Wholesale

RAPID True Value

Hardware & Lumber Ltd

Annual Report 2009

AGRO GRACE
Your Complete Farm & Garden Centre

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.

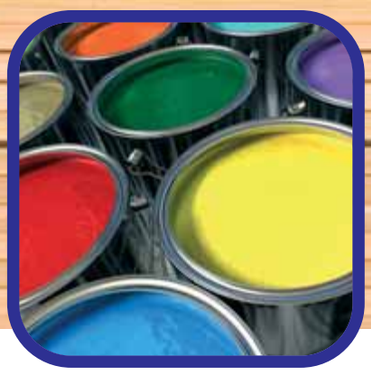
Contents

Hardware & Lumber Limited
Ten Year Financial Review

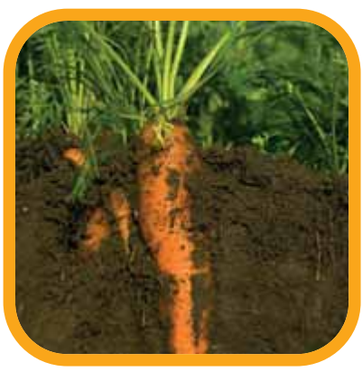
	2009	2008	2007	2006	2005
Revenue - J$'000	5,940,599	6,788,162	6,648,066	5,597,276	5,332,857
(Loss)/Net Profit - J$'000	(225,762)	(259,956)	133,550	37,718	20,268
Stockholders' Equity - J$'000	903,747	1,119,168	1,211,266	1,103,500	1,065,782
Net Current Assets - J$'000	421,870	607,265	839,635	686,629	625,223
(Loss)/Earnings per Stock Unit	($2.79)	($3.21)	$1.65	$0.47	$0.262
Dividend per Stock Unit	$0.00	$0.00	$0.32	$0.00	$0.00

	2004	2003	2002	2001	2000
Revenue - J$'000	5,518,947	2,639,811	1,628,081	1,502,411	1,365,206
Net Profit - J$'000	156,045	44,583	48,892	16,352	19,361
Stockholders' Equity - J$'000	707,412	605,531	313,507	273,615	369,593
Net Current Assets - J$'000	369,295	297,552	172,901	139,434	95,702
Earnings per Stock Unit	$2.32	$0.95	$1.22	$0.41	$0.48
Dividend per Stock Unit	$0.32	$0.11	$0.23	$0.15	$0.22

Wholesale



RAPID True Value



AGRO GRACE
Your Complete Farm & Garden Centre

Notice of Annual General Meeting

Notice is hereby given that the Eighty-second Annual General Meeting of Hardware & Lumber Limited will be held at the Registered Office, 697 Spanish Town Road, Kingston 11 on Monday June 14, 2010 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, 2009, 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 the Directors and fix their remuneration**

(i) The Directors retiring from office by rotation pursuant to Article 100 of the Articles of Incorporation are Messrs. Rodney St. A. Davis, Gordon K. G. Sharp and Joseph Taffe 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. Rodney St. A. Davis be and is hereby re-elected a Director of the Company."

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

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

(ii) Pursuant to Article 105 of the Articles of Incorporation, Messrs. Simon Roberts and Donald Wehby were appointed to the Board of Directors since the last Annual General Meeting, and will retire at this Annual General Meeting. Being eligible they offer themselves for election.

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

Resolution 2 (d)
"That the retiring Director Mr. Simon Roberts be elected a Director of the Company."

Resolution 2 (e)
"That the retiring Director Mr. Donald Wehby be 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 of $2,117,000 shown in the accounts for the year ended December 31, 2009 for Directors' fees be and is hereby approved."

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

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
March 31, 2010

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 and Chief Executive Officer's Report

The year 2009 was one of the most challenging for our business, as both Jamaica and the rest of the world continued to grapple with the worst recession in decades.

The housing and construction sectors were badly hit, and our overall revenues declined by 12.5% as investors delayed major projects, contractors delayed construction of housing, and consumers delayed purchasing of home improvement products. However, our farm and garden supply business remained stable, as the expansion of the agricultural sector continued.

Our results were also significantly impacted by the devaluation of the Jamaican dollar in the first quarter of the year, and high interest costs throughout the year.

The net loss attributable to stockholders was $225.8 million as compared to a net loss of $259.9 million recorded in 2008. The earnings per share for the year were ($2.79) compared to ($3.21) for 2008.

In response to the difficult economic conditions in 2009, we focussed on cost reductions and customer service improvements. This resulted in the reduction of inventories and short term debt, and improved product availability at our wholesale and retail stores. These actions, in combination with the commencement of refurbishing of most of our stores, led to improved results in the second half of the year.

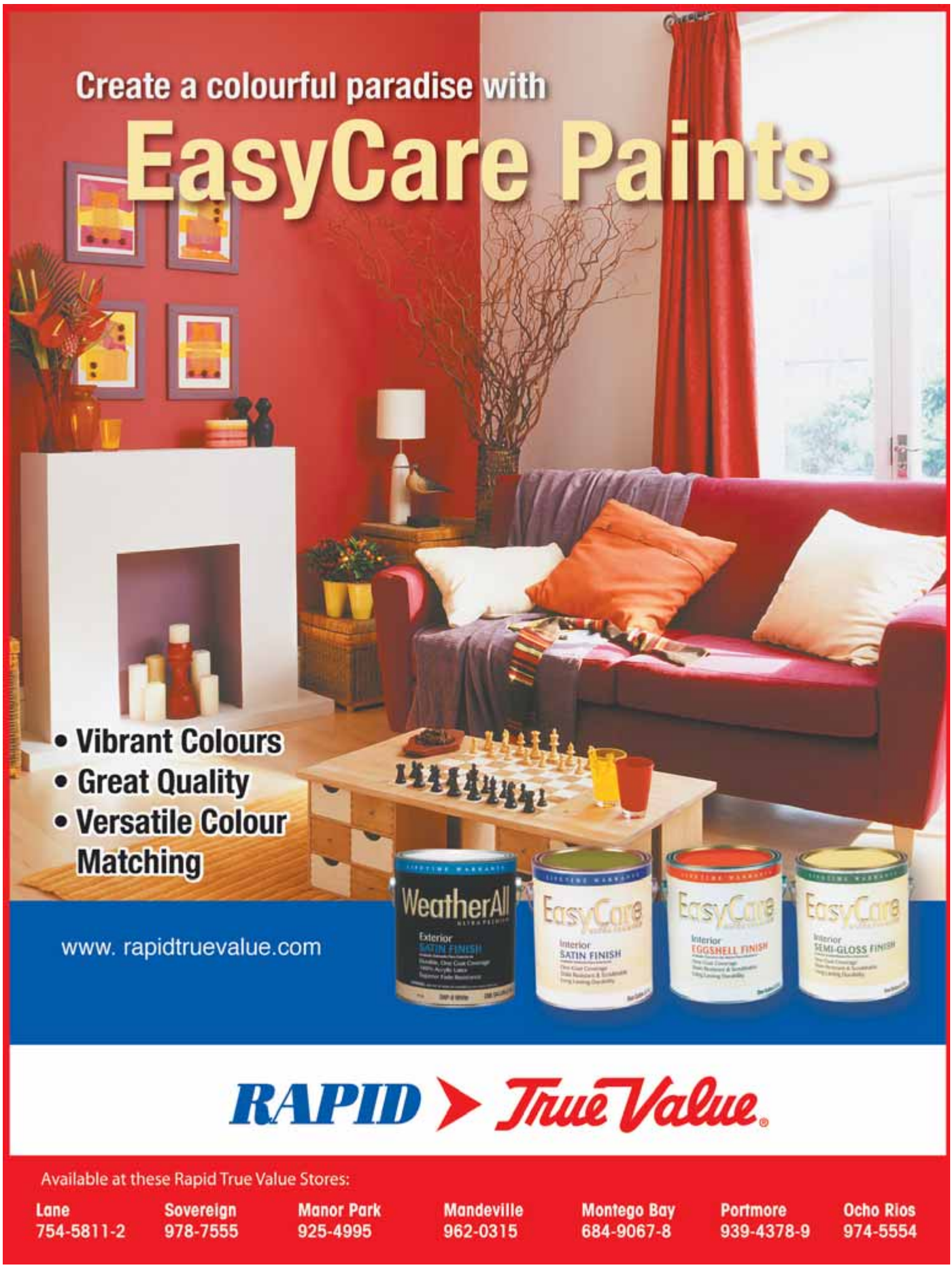
The focus for 2010 will be on the vital few actions that will ensure a sustainably profitable business going forward. These actions are to continuously reduce our costs, improve our supply chain management, improve our customer service, improve our internal controls, and grow our farm supplies business. These actions have been wholly integrated into our Balanced Score Card (BSC) and strategic plan for 2010 to 2015.

We wish to express our gratitude to the management and staff for their hard work and commitment during 2009. We also thank our customers, suppliers, and other stakeholders for your continued loyalty and support.

Erwin Burton
CHAIRMAN

Simon Roberts
CHIEF EXECUTIVE OFFICER

31st March 2010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RAPID True Value
Available at these Rapid True Value Stores:
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Sovereign 978-7555
Manor Park 925-4995
Mandeville 962-0315
Montego Bay 684-9067-8
Portmore 939-4378-9
Ocho Rios 974-5554

Management Discussion & Analysis

Management Discussion and Analysis
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1. CORE BUSINESS AND STRATEGY

Core Business
Hardware and Lumber Limited is a Jamaican company retailing and wholesaling building materials, home improvement supplies, household items and agricultural products. The Company also offers residential and commercial construction services.
Our parent company, GraceKennedy Limited, is one of the Caribbean's largest and most dynamic groups. Headquartered in Jamaica, the group now has interests in the United Kingdom, North and Central America and the Caribbean and it is listed on the stock exchanges of Jamaica and Trinidad.

Our Mission
“Hardware & Lumber Limited is committed to improving people’s lives by providing agricultural, building and lifestyle solutions”.

Our Vision
“We will maximize shareholder value over the long-term, by satisfying the agricultural, building and home improvement needs of our customers. We are dedicated to delivering quality, choice and convenience – and that depends on us having great people with the right skills, necessary tools, and shared vision.”

