Hardware & Lumber Ltd

2012 ANNUAL REPORT

AGROGRACE
Your Complete Farm & Garden Centre

RAPID True Value

Wholesale

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.

Mission

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

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TEN YEAR FINANCIAL REVIEW

	2012	2011	2010	2009	2008
Revenue -J$'000	6,284,052	6,055,922	5,728,987	5,940,599	6,788,162
Net Profit/(Loss) - J$'000	27,182	6,296	19,341	(225,762)	(259,956)
Stockholders' Equity - J$'000	994,558	962,041	951,501	903,747	1,119,168
Net Current Assets - J$'000	920,945	614,526	397,073	421,870	607,265
Earnings/(Loss)Per Stock Unit	$0.34	$0.08	$0.24	($2.79)	($3.21)
Dividends Per Stock Unit	$0.125	$0.00	$0.00	$0.00	$0.00

	2007	2006	2005	2004	2003
Revenue -J$'000	6,648,066	5,597,276	5,332,857	5,518,947	2,639,811
Net Profit/(Loss) - J$'000	133,550	37,718	20,268	156,045	44,583
Stockholders' Equity - J$'000	1,211,266	1,103,500	1,065,782	707,412	605,531
Net Current Assets - J$'000	839,635	686,629	625,223	369,295	297,552
Earnings/(Loss)Per Stock Unit	$1.65	$0.47	$0.26	$2.32	$0.95
Dividends Per Stock Unit	$0.32	$0.00	$0.00	$0.32	$0.11

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Eighty-fifth Annual General Meeting of Hardware & Lumber Limited will be held at the Registered Office, 697 Spanish Town Road, Kingston 11 on Monday June 3, 2013 at 10:30 a.m. for the following purposes:

1. To receive and consider the Directors' Report and Financial Statements for the year ended December 31, 2012, 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 Mr. Paul Hanworth, Erwin Burton and Mrs. Grace Burnett, and being eligible offer themselves for re-election.

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

Resolution 2 (a)

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

Resolution 2 (b)

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

Resolution 2 (c)

"That retiring Director Mrs. Grace Burnett be and is hereby re-elected a Director of the Company"

(ii) Pursuant to Article 105 of the Articles of Incorporation Mr. Paul Facey and Mr. Harry Smith 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 Mr. Paul Facey be and is hereby elected a Director of the Company"

Resolution 2 (e)

"That the retiring Director Mr. Harry Smith 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 $3,648,000 shown in the accounts for the year ended December 31, 2012 for Directors' fees be and is hereby approved."

4. To approve dividend

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

Resolution 4

"THAT the interim dividend of 12.5 cents per share paid on 31 January 2013 be and hereby declared as final dividend for the year ended December 31, 2012."

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

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

Resolution 5

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

By Order of the Board

Gene M. Douglas
Secretary

Kingston, Jamaica

March 15, 2013

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.

STOCKHOLDERS' REPORT

The year ended December 2012 was characterized by challenging global and domestic economic conditions resulting in slow and low economic growth in Jamaica. The retail sector was negatively impacted by declining consumer confidence and constriction in spending power. Against that context, we are pleased to report a significant improvement in performance for the year under review during which the company realised profits before tax of $100.5 million.

During the 2012/13 budget presentation, the Government of Jamaica announced a reduction in the corporate income tax rate for unregulated entities, from 33 1/3% to 25%, effective 1 January 2013. The change in the tax rate was signed into law on 28 December 2012 and as such has been applied in determining the amounts for deferred taxation in the financial statements. This change triggered a one-off, non-cash, tax expense of $39.2 million to reduce the previously recorded deferred tax asset to reflect the new tax rate. Notwithstanding the unusual tax charge, net profit for the year was $27.2 million, representing a 325% increase in earnings per share to $0.34 compared to $0.08 in the previous year. As a result of the improved performance the Board has approved a dividend of 12.5 cents per stock unit for the year ended December 31, 2012, being the first declaration in five years.

