements'
- IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures')
- IAS 29 (Amendment), 'Financial reporting in hyperinflationary economies'
- IAS 31 (Amendment), 'Interests in joint ventures (and consequential amendments to IAS 32 and IFRS 7)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

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

- IAS 32 (Amendment), Financial instruments: Presentation' and IAS 1 (Amendment), 'Presentation of financial instruments' – 'Puttable financial instruments and obligations arising on liquidation'
- IAS 36 (Amendment), 'Impairment of assets'
- IAS 38 (Amendment), 'Intangible assets'
- IAS 39 (Amendment), 'Financial instruments: Recognition and measurement'
- Amendment to IAS 39, 'Eligible hedged items'
- IAS 40 (Amendment), 'Investment property' (and consequential amendments to IAS 16)'
- IAS 41 (Amendment), 'Agriculture'
- IFRS 1 (Amendment), 'First time adoption of IFRS' and IAS 27 (Amendment), 'Consolidated and separate financial statements' – 'Cost of an investment in a subsidiary, jointly controlled entity or associate'.
- IFRS 2 (Amendment), 'Share-based payment'
- IFRS 3 (Revised), 'Business combinations'
- IFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' (and consequential amendment to IFRS 1, 'First-time adoption')
- IFRS 8 'Operating segments'
- IFRIC 13, 'Customer loyalty programmes'
- IFRIC 15, 'Agreements for the construction of real estate'
- IFRIC 16, 'Hedges of a net investment in a foreign operation'
- IFRIC 17, 'Distributions of non-cash assets to owners'
- IFRIC 18, 'Transfers of assets from customers'

(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 reserve 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 and the cost can be measured reliably.

(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.

The company records an inventory provision for the loss associated with selling inventories below cost. This provision is based on management's current knowledge with respect to inventory levels, sales trends, historical experience, its ability to return inventory to suppliers and to sell inventory through a price reduction process. Management has the ability to adjust purchasing practices based on anticipated sales trends and general economic conditions. However, changes in consumer purchasing patterns could result in the need for additional provisioning.

(h) Employee benefits

(i) Pension obligations

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

A defined contribution plan is a pension plan under which a company pays fixed contributions into a separate entity. That company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The asset or liability recognised in the balance sheet in respect of defined benefit pension plans is the difference between the present value of the defined benefit obligation at the balance sheet date and the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

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

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

(ii) Termination obligations

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

2. Significant Accounting Policies (Continued)

(h) Employee benefits (continued)

(iii) Other post-employment obligations

The company also provides supplementary health, life insurance and other benefits to qualifying employees upon retirement. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation, are charged or credited to income over the expected average remaining working lives of the related employees. These obligations are valued annually by independent qualified actuaries.

(i) Income taxes

Current tax charges are based on taxable profits for the year which differ from the profit before tax reported because it excludes items that are taxable or deductible in other years, and items that are never taxable or deductible. The company's liability to current tax is calculated at tax rates that have been enacted at balance sheet date.

Deferred tax liabilities are recognised for temporary differences between the carrying amounts of assets and liabilities and their amounts as measured for tax purposes, which will result in taxable amounts in future periods. Deferred tax assets are recognised for temporary differences which will result in deductible amounts in future periods, but only to the extent it is probable that sufficient taxable profits will be available against which these differences can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset will be realised or the liability will be settled based on enacted rates.

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

(j) Revenue and other income recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the company's activities. Revenue is shown net of General Consumption Tax, returns, rebates and discounts. Revenue is recognised as follows:

Sales of goods – wholesale

Sales of goods are recognised when the company has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

Sales of goods – retail

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

Interest income

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

2. Significant Accounting Policies (Continued)

(k) 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).

(l) Borrowings

Borrowings are recognised initially at fair value, 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.

(m) 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, short term deposits with maturities of less than 90 days, net of bank overdrafts.

(n) 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. Any increase in provisions due to passage of time is recognised as interest expense.

(o) Segment reporting

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

(p) 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 27.

2. Significant Accounting Policies (Continued)

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

(r) 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.

