2011 ANNUAL REPORT

Hardware & Lumber Ltd

RAPID True Value

AGROGRACE
Your Complete Farm & Garden Centre

HL Wholesale

Our Vision

We will maximize shareholder value over the long-term by satisfying the agriculture, home improvement and building needs of our customers, which is all about delivering quality, choice and convenience, and that depends on us having great people with the right skills, necessary tools and shared vision.

Our Mission

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

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Ten Year Financial Review

	2011	2010	2009	2008	2007
Revenue -J$'000	6,055,922	5,728,987	5,940,599	6,788,162	6,648,066
Net Profit/(Loss) - J$'000	6,296	19,341	(225,762)	(259,956)	133,550
Stockholders' Equity - J$'000	962,041	951,501	903,747	1,119,168	1,211,266
Net Current Assets - J$'000	614,526	397,073	421,870	607,265	839,635
Earnings/(Loss) Per Stock Unit	$0.08	$0.24	($2.79)	($3.21)	$1.65
Dividends per Stock Unit	$0.00	$0.00	$0.00	$0.00	$0.32
	2006	**2005**	**2004**	**2003**	**2002**
Revenue -J$'000	5,597,276	5,332,857	5,518,947	2,639,811	1,628,081
Net Profit J$'000	37,718	20,268	156,045	44,583	48,892
Stockholders' Equity - J$'000	1,103,500	1,065,782	707,412	605,531	313,507
Net Current Assets - J$'000	686,629	625,223	369,295	297,552	172,901
Earnings per Stock Unit	$0.47	$0.26	$2.32	$0.95	$1.22
Dividends per Stock Unit	$0.00	$0.00	$0.32	$0.11	$0.23

The interior of the new Agro-Grace Montego Bay Store.

Notice of Annual General Meeting

Notice is hereby given that the Eighty-fourth Annual General Meeting of Hardware & Lumber Limited will be held at the Registered Office, 697 Spanish Town Road, Kingston 11 on **Monday June 4, 2012 at 4:00 p.m.** for the following purposes:

1. To receive and consider the Directors' Report and Financial Statements for the year ended December 31, 2011, 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. Donald G. Wehby, Gordon Sharp and Rodney Davis and being eligible except for Simon Roberts, offer themselves for re-election.

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

Resolution 2 (a)

"That retiring Director Mr. Donald G. Wehby be and is hereby re-elected a Director of the Company."

Resolution 2 (b)

"That retiring Director Mr. Gordon Sharp be and is hereby re-elected a Director of the Company."

Resolution 2 (c)

"That retiring Director Mr. Rodney Davis be and is hereby re-elected a Director of the Company"

(ii) Pursuant to Article 105 of the Articles of Incorporation Mrs. M. Audrey Hinchcliffe and Mr. Michael Ammar, Jr. 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 Mrs. M. Audrey Hinchcliffe be and is hereby elected a Director of the Company"

Resolution 2 (e)

"That the retiring Director Mr. Michael Ammar Jr. be and is hereby elected a Director of the Company."

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

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

Resolution 3 (a)

"THAT the Directors be and are hereby empowered to fix the remuneration of the non executive Directors."

Resolution 3 (b)

"THAT the amount of $3,189,000 shown in the accounts for the year ended December 31, 2011 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. SPECIAL BUSINESS

To consider the amendment of the Articles of Incorporation of Hardware and Lumber Limited.

To consider, and if thought fit, to pass with or without modification(s), the following resolution as Special Resolutions:-

Resolution 5

"BE IT RESOLVED THAT pursuant to Section 10 and other applicable provisions, if any, of the Companies Act, the Articles of Incorporation of Hardware and Lumber Limited be and are amended as follows:

(1) By including the following definitions in Article 1

WORDS	THEIR MEANING
Electronic	Relating to technology having electrical, digital, magnetic, wireless, optical, electromagnetic, photographic or similar capabilities including but not limited to technology utilized by facsimile machines, scanning devices, mail sent using computers or other similar automated or photographic devices.
Electronic Format	Any disc, tape, sound track or other device in which printed words, sounds or other data are embodied so as to be capable (with or without the aid of some other equipment) of being reproduced there from including but not limited to compact discs.
Electronic Means	Any method of dispatch or communication of sounds, documents, maps, photography, graphs, plans or other data which involves the use of equipment or technology having electrical, digital, magnetic, wireless, optical, electromagnetic, photographic or similar capabilities including but not limited to facsimile machines, e-mail sent via computers and scanning devices.
Electronic Signature	So much of anything in Electronic form incorporated into, contained in, attached to or logically associated with a document, which uniquely identifies and authenticates the maker, is used by him to indicate his adoption of the content of that document and is produced or transmitted by Electronic means. For the avoidance of doubt, for the purpose of these Articles, an Electronic Signature includes but is not limited to any signature produced by facsimile machine or scanning device.

WORDS	THEIR MEANING
In Writing	Handwritten, printed, lithographed, typewritten or in any other mode of representing or reproducing words in visible form".

(2) By deleting the existing Article 118 in its entirety and inserting the following as the new Article 118:

"(1) A resolution in writing, signed by all the Directors for the time being entitled to receive notice of a meeting including any alternate Director if entitled shall be as valid and effectual as if it had been passed at a meeting of the Directors duly convened and held. Any such resolution may consist of several documents in like form each signed by one or more of such Directors but a resolution signed by an alternate Director need not also be signed by his appointer, and if it is signed by a Director who has appointed an alternate Director it need not be signed by the alternate Director in that capacity.

(2) For the purpose of Article 118(a) the word "signed" shall be construed to include an Electronic Signature".

(3) By deleting the existing Article 148 in its entirety and inserting the following in its place as the new Article 148:

(1) Notices may be served on the Company by leaving the same at or sending the same to a registered office of the Company. Any notice to be given or a document required to be sent by the Company to any member may be:

(a) sent to him personally in Writing or Electronic Format;

(b) sent by post to him or to the address appearing in the Register of Members of the Company or such other address supplied by him to the Company for the giving of notice to him in Writing or Electronic Format; or

(c) sent to him by Electronic Means

PROVIDED HOWEVER that where such notice or document is specifically required by law or these Articles to be sent in Writing the company will obtain the member's written consent prior to sending it to him in Electronic Format or by Electronic Means.

(2) Where a notice or document is sent by post, service of the notice or document shall be deemed to be effected by properly addressing, prepaying, and posting the notice or document and to have been effected, in the case of a notice of a meeting, at the expiration of Forty-Eight (48) hours after the letter containing the same is posted, and in any other case at the time at which the letter would be delivered in the ordinary course of post.

(3) Where a notice or document is sent by Electronic means, service of the notice or document shall be deemed to be effected by properly dispatching the notice or document to the email address or facsimile number provided by the member, and is deemed to have been received by the intended recipient at the expiration of twenty-four (24) hours after the notice or document is so dispatched by the Company.

(4) Any notice or document sent by post to, or left at the registered address of, any member, or sent by Electronic means to any member in pursuance of these Articles, shall, not withstanding such member be then deceased or bankrupt

and whether or not the Company have notice of his decease or bankruptcy, be deemed to have been duly served in respect of any shares, whether be held solely or jointly with other persons by such member, until some other person be registered in his stead as the holder or joint holder thereof. And such service shall for all purposes be deemed a sufficient service of such notice or document on all persons interested".

(4) By inserting into Article 150 the words "by electronic means or" after the word "it" in the second line.

By Order of the Board

Gene M. Douglas

Secretary

Kingston, Jamaica

Dated this 2nd day of March, 2012

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's Report

Erwin Burton, *Chairman*

The year 2011 was challenging for our business, as Jamaica emerged from a deep and prolonged recession into a period of slow growth.

Our overall revenues increased by 5.7%, with all three business segments growing. For the twelve months ended December 31, 2011 revenues and net profit were $6,056 million and $10 million respectively compared to revenues of $5,729 million and a net profit of $19 million for the same period in 2010. Our results were impacted by a significant slowdown in business activity during the fourth quarter.

The earnings per share for the year were $0.08 compared to $0.24 for 2010.

The company increased gross profit above prior year levels through improved margin management, reduced shrinkage, and increased product variety and availability. There were significant increases in post retirement obligations, electricity and transportation costs. Combined with an increase in other operating income offset by an increase in operating costs, the company recorded operating profits of $81 million for the year, compared to $92 million in 2010.

Revenues in the retail segment increased by 2.7% compared to 2010, due to improvements in product mix, availability and customer service. This segment generated a full year operating profit for the first time since 2007. Revenues in the wholesale segment increased 6.3% compared to 2010, as sales of construction steel increased. However, increased transportation costs and reduced margins resulted in a significant increase in operating losses for the segment. The Agricultural segment recorded a 13.3% increase in revenues compared to 2010, in keeping with the overall growth trend in the agricultural sector. This segment continued to generate pre-tax profits, but experienced a decline compared to 2010 due to increased operational costs and changes in product mix.

During the year, we renegotiated our loan portfolio, improved our inventory management, and increased our cash flows.

The focus for 2012 will be to build on the stability achieved in 2010 and 2011. These actions are to grow our farm supplies and hardware retail businesses, by improving our product variety and availability and our customer service. We will also enhance our operating efficiencies and controls. These actions have been wholly integrated into our Balanced Score Card (BSC) and strategic plan for 2012 to 2016.