Our Core Values
1. Our word is our bond
2. The promise that is kept
3. Ethics and integrity
4. Respect and consideration
5. Commitment and openness

Our core values are paramount in the execution of strategy.

Strategy and Key Performance Drivers
Hardware & Lumber Limited utilises the Balanced Scorecard (BSC) system in tracking and assessing performance, which is cascaded to all divisions and departments. Areas of focus include financial performance, customer centricity, efficiency of internal processes and the fostering of learning and growth of our people. Key financial indicators include net profit, net free cash flow and return on equity, while non-financial indicators include customer satisfaction, brand recognition, audit ratings, employee satisfaction and performance assessment of people.

Using the BSC Strategy Map we have established strategic initiatives in each area to drive and track performance. All initiatives are specific, measurable and time based. For 2010 onwards, all team members have Quantifiable Objectives that are directly linked to one or more initiatives. This will ensure that individual and team performance will lead to the achievement of the financial and non-financial goals of the company.

We are also ensuring that our team members are being trained in the skills and provided with the tools that are necessary to perform their roles well.

Employee and customer satisfaction are routinely measured, and initiatives are identified and implemented to improve overall scores.
The company also utilizes a single ERP software platform to manage and record all transactions. Information from the platform is used, for the continuous evaluation of performance in each of our core sectors, to make changes to the business and/or the business model to ensure we are always relevant to the markets we serve.

Our Brands:
Our Company operates with three distinct brands, as well as the Company brand of H&L. These are as shown below:

We operate twelve hardware retail outlets across Jamaica.

We operate five retail agricultural outlets across Jamaica.

We operate with an island-wide sales team supplying resellers, contractors and major projects.

2. FINANCIAL PERFORMANCE

Financial Summary
In 2009 earned revenues of $5.9 billion, representing a decline of 12.5% compared to the $6.8 billion earned in 2008, largely due to weakened consumer demand as a result of the ongoing global recession. In spite of the decline in sales, net losses were reduced by 13% in the period to $226 million compared to a net loss of $260 million in 2008.

Revenues:
Revenues in 2009 were down 12.5% largely due to the challenges faced in the Jamaican construction industry. According to the Planning Institute of Jamaica (PIOJ), housing starts fell by 46.4%, and GDP for the construction sector declined by 4.5% in 2009 following on from a 6.7% decline in 2008.

Gross Margins:
In 2009 gross margins improved to 23.8% compared to 21.2% in 2008, as a result of a number of factors including: a significant reduction in obsolete inventories, improvements in our supply chain, improved and competitive pricing and reductions in input costs.

Direct and Administrative Expenses:
Expenses declined by 13.6% in 2009 when compared to 2008, as a result of the implementation of several cost reduction and efficiency improvement projects during the year, including a significant redundancy exercise that was completed in the first quarter.

Finance Costs:
Finance costs increased by 39.9% in 2009 compared to 2008, due to higher interest rates and foreign exchange losses experienced predominantly in the first quarter.

Segment Performance and Developments
The Company is comprised of three main operating divisions:
- Wholesale of hardware and building products (“H&L Wholesale”)
- Retail of household and hardware products (“Rapid TrueValue”)
- Retail and wholesale of agricultural products and equipment (“AgroGrace”)

The segment operating and financial performance is detailed in note 5 of the Financial Statement.

H&L Wholesale
The Wholesale and Special Projects Division also showed a significant decrease in revenues of 13% when compared to 2008. In 2009, the division continued to be impacted by the postponement of major hotel and housing construction projects across the island. However, improved product availability in the latter half of the year enabled the division to improve customer satisfaction and revenues. As a result of the improvement in supplies, we are well positioned to participate in many of the housing and construction projects scheduled to start in 2010.

Rapid TrueValue
Revenue generated by the Retail Division declined by 15.7% relative to the prior year, against the continued decline in construction and home improvement activity. In response to the decline in available business, efforts were focused on improving product availability and in store merchandising which began to yield results in the second half of the year. Plans for 2010 include the continued improvement in product availability and choice, along with improvements in customer service and a more refreshing look for our stores to increase consumer appeal. Also, during the year we undertook to make selected AgroGrace products available at some RTV locations.

Marketing initiatives undertaken during 2009 were focused on promoting Rapid TrueValue as an excellent source for consumer home improvement and construction needs.

In the last quarter, RTV became agents for GraceKennedy Money Services Limited, and commenced offering Western Union ® Remittances and Bill Express ® services in our Lane, Mandeville, Ocho Rios and Montego Bay outlets. The patrons of these services are also expected to make purchases of our products.

AgroGrace
The AgroGrace Division had a comparatively good year, with revenues declining by less than 1% when compared to 2008. Stock-outs of some key products due to supplier difficulties hindered sales in the first half, but this was offset by good weather for most of the year. There was some fall off in sales in the last quarter due to the impact of dry conditions.

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

We continued to have 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. AgroGrace continues to hold a very strong position in the market as a result of its wide product range, availability and excellent customer service. We expect 2010 to be a satisfactory year for the division, with several new products to be launched.

Financial Position
Total assets decreased 10.4% to $3.1 billion compared to $3.5 billion in 2008. The asset decline was mainly due to a decrease in the retirement benefit asset, a reduction in inventory on hand and the reduction in cash and cash equivalents. The retirement benefit asset was adjusted due to changes in actuarial valuations in the period. Surplus inventory was sold, and the revenue used to pay down on short term debt.

Shareholders' Equity
Shareholders' equity at the end of 2009 was down 19.2% to $0.9 billion compared with $1.1 billion at the end of the prior year.

Dividends
No dividends were paid in 2008 or 2009.

Stock Performance
The company's stock price declined from $10.00 per share on January 2, 2009 to $3.50 on December 31, 2009.

The market capitalization at the end of 2009 stood at $283 million..

Capital Investment
Capital expenditure for the year totalled $31.6 million, compared to $81.5 million in 2008. Computer software, refurbishing of the stores, computer and office equipment were the main expenditures.

3. EMPOWERED PEOPLE: LEADERSHIP DEVELOPMENT & EMPLOYEE ENGAGEMENT

We are firm believers that our people are our greatest asset and accordingly focus is placed on four (4) major areas:
1. Ensuring continuity of leadership
2. Developing effective leaders
3. Protecting our people
4. Developing staff at all levels

Leadership Development
We continue to participate in the GraceKennedy Supervisory Development and Executive Development Programs. The goal is to develop the next generation of leaders, through a series of customised supervisory and leadership development interventions, which will be critical to our continued success. Our aim continues to be to develop ethical and high performing leaders who embody the characteristics and values of the GraceKennedy Group, and are able to achieve greatness through our people.

Employee Engagement
The past two years have been difficult for all of our employees. This has been reflected in a decline in our Employee Satisfaction Index (ESI). We have developed and are implementing initiatives aimed at addressing areas of concern to our team members.

Improved communications, increased employee involvement and support for social activities have commenced. Using the GraceKennedy Employee Assistance Programme (EAP), we continue to encourage our employees to consult with our group counsellors, and accommodate immediate relatives where necessary.

The GraceKennedy Career Centre website was also launched during the year, providing a reference point for information and resources on career development that assists our employees with career planning within or outside of GraceKennedy Limited.

Board and Management Transitions
Mr. Douglas Orane retired as Chairman, and Mr. Erwin Burton was appointed Chairman of the Board effective March 2, 2009. Mr. A. Anthony Holness retired as CEO on June 30, 2009 and Mr. Joe Taffe acted as CEO until October 31, 2009. Mr. Simon Roberts was appointed CEO effective November 1, 2009, and appointed a director on November 10, 2009. Mr. Courtney Campbell resigned as a Director on February 1, 2010, and Mr. Don Wehby was appointed a Director on the same date.

We would like to thank Messrs. Orane, Campbell and Holness for their significant contributions during their years of service to the Company.

During the year, corporate oversight of Hardware & Lumber was transferred from the GraceKennedy Financial Services Division to the portfolio of GraceKennedy Group Chief Operating Officer, Mr. Don Wehby.

4. RISK MANAGEMENT & INTERNAL CONTROLS

Hardware & Lumber's activities expose it to a variety of risks and those activities involve the analysis, evaluation, acceptance and management of a combination of risks. Operational risks are an inevitable consequence of being in business. The company's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on financial performance.

Risk management policies are designed to identify and analyze 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 practices.

The Board of Directors is ultimately responsible for the establishment and oversight of the risk management framework. It provides policies for overall risk management, as well as principles and procedures covering the specific areas of risk. The most important risks are credit risk, liquidity risk, market risk and other operational risks. Market risk includes currency risk, interest rate and other price risk.

Credit Risk
Refer to Note 3a of the Financial Statements.

Liquidity Risk
Refer to Note 3b of the Financial Statements.

Market Risk (including Currency Risk, Interest Rate Risk)
Refer to Note 3c of the Financial Statements for both Currency and Interest Rate Risk.

Committee of Sponsoring Organisations of the Treadway Commission (COSO) Update
Hardware & Lumber continued the rollout of the COSO programme which began in 2008. This programme aims to establish awareness and a consistent set of proactive risk and control practices throughout the GraceKennedy Group through the implementation of a formal risk assessment process, documented policies and procedures, documented training and communication plans, a rigorous self-assessment process and an effective monitoring process.

The GraceKennedy Group has established a review of business processes to the targeted stage of the COSO programme which is scheduled for verification by Group Internal Audit in 2011. All subsidiary companies are required to comply with a set of procedures, including the existence of controls for the top ten business risks, established from the wider risk analysis in the Balanced Scorecard (BSC) programme.

As part of the COSO programme it is required that:
- The head of each business/subsidiary company along with their first line reports take full responsibility for the company's risk appetite and risk mitigation strategies.
- Each identified risk has an appropriate control, an owner and a projected date to reduce the risk to an acceptable level.
- Exception reporting is done for controls that do not exist, including identifying an owner and a date for implementing the control.
- At least a quarterly review of risk movements and a revision of the controls that have not functioned as intended is completed.