(s) Comparative information
Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

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, and investment of excess liquidity. The Board has established an Audit Committee for the following purposes:

> 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 results of which are reported to the Audit Committee.
>
> Some of the most important types of risk are credit risk, liquidity risk, market risk and other operational risks. Market risk includes currency risk, interest rate and other price risk.

Additionally, management has established a Credit Committee which issues guidelines with respect to credit limits. 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.

3. Financial Risk Management (Continued)

(a) Credit risk

The company takes on exposure to credit risk, which is the risk that its customers will cause a financial loss for the company by failing to discharge their contractual obligations. Credit risk is a very 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. 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 quality review process and has credit policies and procedures which require regular analysis of the ability of credit customers and other counterparties to meet interest, capital and other repayment obligations.

(i) Trade and other receivables

The company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. 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 risks 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. Trade and other receivables relate mainly to the company's wholesale customers.

The company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. 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. The company has provided for receivables based on an evaluation of the total past due balances and the historical experience with individual customers. 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)

(ii) Cash and cash equivalents

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

Maximum exposure to credit risk

	2008 $'000	2007 $'000
Credit risk exposures are as follows:		
Trade receivables	252,416	364,361
Cash and cash equivalents	369,449	274,257
	621,865	638,618

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

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

Trade receivables that are less than 60 Days past due are not considered impaired. As of 31 December 2008, trade receivables totalling $36,337,000 (2007 - $158,007,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2008 $'000	2007 $'000
1 to 30 days past due	15,027	123,173
31 to 60 days past due	10,229	20,526
Over 60 days past due	11,081	14,308
	36,337	158,007

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Aging analysis of trade receivables that are past due and impaired:

As of 31 December 2008, trade receivables of $85,400,000 (2007 - $97,835,000) were past due and impaired. The amount of the provision was $39,875,000 (2007 – $75,006,000). 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:

	2008 $'000	2007 $'000
Over 60 days past due	85,400	97,835

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

	2008 $'000	2007 $'000
At 1 January	75,006	55,174
Provision for receivables impairment	35,452	20,065
Recoveries	(6,283)	-
Receivables written off during the year as uncollectible	(64,300)	(233)
At 31 December	39,875	75,006

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)

(ii) Trade receivables

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

	2008	2007
	$'000	$'000
Agriculture, fishing and mining	75,735	75,084
Wholesalers	155,498	214,000
Retail distributors	61,058	150,283
	292,291	439,367
Less: Provision for credit losses	(39,875)	(75,006)
	252,416	364,361

The majority of trade receivables are receivable from customers in Jamaica.

(b) Liquidity risk

Liquidity risk is the risk that the company maybe 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 terms 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 2008:						
Liabilities						
Bank overdraft	60,867	-	-	-	-	60,867
Trade payables	212,860	436,660	-	-	-	649,520
Other payables	145,646	26,129	-	-	-	171,775
Short term loans	80,000	364,220	321,885	-	-	766,105
Group companies	2,495	-	-	-	-	2,495
Long term loans	759	11,348	117,605	308,000	-	437,712
	502,627	838,357	439,490	308,000	-	2,088,474

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

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 of 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 treasury department, 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 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.

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(i) Currency risk (continued)

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

	Jamaican$ J$'000	US$ J$'000	Total J$'000
At 31 December 2008:			
Financial Assets			
Trade receivables	252,416	-	252,416
Other receivables	69,507	25,158	94,665
Group companies	12,024	-	12,024
Cash and bank	266,824	102,625	369,449
Total financial assets	600,771	127,783	728,554
Financial Liabilities			
Bank overdraft	60,867	-	60,867
Trade payables	230,070	419,450	649,520
Other payables	171,775	-	171,775
Short term loans	283,280	482,825	766,105
Group companies	2,495	-	2,495
Long term loans	30,000	407,712	437,712
Total financial liabilities	778,487	1,309,987	2,088,474
Net financial position	(177,716)	(1,182,204)	(1,359,920)

3. **Financial Risk Management (Continued)**

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

	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 bank	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)

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 possible change in foreign currency rates. The sensitivity of the loss/profit was as a result of foreign exchange losses on translation of US dollar-denominated trade payables, long and short term loans.