We wish to express our gratitude to the management and staff for their hard work and commitment during 2011. We also thank our customers, suppliers, and other stakeholders for your continued loyalty and support.

Erwin Burton

Chairman

Management Discussion and Analysis

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

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

Our core values are paramount in the execution of strategy.

Strategy and Key Performance Drivers

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


RAPID
RAPID
True Value
HOME CENTRE
True Value
HOME CENTRE

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 as shown below:

RAPID True Value

We operate eleven 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	2011	2010	CHANGE
Revenues	6,056	5,729	327
Net Profit/(Loss)	6	19	(13)
Cash and cash equivalents	320	93	227
Shareholders Equity	962	952	10

In 2011 revenues of $6,056 million represent an increase of 5.7% compared to the $5,729 million earned in 2010. The Company generated net profit of $6 million compared to $19 million in 2010. Cash and cash equivalents improved by $227 million, and shareholders equity also improved by $10 million.

__Revenues__ in 2011 were up 5.7% largely due to improvements in all segments.

Gross Margins:

In 2011 gross margins declined slightly to 25.8% compared to 26.0% in 2010 as a result of a number of factors including: increases in transportation, demurrage and obsolete stock provisions, offset by a reduction in shrinkage and improved pricing.

Direct and Administrative Expenses:

Expenses increased by 6.2% in 2011 when compared to 2010 as a result of increases in IAS19 provisions ($95M in 2011 versus $80M in 2010), utilities and salaries, offset by savings derived from the implementation of several cost reduction and efficiency improvement projects during the year.

Finance Costs:

Finance costs increased by 4.3% in 2011 compared to 2010 due to significantly lower interest costs, offset by the absence in 2011 of foreign exchange gains earned in 2010

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 True Value")
- Retail and wholesale of agricultural products and equipment ("AgroGrace")

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

Rapid True Value

Revenue generated by the Retail Division increased by 2.7% relative to the prior year, as there was a slight upturn in construction and home improvement activities. Efforts were focused on improving customer service, product availability and in-store merchandising. In particular, our Montego Bay, Ocho Rios, and Manor Park stores were remodelled, following on the successful revamping of the flagship Lane Plaza store in Kingston in 2010. This has resulted in improving financial performance and customer satisfaction scores. We closed our Santa Cruz outlet in August, due to difficult conditions in that region.

Plans for 2012 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 2011 were focused on promoting Rapid True Value as an excellent source for consumer home improvement and construction needs.

Throughout 2011, Rapid True Value continued to benefit from being agents for GraceKennedy Money Services Ltd. offering Western Union ® Remittances, FX Trader ® and Bill Express ® services in our Lane, Mandeville and Ocho Rios outlets. We believe that the patrons of these services shop at Rapid True Value.

AgroGrace

Revenue generated by the Agro Grace Division increased by 13.3% when compared to 2010. Agro Grace continues to hold a very strong position in the market as a result of its wide product range, availability and excellent customer service. Favourable growing conditions prevailed for most of the year across all growing regions.

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 2012 to be a satisfactory year for the division, with several new products to be launched.

H&L Wholesale

The Wholesale and Special Projects Division showed an increase in revenues of 6.3% when compared to 2010 largely due to participation in several housing construction projects across the island, and improved supply of key products. Customer satisfaction also increased during the period.

Financial Position

Total assets decreased marginally by 2.5% to $2,910 million compared to $2,984 million in 2010. The significant movements were an increase in cash of $227 million, offset by decreases in inventory of $167 million and retirement benefit assets of $94 million.

Shareholders' Equity

Shareholders' equity at the end of 2011 was up 1.1% to $962 million compared with $952 million at the end of the prior year. The increase is mainly due to net profit

Dividends

No dividends were paid in 2010 or 2011.

Stock Performance

The company's stock price increased from $4.65 per share on
January 3, 2011 to $5.90 on December 30, 2011.

The market capitalization at the end of 2011 stood at $477 million.

Capital Investment

Capital expenditure for the year totalled $60.1 million, compared to $50.8 million in 2010. Refurbishing of the stores, telephone PBX, computer software, computer and office equipment were the main expenditures.

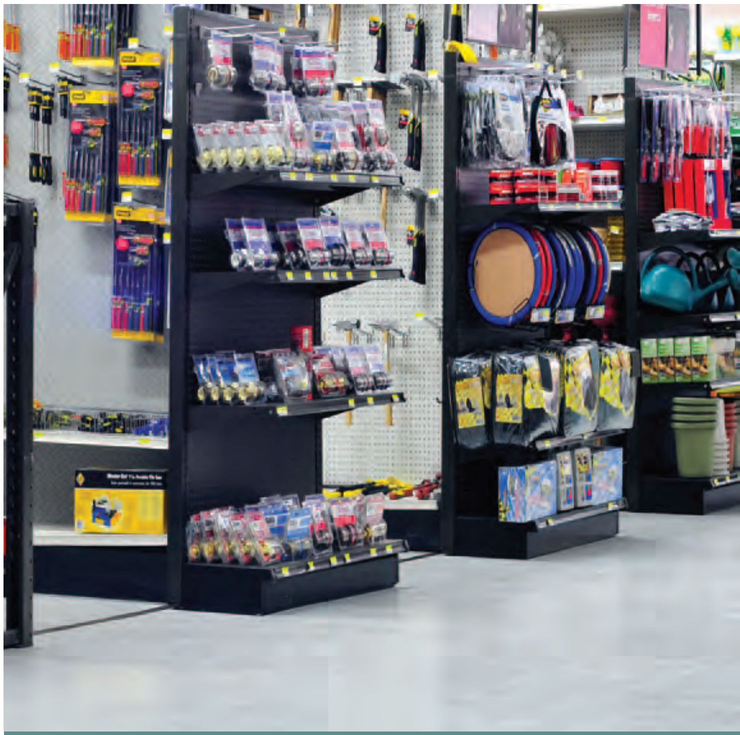
3. Empowered People: Leadership Development & Employee Engagement

We are firm believers that our people are our greatest asset and accordingly focus is placed on four (4) major areas:

1. Ensuring continuity of leadership
2. Developing effective leaders
3. Protecting our people
4. Developing staff at all levels

Leadership Development

We continue to participate in the GraceKennedy Supervisory Development and Leadership Development Programs. The goal is to develop the next generation of leaders, through a series of customised supervisory and leadership development interventions, which will



Hardware & Lumber Ltd. receives co-op recognition as top International True Value business partner.

L-R:

- **Eric Lane** - *Vice President* Specialty Businesses, True Value Company
- **Stacyann Tinglin** – *Category Manager* Hardware & Lumber Ltd.
- **Jacquline Wedderburn** – *Branch Manager* Rapid True Value Lane Plaza
- **Orrett Virgo** – *Purchasing Officer* Hardware & Lumber Ltd.
- **Dave Patrizi** - *Director* International, True Value Company

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

We continue to use our Employee Satisfaction Index (ESI) to assess employee satisfaction, and we continue to implement initiatives aimed at addressing areas of concern to our team members. Work will continue in 2012 to further improve our employee satisfaction.

Improved communications, increased employee involvement and support for social activities continued in 2011. 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.

Board and Management Transitions

Mr Dave Myrie resigned as COO on March 31, 2011. Ms Grace Silvera resigned as a Director on December 6, 2011. Mr Simon Roberts resigned as CEO and Director effective January 31, 2012. Mr Erwin Burton was appointed Acting CEO effective February 1, 2012. Mrs Audrey Hinchcliffe and Mr Michael Ammar (Jr.) were appointed Directors effective February 13, 2012. Mr Andrew Kerr resigned as CFO effective February 29, 2012

Corporate oversight of Hardware & Lumber continues to be part of the portfolio of GraceKennedy Group Chief Executive 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 (includes Currency Risk, Interest Rate Risk)

Refer to Note 3c of the audited financial statements for both Currency and Interest Rate Risk.

Management Discussion Analysis cont'd

Internal Controls & Business Processes Review

The company continues to strengthen its internal controls, risk management and governance processes. During 2011 self audits of the processes, as well as a review by Group Internal Audit were conducted, and management is implementing all of the recommendations. Continued 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) 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 programs. We continue to adhere to all relevant laws and regulations pertaining to the operation of 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 Pricewaterhouse-Coopers ("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, 2011 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, 2011 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, 2011 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 32nd Anniversary in 2011. 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: 2012 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 2011 and the anticipated challenges in 2012, 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 True Value retail outlets using the Destination True Value model, which has been very successful. Continued strengthening of our category management processes will also improve product range and availability to our consumers.

A number of new products will be launched in 2012 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 economic uncertainties in Jamaica.

Risk management and internal controls will remain a focus area in 2012, as we continuously strengthen our control systems, utilizing the methodology provided by the international advisory firm contracted in 2009.