Internal Controls & Business Processes Review
During the latter part of 2009, GraceKennedy retained the services of an international advisory firm to carry out a review of internal controls, risk management and governance processes. Hardware & Lumber is benefiting from this review, and when completed in 2010, the implementation of recommendations is expected to further strengthen internal controls, risk management and governance processes in the Company.

The company is committed to maintaining a safe environment for our customers and associates and protecting the environment of the communities in which we do business. Our Environmental, Health and Safety (EH&S) is being deployed across all of our operations, with team members at each location being trained on the execution of the EH&S programmes.

Hardware & Lumber is committed to conducting business in an environmentally responsible manner.
This commitment impacts all areas of our business, including store operations, energy usage, supply chain, product selection and delivery of product knowledge to our customers.

Management's Responsibility for Financial Statements
The financial statements presented in this Annual Report have been prepared with integrity and objectivity and are the responsibility of the management of Hardware & Lumber. These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and properly reflect certain estimates and judgments based upon the best available information.

The financial statements of the Company have been audited by PricewaterhouseCoopers ("PwC"), an independent registered public accounting firm. Their accompanying report is based upon an audit conducted in accordance with International Standards on Auditing (ISA).

The Audit Committee of the Board of Directors, consisting solely of independent directors, meets four times a year, with the independent registered public accounting firm, the internal auditors and representatives of management invited, to discuss auditing and financial reporting matters. The Audit Committee regularly reviews the internal accounting controls, the activities of the independent registered public accounting firm and internal auditors and the financial condition of the Company. Both the Company's independent registered public accounting firm and the internal auditors have free access to the Audit Committee.

Management's Report on Internal Control over Financial Reporting
Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2009 based on the framework in Internal Control –Integrated Framework issued by the Committee of

Sponsoring Organizations of the Treadway Commission (COSO). Based on our evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2009 in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the IFRS. The effectiveness of our internal control over financial reporting as of December 31, 2009 has been reviewed by PwC, an independent registered public accounting firm, as stated in their report which is included herein.

5. CORPORATE SOCIAL RESPONSIBILITY

Grace & Staff Community Development Foundation
Hardware & Lumber continued to actively participate in the Foundation, which celebrated its 30th Anniversary in 2009. A joint project between GraceKennedy Limited and its employees, the Foundation was established in 1979 to facilitate the development of communities that border our business locations. It primarily provides support for inner city youths who have the academic potential, but are at risk due to social and economic circumstances and supports activities which promote community development. There are many staff volunteers from Hardware & Lumber, who have committed themselves to making a difference in our society, both through Grace & Staff and other church and community organizations.

6. OUTLOOK: 2010 AND BEYOND

Certain statements contained in the Management Discussion & Analysis of Financial Condition and Results of Operations are forward-looking statements that involve risks and uncertainties. The forward-looking statements are not historical facts, but rather are based on current expectations, estimates, assumptions and projections about our industry, business and future financial results. Our actual results could differ materially from the results contemplated by these forward-looking statements due to a number of factors, including those discussed in other sections of this Annual Report.

Despite the global difficulties and uncertainties in 2009 and the anticipated challenges in 2010, Hardware & Lumber remains committed to its core values and strategy. We will remain focused on innovation, customer needs, operational efficiency and developing our people while being steadfast to core competencies.

A number of new products and services will be launched in 2010 which are anticipated to add value for new and existing customers. The contribution to profitability from these new initiatives will be dependent on the purchasing power of consumers which at this point in time is being negatively affected by the global recession.

Risk management and internal controls will remain a focus area in 2010, as we continue to strengthen control systems, including continued review by the international advisory firm contracted in 2009.

The Government of Jamaica in February 2010 took a bold step in addressing the country's debt problem by instituting the Jamaica Debt Exchange (JDX) Programme. Hardware & Lumber Limited considers this programme in the best long term interest of shareholders and the country at large. The JDX Programme is, however, likely to have a short term adverse impact on the purchasing power of some of our consumers and customers due to reduced interest earnings.

A material percentage of the company's losses in 2009 originated from firstly, exchange losses based on a rapid devaluation of the Jamaican dollar in early 2009 and secondly because of the high interest rate regime which prevailed during the year. If the Exchange rate continues to be relatively stable and if interest rates, having been reduced by the JDX, continue at these lower levels then it is expected that the level of losses which emanated from these two areas in 2009 would not be repeated in 2010.

Simon Roberts
CEO
April 29, 2010

Andrew Kerr
CFO
April 29, 2010

Board of Directors

Erwin Burton
B.Sc., M.Sc., J.P.
Chairman

is Deputy CEO, GraceKennedy Limited and CEO, GK Foods. He was appointed to the Board of GraceKennedy Limited in 1995. He serves on the boards of several GraceKennedy subsidiaries including GK Foods and Services Ltd., GraceKennedy (Belize) Ltd., Grace Foods UK Ltd. and GraceKennedy (Ontario). He is also a member of the board of Mona Institute of Applied Sciences and Agri Investment Corporation. In February 2010, Mr. Burton was appointed Chairman of the Sugar Company of Jamaica (SCJ) Holdings Limited.

Simon Roberts
B.A.Sc., M.A.Sc., P. Eng., (Ont.) CEO

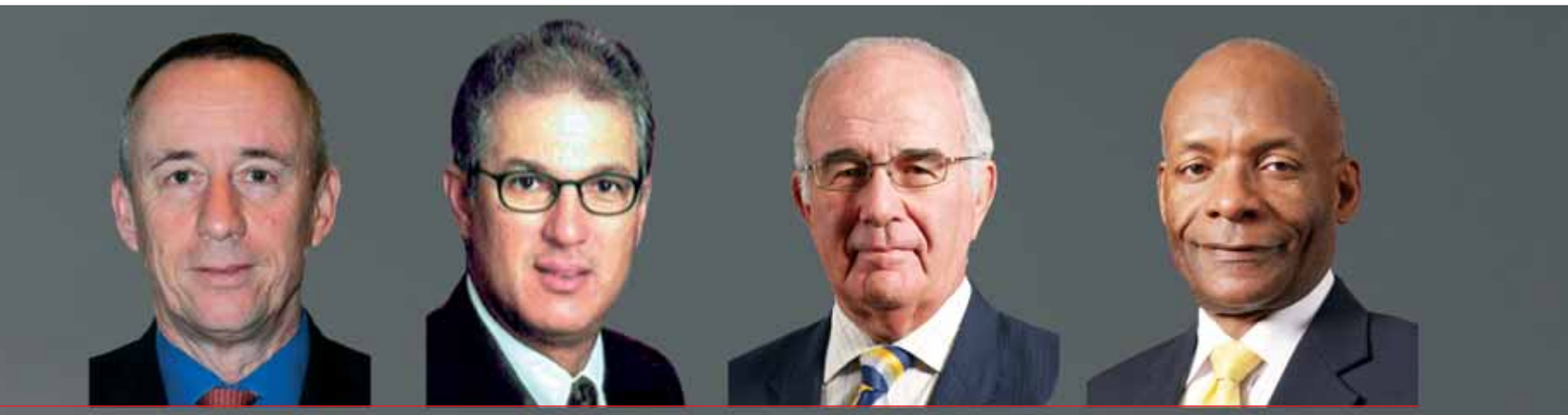
is the Chief Executive Officer of Hardware & Lumber Limited. Prior to joining H&L, he was General Manager of GK Logistics Services Ltd., and responsible for the construction of the new GraceKennedy distribution centre in St. Catherine. He has also been General Manager for three of the four GraceKennedy food factories located in Jamaica, having joined GraceKennedy in 1997. He also has over 15 years experience in the steel industry in metallurgy, customer service, quality assurance and product development. He is a director of Grace & Staff Community Development Foundation, GraceKennedy Remittance Services Ltd., GraceKennedy Currency Trading Services Ltd, GraceKennedy Payment Services Ltd., a Vice President of the Jamaica Manufacturer's Association, and Chairman of the Jamaica National Agency for Accreditation (JANAAC).

Donald G. Wehby
B. Sc (Hons.) M.Sc. (Acctg.), FCA

is Chief Operating Officer of GraceKennedy Limited and a member of its Board. He was Deputy CEO for GraceKennedy Limited and CEO, GK Investments up to September 2007 when he resigned to take up the position of Senator and Cabinet Minister in the Ministry of Finance & the Public Service for two years. He was reappointed to the GraceKennedy Board on October 5, 2009. He is also a board member of several other GraceKennedy subsidiaries. He holds both a Bachelor of Science (Hons.) degree and a Master of Science degree in Accounting from the University of the West Indies and has completed an Advanced Management College certificate course at Stanford University. He is a chartered accountant and a Fellow of the Institute of Chartered Accountants of Jamaica.

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.



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

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.
Mr. Hanworth 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.

is the CEO of Pan-Jamaican Investment Trust since 2004 and First Jamaica 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.

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

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.

Joseph Taffe
BSc., FCA., FCCA

is Deputy CEO of GraceKennedy Financial Group Limited and a member of the Board of GraceKennedy Limited. He also serves as a director of several GraceKennedy subsidiaries. He holds a Bachelor of Science (Hons.) degree in Management Studies from the University of the West Indies. He is a chartered accountant and a Fellow of the Institute of Chartered Accountants of Jamaica and the Association of Certified Chartered Accountants, UK.

Corporate Data As at 31 March 2010

Board of Directors (as at March 31, 2010)

Erwin M. Burton,
B.Sc., M.Sc., J.P.
Chairman

Simon D. Roberts.,
B.A.Sc., M.A.Sc., P. Eng., (Ont.)
Chief Executive Officer

Donald G Wehby
B.Sc. (Hons.), M.Sc., (Acctg.), C.A.

