# Hardware & Lumber Ltd.
# Annual Report 2010

HL Wholesale

RAPID True Value

AGROGRACE
Your Complete Farm & Garden Centre

# Table of Contents

| | Page |
|---|---|
|  | 77 |

## 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.

# Ten Year Financial Review

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Revenue - J$'000 | 5,728,987 | 5,940,599 | 6,788,162 | 6,648,066 | 5,597,276 |
| Net Profit/(Loss) - J$'000 | 19,341 | (225,762) | (259,956) | 133,550 | 37,718 |
| Stockholders' Equity - J$'000 | 951,501 | 903,747 | 1,119,168 | 1,211,266 | 1,103,500 |
| Net Current Assets - J$'000 | 397,073 | 421,870 | 607,265 | 839,635 | 686,629 |
| Earnings/(Loss) per Stock Unit | $0.24 | ($2.79) | ($3.21) | $1.65 | $0.47 |
| Dividend per Stock Unit | $0.00 | $0.00 | $0.00 | $0.32 | $0.00 |

| | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| Revenue - J$'000 | 5,332,857 | 5,518,947 | 2,639,811 | 1,628,081 | 1,502,411 |
| Net Profit - J$'000 | 20,268 | 156,045 | 44,583 | 48,892 | 16,352 |
| Stockholders' Equity - J$'000 | 1,065,782 | 707,412 | 605,531 | 313,507 | 273,615 |
| Net Current Assets - J$'000 | 625,223 | 369,295 | 297,552 | 172,901 | 139,434 |
| Earnings per Stock Unit | $0.26 | $2.32 | $0.95 | $1.22 | $0.41 |
| Dividend per Stock Unit | $0.00 | $0.32 | $0.11 | $0.23 | $0.15 |

**Notice is hereby given that the Eighty-third Annual General Meeting of Hardware & Lumber Limited will be held at the Registered Office, 697 Spanish Town Road, Kingston 11 on Monday June 6, 2011 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, 2010, 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. Erwin M. Burton, Stephen B. Facey and Paul R. Hanworth and being eligible, offer themselves for re-election.

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

Resolution 2 (a)

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

Resolution 2 (b)

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

Resolution 2 (c)

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

(ii) Pursuant to Article 105 of the Articles of Incorporation, Ms. Grace A. Silvera, Mrs. Andrea D. Lewis-Coy and Mrs. Grace Burnett were appointed to the Board of Directors since the last 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 Ms. Grace A. Silvera be elected a Director of the Company."

Resolution 2 (e)

"THAT the retiring Director Mrs. Andrea D. Lewis-Coy be elected a Director of the Company."

Resolution 2 (f)

"THAT the retiring Director Mrs. Grace Burnett 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 $2,551,000 shown in the accounts for the year ended December 31, 2010 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

Dated this 8th day of April, 2011

*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 CEO's Statement 2010

*Erwin Burton*

*Simon Roberts*

The year 2010 was one of the most challenging for our business, as Jamaica continued to grapple with a deep and prolonged recession.

The housing and construction sectors continued to be impacted, and our overall revenues declined by 3.6% 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 despite a combination of drought and flooding. Similarly, we saw growth in our retail hardware business in the second half of the year.

Our results were also significantly improved by the revaluation of the Jamaican dollar and lower interest costs, subsequent to the JDX in the first quarter.

The net profit attributable to stockholders was $19 million as compared to a net loss of $226 million recorded in 2009. The earnings per share for the year were $0.24 compared to ($2.79) for 2009.

In response to the difficult economic conditions in 2010, we focussed on cost reductions and customer service improvements. This resulted in the reduction of long term debt and overdraft, and improved product availability at our wholesale and retail stores. These actions, in combination with the refurbishing of most of our stores, led to improved results in the second half of the year.

The focus for 2011 will be remain 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 Scorecard (BSC) and strategic plan for 2011 to 2015.

We wish to express our gratitude to the management and staff for their hard work and commitment during 2010. We also thank our customers, suppliers, and other stakeholders for your continued loyalty and support.

Erwin Burton
CHAIRMAN

Simon Roberts
CEO


EasyCare & WeatherAll
ULTRA PREMIUM PAINTS
EasyCare
Interior
SATIN FINISH
WeatherAll
Exterior
MASONRY & STUCCO
FLAT FINISH
Quality Paints Since 1922
• Mixed to Match Your Décor
• Best for Interior/Exterior
• High Quality & Low Odour
• Superior Coverage
• Excellent Hideability
RAPID True Value
Available EXCLUSIVELY at these Rapid True Value Stores:
Lane Plaza | Sovereign Centre | Manor Park | Mandeville | Montego Bay | Portmore | Ocho Rios

Contents



## 1. CORE BUSINESS AND STRATEGY

## Core Business

Hardware & 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 and Tobago.

### 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

- Our word is our bond
- The promise that is kept
- Ethics and integrity
- Respect and consideration
- Commitment and openness

Our core values are paramount in the execution of strategy.

### Strategy and Key Performance Drivers

Hardware & Lumber Limited utilizes 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 our team members.

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. All team members have quantifiable objectives that are directly linked to one or more initiatives. This ensures 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 Enterprise Resource Planning (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:

RAPID True Value

**We operate twelve hardware retail outlets across Jamaica.**

AGROGRACE Your Complete Farm & Garden Centre

**We operate five retail agricultural outlets across Jamaica.**

HL Wholesale

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

## 2. FINANCIAL PERFORMANCE

Financial Summary

| All figures J$ millions | 2010 | 2009 | Change |
|---|---|---|---|
| Revenues | 5,729 | 5,941 | (212) |
| Net Profits/(Loss) | 19 | (226) | 245 |
| Cash and Cash Equivalents | 93 | 7 | 86 |
| Shareholders Equity | 952 | 904 | 48 |

In 2010 revenues of $5,729 million represent a decline of 3.6% compared to the $5,941 million earned in 2009. In spite of the decline in sales, the Company generated net profit of $19 million compared to a net loss of $226 million in 2009. Cash and cash equivalents improved by $86 million, and shareholders equity also improved by $48 million.

### Revenues:

Revenues in 2010 were down 3.6% largely due to the general decline in the economy, continuing challenges faced in the Jamaican construction industry and the impact of Tropical Storm Nicole.

### Gross Margins:

In 2010 gross margins improved to 26.0% compared to 23.8% in 2009 as a result of a number of factors including: a significant reduction in shrinkage, a reduction in obsolete inventories, improved pricing, Jamaican dollar strength versus the US dollar and reductions in input costs.

### Direct and Administrative Expenses:

Expenses declined by 3.3% in 2010 when compared to 2009 as a result of the implementation of several cost reduction and efficiency improvement projects during the year.

### Finance Costs:

Finance costs decreased by 42.0% in 2010 compared to 2009 due to significantly lower interest rates following the implementation of the Jamaican Debt Exchange program in the first quarter, and foreign exchange gains resulting from the appreciation in the Jamaican dollar.

### 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)

Segment operating and financial performance is detailed in Note 5 of the Financial Statement.

### H&L Wholesale

The Wholesale and Special Projects Division showed a significant decrease in revenues of 20% when compared to 2009 largely due to the continued postponement of major hotel and housing construction projects across the island. However, improved product availability in the last quarter of the year enabled the division to improve customer satisfaction and revenues. With improved supplies of key products, we are well positioned to participate in many of the housing and construction projects scheduled to start in 2011.

### Rapid TrueValue

Revenue generated by the Retail Division declined by a marginal 1.2% relative to the prior year against the continued decline in construction and home improvement activities. In response to the decline in available business, efforts were focused on improving customer service, product availability and in-store merchandising which began to yield results in the second half of the year. In particular, the revamping of our flagship Lane Plaza store in Kingston yielded significant improvements in terms of customer count and basket size in the last quarter. Plans for 2011 include the revamping of additional outlets to better serve our customers, continued improvement in product availability and choice, along with improvements in customer service and product knowledge.

Marketing initiatives undertaken during 2010 were focused on promoting Rapid TrueValue as an excellent source for consumer home improvement and construction needs.

Throughout 2010, Rapid TrueValue continued to benefit from being agents for GraceKennedy Money Services Ltd. offering Western Union ® Remittances and Bill Express ® services in our Lane, Mandeville, Ocho Rios and Montego Bay outlets. We added FX Trader ® services in the last quarter. We believe that the patrons of these services shop at Rapid TrueValue.

**AgroGrace**

Revenue generated by the AgroGrace Division increased by 4.5% when compared to 2009. AgroGrace continues to hold a very strong position in the market as a result of its wide product range, availability and excellent customer service. Larger acreages in production were offset by severe drought conditions for the first 4 months, followed by an unusually wet Summer, then severe flooding from tropical storm Nicole in September.