	% Change in Currency Rate 2008	Effect on Net Loss and Equity 2008 $'000	% Change in Currency Rate 2007	Effect on Net Profit and Equity 2007 $'000
Devaluation	10	(78,805)	10	(70,290)
Revaluation	5	39,403	5	40,811

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 liabilities. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored by Grace's treasury department.

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)

	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 2008:							
Assets							
Trade receivables	-	-	-	-	-	252,416	252,416
Other receivables	-	-	-	-	-	94,665	94,665
Group companies	-	-	-	-	-	12,024	12,024
Cash and bank	369,449	-	-	-	-	-	369,449
Total financial assets	369,449	-	-	-	-	359,105	728,554
Liabilities							
Bank overdraft	60,867	-	-	-	-	-	60,867
Trade payables	-	-	-	-	-	649,520	649,520
Other payables	-	-	-	-	-	171,775	171,775
Short term loans	80,000	364,220	321,885	-	-	-	766,105
Group companies	-	-	-	-	-	2,495	2,495
Long term loans	759	11,348	217,186	208,419	-	-	437,712
Total financial liabilities	141,626	375,568	539,071	208,419	-	823,790	2,088,474
Total interest repricing gap	227,823	(375,568)	(539,071)	(208,419)	-	(464,685)	(1,359,920)

3. Financial Risk Management (Continued)

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

	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 bank	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)

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.

	Effect on Net Loss and Equity 2008 $'000	Effect on Net Profit and Equity 2007 $'000
Change in basis points:		
-1000	10,883	847
+1000	(10,883)	(847)

3. Financial Risk Management (Continued)

(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 company defines as net (loss)/profit divided by total stockholders' 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 bank balances. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt.

The gearing ratios at 31 December 2008 and 2007 were as follows:

	2008	2007
	$'000	$'000
Total borrowings	1,264,684	957,226
Less: cash and bank balances	(369,449)	(274,257)
Net debt	895,235	682,969
Total equity	1,119,168	1,211,266
Total capital	2,014,403	1,894,235
Gearing ratio	44.4%	36.1%

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

4. Critical Accounting Estimates and Judgments 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.

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. In addition some items provided for may eventually be sold at values greater than their carrying values.

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, does not 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. In addition some items provided for maybe collected subsequently.

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.

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:

	2008			
	Wholesale of Hardware and Building Products	Retail Of Household and Hardware Products	Agricultural Products and Equipment	Consolidated
	$'000	$'000	$'000	$'000
External operating revenue	1,285,154	4,203,759	1,299,249	6,788,162
Loss from operations	(74,454)	(145,948)	(5,620)	(226,022)
Finance costs				(190,888)
Loss before tax				(416,910)
Taxation				156,954
Net loss				(259,956)
Segment assets	906,437	931,761	360,022	2,198,220
Unallocated assets				1,249,148
Total assets				3,447,368
Segment liabilities	138,923	480,639	159,330	778,892
Unallocated liabilities				1,549,308
Total liabilities				2,328,200
Capital expenditure	39,444	27,484	14,616	81,544
Depreciation	19,938	29,061	5,397	54,396
Amortisation	5,815	38,312	10,606	54,733

5. Segment Reporting (Continued)

	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

	2008	2007
	$'000	$'000
Profit on sale of property, plant and equipment	740	298
Rent	4,265	4,920
Management fees	-	4,192
Interest income	9,673	9,354
Purchase rebate	14,712	21,189
Other	-	2,709
	29,390	42,662

7. Expenses by Nature

Total cost of sales, direct and administrative expenses

	2008 $'000	2007 $'000
Auditors' remuneration	6,550	5,350
Advertising and marketing	50,375	41,987
Cost of sales	5,348,322	5,007,629
Depreciation and amortisation	109,129	77,091
Insurance	63,110	64,166
Occupancy – rent, utilities, etc.	264,043	222,508
Repairs, maintenance and renewals	51,990	34,146
Staff costs (Note 8)	536,504	463,259
Professional and contractual	211,813	169,330
Processing and facility	36,356	31,256
Security	66,678	54,216
Stationery and computer expense	82,986	56,727
Equipment rental	17,462	12,161
Other	198,256	163,841
	7,043,574	6,403,667