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
Citigroup, N.A.
FirstCaribbean International (Jamaica) Limited
National Commercial Bank Jamaica Limited
First Global Bank Limited

Auditors

PricewaterhouseCoopers

Attorneys-at-Law

DunnCox

Executive Team (as at March 31, 2010)

Simon D Roberts, B.A.Sc., M.A.Sc., P. Eng., (Ont.)
Chief Executive Officer
Hardware & Lumber Limited

Dean Clarke, JP
Regional Manager/Retail
Hardware & Lumber Limited

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

Novelette Harris, B.Sc.
Human Resources Manager
Hardware & Lumber Limited

Andrew Kerr, A.C.C.A.
Chief Financial Officer
Hardware & Lumber Limited

Ryan Foster, M.Sc., B.Sc.
Head, Risk, Governance & Business Development
Hardware & Lumber Limited

Marlene Virgo, M.B.A., B.Sc.
Procurement Manager
Hardware & Lumber Limited

Dion Gardner
Security Manager
Hardware & Lumber Limited

Stephen Lewis, B.Sc.
Information Technology Manager
Hardware & Lumber Limited

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

Errol Mighty, B.Sc., M. Sc.
Regional Manager/Retail
Hardware & Lumber Limited

Raymond Sewell, A. Sc.
Operations Manager-Distribution Centre
Hardware & Lumber Limited

Dave Myrie, M.A (Management)
A.Sc.Ed., Dip. Ed., Cert. Ed.
Chief Operating Officer,
Hardware & Lumber Limited

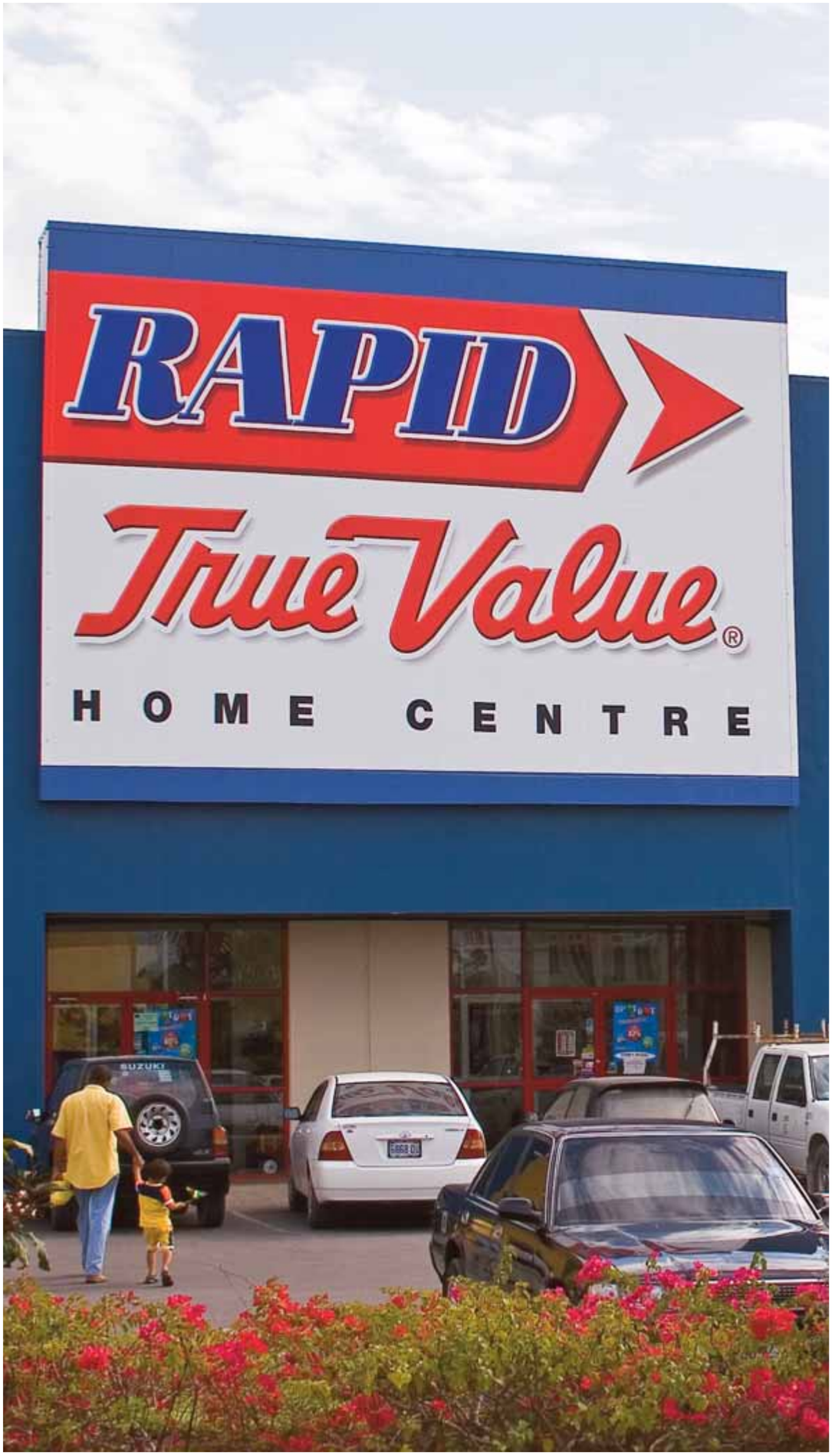
Interest of Directors and Senior Management As at 31 December 2009

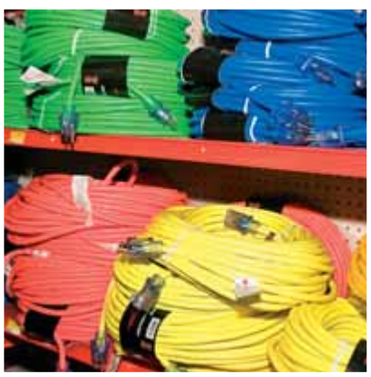
DIRECTORS	PERSONAL SHAREHOLDINGS	STOCKHOLDINGS IN WHICH DIRECTOR/OFFICER HAS AN INTEREST
Erwin M. Burton	1,000	-
Rodney St. A. Davis	5,218	-
Stephen B. Facey	1,000	-
Paul Hanworth	1,000	-
Simon Roberts	4,000	-
Gordon K. G. Sharp	60,000	-
Joseph Taffe	20,000	-
Don Wehby	1,000	-
SENIOR MANAGEMENT		
Dean Clarke	Nil	-
Glenford Clarke	Nil	-
Ryan Foster	Nil	-
Dion Gardner	Nil	-
Novelette Harris	Nil	-
Andrew Kerr	Nil	-
Stephen Lewis	Nil	-
Garnett Malcolm	Nil	-
Errol Mighty	4,000	-
Dave Myrie	Nil	-
Simon Roberts	4,000	-
Raymond Sewell	Nil	-
Marlene Virgo	Nil	-

Major Shareholders As at 31 December 2009

	NAME	STOCKHOLDINGS
1	GraceKennedy Limited	47,013,417
2	Pan-Jamaican Investment Trust Ltd.	16,840,106
3	Mayberry Company A/C 120008	3,286,775
4	Mayberry Investments Limited A/C 09022	1,092,833
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 Superann. Fund	593,406

Total stocks in issue – 80,842,023
Total no. of stockholders – 1,447


RAPID
True Value®
HOME CENTRE



Report of the Directors

1. The Directors submit herewith their Annual Report and the Audited Financial Statements for the year ended December 31, 2009.

	$'000
The net profit before Tax	(295,608)
The charge for taxation was	69,846
Making the profit after taxation	(225,762)
To which is added the retained profits brought forward from the previous year of	240,295
Leaving retained earnings to be carried forward to the next year of	**14,533**

2. Directors

The Directors as at December 31, 2009 were as follows:

Messrs., Erwin M. Burton, Rodney St. A. Davis, Paul Hanworth, Stephen B. Facey, Gordon K. G. Sharp and Joseph Taffe, Courtney Campbell and Simon Roberts.

Mr. Courtney Campbell resigned from the Board of Directors February 1, 2010 and at the same time Mr. Donald George Wehby was appointed to the Board of Directors.

In accordance with Article 100 of the Company's Articles of Incorporation, Messrs. **Rodney St. A. Davis, Gordon K. G. Sharp and Joseph Taffe** will retire by rotation and being eligible, offer themselves for re-election.

Pursuant to Article 105 Messrs Simon Roberts and Donald Wehby who were appointed since the last Annual General Meeting will retire at this Annual General Meeting and being eligible offer themselves 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.

5. The Directors did not recommend any dividend for the year under consideration.

By order of the Board
Dated this 31st day of March 2010

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 of 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 Directors. 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, analysing, 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 audit 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 risk and exposures affecting the company and to ensure the monitoring and controlling of such risks and exposures.

Audit Committee Terms of Reference

(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 independent auditor regarding financial reporting.
viii. To report to the Board any matter which it considers needs 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 correspondences 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 business 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.
iii. 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 six (6) times and review quarterly and audited financial statements on behalf of the Board of Directors. It reviewed the internal control processes of the company focusing on inventory control, compliance and risk management and approved actions of the management where applicable.