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

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. We expect 2011 to be a satisfactory year for the division, with several new products to be launched.

### Financial Position

Total assets decreased marginally by 0.13% to $2,984 million compared to $2,988 million in 2009. The significant movements were an increase in prepayments and other receivables of $99 million, offset by a decrease in retirement benefits of $79 million.

### Shareholders' Equity

Shareholders' equity at the end of 2010 was up 5.3% to $951 million compared with $904 million at the end of the prior year. The increase is due to net profit and revaluation gain on land and buildings.

### Dividends

No dividends were paid in 2009 or 2010.

### Stock Performance

The company's stock price increased from $3.50 per share on January 4, 2010 to $4.65 on December 31, 2010.

The market capitalization at the end of 2010 stood at $376 million.

### Capital Investment

Capital expenditure for the year totalled $50.8 million, compared to $31.6 million in 2009. Refurbishing of the stores, computer software, 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:

- Ensuring continuity of leadership
- Developing effective leaders
- Protecting our people
- 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.

### Employee Engagement

The past three years have been difficult for all of our employees. This has been reflected in a decline in our Employee Satisfaction Index (ESI) from 2007 to 2009. However, we have seen significant improvement in our ESI score for 2010, due to the implementation of initiatives aimed at addressing areas of concern to our team members. Work will continue in 2011 to further improve our employee satisfaction.

Improved communications, increased employee involvement and support for social activities continued in 2010. 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

Ms. Grace Silvera and Mrs. Andrea Coy were appointed Directors on July 26, 2010. Mr. Joe Taffe resigned as a Director on February 28, 2011, and Mrs. Grace Burnett was appointed as a Director on the March 1, 2011. Mr. Dave Myrie resigned from the Company, effective March 31, 2011.

We would like to thank Mr. Taffe and Mr. Myrie for their significant contributions during their years of service to the Company.

Corporate oversight of Hardware & Lumber continues to be part of 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 these 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 more important risks are credit risk, liquidity risk, market risk and other operational risks. Market risk includes currency risk and interest rate risk.

### Credit Risk

Refer to Note 3a of the audited financial statements.

### Liquidity Risk

Refer to Note 3b of the audited financial statements.

**Market Risk** (including Currency Risk and Interest Rate Risk)

Refer to Note 3c of the audited 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 completed this review in 2010, and has implemented the recommendations. This has strengthened the internal controls, risk management and governance processes in the Company. Substantial improvements in our customer service, product availability, and store environment were also achieved.

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) programme continues to be deployed across all of our operations, with team members at each location having been trained on the execution of the EH&S programmes. We have also successfully renewed our permit to operate our sufferance wharf at New Port East.

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 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 at least four times a year. PwC, the internal auditors and representatives of management are invited to discuss auditing and financial reporting matters. The Audit Committee regularly reviews the internal accounting controls, the reports of PwC and internal auditors and the financial condition of the Company. Both PwC 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, 2010 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, 2010 in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The effectiveness of our internal control over financial reporting as of December 31, 2010 has been reviewed by PwC, as stated in their report which is included herein.

## 5. CORPORATE SOCIAL RESPONSIBILITY & SPORTS DEVELOPMENT

### Grace & Staff Community Development Foundation

Hardware & Lumber continued to actively participate in the Foundation, which celebrated its 31st Anniversary in 2010. 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: 2011 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 continued difficulties and uncertainties in 2010 and the anticipated challenges in 2011, Hardware & Lumber remains committed to its core values and strategy. We will remain focused on making our customers happy, while pursuing innovation, operational efficiency and developing our people. We will continue to refresh our Rapid TrueValue retail outlets using the Destination TrueValue model, which has been very successful at our Lane Plaza outlet in Kingston. Continued strengthening of our category management processes will also improve product range and availability to our consumers.

A number of new products and services will be launched in 2011 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 ongoing recession in Jamaica.

Risk management and internal controls will remain a focus area in 2011, as we continuously strengthen our control systems, utilizing the methodology provided by the international advisory firm contracted in 2009.

The Government of Jamaica in February 2010 took steps to address 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. The JDX Programme has helped to stabilize the exchange rate, and significantly reduced interest rates. We have not yet seen significant increases in investment in construction or agriculture, but there have been numerous announcements of housing projects in which we plan to participate in 2011. We also anticipate improved economic activity due to the restarting of the alumina plants and increased employment related to the Jamaica Development Infrastructural Programme.

A material percentage of the company's profits in 2010 originated from firstly, exchange gains based on the revaluation of the Jamaican dollar in 2010 after the JDX, and secondly because of the significantly lower interest rate regime which prevailed after the JDX. 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 Company will benefit from reduced costs which emanated from these two areas in 2010 through 2011.

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Simon Roberts
CEO
March 28, 2011

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Andrew Kerr
CFO
March 28, 2011

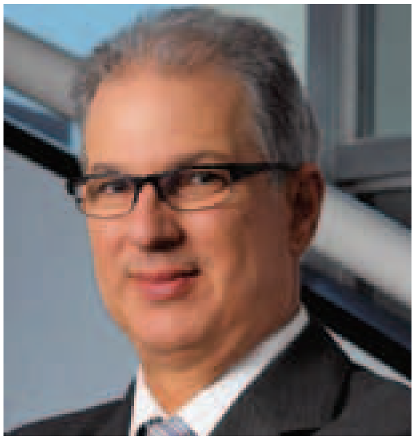
**Erwin Burton, B.Sc., M.Sc., JP** serves on the boards of several GraceKennedy subsidiaries including GK Foods and Services Ltd., GraceKennedy (Belize) Ltd., Grace Foods USA, Inc., Grace Foods UK Ltd. and GraceKennedy (Ontario). He is also a member of the board of Mona Institute of Applied Sciences 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.)** is the Chief Executive Officer of Hardware & Lumber Limited. Prior to joining H&L in 2009, he held General Manager positions at other GraceKennedy subsidiaries, 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).

**Grace Burnett, LLB., CI.,** (appointed March 1, 2011) is an Attorney-at-Law and Chartered Insurer, with over 20 years experience in the general insurance industry. She has served in senior positions within the GraceKennedy Group and is currently the Managing Director of Allied Insurance Brokers. Her areas of expertise include Operations, Change Management, Mergers & Acquisitions, Employee Engagement and Business Development. Grace received her Bachelor of Laws from the University of the West Indies, her Chartered status from the Chartered Insurance Institute UK and has participated in several leadership development courses including the Leadership Journey at the Wharton Business School. Grace currently serves as a director of the Jamaica Chamber of Commerce and is the immediate past president of the Jamaica Insurance Brokers Association (JIBA) and the founding president of Jamaican Society for Insurance Professional & Technicians (JSI (JSIPT). She is also a member of the Jamaican Bar Association, The Insurance Institute of Jamaica (IIJ), The Chartered Insurance Institute (UK) and Toastmasters International.

**Andrea Coy, B.Sc., M.Sc., FCA.,** is the General Manager of World Brands Services, a division of GK Foods & Services Ltd. She was previously General Manager of Hi-Lo Food Stores, a division of GK Foods & Services Ltd. Prior to joining GraceKennedy Ltd, she was Group Financial Controller for Shirlhome Chemical Corporation, Group of Companies. She is a Fellow of the Institute of Chartered Accountants, and holds a Master's of Science in Accounting (Distinction), and a Bachelor of Science in Accounting, both from the University of the West Indies, Mona. Andrea serves her Alumnus, Our Lady of the Angels Preparatory School, as a PTA Executive Member.

**Rodney Davis, CA.,** is the Chief Executive Officer of the Cool Group of Companies, a large Jamaican conglomerate largely focused in the petroleum business, but with operations in a number of key domestic and tourism sectors in Jamaica and other Caribbean islands. He is also co-founder and Chairman of Nappy's Inc. a leading Health and Beauty services company operating in Jamaica (Salons of Jamaica) and Canada. Mr. Davis is a chartered accountant in Ontario, Canada (ICAO, CICA 1992) and Jamaica (2005) and he is an accomplished Canadian and Caribbean executive, having served in a number of financial and general management executive positions as well on a number of public and private company boards including some of Canada's and the Caribbean's largest public companies since 1994.