Erwin Burton - *CEO (actg)*
February 28, 2012

Andrew Kerr - *CFO*
February 28, 2012

Board of Directors

Erwin Burton, BSc., M.Sc., JP,

serves on the boards of several GraceKennedy subsidiaries including 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 . 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 joining 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.,

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, Mergers and Acquisitions, Employee Engagement and Business Development. Grace received her Bachelor of Laws from the University of the West Indies and her Chartered status from the Chartered Insurance Institute UK. She 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 She is also a member of the Jamaican Bar Association, The Chartered Insurance Institute (UK) and Toastmasters International

Andrea Coy, B.Sc., MSc., FCA.,

is the General Manager of World Brands Services, a division of GK Foods & Services Ltd and prior to that served as General Manager of Hi-Lo Food Stores, a division of GK Foods & Services Ltd. Prior to joining GraceKennedy Ltd, she was Group Financial Controller of 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 and a certificate in Turnaround Management Strategies from Harvard Business School.

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. 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 Jamaica 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. 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.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.

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

was appointed Chief Executive Officer of the GraceKennedy Group on July 1, 2011. He is also a member of its Board. He was Deputy CEO for GraceKennedy Limited and CEO, GK Investments up to September 2007, when he resigned to take up the position of Senator and Cabinet Minister in the Ministry of Finance & the Public Service for two years. He was reappointed to the GraceKennedy Board on October 5, 2009. He is also a Board member of several other GraceKennedy subsidiaries and Vice President of the Private Sector Organization 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.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Corporate Data As at 31 December 2011

Board of Directors

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

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

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

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

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

Stephen B. Facey, M. Arch.

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

Grace Burnett, LLB., CI

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

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

Stephen Lewis, B.Sc.
Information Technology Manager

Dean Clarke, JP
Regional Manager/Retail

Olive Downer-Walsh, M.B.A, B.Sc. (Agri)
Regional Manager/ AgroGrace

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

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

Novelette Harris, B.Sc.
Human Resources Manager

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

Andrew Kerr, A.C.C.A., C.A.
Chief Financial Officer

Dion Gardner
Security Manager

Interest of Directors and Senior Management

As at 31 December 2011

DIRECTORS	PERSONAL SHAREHOLDINGS	STOCKHOLDINGS IN WHICH DIRECTOR/ OFFICER HAS AN INTEREST
Erwin M. Burton	1,000	-
Grace Burnett	1,000	
Andrea Coy	2,100	-
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	-
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	-
Raymond Sewell	Nil	-
Marlene Virgo	Nil	-

Major Shareholders

As at 31 December 2011

	NAME	STOCKHOLDINGS	
1	GraceKennedy Limited	47,013,417	58.15%
2	Pan-Jamaican Investment Trust Ltd.	16,840,106	20.83%
3	Mayberry Company A/C 120008	3,286,775	4.07%
4	MF&G Trust & Finance Limited A/C #528	1,682,120	2.08%
5	Mayberry Investments Limited A/C 09022	1,092,833	1.35%
6	Trading A/c - National Insurance Fund	1,000,000	1.24%
7	Sagicor PIF Equity Fund	995,997	1.23%
8	Guardian Life Limited	761,700	0.94%
9	NCB Insurance Co. Ltd. A/C WT105	600,000	0.74%
10	P.A.M. Ltd - JPS Employees Superann. Fund	593,406	0.73%
	Total top 10 Stockholders	**73,866,354**	**91.37%**
	Others	6,975,669	8.63%

Total stocks in issue – 80,842,023

Total no. of stockholders – 1,417

Report of the Directors

1. The Directors submit herewith their Annual Report and the Audited Financial Statements for the year ended 31 December 2011.

	$'000
The net profit before Tax	9,698
The charge for taxation was	(3,402)
Making the profit after taxation	6,296
To which is added the retained profits brought forward from the previous year of	44,215
Leaving retained earnings to be carried forward to the next year of	50,511

2. The Directors as at 31 December 2011 were as follows:

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

Ms. Grace Silvera resigned from the Board of Directors on 12 December 2011 and Mr. Simon Roberts resigned with effect from 31 January 2012. On 9 February 2012 Mr. Michael Ammar and Mrs. M. Audrey Hinchcliffe were appointed Directors of the Board. Mr. Ammar and Mrs. Hinchcliffe will retire at this annual general meeting and being eligible offer themselves for election.

In accordance with Article 100 of the Company's Articles of Incorporation, Messrs. Donald Wehby, Gordon Sharp and Rodney Davis will retire by rotation and being eligible offer themselves for re-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

Dated 2 March 2012

Gene M. Douglas

Secretary

Audited Committee Terms of Reference

1. Mandate

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

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

ii. Internal audit functions of the company and the group.

iii. Risk management functions and processes of the company and the group.

iv. Qualifications, independence and performance of the external auditors of the company.

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

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

2. Composition

The Committee shall be appointed by the Board, from the Directors of the company and shall comprise of no more than 5 or less than 3 members, all of whom shall be non-executive directors who are financially literate and the majority of whom are identified by the Board as independent Directors. At least one member of the Committee shall be an Audit Committee financial expert, that is, a person with the following attributes:

i. An understanding of financial statements and applicable accounting principles.

ii. The ability to assess the general application of such principles in connection with accounting for estimates, accruals and reserves.

iii. Experience in preparing, auditing, analysing, or evaluating financial statements that present accounting issues of a breadth and level of complexity generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the company's financial statements, or experience actively supervising one or more persons engaged in such activities.

iv. An understanding of internal controls and procedures for financial reporting.

v. An understanding of Audit Committee functions.

3. Responsibilities

The duties of the Committee shall include the following:

(A) Financial Reporting

i. To review the audited annual financial statements and the quarterly financial results of the company and recommend the same for adoption by the Board of Directors.

ii. To review the company's operating, financial and accounting policies and practices.

iii. To review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and their impact on financial reports.

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

(B) Internal Control

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

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

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

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

(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.

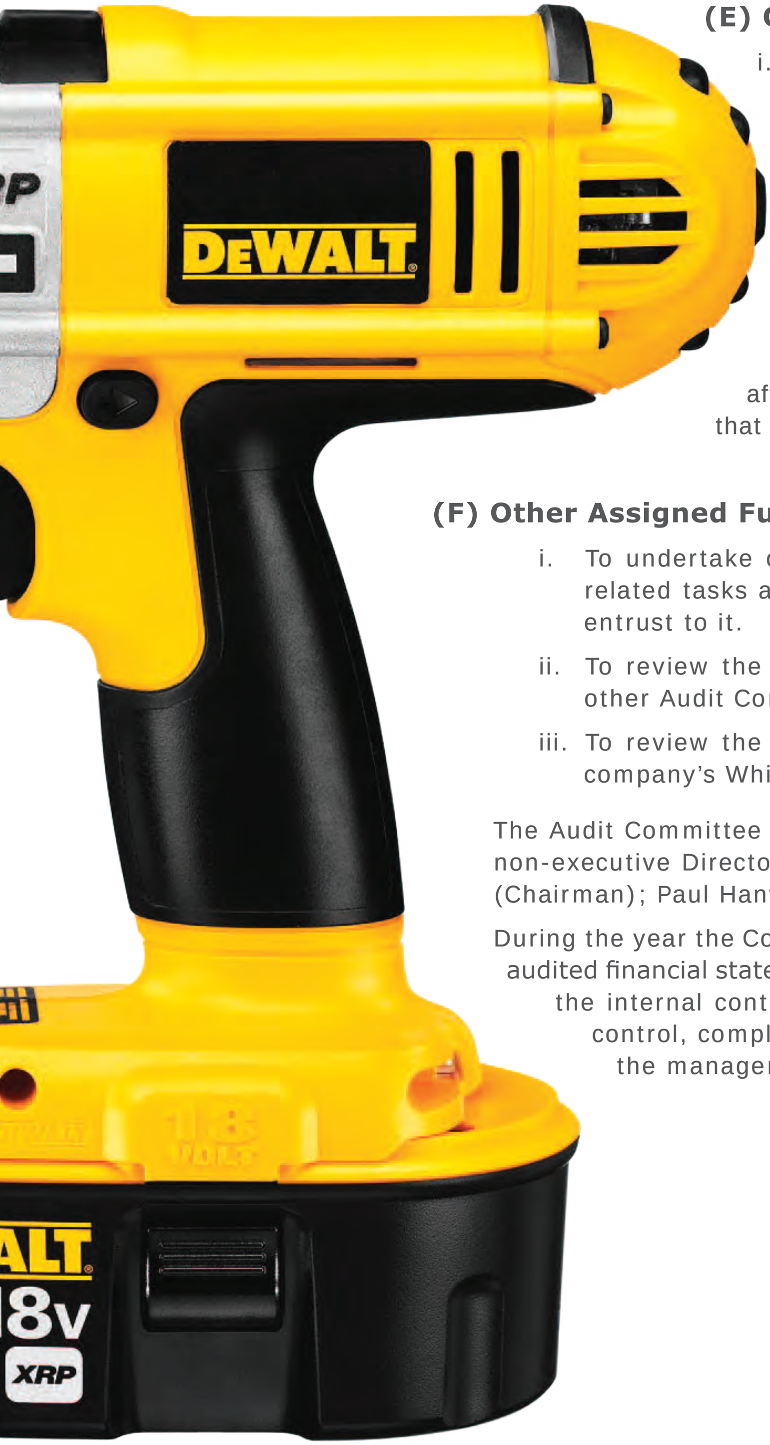
(D) Internal Audit

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 Andrea Lewis-Coy.