Auditors Report

PRICEWATERHOUSECOOPERS

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

Independent Auditors' Report

To the Members of
Hardware & Lumber Limited

We have audited the accompanying financial statements of Hardware & Lumber Limited set out on pages 24 to 74, which comprise the statement of financial position as of 31 December 2009 and the statements of comprehensive income, 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 and with the requirements of the Jamaican Companies Act. 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

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

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

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 2009, 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

26 March 2010
Kingston, Jamaica

Hardware & Lumber Limited

Statement of Comprehensive Income
Year ended 31 December 2009
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2009	2008
		$'000	$'000
Revenue		5,940,599	6,788,162
Cost of sales		(4,527,509)	(5,348,322)
Gross Profit		1,413,090	1,439,840
Other operating income	6	23,782	29,390
		1,436,872	1,469,230
Direct expenses		(841,116)	(1,053,688)
Administrative expenses		(624,284)	(641,564)
		(1,465,400)	(1,695,252)
Loss from Operations		(28,528)	(226,022)
Finance costs	9	(267,080)	(190,888)
Loss before Tax		(295,608)	(416,910)
Taxation	10	69,846	156,954
LOSS FOR THE YEAR		(225,762)	(259,956)
Other comprehensive income:			
Net gain on revaluation of land and buildings		-	167,858
Total other comprehensive income for the year		-	167,858
Total comprehensive income for the year		(225,762)	(92,098)
LOSS PER STOCK UNIT	11	($2.79)	($3.21)

Hardware & Lumber Limited

Statement of Financial Position
31 December 2009
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2009 $'000	2008 $'000
NET ASSETS EMPLOYED			
Non-current Assets			
Property, plant and equipment	12	588,024	625,798
Intangible assets	13	81,962	102,658
Deferred tax asset	25	154,681	84,835
Retirement benefit asset	14	175,532	238,789
		1,000,199	1,052,080
Current Assets			
Inventories	15	1,426,011	1,584,230
Trade and other receivables	16	355,276	383,105
Group companies	17	8,342	12,024
Taxation recoverable		50,928	46,480
Cash and bank balances	18	147,120	369,449
		1,987,677	2,395,288
Current Liabilities			
Bank overdrafts	18	140,573	60,867
Trade and other payables	19	949,038	821,295
Provisions	20	765	7,549
Short term loans	21	366,335	766,105
Group companies	17	6,401	2,495
Current portion of long term loans	24	102,695	129,712
		1,565,807	1,788,023
Net Current Assets		421,870	607,265
		1,422,069	1,659,345

Hardware & Lumber Limited

Statement of Financial Position
31 December 2009
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2009 $'000	2008 $'000
FINANCED BY			
Stockholders' Equity			
Share capital	22	616,667	616,667
Capital reserve	23	262,206	262,206
Other reserve	28	10,341	-
Retained earnings		14,533	240,295
		903,747	1,119,168
Non-current Liabilities			
Long term loans	24	295,612	308,000
Retirement benefit obligation	14	222,710	232,177
		518,322	540,177
		1,422,069	1,659,345

Approved for issue by the Board of Directors on 26 March 2010 signed on its behalf by:

Simon Roberts Director

Erwin Burton Director

Hardware & Lumber Limited

Statement of Changes in Stockholders' Equity
Year ended 31 December 2009
(expressed in Jamaican dollars unless otherwise indicated)

	Note	Share Capital	Capital Reserve	Other Reserve	Retained Earnings	Total
		$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2008		616,667	94,348	-	500,251	1,211,266
Comprehensive Income						
Loss for the year		-	-	-	(259,956)	(259,956)
Other comprehensive income						
Net gain on revaluation		-	167,858	-	-	167,858
Total other comprehensive income		-	167,858	-	-	167,858
Total comprehensive income		-	167,858	-	(259,956)	(92,098)
Balance at 31 December 2008		616,667	262,206	-	240,295	1,119,168
Comprehensive Income						
Loss for the year and total comprehensive income		-	-	-	(225,762)	(225,762)
Transactions with owners						
Employee stock option scheme: value of employee services received	28	-	-	10,341	-	10,341
Total transactions with owners		-	-	10,341	-	10,341
Balance at 31 December 2009		616,667	262,206	10,341	14,533	903,747

Hardware & Lumber Limited

Statement of Cash Flows
Year ended 31 December 2009
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2009 $'000	2008 $'000
Cash Generated from Operating and Investing Activities:			
Loss for the year		(225,762)	(259,956)
Items not affecting cash:			
Depreciation of property, plant and equipment	12	52,996	54,396
Interest income	6	(16,910)	(9,673)
Warranties	20	(1,137)	7,158
Foreign exchange losses	9	103,190	82,407
Stock options	28	10,341	-
Interest expense	9	163,890	108,481
Amortisation of computer software	13	32,920	54,733
Taxation expense	10	(69,846)	(156,954)
Loss/(profit) on disposal of property, plant and equipment		3,938	(740)
		53,620	(120,148)
Changes in non-cash working capital components:			
Change in retirement benefit assets/obligation		53,790	5,949
Inventories		158,219	234,183
Trade and other receivables		27,907	138,801
Group companies		7,588	(2,088)
Trade and other payables		114,831	(129,168)
Warranties settled	20	(5,647)	(200)
		356,688	247,477
Tax paid		(4,448)	(79,025)
Net cash provided by operating activities		405,860	48,304
Cash Flows from Investing Activities			
Proceeds from sale of property, plant and equipment		243	740
Purchase of property, plant and equipment	12	(19,403)	(48,938)
Purchase of computer software	13	(12,224)	(32,606)
Interest received		16,832	9,673
Net cash used in investing activities		(14,552)	(71,131)
Cash provided by/(used in) operating and investing activities (carried forward to page 6)		391,308	(22,827)

Hardware & Lumber Limited

Statement of Cash Flows
Year ended 31 December 2009
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2009 $'000	2008 $'000
Cash Provided by/(Used in) Operating and Investing Activities (carried forward from Page 5)		391,308	(22,827)
Cash Flows from Financing Activities			
Short term loans		(451,900)	51,558
Interest paid		(166,436)	(112,815)
Long term loans		(83,926)	184,731
Net cash (used in)/provided by financing activities		(702,262)	123,474
Effects of exchange rate changes on cash and cash equivalents		8,919	17,370
Net (decrease)/increase in cash and cash equivalents		(302,035)	118,017
Cash and cash equivalents at beginning of year	18	308,582	190,565
Cash and Cash Equivalents at the End of the Year		6,547	308,582
Comprised of:			
Cash at bank	18	102,592	271,273
Short term deposits	18	44,528	98,176
		147,120	369,449
Bank overdraft	18	(140,573)	(60,867)
Cash and Cash Equivalents at the End of the Year		6,547	308,582

Hardware & Lumber Limited

Notes to the Financial Statements
31 December 2009
(expressed in Jamaican dollars unless otherwise indicated)

1. Identification and Principal Activities

Hardware & Lumber Limited (the company) is a 58.1% subsidiary of GraceKennedy Limited (Grace). The company trades in hardware, lumber, household items and agricultural products. The company is a public company listed on the Jamaica Stock Exchange.

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.

- IAS 1 (Revised) - Presentation of financial statements. The main objective in revising IAS 1 is to aggregate information in the financial statements on the basis of shared characteristics. IAS 1 affects the presentation of owner changes in equity and of comprehensive income. It does not change the recognition, measurement or disclosure of specific transactions and other events required by other IFRS. IAS 1 (Revised) requires an entity to present, in a statement of changes in equity, all owner changes in equity. All non-owner changes in equity (i.e. comprehensive income) are required to be presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Where entities restate or reclassify comparative information, they are required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period.

- IFRS 8 – 'Operating segments'. Replaces IAS 14, 'Segment reporting', and requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes.

Hardware & Lumber Limited

Notes to the Financial Statements
31 December 2009
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

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

- IAS 19 (Amendment), 'Employee benefits'. The amendment is part of the IASB's annual improvements project published in May 2008.
  - The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.
  - The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.
  - The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.
  - IAS 37, 'Provisions, contingent liabilities and contingent assets, requires contingent liabilities to be disclosed, not recognised. IAS 19 has been amended to be consistent.
- IAS 36 (Amendment), 'Impairment of assets'. The amendment is part of the IASB's annual improvements project published in May 2008. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made.
- IAS 38 (Amendment), 'Intangible assets'. The amendment is part of the IASB's annual improvements project published in May 2008. A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services.

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:

- IFRS 8 (Amendment), 'Operating Segments' (effective 1 January 2010). The amendments clarify that segment information with respect to total assets is required only if such information is regularly reported to the chief operating decision maker.

Hardware & Lumber Limited

Notes to the Financial Statements
31 December 2009
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

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

- IFRS 2 (Amendment), 'Share-based Payment – Group Cash-settled Share-based Payment Transactions' (effective 1 January 2010). The IASB amended IFRS 2 to require an entity receiving goods or services (receiving entity) in either an equity-settled or a cash-settled share-based payment transaction to account for the transaction in its separate or individual financial statements. This principle even applies if another group entity or shareholder settles the transaction (settling entity) and the receiving entity has no obligation to settle the payment. Management is currently assessing the impact of those changes.

(b) Dividend distributions

Dividend distributions to the company's stockholders are 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

Jamaica is the primary economic environment in which the company operates, and 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 statement of comprehensive income.

Hardware & Lumber Limited

Notes to the Financial Statements
31 December 2009
(expressed in Jamaican dollars unless otherwise indicated)

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 statement of comprehensive income.

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	4 - 10 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.

Repairs and maintenance expenditures are charged to the statement of comprehensive income 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

(i) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation 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 asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffer impairment are reviewed for possible reversal of the impairment at each reporting date.

Hardware & Lumber Limited

Notes to the Financial Statements
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(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(e) Impairment (Continued)

(ii) Impairment of financial assets

The company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indications that the assets are impaired.

(f) Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less they are classified as current assets. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

(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.

Hardware & Lumber Limited

Notes to the Financial Statements
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2. Significant Accounting Policies (Continued)

(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 define benefit plan is typically a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

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

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

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

(ii) Equity compensation benefits

Grace operates an equity-settled, share-based compensation plan. Share options are granted to management and key employees of Grace, its subsidiaries and its associated companies. The fair value of the employee services received in exchange for the grant of the options is expensed and credited to other reserves in stockholders equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of non-market vesting conditions. Options are granted to senior managers at the market price of the shares on the date of the grant and are exercisable at that price. The grant price to other employees is the weighted average price of the shares on the Jamaica Stock Exchange for the previous ten (10) trading days before the date on which the grant of options is approved by the Board, with a 25% discount. Options are exercisable beginning one year from the date of grant and have a contractual option term of six years.

(iii) 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.

Hardware & Lumber Limited

Notes to the Financial Statements
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2. Significant Accounting Policies (Continued)

(h) Employee benefits (continued)

(iv) Other post-employment obligations
The company also provides supplementary health, life insurance and other benefits to qualifying employees upon retirement. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. These obligations are valued annually by independent qualified actuaries.

(i) Income taxes

Taxation for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

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.

Hardware & Lumber Limited

Notes to the Financial Statements
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2. Significant Accounting Policies (Continued)

(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 settled by cash or credit card.

Interest income

Interest income is recognised on the accrual basis.

(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 statement of comprehensive income 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 and short term deposits with maturities of less than 90 days, net of bank overdrafts.

Hardware & Lumber Limited

Notes to the Financial Statements
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2. Significant Accounting Policies (Continued)

(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

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer who makes strategic decisions.