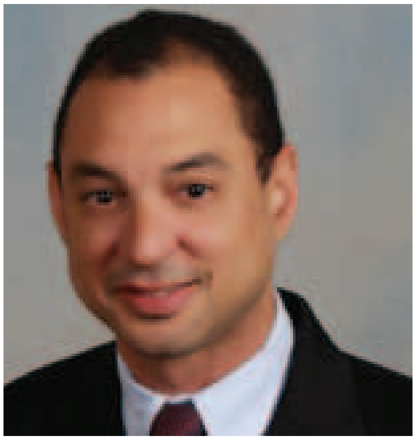
**Stephen B. Facey, B.A., M. Arch** is the President and Chief Executive Officer of Pan-Jamaican Investment Trust Limited and First Jamaica Investments Limited. He is also Chairman of the Pan-Jamaican subsidiary, Jamaica Property Company Limited (JPCO). Mr. Facey is a Director of Sagicor Life Jamaica Limited, Panacea Insurance Company Limited, Kingston Restoration Company Limited and Jamaica Developers Association Limited. A member of the Jamaican Institute of Architects, Mr. Facey has over 30 years of business experience. His particular insight and first-hand knowledge of development management and operations in the area of real estate were gained during his tenure as Managing Director of JPCO, one of the most successful local property companies with a tradition of excellence dating back to the mid-1960s. Mr. Facey serves the wider community as Chairman of the Cecil B. Facey Foundation and the New Kingston Civic Association.

**Paul Hanworth, ACCA., CPA., 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 2001, 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

**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.

**Grace A. Silvera, Dip. Mgmt., B.Sc.**, is the Regional Vice President, Marketing and Communications for LIME, the Caribbean's only full service telecommunications provider. Prior to joining LIME she worked with Red Stripe in senior roles in both marketing and communications.
While at Red Stripe she was seconded to the Government of Jamaica in 2010 in the capacity as Executive Director of the Jamaica Cultural Development Commission (JCDC). During her tenure, she was very successful in transforming the image and programmes of the Commission. Prior to joining Red Stripe she served in the airline industry for ten years. She attended Nova Southeastern University and Harvard Business School.

**Joseph Taffe B.Sc., FCA., FCCA** (Resigned February 28, 2011) was Deputy CEO of GraceKennedy Financial Group Limited and a member of the Board of GraceKennedy Limited. He also serves as a director of several Grace Kennedy 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.



**Donald G. Wehby B.Sc (Hons.) M.Sc. (Acctg.), FCA** is Group Chief Operating Officer of GraceKennedy Limited and a member of its Board. Effective July 1, 2011, Mr. Wehby will be appointed as Group Chief Executive Officer of GraceKennedy Ltd. 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 and Vice President of the Private Sector Organisation of Jamaica. 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.

# Hardware and Lumber Ltd.

*Annual Report 2010*

Corporate Data as at 31 December 2010

## Board of Directors

**Erwin M. Burton,**
B.Sc., M.Sc., JP.
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.), FCA.

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

**Paul Hanworth,**
ACCA., CPA., M.Sc., MA.

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

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

**Joseph Taffe,**
B.Sc., FCA., FCCA

**Grace A. Silvera,**
B.Sc., Dip. Mgmt.

**Andrea D. Lewis-Coy,**
B.Sc., M.Sc. (Acctg.),FCA.

## 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

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

**Dean Clarke, JP**
Regional Manager/Retail

**Glenford Clarke, M.B.A., B.Sc. (Econ. & Mgmt.)**
General Manager - Wholesale / Special Projects

**Novelette Harris, B.Sc.**
Human Resources Manager

**Andrew Kerr, ACCA., CA.**
Chief Financial Officer

**Stephen Lewis, B.Sc.**
Information Technology Manager

**Garnet Malcolm, B.Sc., (Agri.Sc.)**
General Manager – AgroGrace

**Errol Mighty, B.Sc., M. Sc.**
Regional Manager/Retail

**Raymond Sewell, A. Sc.**
Operations Manager-Distribution Centre

**Dave Myrie, M.A (Mgmt) A.Sc.Ed., Dip. Ed., Cert. Ed.**
Chief Operating Officer,

**Marlene Virgo - M.B.A., B.Sc.**
Procurement Manager

**Dion Gardner**
Security Manager

**Ryan Foster - B.Sc. (Accounts & M.S), M.Sc. (Accounts)**
Head of Risk, Governance &
Business Development

## INTEREST OF DIRECTORS AND SENIOR MANAGEMENT AS AT 31 DECEMBER 2010

| DIRECTORS | PERSONAL SHAREHOLDINGS | STOCKHOLDINGS IN WHICH DIRECTOR/OFFICER HAS AN INTEREST |
|---|---|---|
| Erwin M. Burton | 1,000 | - |
| Andrea Coy | Nil | - |
| Rodney St. A. Davis | 5,218 | - |
| Stephen B. Facey | 1,000 | - |
| Paul Hanworth | 1,000 | - |
| Simon Roberts | 4,000 | - |
| Gordon K. G. Sharp | 137,729 | - |
| Grace Silvera | Nil | - |
| Joseph Taffe | 20,000 | - |
| Donald Wehby | 1,000 | - |
| **SENIOR MANAGEMENT** | | |
| Simon Roberts | 4,000 | - |
| 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 | - |
| Raymond Sewell | Nil | - |
| Marlene Virgo | Nil | - |

## MAJOR SHAREHOLDERS AS AT 31 DECEMBER 2010

| | 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 | Guardian Life Limited | 761,700 |
| 8 | NCB Insurance Co. Ltd. A/C WT 105 | 600,000 |
| 9 | P.A.M. Ltd - JPS Employees Superann. Fund | 593,406 |
| 10 | Alumina Partners of Jamaica Hourly Pension | 505,840 |

| | |
|---|---|
| Total stocks in issue | 80,842,023 |
| Total no. of stockholders | 1,439 |

# Report of the Directors

1. The Directors submit herewith their Annual Report and the Audited Financial Statements for the year ended December 31, 2010.

| | $'000 |
|---|---|
| The net profit before Tax | 24,175 |
| The charge for taxation was | (4,834) |
| Making the profit after taxation | 19,341 |
| To which is added the retained profits brought forward from the previous year of | 14,533 |
| Expired share options | 10,341 |
| Leaving retained earnings to be carried forward to the next year of | 44,215 |

2. **The Directors**

The Directors as at December 31, 2010 were as follows:

Messrs., Erwin M. Burton, Rodney St. A. Davis, Paul Hanworth, Stephen B. Facey, Gordon K. G. Sharp, Joseph Taffe, Simon Roberts, Donald Wehby, Andrea D. Lewis- Coy and Grace A. Silvera.

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

Pursuant to Article 105 of the Articles of Incorporation, Ms. Grace A Silvera, Mrs. Andrea D Lewis-Coy and Mrs. Grace Burnett were appointed to the Board of Directors since the last Annual General 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 2004.

4. **Dividend**

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

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

By order of the Board

Gene M. Douglas

Secretary

Dated this 8th day of April, 2011

## 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.

Audit Committee Terms of Reference (cont'd)

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.

(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 three (3) members, all of whom are non-executive Directors of the company. The members are, Rodney Davis (Chairman); Paul Hanworth and Stephen Facey.

During the year the Committee met eight (8) 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 27 to 75, which comprise the statement of financial position as of 31 December 2010 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.

*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 2010, 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

7 March 2011
Kingston, Jamaica

# Hardware & Lumber Limited

Statement of Comprehensive Income

**Year ended 31 December 2010**

(expressed in Jamaican dollars unless otherwise indicated)

| | Note | 2010 | 2009 |
|---|---|---|---|
| | | $'000 | $'000 |
| Revenue | | 5,728,987 | 5,940,599 |
| Cost of sales | | (4,237,059) | (4,527,509) |
| **Gross Profit** | | 1,491,928 | 1,413,090 |
| Other operating income | 8 | 40,816 | 23,782 |
| | | 1,532,744 | 1,436,872 |
| Direct expenses | | (1,025,214) | (841,116) |
| Administrative expenses | | (415,540) | (624,284) |
| | | (1,440,754) | (1,465,400) |
| **Profit/(Loss) from Operations** | | 91,990 | (28,528) |
| Finance costs | 9 | (67,815) | (267,080) |
| **Profit/(Loss) before Tax** | | 24,175 | (295,608) |
| Taxation | 10 | (4,834) | 69,846 |
| **PROFIT/(LOSS) FOR THE YEAR** | | 19,341 | (225,762) |
| | | | |
| **Other comprehensive income:** | | | |
| Net gain on revaluation of land and buildings | | 28,413 | - |
| **Total other comprehensive income for the year** | | 28,413 | - |
| **Total comprehensive income for the year** | | 47,754 | (225,762) |
| | | | |
| **EARNINGS/(LOSS) PER STOCK UNIT** | 11 | 0.24 | (52.79) |