During the year the Committee met nine (9) 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.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HARDWARE & LUMBER LTD.

Audited Financial Statements

YEAR ENDED 31 DECEMBER 2011

Index Year ended 31 December 2011

Independent Auditors' Report

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Independent Auditors' Report

To the Members of
Hardware & Lumber Limited

Report on the Financial Statements

We have audited the accompanying financial statements of Hardware & Lumber Limited set out on pages 37 to 87, which comprise the statement of financial position as of 31 December 2011 and the statement of comprehensive income, statement of changes in stockholders' equity and statement of 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers, Scotiabank Centre, Duke Street, Box 372, Kingston, Jamaica
T: (876) 922 6230, F: (876) 922 7581, www.pwc.com/jm

Independent Auditors' Report (Cont'd)

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

Opinion
In our opinion, the accompanying financial statements give a true and fair view of the financial position of the company as of 31 December 2011, 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 Other Legal and Regulatory Requirements
As required by the Jamaican Companies Act, we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

In our opinion, proper accounting records have been kept, so far as appears from our examination of those records, and the accompanying financial statements are in agreement therewith and give the information required by the Act, in the manner so required.

PricewaterhouseCoopers

Chartered Accountants
27 February 2012
Kingston, Jamaica

Statement of Comprehensive Income

Year ended 31 December 2011 *(expressed in Jamaican dollars unless otherwise indicated)*

	Note	2011	2010
		$'000	$'000
Revenue		6,055,922	5,728,987
Cost of sales		(4,492,409)	(4,237,059)
Gross Profit		1,563,513	1,491,928
Other operating income	6	47,140	40,816
		1,610,653	1,532,744
Direct expenses		(1,044,578)	(1,025,214)
Administrative expenses		(485,647)	(415,540)
		(1,530,225)	(1,440,754)
Profit from Operations		80,428	91,990
Finance costs	9	(70,730)	(67,815)
Profit before Tax		9,698	24,175
Taxation	10	(3,402)	(4,834)
Profit for the Year		6,296	19,341
Other Comprehensive Income:			
Net gain on revaluation of land and buildings		-	28,413
Total Comprehensive Income for the Year		6,296	47,754
Earnings per stock unit attributable to owners of the company	11	0.08	0.24

Statement of Financial Position

31 December 2011 *(expressed in Jamaican dollars unless otherwise indicated)*

	Note	2011 $'000	2010 $'000
NET ASSETS EMPLOYED			
Non-current Assets			
Property, plant and equipment	12	621,842	613,941
Intangible assets	13	16,116	50,325
Deferred tax asset	14	147,238	150,640
Retirement benefit asset	15	3,367	97,051
		788,563	911,957
Current Assets			
Inventories	16	1,290,325	1,457,784
Trade and other receivables	17	450,009	452,226
Group companies	18	9,486	5,655
Taxation recoverable		51,818	51,121
Cash and bank balances	19	319,659	104,786
		2,121,297	2,071,572
Current Liabilities			
Bank overdrafts	19	-	12,016
Trade and other payables	20	728,095	934,834
Provisions	21	1,022	1,816
Short term loans	22	593,198	600,994
Group companies	18	10,125	4,029
Current portion of long term loans	23	174,331	120,810
		1,506,771	1,674,499
Net Current Assets		614,526	397,073
		1,403,089	1,309,030

Statement of Financial Position (Cont'd)

31 December 2011 *(expressed in Jamaican dollars unless otherwise indicated)*

	Note	2011 $'000	2010 $'000
FINANCED BY			
Stockholders' Equity			
Share capital	24	616,667	616,667
Capital reserve	25	290,619	290,619
Other reserve	26	4,244	-
Retained earnings		50,511	44,215
		962,041	951,501
Non-current Liabilities			
Long term loans	23	201,012	133,836
Retirement benefit obligation	15	240,036	223,693
		441,048	357,529
		1,403,089	1,309,030

Approved for issue by the Board of Directors on 27 February 2012 and signed on its behalf by:

Donald Wehby, Director

Erwin Burton, Director

Statement of Changes in Stockholders' Equity

Year ended 31 December 2011 *(expressed in Jamaican dollars unless otherwise indicated)*

	Note	Share Capital $'000	Capital Reserve $'000	Other Reserve $'000	Retained Earnings $'000	Total $'000
Balance at 1 January 2010		616,667	262,206	10,341	14,533	903,747
Total comprehensive income		-	28,413	-	19,341	47,754
Transactions 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
Total comprehensive income		-	-	-	6,296	6,296
Transaction with owners						
Employee stock option scheme: value of employee services received	26	-	-	4,244	-	4,244
Balance at 31 December 2011		616,667	290,619	4,244	50,511	962,041

Statement of Cash Flows

Year ended 31 December 2011 *(expressed in Jamaican dollars unless otherwise indicated)*

	Note	2011 $'000	2010 $'000
Cash Generated from Operating and Investing Activities:			
Profit for the year		6,296	19,341
Items not affecting cash:			
Amortisation of computer software	13	33,056	32,617
Change in retirement benefit asset/obligation		110,027	79,464
Depreciation of property, plant and equipment	12	47,607	51,428
Foreign exchange losses/(gains)	9	697	(27,225)
Goodwill write-off	13	1,736	-
Interest expense	9	70,033	95,040
Interest income	6	(3,204)	(1,234)
Profit on disposal of property, plant and equipment	6	(157)	(2,239)
Stock options	26	4,244	-
Taxation charge	10	3,402	4,834
Warranties	21	3,216	1,051
		276,953	253,077
Changes in non-cash working capital components:			
Inventories (*)		163,105	(31,773)
Group companies		2,265	315
Trade and other receivables		2,221	(96,830)
Trade and other payables		(206,739)	3,331
Warranties settled	21	(4,010)	-
		(43,158)	(124,957)
Interest received		3,200	1,114
Tax paid		(697)	(193)
Net cash provided by operating activities		236,298	129,041
Cash Flows from Investing Activities			
Proceeds from sale of property, plant and equipment		4,179	2,346
Purchase of computer software	13	(583)	(980)
Purchase of property, plant and equipment (*)		(55,176)	(49,832)
Net cash used in investing activities		(51,580)	(48,466)
Cash provided by operating and investing activities (carried forward to page 42)		184,718	80,575

Statement of Cash Flows (Cont'd)

Year ended 31 December 2011 *(expressed in Jamaican dollars unless otherwise indicated)*

	Note	2011 $'000	2010 $'000
Cash Provided by Operating and Investing Activities (brought forward from Page 41)		184,718	80,575
Cash Flows from Financing Activities			
Interest paid		(67,193)	(104,005)
Long term loans received		250,000	-
Long term loans repaid		(133,940)	(134,996)
Short term loans received		830,025	1,125,098
Short term loans repaid		(840,457)	(882,124)
Net cash provided by financing activities		38,435	3,973
Effects of exchange rate changes on cash and cash equivalents		3,736	1,675
Net increase in cash and cash equivalents		226,889	86,223
Cash and cash equivalents at beginning of year	19	92,770	6,547
Cash and Cash Equivalents at the End of the Year	19	319,659	92,770
Comprising:			
Cash at bank	19	155,658	104,786
Short term deposits	19	164,001	-
		319,659	104,786
Bank overdraft	19	-	(12,016)
Cash and Cash Equivalents at the End of the Year		319,659	92,770

The principal non-cash transaction –
(*) During the year $4,354,000 was transferred from inventories to property, plant and equipment.

1. Identification and Principal Activities

Hardware & Lumber Limited (the company) is a 58.1% subsidiary of GraceKennedy Limited (Grace), the ultimate parent company. Both companies are public companies listed on the Jamaica Stock Exchange, incorporated and domiciled in Jamaica. The registered office is located at 697 Spanish Town Road, Kingston 11, Jamaica.

The company retail and wholesale building materials, home improvement supplies, household items and agricultural products. The Company also offers residential and commercial construction services.

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 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.

- IAS 24 (revised), 'Related party disclosures', issued in November 2010. 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 adoption of this revised standard has not had a significant impact on the accounting policies of the company, neither has it resulted in any additional disclosures.

'Improvements to IFRS' were issued in May 2010 and contain several amendments to IFRS, which the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes for presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2011. There were no material changes to accounting policies as a result of these amendments.

There are no other standards, interpretations or amendments to existing standards that are effective that would be expected to have a significant impact on the company.

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 reporting date, and which the company did not early adopt. The company has assessed the relevance of all such new standards, interpretations and amendments and has determined that the following may be relevant to its operations, and has concluded as follows:

- IAS 19 (Revised 2011) 'Employee benefits' (effective for annual periods beginning on or after 1 January 2013). The amendment makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. Management is currently assessing the impact of these changes on the company's financial statements.

- Amendments to IFRS 7, 'Financial instruments: Disclosures' on transfers of financial assets, promote transparency in the reporting of transfer transactions and improves users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. The company is yet to assess the full impact of the amendments and intends to adopt IFRS 7 no later than the accounting period beginning on or after 1 January 2012.

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the profit or loss in the statement of comprehensive income, unless this creates an accounting mismatch. The company is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015.