8. Staff Costs

	2008 $'000	2007 $'000
Wages and salaries	371,407	339,105
Payroll taxes, employer's contribution	34,079	28,471
Pension (credit)/charge (Note 14)	(1,392)	8,830
Other post-employment benefits (Note 14)	49,207	42,229
Staff welfare	51,655	42,313
Gratuity	16,864	-
Redundancy costs	14,684	2,311
	536,504	463,259

9. Finance Costs

	2008 $'000	2007 $'000
Interest expense	108,481	89,927
Foreign exchange loss/(gain)	82,407	(1,498)
	190,888	88,429

10. Taxation

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

	2008 $'000	2007 $'000
Current	-	62,770
Prior year over provision	(6,683)	-
Deferred (Note 25)	(150,271)	2,312
	(156,954)	65,082

	2008 $'000	2007 $'000
(Loss)/profit before tax	(416,910)	198,632
Tax calculated at 33 1/3%	(138,970)	66,211
Adjusted for the effect of:		
Over provision of prior year deferred tax charge	(11,879)	-
Over provision for tax charge in prior year	(6,683)	-
Expenses not deductible for tax	586	413
Net effect of other charges and allowances	(7)	(1,542)
Taxation	(156,954)	65,082

11. (Loss)/Earnings per Stock Unit

(Loss)/earnings per stock unit are calculated by dividing the net profit attributable to stockholders by the number of ordinary stock units in issue during the year.

	2008	2007
Net (loss)/gain attributable to stockholders ($'000)	(259,956)	133,550
Number of stock units in issue ('000)	80,842	80,842
(Loss)/earnings per stock unit	($3.21)	$1.65

12. Property, Plant and Equipment

	2008							
	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 2008	86,451	107,354	318,112	125,516	82,935	6,428	21,578	748,374
Additions	-	6,752	24,508	2,470	103	2,538	12,567	48,938
Revaluation	78,780	125,244	-	-	-	-	-	204,024
Disposals	-	-	(281)	-	-	(1,250)	-	(1,531)
Transfers	4,676	28,338	-	1,117	14	-	(34,145)	-
31 December 2008	169,907	267,688	342,339	129,103	83,052	7,716	-	999,805
Depreciation -								
1 January 2008	-	6,163	195,705	79,673	43,697	4,277	-	329,515
Charge for the year	-	5,304	31,433	9,736	6,202	1,721	-	54,396
Revaluation	-	(8,373)	-	-	-	-	-	(8,373)
Relieved on disposals	-	-	(281)	-	-	(1,250)	-	(1,531)
Transfers	-	-	(25)	-	25	-	-	-
31 December 2008	-	3,094	226,832	89,409	49,924	4,748	-	374,007
Net Book Value -								
31 December 2008	169,907	264,594	115,507	39,694	33,128	2,968	-	625,798

12. Property, Plant and Equipment (Continued)

	2007							
	Freehold Land $'000	Freehold Buildings $'000	Furniture and Office Equipment $'000	Leasehold Improvements $'000	Equipment and Scaffolding $'000	Vehicles and Forklift Trucks $'000	Construction Work in Progress $'000	Total $'000
Cost or Valuation -								
1 January 2007	85,437	106,823	314,421	124,803	60,306	9,086	917	701,793
Additions	1,014	531	21,512	838	976	2,130	20,661	47,662
Disposals	-	-	(281)	-	(800)	-	-	(1,081)
Transfers	-	-	(17,540)	(125)	22,453	(4,788)	-	-
31 December 2007	86,451	107,354	318,112	125,516	82,935	6,428	21,578	748,374
Depreciation -								
1 January 2007	-	4,086	171,605	70,529	20,809	8,941	-	275,970
Charge for the year	-	2,077	35,733	9,269	6,220	1,087	-	54,386
Relieved on disposals	-	-	(203)	-	(638)	-	-	(841)
Transfers	-	-	(11,430)	(125)	17,306	(5,751)	-	-
31 December 2007	-	6,163	195,705	79,673	43,697	4,277	-	329,515
Net Book Value -								
31 December 2007	86,451	101,191	122,407	45,843	39,238	2,151	21,578	418,859