# Hardware & Lumber Limited
Statement of Financial Position
**31 December 2010**
(expressed in Jamaican dollars unless otherwise indicated)

| | Note | 2010 $'000 | 2009 $'000 |
|---|---|---|---|
| **NET ASSETS EMPLOYED** | | | |
| **Non-current Assets** | | | |
| Property, plant and equipment | 12 | 613,941 | 588,024 |
| Intangible assets | 13 | 50,325 | 81,962 |
| Deferred tax asset | 14 | 150,640 | 154,681 |
| Retirement benefit asset | 15 | 97,051 | 175,532 |
| | | 911,957 | 1,000,199 |
| **Current Assets** | | | |
| Inventories | 16 | 1,457,784 | 1,426,011 |
| Trade and other receivables | 17 | 452,226 | 355,276 |
| Group companies | 18 | 5,655 | 8,342 |
| Taxation recoverable | | 51,121 | 50,928 |
| Cash and bank balances | 19 | 104,786 | 147,120 |
| | | 2,071,572 | 1,987,677 |
| **Current Liabilities** | | | |
| Bank overdrafts | 19 | 12,016 | 140,573 |
| Trade and other payables | 20 | 943,404 | 949,038 |
| Provisions | 21 | 1,816 | 765 |
| Short term loans | 22 | 593,445 | 366,335 |
| Group companies | 18 | 4,029 | 6,401 |
| Current portion of long term loans | 25 | 119,789 | 102,695 |
| | | 1,674,499 | 1,565,807 |
| **Net Current Assets** | | 397,073 | 421,870 |
| | | 1,309,030 | 1,422,069 |

# Hardware & Lumber Limited
Statement of Financial Position
**31 December 2010**
(expressed in Jamaican dollars unless otherwise indicated)

| | Note | 2010 $'000 | 2009 $'000 |
|---|---|---|---|
| **FINANCED BY** | | | |
| **Stockholders' Equity** | | | |
| Share capital | 23 | 616,667 | 616,667 |
| Capital reserve | 24 | 290,619 | 262,206 |
| Other reserve | 26 | - | 10,341 |
| Retained earnings | | 44,215 | 14,533 |
| | | 951,501 | 903,747 |
| **Non-current Liabilities** | | | |
| Long term loans | 25 | 133,836 | 295,612 |
| Retirement benefit obligation | 15 | 223,693 | 222,710 |
| | | 357,529 | 518,322 |
| | | 1,309,030 | 1,422,069 |

**Approved for issue by the Board of Directors on 7 March 2011 and signed on its behalf by:**

Donald Wehby — Director

Paul Hanworth — Director

# Hardware & Lumber Limited

Statement of Changes in Stockholders' Equity

**Year ended 31 December 2010**

(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 2009** | | 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 | 26 | - | - | 10,341 | - | 10,341 |
| **Balance at 31 December 2009** | | 616,667 | 262,206 | 10,341 | 14,533 | 903,747 |
| **Comprehensive Income** | | | | | | |
| Profit for the year | | - | - | - | 19,341 | 19,341 |
| **Other comprehensive income** | | | | | | |
| Net gain on revaluation | | - | 28,413 | - | - | 28,413 |
| Profit for the year and total comprehensive income | | - | 28,413 | - | 19,341 | 47,754 |
| **Transaction with owners** | | | | | | |
| Employee stock option scheme: expiration of stock options | 26 | - | - | (10,341) | 10,341 | - |
| **Balance at 31 December 2010** | | 616,667 | 290,619 | - | 44,215 | 951,501 |

# Hardware & Lumber Limited
Statement of Cash Flows
**Year ended 31 December 2010**
(expressed in Jamaican dollars unless otherwise indicated)

| | Note | 2010 $'000 | 2009 $'000 |
|---|---|---|---|
| **Cash Generated from Operating and Investing Activities:** | | | |
| Profit/(Loss) for the year | | 19,341 | (225,762) |
| Items not affecting cash: | | | |
| Depreciation of property, plant and equipment | 12 | 51,428 | 52,996 |
| Interest income | 6 | (1,234) | (16,910) |
| Warranties | 21 | 1,051 | (1,137) |
| Foreign exchange (gains)/losses | 9 | (27,225) | 103,190 |
| Stock options | 26 | - | 10,341 |
| Interest expense | 9 | 95,040 | 163,890 |
| Amortisation of computer software | 13 | 32,617 | 32,920 |
| Taxation charge/(credit) | 10 | 4,834 | (69,846) |
| (Profit)/loss on disposal of property, plant and equipment | 6 | (2,239) | 3,938 |
| | | 173,613 | 53,620 |
| Changes in non-cash working capital components: | | | |
| Change in retirement benefit asset/obligation | | 79,464 | 53,790 |
| Inventories | | (31,773) | 158,219 |
| Trade and other receivables | | (96,830) | 27,907 |
| Group companies | | 315 | 7,588 |
| Trade and other payables | | 3,331 | 114,831 |
| Warranties settled | 21 | - | (5,647) |
| | | (45,493) | 356,688 |
| Interest received | | 1,114 | 16,832 |
| Tax paid | | (193) | (4,448) |
| Net cash provided by operating activities | | 129,041 | 422,692 |
| **Cash Flows from Investing Activities** | | | |
| Proceeds from sale of property, plant and equipment | | 2,346 | 243 |
| Purchase of property, plant and equipment | 12 | (49,832) | (19,403) |
| Purchase of computer software | 13 | (980) | (12,224) |
| Net cash used in investing activities | | (48,466) | (31,384) |
| Cash provided by operating and investing activities (carried forward to page 6) | | 80,575 | 391,308 |

# Hardware & Lumber Limited
Statement of Cash Flows
**Year ended 31 December 2010**
(expressed in Jamaican dollars unless otherwise indicated)

| | Note | 2010<br>$'000 | 2009<br>$'000 |
|---|---|---|---|
| **Cash Provided by Operating and Investing Activities (brought forward from Page 5)** | | 80,575 | 391,308 |
| **Cash Flows from Financing Activities** | | | |
| Short term loans received | | 1,125,098 | 827,968 |
| Short term loans repaid | | (882,124) | (1,279,868) |
| Interest paid | | (104,005) | (166,436) |
| Long term loans received | | - | 137,056 |
| Long term loans repaid | | (134,996) | (220,982) |
| Net cash provided by/(used in) by financing activities | | 3,973 | (702,262) |
| Effects of exchange rate changes on cash and cash equivalents | | 1,675 | 8,919 |
| Net increase/(decrease) in cash and cash equivalents | | 86,223 | (302,035) |
| Cash and cash equivalents at beginning of year | 19 | 6,547 | 308,582 |
| **Cash and Cash Equivalents at the End of the Year** | 19 | 92,770 | 6,547 |
| **Comprised of**: | | | |
| Cash at bank | 19 | 104,786 | 102,592 |
| Short term deposits | 19 | - | 44,528 |
| | | 104,786 | 147,120 |
| Bank overdraft | 19 | (12,016) | (140,573) |
| **Cash and Cash Equivalents at the End of the Year** | | 92,770 | 6,547 |

## 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 that have been published 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.

- IFRS 8 (Amendment), 'Operating Segments'. 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 (CODM). The company does not report segment assets to the CODM, as such that information will not be disclosed.

- IFRS 2 (Amendment), 'Share-based Payment – Group Cash-settled Share-based Payment Transactions'. 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. This amendment has little impact on the company's operations.

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

**(a) Basis of preparation (continued)**
***Standards, interpretations and amendments to published standards that are not yet effective***

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued which were not yet effective at balance sheet date, and which the company did not early adopt. The company has assessed the relevance of all such new standards, interpretations and amendments and has determined that the following may be relevant to its operations, and has concluded as follows:

- IFRS 9, 'Financial instruments', issued in November 2009 and amended in October 2010. This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. The company is yet to assess IFRS 9's full impact.

- IAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The company will apply the revised standard from 1 January 2011. When the revised standard is applied, the company will need to disclose any transactions between its self and Grace's associates.

- IFRIC 14 (amendments) Prepayments of a minimum funding requirement. The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. The company will apply these amendments for the financial reporting period commencing on 1 January 2011.

**(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.

**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.

**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.

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

**(h) Employee benefits**

(i) Pension obligations

The company participates in a defined contribution plan operated by Grace, whereby it pays contributions to a privately administered fund. The regular contributions constitute net periodic costs for the year in which they are due and are included in staff costs.

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

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

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

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and amendments to the pension plan are charged or credited to income over the employees' expected average remaining working lives.