- IFRS 13, 'Fair value measurement' (effective for annual periods beginning on or after 1 January 2013). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The standard is not expected to have a significant impact on the company's financial statements.

There are no other standards, interpretations or amendments to existing standards that are not yet effective that would be expected to have a significant impact on the company.

2. Significant Accounting Policies (Continued)

(b) 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.

(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 profit or loss in the statement of comprehensive income.

(d) Property, plant and equipment

Land and buildings comprise mainly warehouses, retail outlets and offices.

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 other comprehensive income, in the year of revaluation. Decreases that offset previous increases of the same asset are charged against other comprehensive income; all other decreases are charged to the profit or loss in the statement of comprehensive income.

Notes to the Financial Statements (Cont'd)

31 December 2011 *(expressed in Jamaican dollars unless otherwise indicated)*

2. Significant Accounting Policies (Continued)

(d) Property, plant and equipment (continued)

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.	

The useful lives of the property, plant and equipment are reviewed and adjusted if necessary.

Property, plant and equipment are reviewed periodically for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

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 profit or loss in 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) 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 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 of three to five year.

(f) 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)

(f) 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.

(g) Financial assets

Classification

Financial assets

The company classifies its financial assets in the following categories: at fair value through profit or loss and 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 and re-evaluates this designation at every reporting date.

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated as fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the reporting date. These assets are classified as cash and short term deposits and are included in current assets on the statement of financial position.

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 and group balances in the statement of financial position (Notes 17 and 18). The fair values of the company's financial assets are discussed in Note 3(e).

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.

2. Significant Accounting Policies (Continued)

(h) 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.

(i) 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.

(j) Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost. 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.

(k) 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.

(l) Trade payables

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

(m) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Subsequently, borrowings are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the profit or loss in the statement of comprehensive income over the period of the borrowings using the effective interest method.

(n) Income taxes

Taxation for the period comprises current and deferred tax. Tax is recognised in the profit or loss 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 those cases 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 the reporting date.

2. Significant Accounting Policies (Continued)

(n) Income taxes (continued)

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.

(o) 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 statement of financial position in respect of defined benefit pension plans is the difference between the present value of the defined benefit obligation at the reporting 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 Government of Jamaica 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.

Notes to the Financial Statements (Cont'd)

31 December 2011 *(expressed in Jamaican dollars unless otherwise indicated)*

2. Significant Accounting Policies (Continued)

(o) Employee benefits (continued)

(ii) Equity compensation benefits (continued)
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 reporting date are discounted to present value.

(iv) Other retirement benefit 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.

(p) 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.

2. Significant Accounting Policies (Continued)

(q) 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.

(r) 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 by the Board of Directors.

(s) Leases

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Notes to the Financial Statements (Cont'd)

31 December 2011 *(expressed in Jamaican dollars unless otherwise indicated)*

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 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 Board of Directors is ultimately responsible for the establishment and oversight of the company's risk management framework. The Board has established an Audit Committee.

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

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.

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.

(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

	2011	2010
	$'000	$'000
Credit risk exposures are as follows:		
Trade receivables (Note 17)	243,269	267,199
Other receivables (Note 17)	140,842	113,127
Group companies (Note 18)	9,486	5,655
Cash and cash equivalents (Note 19)	319,659	104,786
	713,256	490,767

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 at 31 December 2011, trade receivables totalling $105,985,000 (2010 - $73,336,000) 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:

	2011 $'000	2010 $'000
1 to 30 days past due	79,981	48,252
31 to 60 days past due	18,900	21,000
Over 60 days past due	7,104	4,084
	105,985	73,336

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

As at 31 December 2011, trade receivables of $94,994,000 (2010 - $62,822,000) were past due and impaired. The amount of the provision was $64,710,000 (2010 – $54,109,000). The individually impaired receivables mainly relate to wholesalers who are experiencing 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:

	2011 $'000	2010 $'000
91 to 120 days past due	8,337	5,645
Over 120 days past due	86,657	57,177
Over 90 days past due	94,994	62,822

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

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

	2011 $'000	2010 $'000
At 1 January	54,109	47,573
Provision for receivables impairment	15,602	17,251
Recoveries	(5,001)	(8,187)
Receivables written off during the year as uncollectible	-	(2,528)
At 31 December	64,710	54,109

The creation and release of provision for impaired receivables have been included in administrative expenses in the profit or loss 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:

	2011 $'000	2010 $'000
Agriculture, fishing and mining	64,782	60,668
Wholesalers	105,826	121,689
Retail distributors and others	137,371	138,951
	307,979	321,308
Less: Provision for credit losses	(64,710)	(54,109)
	243,269	267,199

All trade receivables are receivable from customers in Jamaica.

Notes to the Financial Statements (Cont'd)

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3. Financial Risk Management (Continued)

(b) Liquidity risk

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

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 regular 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) Managing the concentration and profile of debt maturities.

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

(b) **Liquidity risk (continued)**

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	Total $'000
As at 31 December 2011:					
Liabilities					
Trade payables	217,703	403,424	-	-	621,127
Other payables and accruals	106,968	-	-	-	106,968
Short term loans	4,251	382,039	217,718	-	604,008
Group companies	10,125	-	-	-	10,125
Long term loans	8,071	24,554	168,377	215,051	416,053
	347,118	810,017	386,095	215,051	1,758,281

	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 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 and accruals	108,167	-	-	-	108,167
Short term loans	5,654	154,157	458,796	-	618,607
Group companies	4,029	-	-	-	4,029
Long term loans	75,564	11,447	51,803	141,293	280,107
	420,695	777,006	510,599	141,293	1,849,593

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 or 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. 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 or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The company is exposed to foreign exchange risk 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's exposure to foreign currency exchange rate risk at 31 December.

	Jamaican$ J$'000	US$ J$'000	Total J$'000
At 31 December 2011:			
Financial Assets			
Trade receivables	243,269	-	243,269
Other receivables	108,574	32,268	140,842
Group companies	9,486	-	9,486
Cash and bank	150,432	169,227	319,659
Total financial assets	511,761	201,495	713,256
Financial Liabilities			
Trade payables	271,480	349,647	621,127
Other payables and accruals	106,968	-	106,968
Short term loans	23,515	569,683	593,198
Group companies	10,125	-	10,125
Long term loans	242,206	133,137	375,343
Total financial liabilities	654,294	1,052,467	1,706,761
Net financial position	(142,533)	(850,972)	(993,505)

Notes to the Financial Statements (Cont'd)

31 December 2011 *(expressed in Jamaican dollars unless otherwise indicated)*

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 2010:			
Financial Assets			
Trade receivables	267,199	-	267,199
Other receivables	83,896	29,231	113,127
Group companies	5,655	-	5,655
Cash and bank	96,035	8,751	104,786
Total financial assets	452,785	37,982	490,767
Financial Liabilities			
Bank overdraft	12,016	-	12,016
Trade payables	183,569	643,098	826,667
Other payables and accruals	108,167	-	108,167
Short term loans	250,000	350,994	600,994
Group companies	4,029	-	4,029
Long term loans	69,533	185,113	254,646
Total financial liabilities	627,314	1,179,205	1,806,519
Net financial position	(174,529)	(1,141,223)	(1,315,752)

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 was as a result mainly of foreign exchange losses on translation of US dollar-denominated trade payables, and short term loans. There is no impact on other comprehensive income.

	% Change in Currency Rate 2011	Effect on Profit before tax 2011 $'000	% Change in Currency Rate 2010	Effect on Profit before tax 2010 $'000
Devaluation	1	(8,510)	5	(57,061)
Revaluation	0.5	4,255	5	57,061

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 following tables summarises the company's exposure to interest rate risk. It includes the company's 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	Non-Interest Bearing $'000	Total $'000
At 31 December 2011						
Assets						
Trade receivables	-	-	-	-	243,269	243,269
Other receivables	-	-	-	-	140,842	140,842
Group companies	-	-	-	-	9,486	9,486
Cash and bank	319,659	-	-	-	-	319,659
Total financial assets	319,659	-	-	-	393,597	713,256
Liabilities						
Trade payables	-	-	-	-	621,127	621,127
Other payables and accruals	-	-	-	-	106,968	106,968
Short term loans	983	375,713	216,502	-	-	593,198
Group companies	-	-	-	-	10,125	10,125
Long term loans	5,180	19,099	150,052	201,012	-	375,343
Total financial liabilities	6,163	394,812	366,554	201,012	738,220	1,706,761
Total interest repricing gap	313,496	(394,812)	(366,554)	(201,012)	(344,623)	(993,505)

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	Non-Interest Bearing $'000	Total $'000
At 31 December 2010						
Assets						
Trade receivables	-	-	-	-	267,199	267,199
Other receivables	-	-	-	-	113,127	113,127
Group companies	-	-	-	-	5,655	5,655
Cash and bank	104,786	-	-	-	-	104,786
Total financial assets	104,786	-	-	-	385,981	490,767
Liabilities						
Bank overdraft	12,016	-	-	-	-	12,016
Trade payables	-	-	-	-	826,667	826,667
Other payables and accruals	-	-	-	-	108,167	108,167
Short term loans	1,430	146,119	453,445	-	-	600,994
Group companies	-	-	-	-	4,029	4,029
Long term loans	73,849	8,696	38,265	133,836	-	254,646
Total financial liabilities	87,295	154,815	491,710	133,836	938,863	1,806,519
Total interest repricing gap	17,491	(154,815)	(491,710)	(133,836)	(552,882)	(1,315,752)

Interest rate sensitivity

The following table indicates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, on the company's profit or loss in the statement of comprehensive income.