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 May 2008. Fair market value is determined by reference to market based evidence. This means that valuations performed by the valuer are based on active market prices, adjusted for any difference in the nature, location or condition of the specific property. The revaluation surplus net of applicable deferred income taxes, $167,858,000, was credited to the revaluation reserve in stockholders' equity. All other property, plant and equipment are stated at cost.

13. Intangible Assets

	Computer Software	Computer Software Work in Progress	Goodwill	Total
	$'000	$'000	$'000	$'000
Year ended 31 December 2008				
Opening net book amount	31,059	91,990	1,736	124,785
Additions	232	32,374	-	32,606
Transfers	118,658	(118,658)	-	-
Amortisation charge	(54,733)	-	-	(54,733)
Closing net book amount	95,216	5,706	1,736	102,658
At 31 December 2008				
Cost	233,838	5,706	1,736	241,280
Accumulated amortisation	(138,622)	-	-	(138,622)
Net book amount	95,216	5,706	1,736	102,658

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

The amortisation charge of $ 54,733,000 (2007 - 22,705,000) is included in administrative expenses in the profit and loss account.

14. Post-employment Benefits

	2008 $'000	2007 $'000
Assets/(liabilities) recognised in the balance sheet –		
Retirement Benefit Asset - Pension scheme	238,789	204,725
Retirement Benefit Obligation - Medical benefits	(232,177)	(192,164)
Amounts recognised in the profit and loss account (Note 8) –		
Retirement Benefit Asset - Pension scheme	(1,392)	8,830
Retirement Benefit Obligation - Medical benefits	49,207	42,229

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 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:

	2008 $'000	2007 $'000
Fair value of plan assets	(451,545)	(472,999)
Present value of funded obligations	593,107	288,744
	141,562	(184,255)
Unrecognised actuarial losses	(380,351)	(20,470)
	(238,789)	(204,725)

14. Post-employment Benefits (Continued)

Pension scheme benefits (continued)

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

	2008 $'000	2007 $'000
At beginning of year	472,999	421,690
Expected return on plan assets	51,883	46,744
Actuarial losses on plan assets	(70,673)	(1,954)
Contributions	23,835	16,818
Benefits paid	(26,499)	(10,299)
At end of year	451,545	472,999

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

	2008 $'000	2007 $'000
At beginning of year	288,744	325,817
Current service cost	32,687	29,648
Interest cost	40,064	42,038
Actuarial losses/(gains) on obligations	258,111	(98,460)
Benefits paid	(26,499)	(10,299)
At end of year	593,107	288,744

14. Post-employment Benefits (Continued)

Pension scheme benefits (continued)

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

	2008 $'000	2007 $'000
Current service cost	10,427	11,204
Interest cost	40,064	42,038
Expected return on plan assets	(51,883)	(46,744)
Net actuarial gains recognised during the year	-	2,332
Total included in staff costs (Note 8)	(1,392)	8,830

The total credit, $1,392,000 (2007 charge – $8,830,000) was included in administrative expenses in the profit and loss account.

The actual loss on plan assets was $18,790,000 (2007 gain – $44,790,000).

Expected contributions to the plan for the year ended 31 December 2009 amount to $15,458,000.