(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.

## 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.

### (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.

## 2. Significant Accounting Policies (Continued)

### (k) Intangible assets

**Goodwill**

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

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to the cash-generating unit that is 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.

### (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.

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

**(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 17, 18 and 19). The fair values of the company's financial assets are discussed in Note 28.

*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 and measured at fair value.

**(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:

(i) 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.

(ii) 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 risk.

Additionally, management has established a Credit Committee which issues guidelines with respect to credit limits. The Credit Committee has established a credit policy under which customers are analysed individually for creditworthiness prior to the company offering them a credit facility.

**(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.

**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. 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, aging profile, and previous financial difficulties..

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**

| | **2010** | **2009** |
|---|---|---|
| | **$'000** | **$'000** |
| Credit risk exposures are as follows: | | |
| Trade receivables (Note 17) | 267,199 | 269,299 |
| Other receivables (Note 17) | 113,127 | 38,422 |
| Cash and cash equivalents (Note 19) | 104,786 | 147,120 |
| | 485,112 | 454,841 |

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

## 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 90 days past due are not considered impaired. As of 31 December 2010, trade receivables totalling $73,336,000 (2009 - $94,866,000) 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:

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| 1 to 30 days past due | 48,252 | 72,422 |
| 31 to 60 days past due | 21,000 | 16,968 |
| Over 60 days past due | 4,084 | 5,476 |
| | 73,336 | 94,866 |

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

As of 31 December 2010, trade receivables of $62,822,000 (2009 - $60,142,000) were past due and impaired. The amount of the provision was $54,109,000 (2009 – $47,573,000). 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:

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| 91 to 120 days past due | 5,645 | 8,671 |
| Over 120 days past due | 57,177 | 51,471 |
| Over 90 days past due | 62,822 | 60,142 |

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

**(a) Credit risk (continued)**

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

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| At 1 January | 47,573 | 39,875 |
| Provision for receivables impairment | 17,251 | 17,556 |
| Recoveries | (8,187) | (9,858) |
| Receivables written off during the year as uncollectible | (2,528) | - |
| At 31 December | 54,109 | 47,573 |

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:

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Agriculture, fishing and mining | 60,668 | 71,512 |
| Wholesalers | 121,689 | 174,338 |
| Retail distributors and others | 138,951 | 71,022 |
| | 321,308 | 316,872 |
| Less: Provision for credit losses | (54,109) | (47,573) |
| | 267,199 | 269,299 |

All trade receivables are receivable from customers in Jamaica.

**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.

## 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 2010:** | | | | | | |
| **Liabilities** | | | | | | |
| Bank overdraft | 12,016 | - | - | - | - | 12,016 |
| Trade payables | 215,265 | 611,402 | - | - | - | 826,667 |
| Other payables | 116,737 | - | - | - | - | 116,737 |
| Short term loans | 4,224 | 148,038 | 458,796 | - | - | 611,058 |
| Group companies | 4,029 | - | - | - | - | 4,029 |
| Long term loans | 74,543 | 11,447 | 51,803 | 141,293 | - | 279,086 |
| | 426,814 | 770,887 | 510,599 | 141,293 | - | 1,849,593 |

| | 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 |

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

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

**(c) Market risk**

The company takes on exposure to market 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.

## 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 2010:** | | | |
| **Financial Assets** | | | |
| Trade receivables | 267,199 | - | 267,199 |
| Other receivables | 113,127 | 29,231 | 142,358 |
| Group companies | 5,655 | - | 5,655 |
| Cash and bank | 96,035 | 8,751 | 104,786 |
| Total financial assets | 482,016 | 37,982 | 519,998 |
| **Financial Liabilities** | | | |
| Bank overdraft | 12,016 | - | 12,016 |
| Trade payables | 183,569 | 643,098 | 826,667 |
| Other payables | 116,737 | - | 116,737 |
| Short term loans | 250,000 | 343,445 | 593,445 |
| Group companies | 4,029 | - | 4,029 |
| Long term loans | 68,512 | 185,113 | 253,625 |
| **Total financial liabilities** | 634,863 | 1,171,656 | 1,806,519 |
| **Net financial position** | (152,847) | (1,133,674) | (1,286,521) |

**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 2009:** | | | |
| **Financial Assets** | | | |
| Trade receivables | 269,299 | - | 269,299 |
| Other receivables | 32,016 | 6,406 | 38,422 |
| Group companies | 8,342 | - | 8,342 |
| Cash and bank | 99,604 | 47,516 | 147,120 |
| Total financial assets | 409,261 | 53,922 | 463,183 |
| **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** | (360,181) | (1,037,290) | (1,397,471) |

***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 profit/(loss) was as a result mainly of foreign exchange losses on translation of US dollar-denominated trade payables, and short term loans.

| | % Change in Currency Rate 2010 | Effect on Profit for the Year and Equity 2010 $'000 | % Change in Currency Rate 2009 | Effect on Loss for the Year and Equity 2009 $'000 |
|---|---|---|---|---|
| Devaluation | 5 | (37,799) | 5 | (34,576) |
| Revaluation | 5 | 37,799 | 2 | 13,831 |

**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. 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.

| | 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 2010** | | | | | | | |
| **Assets** | | | | | | | |
| Trade receivables | - | - | - | - | - | 267,199 | 267,199 |
| Other receivables | - | - | - | - | - | 142,358 | 142,358 |
| Group companies | - | - | - | - | - | 5,655 | 5,655 |
| Cash and bank | 104,786 | - | - | - | - | - | 104,786 |
| Total financial assets | 104,786 | - | - | - | - | 415,212 | 519,998 |
| **Liabilities** | | | | | | | |
| Bank overdraft | 12,016 | - | - | - | - | - | 12,016 |
| Trade payables | - | - | - | - | - | 826,667 | 826,667 |
| Other payables | - | - | - | - | - | 116,737 | 116,737 |
| Short term loans | - | 140,000 | 453,445 | - | - | - | 593,445 |
| Group companies | - | - | - | - | - | 4,029 | 4,029 |
| Long term loans | 72,828 | 8,696 | 38,265 | 133,836 | - | - | 253,625 |
| Total financial liabilities | 84,844 | 148,696 | 491,710 | 133,836 | - | 947,433 | 1,806,519 |
| **Total interest repricing gap** | 19,942 | (148,696) | (491,710) | (133,836) | - | (532,221) | (1,286,521) |

**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 | - | - | - | - | - | 38,422 | 38,422 |
| Group companies | - | - | - | - | - | 8,342 | 8,342 |
| Cash and bank | 147,120 | - | - | - | - | - | 147,120 |
| Total financial assets | 147,120 | - | - | - | - | 316,063 | 463,183 |
| **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) | - | (639,376) | (1,397,471) |

***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.

| | Effect on Profit for the Year and Equity 2010 $'000 | Effect on Loss for the Year and Equity 2009 $'000 |
|---|---|---|
| **Change in basis points:** | | |
| -50 for USD, 100 for JMD (2009 – 200 for USD and 600 for JMD) | 1,934 | 7,415 |
| +50 for USD and 200 for JMD (2009 – 200 for both USD and JMD) | (2,788) | (3,666) |

## 3. Financial Risk Management (Continued)

### (d) Capital management

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for 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 2010 and 2009 were as follows:

| | 2010 | 2009 |
|---|---|---|
| | $'000 | $'000 |
| Total borrowings | 859,086 | 905,215 |
| Less: cash and bank balances | (104,786) | (147,120) |
| Net debt | 754,300 | 758,095 |
| Total equity | 951,501 | 903,747 |
| Total capital | 1,705,801 | 1,661,842 |
| Gearing ratio | 44.2% | 45.6% |

## 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 described in Note 2(g). 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(e). 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 debts 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.

**Pension plan assets and post employment obligations**
The cost of these benefits and the present value of the pension and the other post-employment liabilities depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net periodic cost/income for pension and post-employment benefits include the expected long-term rate of return on the relevant plan assets, the discount rate and, in the case of the post-employment medical benefits, the expected rate of increase in medical costs. Any changes in these assumptions will impact the net periodic cost/income recorded for pension and post-employment benefits and may affect planned funding of the pension plans. The expected return on plan assets assumption is determined on a uniform basis, considering long-term historical returns, asset allocation and future estimates of long-term investment returns. Grace, its subsidiaries and its associated companies (the Group) determines the appropriate discount rate at the end of each year, which represents the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension and post-retirement benefit obligations. In determining the appropriate discount rate, the Group considered interest rate 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 the terms of the related pension liability. The expected rate of increase of medical costs has been determined by comparing the historical relationship of the actual medical cost increases with the rate of inflation in the respective economies. Past experience has shown that actual medical costs have increased on average by one time the rate of inflation. Other key assumptions for the pension and post retirement benefits cost and credits are based in part on current market conditions.