The company's interest rate risk arises from bank overdrafts and loans. The sensitivity of the profit or loss in the statement of comprehensive income is the effect of the assumed changes in interest rates on net income based on floating rate borrowing. There is no impact on other comprehensive income.

	Effect on Profit before Tax 2011 $'000	Effect on Profit before Tax 2010 $'000
Change in basis points:		
-50 for USD and 100 for JMD (2010 – 50 for USD and 100 for JMD)	6,092	1,934
+50 for USD and 100 for JMD (2010 – 50 for USD and 200 for JMD)	(6,092)	(2,788)

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 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 statement of financial position) less cash and bank balances. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

The company is not subjected to any external regulatory capital requirements.

The gearing ratios at 31 December were as follows:

	2011	2010
	$'000	$'000
Total borrowings	968,541	867,656
Less: Cash and bank balances	(169,699)	(104,786)
Net debt	798,842	762,870
Total equity	962,041	951,501
Total capital	1,760,883	1,714,371
Gearing ratio	45.4%	44.5%

(e) 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 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 to the Financial Statements (Cont'd)

31 December 2011 *(expressed in Jamaican dollars unless otherwise indicated)*

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(h). This, however, does not necessarily mean that the company will be able to use or sell the total remaining unimpaired items, as some items that are estimated to be good at period end may subsequently be impaired. In addition, some items provided for may eventually be sold at values greater than their carrying values.

Provision for impairment of trade receivables
Periodically the company assesses the collectability of its trade receivables. Provisions are established or increased as described in Note 2(f). This, however, does not necessarily mean that the company will collect the total remaining unimpaired balance, as some balances that are estimated to be collectable as at the year-end may subsequently go bad. In addition some debts provided for may be 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. The Company is recognising deferred tax assets relating to unused statutory losses. The utilisation of the deferred tax assets, in the foreseeable future is dependent on the company having sufficient statutory income to utilise the amounts.

Retirement benefit assets and post employment obligations
The cost of these benefits and the present value of the pension and the other retirement benefit 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 retirement benefits include the expected long-term rate of return on the relevant plan assets, the discount rate and, in the case of the retirement 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 retirement 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 Government of Jamaica 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. These reports do not include details of segment assets. 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 insecticides, fertilizers, fungicides and other such agricultural related items to the agricultural industry. There are no inter-divisional sales.

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. Income and expenses that are directly related to segments are reported within those segments. Head office income and expenses are allocated to segments based on sales.

The company's operations are located entirely in Jamaica.

	2011			
	Wholesale of Hardware and Building Products	Retail of Household and Hardware Products	Agricultural Products and Equipment	Total
	$'000	$'000	$'000	$'000
External operating revenue	947,313	3,592,869	1,515,740	6,055,922
(Loss)/profit from operations	(69,580)	4,857	145,151	80,428
Interest expense	(10,881)	(41,630)	(17,522)	(70,033)
Foreign exchange gains/(losses)	39	(394)	(342)	(697)
(Loss)/profit before tax	(80,422)	(37,167)	127,287	9,698
Other segment disclosures -				
Interest income	424	1,987	793	3,204
Depreciation and amortisation	(6,533)	(59,276)	(14,854)	(80,663)
Capital expenditure	1,610	40,136	18,367	60,113

5. Segment Information (Continued)

	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 expense	(15,389)	(57,389)	(22,262)	(95,040)
Foreign exchange gains	4,633	16,063	6,529	27,225
(Loss)/profit before tax	(35,423)	(98,008)	157,606	24,175
Other segment disclosures -				
Interest income	183	790	261	1,234
Depreciation and amortisation	(9,255)	(61,469)	(13,321)	(84,045)
Capital expenditure	1,580	43,480	5,752	50,812

No single customer accounted for 10% or more of total revenues of the company either in 2011 or in 2010.

6. Other Operating Income

	2011	2010
	$'000	$'000
Profit on sale of property, plant and equipment	157	2,239
Rent	8,937	8,138
Interest income	3,204	1,234
Purchase rebate	14,544	3,143
Agent commission	16,561	13,926
Insurance claims	-	5,944
Other	3,737	6,192
	47,140	40,816

7. Expenses by Nature

Total cost of sales, direct and administrative expenses

	2011 $'000	2010 $'000
Advertising and marketing	26,256	25,619
Auditors' remuneration	8,059	7,714
Bad debt	10,601	9,064
Bags and straps	34,243	27,975
Cost of inventories recognised as expenses	4,349,848	4,116,422
Depreciation and amortisation	80,663	84,045
Equipment rental	13,378	13,366
Freight	108,318	92,663
Insurance	61,706	61,453
Licence and taxes	9,331	12,703
Occupancy – rent, utilities, etc.	289,635	268,884
Processing and facility	36,061	31,926
Professional and contractual	200,010	178,513
Repairs, maintenance and renewals	46,849	41,941
Security	56,344	53,463
Staff costs (Note 8)	555,201	534,062
Stationery and computer expense	47,908	40,565
Other	88,223	77,435
	6,022,634	5,677,813

8. Staff Costs

	2011 $'000	2010 $'000
Wages and salaries	338,212	332,628
Payroll taxes, employer's contribution	35,362	33,092
Pension charge (Note 15)	95,012	79,742
Pension contribution to defined contribution plan (Note 15)	1,588	129
Other retirement benefits (Note 15)	27,138	12,847
Staff welfare	52,662	64,597
Gratuity	-	1,209
Stock option expense (Note 26)	4,244	-
Redundancy costs	983	9,818
	555,201	534,062

Notes to the Financial Statements (Cont'd)

31 December 2011 *(expressed in Jamaican dollars unless otherwise indicated)*

9. Finance Costs

	2011	2010
	$'000	$'000
Interest expense	70,033	95,040
Foreign exchange losses/(gains)	697	(27,225)
	70,730	67,815

10. Taxation

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

	2011	2010
	$'000	$'000
Deferred tax (Note 14)	3,402	4,834

	2011	2010
	$'000	$'000
Profit before tax	9,698	24,175
Tax calculated at 33 1/3%	3,233	8,058
Adjusted for the effects of:		
Adjustment to prior year deferred tax	(1,128)	(3,124)
Expenses not deductible for tax	960	724
Net effect of other charges and allowances	337	(824)
Taxation	3,402	4,834

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 $270,969,000 (2010 - $430,488,000).

11. Earnings per Stock Unit

Earnings per stock unit is calculated by dividing the profit for the year, by the number of ordinary stock units in issue during the year.

	2011	2010
Net profit attributable to stockholders ($'000)	6,296	19,341
Number of stock units in issue ('000)	80,842	80,842
Earnings per stock unit ($)	0.08	0.24

12. Property, Plant and Equipment

	2011							
	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 2011	200,000	250,000	362,797	157,608	91,062	7,716	2,629	1,071,812
Additions	-	998	15,198	21,823	5,123	-	16,388	59,530
Disposals	-	-	(660)	(3,866)	(5,030)	-	-	(9,556)
Transfers	-	-	1,604	714	-	-	(2,318)	-
31 December 2011	200,000	250,998	378,939	176,279	91,155	7,716	16,699	1,121,786
Depreciation -								
1 January 2011	-	-	280,200	109,533	61,056	7,082	-	457,871
Charge for the year	-	5,020	23,742	12,237	5,974	634	-	47,607
Relieved on disposals	-	-	(546)	(3,780)	(1,208)	-	-	(5,534)
31 December 2011	-	5,020	303,396	117,990	65,822	7,716	-	499,944
Net Book Value -								
31 December 2011	200,000	245,978	75,543	58,289	25,333	-	16,699	621,842

12. Property, Plant and Equipment (Continued)

	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

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 other comprehensive income. All other property, plant and equipment are stated at cost.

If freehold land and buildings were stated on the historical cost basis, the amounts would be as follows:

	2011		2010	
	Freehold Land $'000	Freehold Buildings $'000	Freehold Land $'000	Freehold Buildings $'000
Cost	45,000	145,206	45,000	144,208
Accumulated depreciation	-	23,664	-	20,760
Net book value	45,000	121,542	45,000	123,448

13. Intangible Assets

	2011			
	Computer Software $'000	Computer Software Work in Progress $'000	Goodwill $'000	Total $'000
Cost -				
1 January 2011	233,838	18,910	1,736	254,484
Additions	583	-	-	583
Transfers	12,921	(12,921)	-	-
Goodwill write-off	-	-	(1,736)	(1,736)
31 December 2011	247,342	5,989	-	253,331
Amortisation -				
1 January 2011	204,159	-	-	204,159
Amortisation charge for the year	33,056	-	-	33,056
31 December 2011	237,215	-	-	237,215
Net Book Value -				
31 December 2011	10,127	5,989	-	16,116

	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

The amortisation charges of $21,618,000 and $11,438,000 (2010 - $22,416,000 and $10,201,000) are included in direct and administrative expenses, respectively, in the profit or loss in the statement of comprehensive income. The Goodwill was attributable to the retail household and hardware division. The amount was written-off during the year as the attributable store was closed.