(p) Financial assets

Classification

The company classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The company's loans and receivables comprise trade and other receivables, group balances and cash and cash equivalents in the statement of financial position (Notes 16, 17 and 18). The fair values of the company's financial assets are discussed in Note 27.

Recognition and measurement

Regular purchases of financial assets are recognised on the trade date – the date on which the company commits to purchase or sell the asset. These are initially recognised at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method. Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

(q) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Hardware & Lumber Limited

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2. Significant Accounting Policies (Continued)

(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 and cash flow interest rate 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 more important types of risk are credit risk, liquidity risk, market risk and other operational risks. Market risk includes currency risk and interest rate.

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.

(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.

Hardware & Lumber Limited

Notes to the Financial Statements
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3. Financial Risk Management (Continued)

(a) Credit risk (continued)

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.

(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

	2009	2008
	$'000	$'000
Credit risk exposures are as follows:		
Trade receivables (Note 16)	269,299	252,416
Cash and cash equivalents (Note 18)	147,120	369,449
	416,419	621,865

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

Hardware & Lumber Limited

Notes to the Financial Statements
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3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Aging 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 2009, trade receivables totalling $34,819,000 (2008 - $36,337,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	2009 $'000	2008 $'000
1 to 30 days past due	12,570	15,027
31 to 60 days past due	16,824	10,229
Over 60 days past due	5,425	11,081
	34,819	36,337

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

As of 31 December 2009, trade receivables of $60,142,000 (2008 - $85,400,000) were past due and impaired. The amount of the provision was $47,573,000 (2008 – $39,875,000). 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 aging of these receivables is as follows:

	2009 $'000	2008 $'000
Over 60 days past due	60,142	85,400

Hardware & Lumber Limited

Notes to the Financial Statements
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3. Financial Risk Management (Continued)

(a) Credit risk (continued)

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

	2009 $'000	2008 $'000
At 1 January	39,875	75,006
Provision for receivables impairment	17,556	35,452
Recoveries	(9,858)	(6,283)
Receivables written off during the year as uncollectible	-	(64,300)
At 31 December	47,573	39,875

The creation and release of provision for impaired receivables have been included in expenses in the statement of comprehensive income. 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.

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

	2009 $'000	2008 $'000
Agriculture, fishing and mining	71,512	75,735
Wholesalers	174,338	155,498
Retail distributors and others	71,022	61,058
	316,872	292,291
Less: Provision for credit losses	(47,573)	(39,875)
	269,299	252,416

All trade receivables are receivable from customers in Jamaica.

Hardware & Lumber Limited

Notes to the Financial Statements
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3. Financial Risk Management (Continued)

(b) Liquidity risk

Liquidity risk is the risk that the company may be 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 committed lines of credit;

(iii) Optimising cash returns on investment;

(iv) 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.

Hardware & Lumber Limited

Notes to the Financial Statements
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3. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

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

The tables below summarise 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 2009:						
Liabilities						
Bank overdraft	140,573	-	-	-	-	140,573
Trade payables	243,317	608,920	-	-	-	852,237
Other payables	96,801	-	-	-	-	96,801
Short term loans	21,504	186,789	210,461	-	-	418,754
Group companies	6,401	-	-	-	-	6,401
Long term loans	22,134	12,834	141,109	309,054		485,131
	530,730	808,543	351,570	309,054	-	1,999,897

	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	88,458	384,309	333,151	-	-	805,918
Group companies	2,495	-	-	-	-	2,495
Long term loans	883	18,971	135,822	399,211	-	554,887
	511,209	866,069	468,973	399,211	-	2,245,462

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

Hardware & Lumber Limited

Notes to the Financial Statements
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3. Financial Risk Management (Continued)

(c) Market risk

The company takes on exposure to market risk, 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 risk 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.

Hardware & Lumber Limited

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3. Financial Risk Management (Continued)

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

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

	Jamaican$ J$'000	US$ J$'000	Total J$'000
At 31 December 2009:			
Financial Assets			
Trade receivables	269,299	-	269,299
Other receivables	79,571	6,406	85,977
Group companies	8,342	-	8,342
Cash and bank	99,604	47,516	147,120
Total financial assets	456,816	53,922	510,738
Financial Liabilities			
Bank overdraft	140,573	-	140,573
Trade payables	156,070	696,167	852,237
Other payables	96,801	-	96,801
Short term loans	231,935	134,400	366,335
Group companies	6,401	-	6,401
Long term loans	137,662	260,645	398,307
Total financial liabilities	769,442	1,091,212	1,860,654
Net financial position	(312,626)	(1,037,290)	(1,349,916)

Hardware & Lumber Limited

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3. Financial Risk Management (Continued)

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

	Jamaican$ J$'000	US$ J$'000	Total J$'000
At 31 December 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)

Foreign currency sensitivity
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 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 2009	Effect on Net Loss and Equity 2009 $'000	% Change in Currency Rate 2008	Effect on Net Loss and Equity 2008 $'000
Devaluation	5	(34,576)	10	(78,805)
Revaluation	2	13,831	5	39,403

Hardware & Lumber Limited

Notes to the Financial Statements
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3. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk

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

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

The company's interest rate risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest bearing financial assets and interest bearing financial 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.

Hardware & Lumber Limited

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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 2009							
Assets							
Trade receivables	-	-	-	-	-	269,299	269,299
Other receivables	-	-	-	-	-	85,977	85,977
Group companies	-	-	-	-	-	8,342	8,342
Cash and bank	147,120	-	-	-	-	-	147,120
Total financial assets	147,120	-	-	-	-	363,618	510,738
Liabilities							
Bank overdraft	140,573	-	-	-	-	-	140,573
Trade payables	-	-	-	-	-	852,237	852,237
Other payables	-	-	-	-	-	96,801	96,801
Short term loans	11,935	220,000	134,400	-	-	-	366,335
Group companies	-	-	-	-	-	6,401	6,401
Long term loans	14,730	9,963	105,498	268,116	-	-	398,307
Total financial liabilities	167,238	229,963	239,898	268,116	-	955,439	1,860,654
Total interest repricing gap	(20,118)	(229,963)	(239,898)	(268,116)	-	(591,821)	(1,349,916)

Hardware & Lumber Limited

Notes to the Financial Statements
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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)

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 statement of comprehensive income and stockholders' equity.

The company's interest rate risk arises from bank overdrafts and loans. The sensitivity of the statement of comprehensive income is the effect of the assumed changes in interest rates on net income based on floating rate borrowing.

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3. Financial Risk Management (Continued)

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

Interest rate sensitivity

	Effect on Loss for the Year and Equity 2009 $'000	Effect on Loss for the Year and Equity 2008 $'000
Change in basis points:		
-200 for USD, 600 for JMD (2008 – 100 for both USD and JMD)	7,415	2,015
+200 for both USD and JMD (2008 – 100 for both USD and JMD)	(3,666)	(2,015)

(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 stockholders 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 profit/loss for the year divided by total stockholders' equity. The Board of Directors also monitors the level of dividends to ordinary stockholders.

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 2009 and 2008 were as follows:

	2009 $'000	2008 $'000
Total borrowings	905,215	1,264,684
Less: cash and bank balances	(147,120)	(369,449)
Net debt	758,095	895,235
Total equity	903,747	1,119,168
Total capital	1,661,842	2,014,403
Gearing ratio	45.6%	44.4%

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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.

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5. Segment Information

Management has determined the operating segments based on the reports reviewed by the Chief Executive Officer (CEO) that are used to make strategic decisions.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

The company has three reportable segments as described below, which are the company's strategic business units. The strategic business units offer different products and services, and are managed separately because they require among other things, different marketing strategies. For each of the strategic business units, the company's CEO reviews internal management reports on at least a monthly basis. The following summary describes the operations in each of the company's reportable segments: wholesale of hardware and building products, retail of household and hardware products and agricultural products and equipment. The wholesale of hardware and building products segment sells mainly cement, lumber and other heavy hardware materials to the construction industry. The retail of household and hardware products segment sells mainly household "do it yourself" items along with lighter hardware products. The agricultural products and equipment segment sells mainly insecticide, fertilizers, fungicide and other such agricultural related items to the agricultural industry.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax expense, not including non-recurring gains and losses, as included in the internal management reports that are reviewed by the company's CEO. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

The company's operations are located entirely in Jamaica.

	2009			
	Wholesale of Hardware and Building Products	Retail of Household and Hardware Products	Agricultural Products and Equipment	Total
	$'000	$'000	$'000	$'000
External operating revenue	1,118,016	3,542,110	1,280,473	5,940,599
Interest income	3,345	9,874	3,691	16,910
Interest expense	(31,478)	(96,787)	(35,625)	(163,890)
Depreciation and amortisation	12,051	58,206	15,659	85,916
(Loss)/profit before tax	(109,268)	(284,760)	98,420	(295,608)
Capital expenditure	3,283	23,491	4,853	31,627
Reportable segment assets	908,929	870,218	648,664	2,427,811

Hardware & Lumber Limited

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5. Segment Information (Continued)

	2008			
	Wholesale of Hardware and Building Products	Retail of Household and Hardware Products	Agricultural Products and Equipment	Total
	$'000	$'000	$'000	$'000
External operating revenue	1,285,154	4,203,759	1,299,249	6,788,162
Interest income	2,598	5,002	2,073	9,673
Interest expense	(20,538)	(67,180)	(20,763)	(108,481)
Depreciation and amortisation	(25,753)	(67,373)	(16,003)	(109,129)
Loss before tax	(110,010)	(264,897)	(42,003)	(416,910)
Capital expenditure	39,444	27,484	14,616	81,544
Reportable segment assets	906,437	931,761	360,022	2,198,220

Reportable segments' assets are reconciled to total assets as follows:

	2009	2008
	$'000	$'000
Segment assets for reportable segments	2,427,811	2,198,220
Unallocated assets	560,065	1,249,148
Total assets per balance sheet	2,987,876	3,447,368

No single customer accounted for 10% or more of total revenues of the company either in 2009 or in 2008.