## 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/(loss) before income tax, not including non-recurring gains and losses, as included in the internal management reports that are reviewed by the company's CEO. Segment profit/(loss) 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.

| | 2010 | | | |
|---|---|---|---|---|
| | Wholesale of Hardware and Building Products | Retail of Household and Hardware Products | Agricultural Products and Equipment | Total |
| | $'000 | $'000 | $'000 | $'000 |
| External operating revenue | 891,377 | 3,499,963 | 1,337,647 | 5,728,987 |
| (Loss)/profit from operations | (24,667) | (56,682) | 173,339 | 91,990 |
| Interest income | 183 | 790 | 261 | 1,234 |
| Interest expense | (15,389) | (57,389) | (22,262) | (95,040) |
| Depreciation and amortisation | (9,255) | (61,469) | (13,321) | (84,045) |
| (Loss)/profit before tax | (35,423) | (98,008) | 157,606 | 24,175 |
| Capital expenditure | 1,580 | 43,480 | 5,752 | 50,812 |

## 5. Segment Information (Continued)

| | 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 |
| (Loss)/profit from operations | (56,159) | (126,202) | 153,833 | (28,528) |
| 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 |

No single customer accounted for 10% or more of total revenues of the company either in 2010 or in 2009.

## 6. Other Operating Income

| | **2010** | **2009** |
|---|---|---|
| | **$'000** | **$'000** |
| Profit/(loss) on sale of property, plant and equipment | 2,239 | (3,938) |
| Rent | 8,138 | 6,445 |
| Interest income | 1,234 | 16,910 |
| Purchase rebate | 3,143 | 3,799 |
| Agent commission | 13,926 | - |
| Insurance claims | 5,944 | - |
| Other | 6,192 | 566 |
| | 40,816 | 23,782 |

## 7. Expenses by Nature

Total cost of sales, direct and administrative expenses

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Auditors' remuneration | 7,714 | 7,407 |
| Advertising and marketing | 25,619 | 41,204 |
| Cost of inventories recognised as expenses | 4,190,518 | 4,440,826 |
| Depreciation and amortisation | 84,045 | 85,916 |
| Insurance | 61,453 | 63,114 |
| Occupancy – rent, utilities, etc. | 268,884 | 254,643 |
| Repairs, maintenance and renewals | 41,941 | 51,510 |
| Staff costs (Note 8) | 534,062 | 523,530 |
| Professional and contractual | 159,079 | 151,281 |
| Processing and facility | 31,926 | 33,311 |
| Security | 53,463 | 65,511 |
| Stationery and computer expense | 40,565 | 48,831 |
| Equipment rental | 13,366 | 11,584 |
| Other | 165,178 | 214,241 |
| | 5,677,813 | 5,992,909 |

## 8. Staff Costs

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Wages and salaries | 332,628 | 308,284 |
| Payroll taxes, employer's contribution | 33,092 | 29,742 |
| Pension charge (Note 15) | 79,742 | 64,549 |
| Pension contribution to defined contribution plan (Note 15) | 129 | - |
| Other post-employment benefits (Note 15) | 12,847 | 33,622 |
| Staff welfare | 64,597 | 66,792 |
| Gratuity | 1,209 | 10,200 |
| Stock option expense (Note 26) | - | 10,341 |
| Redundancy costs | 9,818 | - |
| | 534,062 | 523,530 |

## 9. Finance Costs

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Interest expense | 95,040 | 163,890 |
| Foreign exchange (gains)/losses | (27,225) | 103,190 |
| | 67,815 | 267,080 |

## 10. Taxation

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

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Deferred (Note 14) | 4,834 | (69,846) |

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Profit/(loss) before tax | 24,175 | (295,608) |
| Tax calculated at 33 1/3% | 8,058 | (98,536) |
| Adjusted for the effect of: | | |
| Adjustment to prior year deferred tax | (3,124) | 12,873 |
| Expenses not deductible for tax | 724 | 15,577 |
| Net effect of other charges and allowances | (824) | 240 |
| Taxation | 4,834 | (69,846) |

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 $430,488,000 (2009 - $567,887,000).

## 11. Earnings/(Loss) per Stock Unit

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

| | 2010 | 2009 |
|---|---|---|
| Net profit/(loss) attributable to stockholders ($'000) | 19,341 | (225,762) |
| Number of stock units in issue ('000) | 80,842 | 80,842 |
| Earnings/(loss) per stock unit | 0.24 | ($2.79) |

## 12. Property, Plant and Equipment

| | 2010 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Freehold Land | Freehold Buildings | Furniture and Office Equipment | Leasehold Improvements | Equipment and Scaffolding | Vehicles and Forklift Trucks | Construction in Progress | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Cost or Valuation - | | | | | | | | |
| 1 January 2010 | 170,000 | 264,325 | 343,954 | 134,297 | 91,144 | 7,716 | - | 1,011,436 |
| Additions | - | 1,563 | 21,715 | 23,311 | 614 | - | 2,629 | 49,832 |
| Revaluation | 30,000 | (15,888) | - | - | - | - | - | 14,112 |
| Disposals | - | - | (2,872) | - | (696) | - | - | (3,568) |
| 31 December 2010 | 200,000 | 250,000 | 362,797 | 157,608 | 91,062 | 7,716 | 2,629 | 1,071,812 |
| Depreciation - | | | | | | | | |
| 1 January 2010 | - | 8,140 | 255,392 | 97,837 | 56,128 | 5,915 | - | 423,412 |
| Charge for the year | - | 5,368 | 27,574 | 11,696 | 5,623 | 1,167 | - | 51,428 |
| Revaluation | - | (13,508) | - | - | - | - | - | (13,508) |
| Relieved on disposals | - | - | (2,766) | - | (695) | - | - | (3,461) |
| 31 December 2010 | - | - | 280,200 | 109,533 | 61,056 | 7,082 | - | 457,871 |
| Net Book Value - | | | | | | | | |
| 31 December 2010 | 200,000 | 250,000 | 82,597 | 48,075 | 30,006 | 634 | 2,629 | 613,941 |

## 12. Property, Plant and Equipment (Continued)

| | 2009 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Freehold Land | Freehold Buildings | Furniture and Office Equipment | Leasehold Improvements | Equipment and Scaffolding | Vehicles and Forklift Trucks | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'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 |

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 October 2010. 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, $28,413,000, was credited to the revaluation reserve in stockholders' equity. All other property, plant and equipment are stated at cost.

## 13. Intangible Assets

| | 2010 | | | |
|---|---|---|---|---|
| | Computer Software $'000 | Computer Software Work in Progress $'000 | Goodwill $'000 | Total $'000 |
| Cost - | | | | |
| 1 January 2010 | 233,838 | 17,930 | 1,736 | 253,504 |
| Additions | - | 980 | - | 980 |
| 31 December 2010 | 233,838 | 18,910 | 1,736 | 254,484 |
| Amortisation - | | | | |
| 1 January 2010 | 171,542 | - | - | 171,542 |
| Amortisation charge for the year | 32,617 | - | - | 32,617 |
| 31 December 2010 | 204,159 | - | - | 204,159 |
| Net Book Value - | | | | |
| 31 December 2010 | 29,679 | 18,910 | 1,736 | 50,325 |

| | 2009 | | | |
|---|---|---|---|---|
| | Computer Software $'000 | Computer Software Work in Progress $'000 | Goodwill $'000 | Total $'000 |
| Cost - | | | | |
| 1 January 2009 | 233,838 | 5,706 | 1,736 | 241,280 |
| Additions | - | 12,224 | - | 12,224 |
| 31 December 2009 | 233,838 | 17,930 | 1,736 | 253,504 |
| Amortisation - | | | | |
| 1 January 2009 | 138,622 | - | - | 138,622 |
| Amortisation charge for the year | 32,920 | - | - | 32,920 |
| 31 December 2009 | 171,542 | - | - | 171,542 |
| Net Book Value - | | | | |
| 31 December 2009 | 62,296 | 17,930 | 1,736 | 81,962 |

The amortisation charges of $22,416,000 and $10,201,000 (2009 - $21,748,000 and $11,172,000) are included in direct and administrative expenses in the statement of comprehensive income.