Notes to the Financial Statements (Cont'd)

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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:

	2011	2010
	$'000	$'000
Net asset at beginning of year	150,640	154,681
Charge to the profit or loss (Note 10)	(3,402)	(4,834)
Credit to other comprehensive income (Note 25)	-	793
Net asset at end of year	147,238	150,640

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:

	2011	2010
	$'000	$'000
Deferred income tax assets:		
Statutory tax loss	90,323	143,494
Interest payable	3,803	3,012
Provision for warranty	341	365
Accrued vacation	3,325	4,484
Stock option expense	1,415	-
Bad debt general provision	237	-
Unrealised foreign exchange losses	16,390	14,970
Retirement benefit obligations	80,012	74,564
	195,846	240,889
Deferred income tax liabilities:		
Unrealised foreign exchange gains on deposits	(427)	(1,785)
Property, plant and equipment	(46,992)	(56,048)
Interest receivable	(67)	(66)
Retirement benefit asset	(1,122)	(32,350)
	(48,608)	(90,249)
Net Asset	147,238	150,640
Deferred tax assets to be recovered after more than one year	80,012	74,564
Deferred tax liabilities to be settled after more than one year	(48,114)	(88,398)

14. Deferred Income Taxes (Continued)

Deferred income tax (charged)/credited to the profit or loss in the statement of comprehensive income is as follows:

	2011	2010
	$'000	$'000
Deferred income tax assets:		
Statutory tax loss	(53,171)	(46,895)
Interest payable	791	(2,833)
Provision for warranty	(24)	110
Accrued vacation	(1,159)	365
Stock option expense	1,415	-
Bad debt general provision	237	-
Unrealised foreign exchange losses	1,420	(4,032)
Retirement benefit obligations	5,448	326
	(45,043)	(52,959)
Deferred income tax liabilities:		
Unrealised foreign exchange gains on deposits	1,358	10,642
Property, plant and equipment	9,056	11,362
Interest receivable	(1)	(40)
Retirement benefit asset	31,228	26,161
	41,641	48,125
Net deferred tax charged to the profit or loss in the statement of comprehensive income	(3,402)	(4,834)

The deferred tax asset on the statutory tax loss is mainly attributable to the adjustment in pension assets and accelerated depreciation.

Notes to the Financial Statements (Cont'd)

31 December 2011 *(expressed in Jamaican dollars unless otherwise indicated)*

15. Retirement Benefits

	2011 $'000	**2010 $'000**
Assets/(liabilities) recognised in the statement of financial position –		
Retirement Benefit Asset - Pension plan	3,367	97,051
Retirement Benefit Obligation - Medical benefits	(240,036)	(223,693)
Amounts recognised in the profit or loss in the statement of comprehensive income (Note 8) –		
Retirement Benefit Asset - Pension plan	95,012	79,742
Retirement Benefit Obligation - Medical benefits	27,138	12,847

Pension plan benefits

In addition to the defined benefit pension plan described below; Grace started a new defined contribution pension plan during the prior 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 $1,588,000 (Note 8).

The company participates in a pension plan operated by Grace and administered by First Global Financial Services Limited, in which all permanent employees who were employed prior to 1 April 2010, 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 statement of financial position was determined as follows:

	2011 $'000	**2010 $'000**
Fair value of plan assets	(634,208)	(555,081)
Present value of funded obligations	1,103,344	965,446
	469,136	410,365
Unrecognised actuarial losses	(472,503)	(507,416)
	(3,367)	(97,051)

15. Retirement Benefits (Continued)

Pension plan benefits (continued)

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

	2011 $'000	2010 $'000
At beginning of year	555,081	472,136
Expected return on plan assets	54,369	54,231
Actuarial gain on plan assets	22,458	49,909
Contributions	30,004	20,405
Reallocation of plan assets	25,077	-
Benefits paid	(52,781)	(41,600)
At end of year	634,208	555,081

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

	2011 $'000	2010 $'000
At beginning of year	965,446	581,604
Current service cost	69,173	43,949
Interest cost	110,905	96,760
Actuarial losses on obligations	10,601	284,733
Benefits paid	(52,781)	(41,600)
At end of year	1,103,344	965,446

15. Retirement Benefits (Continued)

Pension plan benefits (continued)

The amounts recognised in the profit or loss in the statement of comprehensive income are as follows:

	2011 $'000	2010 $'000
Current service cost	40,497	24,805
Interest cost	110,905	96,760
Expected return on plan assets	(54,369)	(54,231)
Reallocation of plan assets	(25,077)	-
Net actuarial gains recognised during the year	23,056	12,408
Total included in staff costs (Note 8)	95,012	79,742

The charge of $95,012,000 (2010 - $79,742,000) was included in administrative expense in the profit or loss in the statement of comprehensive income.

The actual gain on plan assets was $76,827,000 (2010 – $104,140,000).

Expected contributions to the plan for the year ended 31 December 2012 amount to $12,801,000.

The distribution of plan assets was as follows:

	2011 %	2010 %
Quoted equities	17.5	15.8
Government of Jamaica securities	63.0	63.0
Repurchase agreements	2.6	2.9
Other	16.9	18.3
	100.0	100.0

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 reporting date. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

15. Retirement 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:

	2011 $'000	2010 $'000	2009 $'000	2008 $'000	2007 $'000
Fair value of plan assets	634,208	555,081	472,136	451,545	472,999
Defined benefit obligation	(1,103,344)	(965,446)	(581,604)	(593,107)	(288,744)
	(469,136)	(410,365)	(109,468)	(141,562)	184,255
Experience adjustments –					
Fair value of plan assets	22,458	49,909	35,542	(70,673)	(1,954)
Defined benefit obligation	(43,248)	56,266	(75,214)	(180,345)	(57,356)

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 statement of financial position was determined as follows:

	2011 $'000	2010 $'000
Present value of unfunded obligations	276,312	269,932
Unrecognised actuarial losses	(36,276)	(46,239)
	240,036	223,693

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

	2011 $'000	2010 $'000
At beginning of year	269,932	170,840
Current service cost	17,153	11,433
Past service cost	(30,065)	(16,812)
Interest cost	30,985	25,523
Actuarial (gains)/losses on obligations	(898)	90,816
Benefits paid	(10,795)	(11,868)
At end of year	276,312	269,932

15. Retirement Benefits (Continued)

Medical benefits (continued)

The amounts recognised in the profit or loss in the statement of comprehensive income are as follows:

	2011 $'000	2010 $'000
Past service cost	(30,065)	(16,812)
Current service cost	17,153	11,433
Interest cost	30,985	25,523
Net actuarial losses/(gains) recognised during the year	9,065	(7,297)
Total included in staff costs (Note 8)	27,138	12,847

The total charge of $27,138,000 (2010 – $12,847,000) was included in administrative expenses in the profit or loss in the statement of comprehensive income.

The composition of the liability recognised in relation to the retirement obligations in the statement of financial position is as follows:

	2011 $'000	2010 $'000
Gratuity Plan	59,519	74,222
Group Life Plan	11,102	10,419
Insured Group Health	50,036	36,965
Self Insured Health Plan	88,915	77,625
Supplementary Pension Plan	30,464	24,462
Liability in the statement of financial position	240,036	223,693

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	33,990	22,157
Effect on the defined benefit obligation	196,833	142,658

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

	2011 $'000	2010 $'000	2009 $'000	2008 $'000	2007 $'000
Defined benefit obligation	276,312	269,932	170,840	166,016	179,487
Experience adjustments	(8,394)	15,701	(7,685)	(29,105)	(15,902)

15. Retirement Benefits (Continued)

Principal actuarial assumptions used in valuing retirement benefits

The principal actuarial assumptions used in valuing retirement benefits were as follows:

	2011	2010
Discount rate	10.0%	11.0%
Long term rate of inflation	6.0%	7.0%
Expected return on plan assets	10.0%	10.0%
Future salary increases	7.5%	8.5%
Future pension increases	6.0%	7.0%
Medical cost trend rate	7.5%	10.0%

The average expected remaining service life of the employees is 21 and 25 years for males and females respectively (2010 - 21 and 25 years for males and females).

At normal retirement age, 90% of males and 90% of females are assumed to be married. The age difference between husband and wife is assumed to average 3 years.

Retirement 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.

16. Inventories

	2011	2010
	$'000	$'000
Merchandise	1,305,658	1,404,874
Provision for obsolescence	(155,038)	(161,963)
	1,150,620	1,242,911
Goods in transit	139,705	214,873
	1,290,325	1,457,784

Notes to the Financial Statements (Cont'd)

31 December 2011 *(expressed in Jamaican dollars unless otherwise indicated)*

17. Trade and Other Receivables

	2011	2010
	$'000	$'000
Trade	307,979	321,308
Provision for impairment	(64,710)	(54,109)
	243,269	267,199
Prepayments	65,898	71,900
Other	140,842	113,127
	450,009	452,226

18. Group Companies and Other Related Party Transactions and Balances

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

	2011	2010
	$'000	$'000
Due to Grace	(8,019)	(1,941)
Due to fellow subsidiaries	(2,106)	(2,088)
	(10,125)	(4,029)
Due from Grace	1,132	1,378
Due from fellow subsidiaries	8,354	4,277
	9,486	5,655

18. Group Companies and Other Related Party Transactions and Balances

(a) Due (to)/from group companies (continued)

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 costs that are not yet due as at 31 December 2011. The receivable balances are not interest bearing. There are no provisions held against receivables from related parties (2010 – nil).