6. Other Operating Income

	2009	2008
	$'000	$'000
(Loss)/profit on sale of property, plant and equipment	(3,938)	740
Rent	6,445	4,265
Interest income	16,910	9,673
Purchase rebate	3,799	14,712
Other	566	-
	23,782	29,390

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7. Expenses by Nature

Total cost of sales, direct and administrative expenses

	2009 $'000	2008 $'000
Auditors' remuneration	7,407	6,550
Advertising and marketing	41,204	50,375
Cost of sales	4,527,509	5,348,322
Depreciation and amortisation	85,916	109,129
Insurance	63,114	63,110
Occupancy – rent, utilities, etc.	254,643	264,043
Repairs, maintenance and renewals	51,510	51,990
Staff costs (Note 8)	523,530	536,504
Professional and contractual	151,281	211,813
Processing and facility	33,311	36,356
Security	65,511	66,678
Stationery and computer expense	48,831	82,986
Equipment rental	11,584	17,462
Other	127,558	198,256
	5,992,909	7,043,574

8. Staff Costs

	2009 $'000	2008 $'000
Wages and salaries	308,284	371,407
Payroll taxes, employer's contribution	29,742	34,079
Pension charge/(credit) (Note 14)	64,549	(34,327)
Other post-employment benefits (Note 14)	33,622	49,207
Staff welfare	66,792	84,590
Gratuity	10,200	16,864
Stock option expense (Note 28)	10,341	-
Redundancy costs	-	14,684
	523,530	536,504

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9. Finance Costs

	2009 $'000	2008 $'000
Interest expense	163,890	108,481
Foreign exchange losses	103,190	82,407
	267,080	190,888

10. Taxation

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

	2009 $'000	2008 $'000
Prior year over provision	-	(6,683)
Deferred (Note 25)	(69,846)	(150,271)
	(69,846)	(156,954)

	2009 $'000	2008 $'000
Loss before tax	(295,608)	(416,910)
Tax calculated at 33 1/3%	(98,536)	(138,970)
Adjusted for the effect of:		
Over provision of prior year deferred tax credit/(charge)	12,873	(11,879)
Prior year over provision	-	(6,683)
Expenses not deductible for tax	15,577	586
Net effect of other charges and allowances	240	(8)
Taxation	(69,846)	(156,954)

Subject to agreement with the Taxpayer, Audit and Assessment Department, losses available for indefinite carry-forward and offset against future taxable income amount to approximately $571,168,000 (2008 - $330,556,000).

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11. Loss per Stock Unit

Loss per stock unit is calculated by dividing the net profit attributable to stockholders by the number of ordinary stock units in issue during the year.

	2009	2008
Net loss attributable to stockholders ($'000)	(225,762)	(259,956)
Number of stock units in issue ('000)	80,842	80,842
Loss per stock unit	($2.79)	($3.21)

12. Property, Plant and Equipment

	Freehold Land $'000	Freehold Buildings $'000	Furniture and Office Equipment $'000	Leasehold Improvements $'000	Equipment and Scaffolding $'000	Vehicles and Forklift Trucks $'000	Total $'000
Cost or Valuation -							
1 January 2009	169,907	267,688	342,339	129,103	83,052	7,716	999,805
Additions	-	4,015	4,213	9,545	1,630	-	19,403
Disposals	-	-	(2,598)	(4,351)	(823)	-	(7,772)
Transfers	93	(7,378)	-	-	7,285	-	-
31 December 2009	170,000	264,325	343,954	134,297	91,144	7,716	1,011,436
Depreciation -							
1 January 2009	-	3,094	226,832	89,409	49,924	4,748	374,007
Charge for the year	-	5,337	30,326	9,433	6,733	1,167	52,996
Relieved on disposals	-	-	(1,766)	(1,005)	(820)	-	(3,591)
Transfers	-	(291)	-	-	291	-	-
31 December 2009	-	8,140	255,392	97,837	56,128	5,915	423,412
Net Book Value -							
31 December 2009	170,000	256,185	88,562	36,460	35,016	1,801	588,024

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12. Property, Plant and Equipment (Continued)

	2008							
	Freehold Land	Freehold Buildings	Furniture and Office Equipment	Leasehold Improvements	Equipment and Scaffolding	Vehicles and Forklift Trucks	Construction Work in Progress	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'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

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.

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13. Intangible Assets

	Computer Software	Computer Software Work in Progress	Goodwill	Total
	$'000	$'000	$'000	$'000
Year ended 31 December 2009				
Opening net book amount	95,216	5,706	1,736	102,658
Additions	-	12,224	-	12,224
Amortisation charge	(32,920)	-	-	(32,920)
Closing net book amount	62,296	17,930	1,736	81,962
At 31 December 2009				
Cost	233,838	17,930	1,736	253,504
Accumulated amortization	(171,542)	-	-	(171,542)
Net book amount	62,296	17,930	1,736	81,962

	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 amortization	(138,622)	-	-	(138,622)
Net book amount	95,216	5,706	1,736	102,658

The amortisation charge of $32,920,000 (2008 - $54,733,000) is included in administrative expenses in the statement of comprehensive income.

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14. Post-employment Benefits

	2009 $'000	2008 $'000
Assets/(liabilities) recognised in the balance sheet –		
Retirement Benefit Asset - Pension scheme	175,532	238,789
Retirement Benefit Obligation - Medical benefits	(222,710)	(232,177)
Amounts recognised in the statement of comprehensive income (Note 8) –		
Retirement Benefit Asset - Pension scheme	97,484	(1,392)
Retirement Benefit Obligation - Medical benefits	33,622	49,207

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:

	2009 $'000	2008 $'000
Fair value of plan assets	(472,136)	(451,545)
Present value of funded obligations	581,604	593,107
	109,468	141,562
Unrecognised actuarial losses	(285,000)	(380,351)
	(175,532)	(238,789)

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14. Post-employment Benefits (Continued)

Pension scheme benefits (continued)

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

	2009 $'000	2008 $'000
At beginning of year	451,545	472,999
Expected return on plan assets	58,103	51,883
Actuarial gain/(losses) on plan assets	35,542	(70,673)
Contributions	19,667	23,835
Benefits paid	(92,721)	(26,499)
At end of year	472,136	451,545

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

	2009 $'000	2008 $'000
At beginning of year	593,107	288,744
Current service cost	59,442	32,687
Interest cost	96,990	40,064
Actuarial (gains)/losses on obligations	(75,214)	258,111
Benefits paid	(92,721)	(26,499)
At end of year	581,604	593,107

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14. Post-employment Benefits (Continued)

Pension scheme benefits (continued)

The amounts recognised in the Statement of comprehensive income are as follows:

	2009 $'000	2008 $'000
Current service cost	41,067	10,427
Interest cost	96,990	40,064
Expected return on plan assets	(58,103)	(51,883)
Net actuarial gains recognised during the year	17,530	-
	97,484	(1,392)
Change in expense/income due to limitation on asset	(32,935)	(32,935)
Total included in staff costs (Note 8)	64,549	(34,327)

The total charge, $97,484,000 (2008 credit – $1,392,000) was included in administrative expenses in the statement of comprehensive income.

The actual gain on plan assets was $93,645,000 (2008 loss – $18,790,000).

Expected contributions to the plan for the year ended 31 December 2010 amount to $13,816,000.

The distribution of plan assets was as follows:

	2009 $'000	2008 $'000
Quoted equities	75,428	87,827
Government of Jamaica securities	268,275	230,672
Repurchase agreements	5,025	8,767
Other	123,408	124,279
	472,136	451,545

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

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14. Post-employment Benefits (Continued)

Pension scheme benefits (continued)

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

	2009 $'000	2008 $'000	2007 $'000	2006 $'000	2005 $'000
Fair value of plan assets	472,136	451,545	472,999	421,690	1,159,374
Defined benefit obligation	(581,604)	(593,107)	(288,744)	(325,817)	(272,771)
	(109,468)	(141,562)	184,255	95,873	886,603
Experience adjustments –					
Fair value of plan assets	35,542	(70,673)	(1,954)	(794,845)	772,220
Defined benefit obligation	(75,214)	(180,345)	(57,356)	(29,166)	22,768

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:

	2009 $'000	2008 $'000
Present value of unfunded obligations	170,840	166,016
Unrecognised actuarial gains	51,870	66,161
	222,710	232,177

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

	2009 $'000	2008 $'000
At beginning of year	166,016	179,487
Current service cost	10,972	12,829
Past service cost	-	3,120
Interest cost	24,871	24,926
Actuarial gains on obligations	12,066	(46,949)
Benefits paid	(43,085)	(7,397)
At end of year	170,840	166,016

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14. Post-employment Benefits (Continued)

Medical benefits (continued)

The amounts recognised in the Statement of comprehensive income are as follows:

	2009 $'000	2008 $'000
Past service cost	-	3,120
Current service cost	10,972	12,829
Interest cost	24,871	24,926
Net actuarial (gains)/losses recognised during the year	(2,221)	8,332
Total included in staff costs (Note 8)	33,622	49,207

The total charge, $33,622,000 (2008 – $49,207,000) was included in administrative and direct expenses in the statement of comprehensive income.

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	12,941	9,654
Effect on the defined benefit obligation	100,787	76,038

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

	2009 $'000	2008 $'000	2007 $'000	2006 $'000	2005 $'000
Defined benefit obligation	170,840	166,016	179,487	189,501	153,524
Experience adjustments	(7,685)	(29,105)	(15,902)	(1,891)	(2,604)

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14. Post-employment Benefits (Continued)

Principal actuarial assumptions used in valuing post-employment benefits

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

	2009	2008
Discount rate	16.0%	16.0%
Long term rate of inflation	10.0%	10.0%
Expected return on plan assets	11.0%	11.0%
Future salary increases	12.5%	12.5%
Future pension increases	10.0%	10.0%
Medical cost trend rate	10.0%	10.0%

The average expected remaining service life of the employees is 21 and 25 years for males and females respectively (2008 - 23 years for both males and females).