## 14. 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:

| | 2010 | 2009 |
|---|---|---|
| | $'000 | $'000 |
| Net asset at beginning of year | 154,681 | 84,835 |
| (Charge)/credit to the statement of comprehensive income (Note 10) | (4,834) | 69,846 |
| Credit to equity (Note 24) | 793 | - |
| Net asset at end of year | 150,640 | 154,681 |

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.

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

| | 2010 | 2009 |
|---|---|---|
| | $'000 | $'000 |
| Deferred income tax assets: | | |
| Statutory tax loss | 143,494 | 190,389 |
| Interest payable | 3,012 | 5,845 |
| Provision for warranty | 365 | 255 |
| Accrued vacation | 4,484 | 4,119 |
| Unrealised foreign exchange losses | 14,970 | 19,002 |
| Retirement benefit obligations | 74,564 | 74,238 |
| | 240,889 | 293,848 |
| Deferred income tax liabilities: | | |
| Unrealised foreign exchange gains on deposits | (1,785) | (12,427) |
| Property, plant and equipment | (56,048) | (68,203) |
| Interest receivable | (66) | (26) |
| Retirement benefit asset | (32,350) | (58,511) |
| | (90,249) | (139,167) |
| Net Asset | 150,640 | 154,681 |
| | | |
| Deferred tax assets to be recovered after more than one year | 74,564 | 74,238 |
| Deferred tax liabilities to be settled after more that one year | (88,398) | (126,714) |

## 15. Post-employment Benefits

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Assets/(liabilities) recognised in the balance sheet – | | |
| Retirement Benefit Asset - Pension plan | 97,051 | 175,532 |
| Retirement Benefit Obligation - Medical benefits | (223,693) | (222,710) |
| Amounts recognised in the statement of comprehensive income (Note 8) – | | |
| Retirement Benefit Asset - Pension plan | 79,742 | 64,549 |
| Retirement Benefit Obligation - Medical benefits | 12,847 | 33,622 |

### *Pension plan benefits*

In addition to the defined benefit pension plan described below; Grace started a new defined contribution pension plan during the year open to Jamaican based employees hired on or after 1 April 2010. Employees contribute 5% of pensionable earnings with the option to contribute an additional voluntary contribution of 5%. The employer contributions are currently set at 10%. The company's contribution for the year was $129,000 (Note 8).

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:

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Fair value of plan assets | (555,081) | (472,136) |
| Present value of funded obligations | 965,446 | 581,604 |
| | 410,365 | 109,468 |
| Unrecognised actuarial losses | (507,416) | (285,000) |
| | (97,051) | (175,532) |

## 15. Post-employment Benefits (Continued)

***Pension plan benefits (continued)***

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

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| At beginning of year | 472,136 | 451,545 |
| Expected return on plan assets | 54,231 | 58,103 |
| Actuarial gain on plan assets | 49,909 | 35,542 |
| Contributions | 20,405 | 19,667 |
| Benefits paid | (41,600) | (92,721) |
| At end of year | 555,081 | 472,136 |

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

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| At beginning of year | 581,604 | 593,107 |
| Current service cost | 43,949 | 59,442 |
| Interest cost | 96,760 | 96,990 |
| Actuarial losses/(gains) on obligations | 284,733 | (75,214) |
| Benefits paid | (41,600) | (92,721) |
| At end of year | 965,446 | 581,604 |

**15. Post-employment Benefits (Continued)**

***Pension plan benefits (continued)***

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

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Current service cost | 24,805 | 41,067 |
| Interest cost | 96,760 | 96,990 |
| Expected return on plan assets | (54,231) | (58,103) |
| Net actuarial gains recognised during the year | 12,408 | 17,530 |
| | 79,742 | 97,484 |
| Change in income due to limitation on asset | - | (32,935) |
| Total included in staff costs (Note 8) | 79,742 | 64,549 |

The charge of $79,742,000 (2009 - $64,549,000) was included in administrative expense in the statement of comprehensive income.

The actual gain on plan assets was $104,140,000 (2009 – $93,645,000).

Expected contributions to the plan for the year ended 31 December 2011 amount to $13,695,000.

The distribution of plan assets was as follows:

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Quoted equities | 87,471 | 75,428 |
| Government of Jamaica securities | 349,502 | 268,275 |
| Repurchase agreements | 15,885 | 5,025 |
| Other | 102,223 | 123,408 |
| | 555,081 | 472,136 |

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.

**15. Post-employment Benefits (Continued)**

***Pension plan 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:

| | 2010 $'000 | 2009 $'000 | 2008 $'000 | 2007 $'000 | 2006 $'000 |
|---|---|---|---|---|---|
| Fair value of plan assets | 555,081 | 472,136 | 451,545 | 472,999 | 421,690 |
| Defined benefit obligation | (965,446) | (581,604) | (593,107) | (288,744) | (325,817) |
| | (410,365) | (109,468) | (141,562) | 184,255 | 95,873 |
| Experience adjustments – | | | | | |
| Fair value of plan assets | 49,909 | 35,542 | (70,673) | (1,954) | (794,845) |
| Defined benefit obligation | 56,266 | (75,214) | (180,345) | (57,356) | (29,166) |

***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 plan. The method of accounting and frequency of valuations are similar to those used for the pension plan. The liability recognised in the balance sheet was determined as follows:

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Present value of unfunded obligations | 269,932 | 170,840 |
| Unrecognised actuarial (losses)/gains | (46,239) | 51,870 |
| | 223,693 | 222,710 |

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

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| At beginning of year | 170,840 | 166,016 |
| Current service cost | 11,433 | 10,972 |
| Past service cost | (16,812) | - |
| Interest cost | 25,523 | 24,871 |
| Actuarial gains on obligations | 90,816 | 12,066 |
| Benefits paid | (11,868) | (43,085) |
| At end of year | 269,932 | 170,840 |

## 15. Post-employment Benefits (Continued)

***Medical benefits (continued)***

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

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Past service cost | (16,812) | - |
| Current service cost | 11,433 | 10,972 |
| Interest cost | 25,523 | 24,871 |
| Net actuarial gains recognised during the year | (7,297) | (2,221) |
| Total included in staff costs (Note 8) | 12,847 | 33,622 |

The total charge of $12,847,000 (2009 – $33,622,000) was included in administrative expenses in the statement of comprehensive income.

The composition of the liability recognised in relation to the other post-employment obligations in the statement of financial position is as follows:

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Gratuity Plan | 74,222 | 80,141 |
| Group Life Plan | 10,419 | 9,359 |
| Insured Group Health | 36,965 | 30,860 |
| Self Insured Health Plan | 77,625 | 71,029 |
| Supplementary Pension Plan | 24,462 | 31,321 |
| Liability in the statement of financial position | 223,693 | 222,710 |

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 | 22,061 | 15,782 |
| Effect on the defined benefit obligation | 190,266 | 132,238 |

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

| | 2010 $'000 | 2009 $'000 | 2008 $'000 | 2007 $'000 | 2006 $'000 |
|---|---|---|---|---|---|
| Defined benefit obligation | 269,932 | 170,840 | 166,016 | 179,487 | 189,501 |
| Experience adjustments | 15,701 | (7,685) | (29,105) | (15,902) | (1,891) |

(expressed in Jamaican dollars unless otherwise indicated)

**15. 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:

| | 2010 | 2009 |
|---|---|---|
| Discount rate | 11.0% | 16.0% |
| Long term rate of inflation | 7.0% | 10.0% |
| Expected return on plan assets | 10.0% | 11.0% |
| Future salary increases | 8.5% | 12.5% |
| Future pension increases | 7.0% | 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 (2009 - 21 and 25 years for 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 |

## 16. Inventories

| | 2010 | 2009 |
|---|---|---|
| | $'000 | $'000 |
| Merchandise | 1,404,874 | 1,517,668 |
| Provision for obsolescence | (161,963) | (164,912) |
| | 1,242,911 | 1,352,756 |
| Goods in transit | 214,873 | 73,255 |
| | 1,457,784 | 1,426,011 |

The cost of inventories recognised as expense and included in cost of sales amounted to $4,190,518,000 (2009 - $4,440,826,000).

## 17. Trade and Other Receivables

| | 2010 | 2009 |
|---|---|---|
| | $'000 | $'000 |
| Trade | 321,308 | 316,872 |
| Provision for impairment | (54,109) | (47,573) |
| | 267,199 | 269,299 |
| Prepayments | 71,900 | 47,555 |
| Other | 113,127 | 38,422 |
| | 452,226 | 355,276 |

## 18. Group Companies and Other Related Party Transactions and Balances

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

| | 2010 | 2009 |
|---|---|---|
| | $'000 | $'000 |
| Due to Grace | (1,941) | (2,877) |
| Due to fellow subsidiaries | (2,088) | (3,524) |
| | (4,029) | (6,401) |
| Due from Grace | 1,378 | 1,222 |
| Due from fellow subsidiaries | 4,277 | 7,120 |
| | 5,655 | 8,342 |

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 2010. The receivable balances are not interest bearing. There are no provisions held against receivables from related parties (2009 – nil).