The distribution of plan assets was as follows:

	2008 $'000	2007 $'000
Quoted equities	87,827	126,893
Government of Jamaica securities	230,672	266,694
Repurchase agreements	8,767	11,620
Other	124,279	67,792
	451,545	472,999

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 five-year experience adjustments for plan assets and liabilities is as follows:

	2008 $'000	**2007 $'000**	**2006 $'000**	**2005 $'000**	**2004 $'000**
Fair value of plan assets	451,545	472,999	421,690	1,159,374	337,164
Defined benefit obligation	(593,107)	(288,744)	(325,817)	(272,771)	(211,965)
	(141,562)	184,255	95,873	886,603	125,199
Experience adjustments –					
Fair value of plan assets	(70,673)	(1,954)	(794,845)	772,220	5,612
Defined benefit obligation	(180,345)	(57,356)	(29,166)	22,768	2,624

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:

	2008 $'000	**2007 $'000**
Present value of unfunded obligations	166,016	179,487
Unrecognised actuarial gains	66,161	12,677
	232,177	192,164

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

	2008 $'000	**2007 $'000**
At beginning of year	179,487	189,501
Current service cost	12,829	14,513
Past service cost	3,120	-
Interest cost	24,926	23,863
Actuarial gains on obligations	(46,949)	(38,065)
Benefits paid	(7,397)	(10,325)
At end of year	166,016	179,487

14. Post-employment Benefits (Continued)

Medical benefits (continued)

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

	2008 $'000	2007 $'000
Past service cost	3,120	-
Current service cost	12,829	16,342
Interest cost	24,926	23,863
Net actuarial losses recognised during the year	8,332	2,024
Total included in staff costs (Note 8)	49,207	42,229

The total charge, $49,207,000 (2007 – $44,790,000) was included in administrative and direct 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	19,577	15,085
Effect on the defined benefit obligation	53,809	43,874

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

	2008 $'000	2007 $'000	2006 $'000	2005 $'000	2004 $'000
Defined benefit obligation	166,016	179,487	189,501	153,524	2,301
Experience adjustments	(29,105)	(15,902)	(1,891)	(2,604)	1,527

(expressed in Jamaican dollars unless otherwise indicated)

14. Post-employment Benefits (Continued)

Principal actuarial assumptions used in valuing post-employment benefits

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

	2008	2007
Discount rate	16.0%	13.0%
Long term rate of inflation	10.0%	8.8%
Expected return on plan assets	11.0%	12.0%
Future salary increases	12.5%	9.5%
Future pension increases	10.0%	3.5%
Medical cost trend rate	10.0%	10.0%

The average expected remaining service life of the employees is 23 years (2007 – 19 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. Inventories

	2008	2007
	$'000	$'000
Merchandise	1,692,795	1,644,309
Provision for obsolescence	(171,643)	(56,090)
	1,521,152	1,588,219
Goods in transit	63,078	230,194
	1,584,230	1,818,413

The cost of inventories recognised as expense and included in 'cost of sales' amounted to $5,088,000. (2007 - $4,896,000).

16. Trade and Other Receivables

	2008	2007
	$'000	$'000
Trade	292,291	439,367
Provision for impairment	(39,875)	(75,006)
	252,416	364,361
Prepayments	47,454	55,969
Other	47,211	65,552
	347,081	485,882

17. Group Companies and Other Related Party Transactions and Balances

(a) Due (to)/from group companies comprises:

	2008 $'000	2007 $'000
Due to Grace	(812)	(921)
Due to fellow subsidiaries	(1,683)	(12,401)
	(2,495)	(13,322)
Due from Grace	6,090	12,534
Due from fellow subsidiaries	5,934	8,229
	12,024	20,763

The payables to related parties arise primarily from purchase transactions and are due 15 days after the invoice date. The payables bear no interest.

The receivables due from related party arise mainly from shared cost that is not yet due as 31 December 2008. The receivable balances are not interest bearing. There are no provisions held against receivables from related parties (2007 – nil).

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

	2008 $'000	2007 $'000
Income:		
Rental charges -		
Fellow subsidiaries	-	194
Sales -		
Fellow subsidiaries	5,326	4,214
Parent company	2,013	384
Goods are sold based on the current price list on terms that would be available to third parties.		
Management fees -		
Fellow subsidiaries	-	7,362
Interest income -		
Fellow subsidiary	5,419	7,362
Parent company	-	851
Interest is received from short term deposit placed with fellow subsidiary First Global Bank Limited at rates that would be available to third parties.		