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

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

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

	Males			Females		
Age	Withdrawals from service	Ill-health retirements	Deaths in service	Withdrawals from service	Ill-health retirements	Deaths in service
20	62	-	0.4	45	-	0.2
25	47	-	0.5	45	-	0.3
30	32	-	0.6	40	-	0.3
35	18	-	0.8	35	-	0.5
40	-	-	1.2	30	-	0.7
45	-	-	2.2	25	-	1.0
50	-	-	3.9	-	-	1.6
55	-	-	6.1	-	-	2.5

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15. Inventories

	2009	2008
	$'000	$'000
Merchandise	1,517,668	1,692,795
Provision for obsolescence	(164,912)	(171,643)
	1,352,756	1,521,152
Goods in transit	73,255	63,078
	1,426,011	1,584,230

The cost of inventories recognised as expense and included in cost of sales amounted to $4,440,826,000 (2008 - $5,088,532,000).

16. Trade and Other Receivables

	2009	2008
	$'000	$'000
Trade	316,872	292,291
Provision for impairment	(47,573)	(39,875)
	269,299	252,416
Prepayments	47,555	47,454
Other	38,422	83,235
	355,276	383,105

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17. Group Companies and Other Related Party Transactions and Balances

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

	2009	2008
	$'000	$'000
Due to Grace	(2,877)	(812)
Due to fellow subsidiaries	(3,524)	(1,683)
	(6,401)	(2,495)
Due from Grace	1,222	6,090
Due from fellow subsidiaries	7,120	5,934
	8,342	12,024

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 at 31 December 2009. The receivable balances are not interest bearing. There are no provisions held against receivables from related parties (2008 – nil).

(b) The statement of comprehensive income includes the following transactions with related parties;

	2009	2008
	$'000	$'000
Income:		
Rental charges -		
Fellow subsidiaries	338	-
Sales -		
Fellow subsidiaries	3,823	5,326
Parent company	2,370	2,013
Goods are sold based on the current price list on terms that would be available to third parties.		
Interest income -		
Fellow subsidiary	13,937	5,419
Parent company	189	-
Interest is received mainly from short term deposits placed with fellow subsidiary First Global Bank Limited at rates that would be available to third parties.		

Hardware & Lumber Limited

Notes to the Financial Statements
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17. Group Companies and Other Related Party Transactions and Balances (Continued)

(c) The statement of comprehensive income includes the following transactions with related parties (continued);

	2009 $'000	2008 $'000
Expenses:		
Purchases -		
Fellow subsidiaries	1,796	2,773
Parent company	1,477	-
Goods are purchased based on the current price list on terms that would be available to third parties		
Payroll cost -		
Parent company	1,677	1,977
Grace prepares both fornightly and monthly payroll on behalf of the company and charges an administrative fee of 4% of the payroll cost.		
Interest expense -		
Fellow subsidiaries	27,974	56,953
Parent company	7,802	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	37,970	40,460
Post-employment benefits	143	217
Gratuity	10,000	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	2,117	2,070
Management remuneration (included above)	9,451	12,373
Gratuity	10,000	-
Property and equipment rental		
Fellow subsidiary	11,119	11,223
Other charges -		
Parent company	61,877	62,387
This relates to various services provided by Grace exclusively to its subsidiaries and associated companies		

Hardware & Lumber Limited

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18. Cash and Cash Equivalents

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

	2009	2008
	$'000	$'000
Cash at bank	102,592	271,273
Short term deposits	44,528	98,176
	147,120	369,449
Bank overdrafts	(140,573)	(60,867)
	6,547	308,582

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

	2009	2008
	$'000	$'000
Trade	852,237	649,520
Accruals	55,232	107,744
Other	41,569	64,031
	949,038	821,295

20. Provisions

	2009	2008
	$'000	$'000
Balance at beginning of year	7,549	591
(Write back)/additional provisions	(1,137)	7,158
Utilised during the year	(5,647)	(200)
Balance at end of year	765	7,549

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.

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21. Short Term Loans

		2009	2008
		$'000	$'000
First Global Financial Services Limited	(a) i	140,000	140,000
First Global Financial Services Limited	(a) ii	80,000	80,000
First Global Financial Services Limited	(a) iii	-	40,000
First Global Bank Limited	(b)	-	23,280
PanCaribbeanBank Limited	(c)	11,935	-
GraceKennedy Limited	(d)	-	160,940
FirstCaribbean International Bank	(e) i	-	80,470
FirstCaribbean International Bank	(e) ii	134,400	241,415
		366,335	766,105

(a) This represents commercial paper. The annual interest rates on these loans are (a) (i) 19.75%, (a) (ii) 19.0% and (a) (iii) was 16.0%. These are evidenced by promissory notes from the company. Loan (a) (iii) was repaid during the year.

(b) This represented outstanding balance for insurance premium financing. The annual interest rate was 14.0%. This was repaid during the year.

(c) This represents outstanding balance for insurance premium financing. The annual interest rate is 26.9%.

(d) This represented a revolving loan denominated in United States dollars and was evidenced by a promissory note. At 31 December 2008, the annual interest rate was 8.5%. This was repaid during the year.

(e) 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, loan (e) (i) annual interest rate was 7.0%. This was repaid during the year. Loan (e) (ii) annual interest rate is 7.12%.

All short term loans are unsecured.

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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

	2009 $'000	2008 $'000
Revaluation reserve	256,106	256,106
Other	6,100	6,100
	262,206	262,206
Opening balance	262,206	94,348
Revaluation surplus	-	212,397
Deferred taxation (Note 25)	-	(44,539)
At the end of year	262,206	262,206

The capital reserve is unrealised.

24. Long Term Loans

		2009 $'000	2008 $'000
Grace Kennedy Trade Finance Limited	(a)	151,046	152,893
FirstCaribbean International Bank (Jamaica) Limited	(b)	11,360	19,585
National Commercial Bank Jamaica Limited	(c)	107,662	135,793
First Global Financial Services Limited	(d)	30,000	30,000
Grace Kennedy (St. Lucia) Limited	(e)	98,239	99,441
		398,307	437,712
Current maturities		(102,695)	(129,712)
		295,612	308,000

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24. Long Term Loans (Continued)

(a) This loan is denominated in United States dollars. At 31 December 2009, the annual interest rate was 7.5%. The loan is repayable in 2014.

(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 2009, the annual interest rate is 8%. The loan is repayable in 2010.

(c) In prior years this was a United States denominated loan with an annual interest rate of 11%. During the current year it was renegotiated and converted to a Jamaican dollar loan with an annual interest rate of 20.75%. The loan is repayable in 2012.

(d) This represents a commercial paper. The annual interest rate on this loan is 14.05%. The loan is repayable in 2010.

(e) This loan is denominated in United States dollars. At 31 December 2009, the interest rate is 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:

	2009	2008
	$'000	$'000
Net asset/(liability) at beginning of year	84,835	(20,897)
Credit to the statement of comprehensive income (Note 10)	69,846	150,271
Charge to equity (Note 23)	-	(44,539)
Net asset at end of year	154,681	84,835

The company recognises the deferred tax asset as it is of the opinion that sufficient taxable profits will be made in the future against which these assets will be utilised.

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25. Deferred Income Taxes (Continued)

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

	2009	2008
	$'000	$'000
Deferred income tax assets:		
Statutory tax loss	190,389	109,853
Interest payable	5,845	6,694
Provision for warranty	255	2,516
Accrued vacation	4,119	4,215
Unrealised foreign exchange losses	19,002	29,771
Retirement benefit obligations	74,238	77,393
	293,848	230,442
Deferred income tax liabilities:		
Unrealised foreign exchange gains on deposits	(12,427)	(3,448)
Property, plant and equipment	(68,203)	(62,563)
Interest receivable	(26)	-
Retirement benefit asset	(58,511)	(79,596)
	(139,167)	(145,607)
Net Asset	154,681	84,835
Deferred tax assets to be recovered after more than one year	74,238	77,393
Deferred tax liabilities to be settled after more that one year	(126,714)	(142,159)

26. Operating Lease Commitments

The company leases various retail outlets and a distribution center under non-cancellable operating lease agreements. Minimum lease payment for 2009 was $158,284,000 (2008 - $151,116,509). The leases expire in 2013 with renewable options at the end of the lease periods.

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

	2009	2008
	$'000	$'000
No later than 1 year	110,727	100,737
Later than 1 year and no later than 5 years	264,205	223,600
	374,932	324,337

Included in lease payments for 2009 are amounts totaling $55,229,000 (2008 - $63,546,000) for locations whose leases expired within the year for which the new lease agreements have not being finalised.

Hardware & Lumber Limited

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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 current market interest rates 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.

28. Other Reserves

	2009	2008
	$'000	$'000
At beginning of year	-	-
Statement of comprehensive income charge	10,341	-
At end of year	10,341	-

Grace operates a stock option plan for managers and employees of the group, inclusive of employees at subsidiaries. Managers and employees of the company were granted Grace stock options as a part of the plan.

The company implemented the requirements of IFRIC 11- Group and Treasury Share Transactions during the year. As a result, the value of stock options issued to the company's present and former employees by its parent company were all expensed during the year. The entire expense of $10,341,000 was booked during the year though the options were all granted in, and relate to, prior years.

The average share price at the end of the year was $52.26.

The total of the grant to each permanent employee was fully vested at the date of the grant. The plan provides for equitable adjustment of the allocated number of stocks by reason of stock splits, combinations or exchanges of stocks, stock dividends, bonus issue, and reclassifications or similar corporate changes.

All the stock options outstanding of the end of the year, which amounted to 208,000, have exercise prices of $115.97 and expire in 2010.

The fair value of options granted was determined using the Binomial valuation model. The significant inputs into the model were the share prices of $42, $118, $70 at the grant dates, exercise prices of $41.92, $115.97 and $66.43, standard deviation of expected share price returns of 33.85%, 27.39% and 27.47%, dividend yield of 1.28%, 0.85% and 1.64%, option life of six years and two years and annual risk-free interest rate of 14% and 15.35%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of weekly share prices over the term of the options.

Notes

Proxy Form

I/We

of _____

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

_____

of _____

or failing him/her _____

of _____

as my/our Proxy, to vote for me/us on my/our behalf at the Annual General Meeting of the said Company to be held June 14 2010 at 10:30 a.m. at 697 Spanish Town Road, Kingston 11.

SIGNED this _____ day of _____ 2010 _____

_____
Signature

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

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

Place
$100 Stamp
here

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

Hardware & Lumber Ltd

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