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

| | 2010 | 2009 |
|---|---|---|
| | $'000 | $'000 |
| Income: | | |
| Rental charges - | | |
| Fellow subsidiaries | 933 | 338 |
| Commissions | | |
| Fellow subsidiaries | 13,926 | - |
| Sales - | | |
| Fellow subsidiaries | 5,534 | 3,823 |
| Parent company | 2,388 | 2,370 |
| Goods are sold based on the current price list on terms that would be available to third parties. | | |
| Interest income - | | |
| Fellow subsidiary | 90 | 13,937 |
| Parent company | 101 | 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. | | |

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

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

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Expenses: | | |
| Purchases - | | |
| Fellow subsidiaries | 10421 | 1,796 |
| Parent company | 2,151 | 1,477 |
| Goods are purchased based on the current price list on terms that would be available to third parties | | |
| Payroll cost - | | |
| Parent company | 1,726 | 1,677 |
| 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 | 16,987 | 27,974 |
| Parent company | - | 7,802 |
| 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 | 41,348 | 37,970 |
| Post-employment benefits | 177 | 143 |
| Gratuity | - | 10,000 |
| Key management includes the Chief Executive Officer, Chief Financial Officer and the General managers of the main business segments. | | |
| Directors emoluments - | | |
| Fees | 2,551 | 2,117 |
| Management remuneration (included above) | 13,631 | 9,451 |
| Gratuity | - | 10,000 |
| Property and equipment rental | | |
| Fellow subsidiary | 12,274 | 11,119 |
| Other charges - | | |
| Parent company | 39,299 | 61,877 |
| This relates to various services provided by Grace exclusively to its subsidiaries and associated companies | | |

## 19. Cash and Cash Equivalents

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

| | 2010 | 2009 |
|---|---|---|
| | $'000 | $'000 |
| Cash at bank | 104,786 | 102,592 |
| Short term deposits | - | 44,528 |
| | 104,786 | 147,120 |
| Bank overdrafts | (12,016) | (140,573) |
| | 92,770 | 6,547 |

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

## 20. Trade and Other Payables

| | 2010 | 2009 |
|---|---|---|
| | $'000 | $'000 |
| Trade | 826,667 | 852,237 |
| Accruals | 53,337 | 55,232 |
| Other | 63,400 | 41,569 |
| | 943,404 | 949,038 |

## 21. Provisions

| | 2010 | 2009 |
|---|---|---|
| | $'000 | $'000 |
| Balance at beginning of year | 765 | 7,549 |
| Additional provisions/(write back) | 1,051 | (1,137) |
| Utilised during the year | - | (5,647) |
| Balance at end of year | 1,816 | 765 |

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.

The provision at year end is expected to be settled within twelve months.

### 22. Short Term Loans

| | | 2010 | 2009 |
|---|---|---|---|
| | | $'000 | $'000 |
| First Global Financial Services Limited | (a) i | 140,000 | 140,000 |
| First Global Financial Services Limited | (a) ii | 110,000 | 80,000 |
| PanCaribbeanBank Limited | (b) | - | 11,935 |
| FirstCaribbean International Bank | (c) i | 128,792 | 134,400 |
| FirstCaribbean International Bank | (c) ii | 214,653 | - |
| | | 593,445 | 366,335 |

(a) These represent commercial papers. The annual interest rates on these loans are (a) (i) 10.5%, (a) (ii) 10.25%. These are evidenced by promissory notes from the company.

(b) This represented outstanding balance for insurance premium financing. The annual interest rate was 26.9%. This was repaid during the year.

(c) These loans are denominated in United States dollars and are evidenced by promissory notes and supported by a comfort letter from Grace. Loan (c) (i) annual interest rate was 6.74%. Loan (d) (ii) annual interest rate is 6.79%.

All short term loans and unsecured.

### 23. 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 |

## 24. Capital Reserve

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Revaluation reserve | 284,519 | 256,106 |
| Other | 6,100 | 6,100 |
| | 290,619 | 262,206 |
| Opening balance | 262,206 | 262,206 |
| Revaluation surplus | 27,620 | - |
| Deferred taxation (Note 14) | 793 | - |
| At the end of year | 290,619 | 262,206 |

The capital reserve is unrealised, however, there are no restrictions on the distribution of the balance to the shareholders.

The properties revaluation reserve arises on the revaluation of freehold land and buildings. When revalued land or buildings are sold, the portion of the properties revaluation reserve that relates to that asset, and that is effectively realised, is transferred directly to retained earnings.

## 25. Long Term Loans

| | | 2010 $'000 | 2009 $'000 |
|---|---|---|---|
| GraceKennedy Trade Finance Limited | (a) | 112,163 | 151,046 |
| FirstCaribbean International Bank (Jamaica) Limited | (b) | - | 11,360 |
| National Commercial Bank Jamaica Limited | (c) | 68,512 | 107,662 |
| First Global Financial Services Limited | (d) | - | 30,000 |
| GraceKennedy (St. Lucia) Limited | (e) | 72,950 | 98,239 |
| | | 253,625 | 398,307 |
| Current maturities | | (119,789) | (102,695) |
| | | 133,836 | 295,612 |

One of the company's loan agreements contains a covenant which states that at the end of each quarter the company's debt service coverage should be 2 times or greater. The company was experiencing losses during the first three quarters of the year, and as such the company fell below the minimum leverage threshold. As a result of the breach, $29,363,000 of principal due for prepayment in 2012 has been reclassified to the current portion. This change in presentation has been made as the lender has the option to demand full repayment of the loan.

## 25. Long Term Loans (Continued)

(a) This loan is denominated in United States dollars. At 31 December 2010, the annual interest rate was 7.5%. The loan is repayable in 2014.

(b) This loan was denominated in United States dollars. It was evidenced by promissory notes and supported by a comfort letter from Grace. At 31 December 2009, the annual interest rate was 8%. This loan was repaid in 2010.

(c) In prior years this was a United States denominated loan with an annual interest rate of 11%. In 2009 this loan was renegotiated and converted to a Jamaican dollar loan. At 31 December 2010 the annual interest rate was 13.26%. The loan is repayable in 2012.

(d) This represented a commercial paper. At 31 December 2009 the annual interest rate on this loan was 14.05%. This loan was repaid in 2010.

(e) This loan is denominated in United States dollars. At 31 December 2010, the interest rate is 7.5% per annum. The loan is repayable in 2014.

All long term loans are unsecured.

## 26. Other Reserves

| | 2010 | 2009 |
|---|---|---|
| | $'000 | $'000 |
| At beginning of year | 10,341 | - |
| Statement of comprehensive income charge | - | 10,341 |
| Transfer to retained earnings | (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. All the stock options outstanding at the end of 2009, which amounted to 208,000, had exercise prices of $115.97 and expired in 2010.

The average share price at the end of 2009 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.

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.

## 27. Operating Lease Commitments

The company leases various retail outlets and a distribution center under non-cancellable operating lease agreements. Minimum lease payment for 2010 was $164,666,000 (2009 - $158,284,000). The leases expire in 2013 with renewable options at the end of the lease periods. Included in lease payments for 2010 are amounts totaling $64,586,000 (2009 - $55,229,000) for locations whose leases expired within the year for which the new lease agreements have not being finalised.

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

| | 2010 | 2009 |
|---|---|---|
| | $'000 | $'000 |
| No later than 1 year | 105,217 | 110,727 |
| Later than 1 year and no later than 5 years | 138,457 | 264,205 |
| | 243,674 | 374,932 |

## 28. 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.

# NOTES

Hardware & Lumber Ltd

## Proxy Form

I/We ____________________________________________

of ____________________________________________

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

Place
$100 Stamp
here

____________________________________________

of ____________________________________________

or failing him/her ____________________________________________

of ____________________________________________

as my/our Proxy, to vote for me/us on my/our behalf at the Annual General Meeting of the said Company to be held on **Monday June 6, 2011 at 10:30 a.m.** at 697 Spanish Town Road, Kingston 11.

SIGNED this ____________day of ____________________2011

____________________________ 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) | | |
| 2(f) | | |
| 3(a) | | |
| 3(b) | | |
| 4 | | |

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. Proxy must be lodged at the company's registered office not later than forty-eight hours before the meeting.

Hardware & Lumber Ltd

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