17. Group Companies and Other Related Party Transactions and Balances (Continued)

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

	2008 $'000	2007 $'000
Expenses:		
Purchases -		
Fellow subsidiaries	2,733	3,930
Goods are purchased based on the current price list on terms that would be available to third parties		
Payroll cost -		
Parent company	1,977	1,795
Grace prepares both fornightly and monthly payroll on behalf of the company and charges an administrative fee that is 4% of the payroll cost.		
Interest expense -		
Fellow subsidiaries	56,953	48,114
Parent company	13,542	-
Interest charges resulting from loan facilities offered to the company by fellow subsidiaries and Grace.		
Key management compensation		
Salary and wages and other short term benefit	40,460	34,011
Post-employment benefits	217	319
Gratuity	8,757	-
Redundancy cost	1,292	-
Key management includes the Chief Executive Officer, Chief Financial Officer and the General managers of the main business segments.		
Directors emoluments -		
Fees	2,070	2,030
Management remuneration (included above)	12,373	10,639
Other charges -		
Fellow subsidiary	73,610	66,393

18. Cash and Cash Equivalents

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

	2008	2007
	$'000	$'000
Cash at bank	271,273	173,386
Short term deposits	98,176	100,871
	369,449	274,257
Bank overdrafts	(60,867)	(83,692)
	308,582	190,565

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

19. Trade and Other Payables

	2008	2007
	$'000	$'000
Trade	649,520	858,847
Accruals	107,744	49,033
Other	64,031	41,134
	821,295	949,014

20. Provisions

	2008	2007
	$'000	$'000
Balance at beginning of year	591	1540
Additional provisions	7,158	-
Utilised during the year	(200)	(949)
Balance at end of year	7,549	591

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

21. Short Term Loans

		2008	2007
		$'000	$'000
Grace, Kennedy Trade Finance Limited	(a)	-	134,173
Citibank N. A.	(b)	-	346,870
First Global Financial Services Limited	(c) i	140,000	140,000
First Global Financial Services Limited	(c) ii	80,000	-
First Global Financial Services Limited	(c) iii	40,000	-
First Global Bank Limited	(d)	23,280	-
Grace Kennedy (St. Lucia) Limited	(e)	-	70,623
GraceKennedy Limited	(f)	160,940	-
First Caribbean International Bank	(g) i	80,470	
First Caribbean International Bank	(g) ii	241,415	-
		766,105	691,666

(a) This represented a revolving loan denominated in United States dollars. The revolving facility had a maximum tenor of 120 days. At 31 December 2007, the annual interest rate was 9.0%. The amount was repaid during the year.

(b) This represented a letter of credit denominated in United States dollars. At 31 December 2007 the interest rate was 7.9%. The amount was repaid during the year.

(c) This represents commercial papers. The annual interest rates on these loans are c (i) 16.5% (2007- 14.8% for $80M and 15.2% for $60M), c (ii) 16.8% and c (iii) 16.0% and is evidenced by promissory notes from the company.

(d) This represents outstanding balance for insurance premium financing. The annual interest rate was 14.0%.

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

(f) This represents a revolving loan denominated in United States dollars and is evidenced by a promissory note. At 31 December 2008, the annual interest rate was 8.5%.

(g) These loans are denominated in United States dollars and are evidenced by promissory notes and supported by a comfort letter from Grace. At 31 December 2008, the annual interest rates were 7.0% on both.

All short term loans are un-secured.

22. Share Capital

	Number of Authorised Shares	Number of Issued Shares	Stated Capital – Ordinary Shares	Total
	000	000	$'000	$'000
Balance at the beginning and end of the year	82,500	80,842	616,667	616,667

23. Capital Reserve

	2008	2007
	$'000	$'000
Revaluation reserve	256,106	88,248
Other	6,100	6,100
	262,206	94,348
Opening balance	94,348	94,348
Revaluation surplus	212,397	-
Deferred taxation (Note 25)	(44,539)	-
At the end of year	262,206	94,348

The capital reserve is unrealised.