(b) Loans

	2011	**2010**
	$'000	**$'000**
Short term loans (Note 22)	23,515	21,500
Interest payable on short term loans (Note 22)	47	1,118
	23,562	22,618
Long term loans (Note 23)	149,266	185,113
Interest payable on long term loans (Note 23)	391	-
	149,657	185,113

See Notes 22 and 23 for details of these loans.

(c) The profit or loss in the statement of comprehensive income includes the following transactions with related parties:

	2011	**2010**
	$'000	**$'000**
Income:		
Rental charges -		
Fellow subsidiaries	1,738	933
Commissions		
Fellow subsidiaries	16,561	13,926
Sales -		
Fellow subsidiaries	122	5,534
Parent company	4,375	2,388
Interest income -		
Fellow subsidiary	1,165	90
Parent company	63	101

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

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

	2011 $'000	2010 $'000
Expenses:		
Purchases -		
Fellow subsidiaries	4,800	10,421
Parent company	3,431	2,151
Goods are purchased based on the current price list on terms that would be available to third parties		
Payroll cost -		
Parent company	8,275	5,441
Grace prepares both fortnightly and monthly payroll on behalf of the company and charges an administrative fee of 4% of the payroll cost.		
Interest expense -		
Fellow subsidiaries	14,831	16,987
Parent company	59	-
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 benefits	44,714	41,348
Retirement benefits	-	177
Key management includes the Chief Executive Officer, Chief Financial Officer and the General managers of the main business segments.		
Directors emoluments -		
Fees	3,189	2,551
Management remuneration (included above)	-	13,631
Property and equipment rental		
Fellow subsidiary	11,812	12,274
Other charges -		
Parent company	26,690	39,299
This relates to various services provided by Grace exclusively to its subsidiaries and associated companies		

19. Cash and Cash Equivalents

Cash and cash equivalents comprise the following:

	2011	2010
	$'000	$'000
Cash at bank	155,658	104,786
Short term deposits	164,001	-
	319,659	104,786
Bank overdrafts	-	(12,016)
	319,659	92,770

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

	2011	2010
	$'000	$'000
Trade	621,127	826,667
Accruals	46,482	53,337
Other	60,486	54,830
	728,095	934,834

21. Provisions

	2011	2010
	$'000	$'000
Balance at beginning of year	1,816	765
Additional provisions	3,216	1,051
Utilised during the year	(4,010)	-
Balance at end of year	1,022	1,816

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.

Notes to the Financial Statements (Cont'd)

31 December 2011 *(expressed in Jamaican dollars unless otherwise indicated)*

22. Short Term Loans

		2011	2010
		$'000	$'000
Commercial Paper	(a) i	-	140,000
Commercial Paper	(a) ii	-	110,000
Commercial Paper	(a) iii	346,403	-
FirstCaribbean International Bank	(b) i	-	128,792
FirstCaribbean International Bank	(b) ii	-	214,653
FirstCaribbean International Bank	(b) iii	216,502	-
First Global Bank	(c)	23,515	-
		586,420	593,445
Interest payable		6,778	7,549
		593,198	600,994

(a) These facilities were arranged by First Global Financial Services Limited. The annual interest rates are (a) (i) 10.5%. Allied Insurance Brokers Limited (Allied), a fellow subsidiary, participated in this facility. The balance owed to Allied at 31 December 2010 was $21,500,000, (a) (ii) 10.25%, a (iii) This is denominated in United States Dollars at a rate of 6%. These were evidenced by promissory notes from the company.

(b) These loans are denominated in United States dollars and are evidenced by promissory notes and supported by a comfort letter from Grace. Loan (b) (i) annual interest rate was 6.74%. Loan (b) (ii) annual interest rate is 6.79%. Loan (b) (iii) annual interest rate is six month LIBOR plus 6.3%.

(c) This loan represents insurance premium financing and attracts interest at 4.26%.

All short term loans are unsecured.

Included in interest payable, are amounts totaling $47,000 (2010 - $1,118,000) due to related parties.

23. Long Term Loans

		2011	2010
		$'000	$'000
GraceKennedy Trade Finance Limited	(a)	80,596	112,163
National Commercial Bank Jamaica Limited	(b)	29,362	68,512
GraceKennedy (St. Lucia) Limited	(c)	52,420	72,950
Commercial Paper	(d)	208,333	-
		370,711	253,625
Interest payable		4,632	1,021
		375,343	254,646
Current maturities		(174,331)	(120,810)
		201,012	133,836

23. Long Term Loans (Continued)

(a) This loan is denominated in United States dollars. At 31 December 2011, the annual interest rate was 7.5%. The loan is repayable in 2014.

(b) In prior years this was a United States denominated loan with an annual interest rate of 11%. In 2010 it was renegotiated and converted to a Jamaican dollar loan. At 31 December 2011 the annual interest rate was 13.26%. The loan is repayable in 2012.

(c) This loan is denominated in United States dollars. At 31 December 2011, the interest rate is 7.5% per annum. The loan is repayable in 2014.

(d) This facility was arranged by First Global Financial Services Limited. It is denominated in Jamaican dollars. At 31 December 2011, the interest rate is 10.05% per annum. The loan is repayable in 2014. Allied Insurance Brokers Limited (Allied), a fellow subsidiary, participated in this facility. The balance owing to Allied at 31 December 2011 was $16,250,000.

All long term loans are unsecured.

Included in interest payable, are amounts totaling $391,000 (2010 - Nil) due to related parties.

24. 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

All issued shares have been fully paid up.

The shares have no par value.

25. Capital Reserve

	2011	2010
	$'000	$'000
Revaluation reserve	284,519	284,519
Other	6,100	6,100
	290,619	290,619
Opening balance	290,619	262,206
Revaluation surplus	-	27,620
Deferred taxation (Note 14)	-	793
At the end of year	290,619	290,619

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.

Notes to the Financial Statements (Cont'd)

31 December 2011 *(expressed in Jamaican dollars unless otherwise indicated)*

26. Other Reserves

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.

Senior managers
Options were granted at a subscription price of $50.83, being the weighted average price of Grace's shares on the Jamaica Stock Exchange for the previous ten days prior to the grant date, and are exercisable over a period of six years, at the end of which time unexercised options will expire. One-third of the total of the grant to each senior manager will vest on each anniversary of the grant. The plan provides for equitable adjustment of the allocated number of shares by reason of stock splits, combinations or exchanges of shares, stock dividends, bonus issue, and reclassifications or similar corporate changes.

Movement on this option:

	2011 '000	2010 '000
At beginning of year	-	124
Granted	173	-
Forfeited/expired	(38)	(124)
At end of year	135	-

Permanent employees
Options were granted quarterly at subscription prices ranging between of $39.30 to $46.81, being the weighted average price of the company's shares on the Jamaica Stock Exchange for the previous ten trading days prior to the dates on which the grants were made less a 25% discount, and are exercisable over a period of three months, at the end of which time unexercised options will expire. 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 shares by reason of stock splits, combinations or exchanges of shares, stock dividends, bonus issue, and reclassifications or similar corporate changes.

Movement on this option:

	2011 '000	2010 '000
At beginning of year	-	84
Granted	200	-
Forfeited/expired	(99)	(84)
Exercised	(7)	-
At end of year	94	-

The fair value of options granted determined using the Black-Scholes valuation model was $6,289,000. The value of all options at the end of the year was $4,244,000 (2010 – nil). 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 significant inputs into the model were the weighted average share prices of $51.00 and $55.65 at the grant dates, exercise prices of $50.83 and $41.67, standard deviation of expected share price returns of 33.2%, option life of six years and three months and risk-free interest rates of 7.48% and 6.51%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily 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 2011 was $172,371,000 (2010 - $164,666,000). The leases expire between 2012 and 2021 with renewable options at the end of the lease periods. Included in lease payments for 2011 are amounts totaling $38,957,000 (2010 - $64,586,000) 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:

	2011	2010
	$'000	$'000
No later than 1 year	112,694	105,217
Later than 1 year and no later than 5 years	141,802	138,457
Over five years	65,254	-
	319,750	243,674

Notes

Hardware & Lumber Ltd

Proxy

I/We ....of..

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

....of..

or failing him/her...of...

as my/our Proxy, to vote for me/us on my/our behalf at the Annual General Meeting of the said Company to be held **Monday June 4, 2012** at **4:00 p.m.** at 697 Spanish Town Road, Kingston 11.

SIGNED this...................................**day of**...**2012**

.... Signature

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

RESOLUTIONS	FOR	AGAINST
1		
2(a)		
2(b)		
2(c)		
2(d)		
2(e)		
3(a)		
3(b)		
4		
5		

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.

PLACE
STAMP
HERE

Hardware & Lumber Ltd

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www.agrograce.com
www.rapidtruevalue.com

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