24. Long Term Loans

		2008	2007
		$'000	$'000
GraceKennedy Trade Finance Limited	(a)	152,893	-
First Caribbean International Bank (Jamaica) Limited	(b)	19,585	24,757
National Commercial Bank Jamaica Limited	(c)	135,793	127,111
First Global Financial Services Limited	(d)	30,000	30,000
GraceKennedy (St. Lucia) Limited	(e)	99,441	-
		437,712	181,868
Current maturities		(129,712)	(18,191)
		308,000	163,677

24. Long Term Loans (Continued)

(a) This loan is denominated in United State dollars. At 31 December 2008, the annual interest rate was 7.5%. The loan is repayable in 2011.

(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 2008, the annual interest rate was 8.0%. (2007 – 8.0%). The loan is repayable in 2010.

(c) This loan is denominated in United States dollars. It is evidenced by promissory notes and supported by a comfort letter from Grace. At 31 December 2008, the annual interest rate was 11.0% (2007- 8.0%). The loan is repayable in 2012.

(d) This represents a commercial paper. The annual interest rate on this loan is 14.1% (2007 – 14.1%). The loan is repayable in 2010.

(e) This loan is denominated in United States dollars. At 31 December 2008, the interest rate was 7.5% per annum. The loan is repayable in 2011.

All long term loans are unsecured.

25. 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:

	2008	2007
	$'000	$'000
Net liability at beginning of year	(20,897)	(18,585)
Credit /(charge) to the profit and loss account (Note 10)	150,271	(2,312)
Charge to equity (Note 23)	(44,539)	-
Net asset/(liability) at end of year	84,835	(20,897)

25. Deferred Income Taxes (Continued)

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

	2008 $'000	2007 $'000
Deferred income tax assets:		
Statutory tax loss	109,853	-
Interest payable	6,694	8,138
Provision for warranty	2,516	-
Accrued vacation	4,215	3,648
Unrealised foreign exchange losses	29,771	5,386
Retirement benefit obligations	77,393	64,055
	230,442	81,227
Deferred income tax liabilities:		
Unrealised foreign exchange gains on deposits	(3,448)	(2,888)
Property, plant and equipment	(62,563)	(30,994)
Retirement benefit asset	(79,596)	(68,242)
	(145,607)	(102,124)
Net Asset/(Liability)	84,835	(20,897)
Deferred tax assets to be recovered after more than one year	77,392	64,055
Deferred tax liabilities to be settled after more that one year	(142,159)	(99,236)

26. Operating Lease Commitments

The company leases various retail outlets and a distribution center under non-cancellable operating lease agreements. Minimum lease payment for 2008 was $151,116,509 (2007- $105,810,000). The leases expire in 2013 with renewable option at the end of the lease periods.

The future aggregate minimum lease payments under the operating leases are as follows:

	2008 $'000	2007 $'000
No later than 1 year	100,737	151,117
Later than 1 year and no later than 5 years	223,600	289,977
Later than 5 years	-	34,361
	324,337	475,455

Included in lease payments for 2008 are amounts totaling $63,546,000 for locations whose leases expired within the year for which the new lease agreements have not being finalised.

27. 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 approximate their carrying values because interest rates at the year-end were at market rates.

Notes

PROXY FORM

HARDWARE & LUMBER LIMITED

I/We ____

of ____

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

____

of ____

or failing him/her____

of____

as my/our Proxy, to vote for me/us on my/our behalf at the Annual General Meeting of the said Co... pany to be held Monday June 15, 2009 at 10:30 a.m at 697 Spanish Town Road, Kingston 11.

SIGNED this.......………………......... day of…………………..............., 2009.

………………………………………........Signature

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

Resolutions	FOR	AGAINST
1		
2(a)		
2(b)		
2(c)		
2(d)		
3(a)		
3(b)		
4		

Place Stamp Here $100

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.

HARWARE & LUMBER LTD ANNUAL REPORT 2008

Hardware & Lumber Limited
697 Spanish Town Road, Kingston 11
Tel: (876) 765-9967 / 765-3434
www.hardwareandlumberja.com
www.agrograce.com
www.rapidtruevalue.com