Total revenue was $6,284.1 million representing a 3.8% increase over the previous year. Gross margins improved from 25.8% to 25.9% despite increased cost brought on by the ongoing devaluation of the Jamaican Dollar. This improved performance was delivered through improved product mix, more effective promotions as well as better margin and inventory management. All three reporting segments, Wholesale, Retail and Agriculture recorded improved results. The Retail and Agriculture segments delivered a 142.1% and 28.0% improvement in pre-tax profits respectively, while the losses in the Wholesale segment were reduced by 2.9%. It is significant to note the turnaround of the Retail segment which made an operational profit for the first time in over four years.

At the same time, we reduced total operational expenses by 1.7% to end the year at $1,503.7 million. We continue to seek opportunities to improve operational efficiencies and processes and this will continue into the new financial year. The health of the company's balance sheet is improving even as we ensure that the assets are fully employed in our trading activities. We have mitigated our exposure to foreign exchange losses by converting all loans to Jamaican dollars. Focus on working capital management during the year has resulted in a reduction in inventory levels by 14.1% to end the year at $1,107.8 million. Total receivables and payables declined by 5.1% and 4.7% to $427.2 million and $693.8 million respectively.

During the year, we restructured the executive leadership and other key teams to improve business decision making and to bring more focus to customers' requirements. We also continued to invest in our employees through training and involvement in cross-functional teams to foster a culture of greater accountability and teamwork whilst improving execution. Our customers remain at the heart of all we do, and as such, we continued to invest in our stores to ensure that we provide a pleasurable shopping experience. Towards the end of the year the Rapid True Value store in Mandeville was renovated, and our customers have responded favourably.

There is still much more to be accomplished as we embark on the year ahead. We will remain focused on achieving operational efficiencies in addition to strengthening our partnership with our suppliers, customers and other stakeholders.

We would like to thank all our team members for their commitment and energy in delivering the improved results. We also thank our customers, suppliers, shareholders and all other stakeholders for their continued support.

Erwin Burton

Chairman

Andrea Coy

Chief Executive Officer

MANAGEMENT DISCUSSION AND ANALYSIS

CORE BUSINESS AND STRATEGY 1

Core Business

Hardware & Lumber Limited is a Jamaican company retailing and wholesaling building materials, home improvement supplies, household items and agricultural products. 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

Customer Centricity

The customer remains at the heart of all that we do and as such we have continued to invest in upgrading our stores and in reviewing our product mix and assortment. Our quarterly customer satisfaction surveys were used to inform the improvements made during the year to enhance the shopping experience of our customers. Our team members were provided with technical and customer service training to equip them to provide better quality advice to our customers. We expect that our continued focus on delivering an exceptional shopping experience for customers will enhance our revenues and improve our market share.

People

We trade in a very difficult operating environment and must rely on valued staff to execute our business strategy in order to satisfy our customers' and shareholders' needs. Accordingly, we will continue to invest in the training, know-how and welfare of our team members, as we seek to achieve improved customer satisfaction and deliver stronger financial results in the years ahead.

Cost Containment & Efficiency

Significant work has been done in eliminating waste and reducing the cost of operations. Work has commenced on increasing efficiencies in our supply chain to ensure that we have the right goods, in the right place, at the right time. We also reviewed other business processes with a view of simplifying the way we work and allowing our staff to be more accessible to our customers.

Working Capital Management

Our business model requires that we manage our working capital as efficiently as possible. We have determined an optimum inventory level to satisfy our customers' requirements and will work with our key suppliers to ensure product availability at very short notice. In return for that assurance, we have taken deliberate steps to pay our suppliers and other partners within agreed credit terms. We continue to work with our customers to facilitate prompt payment, from which we accumulate the funds to meet all our financial obligations.

Performance Measurement

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.

Using the BSC Strategy Map, we 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.

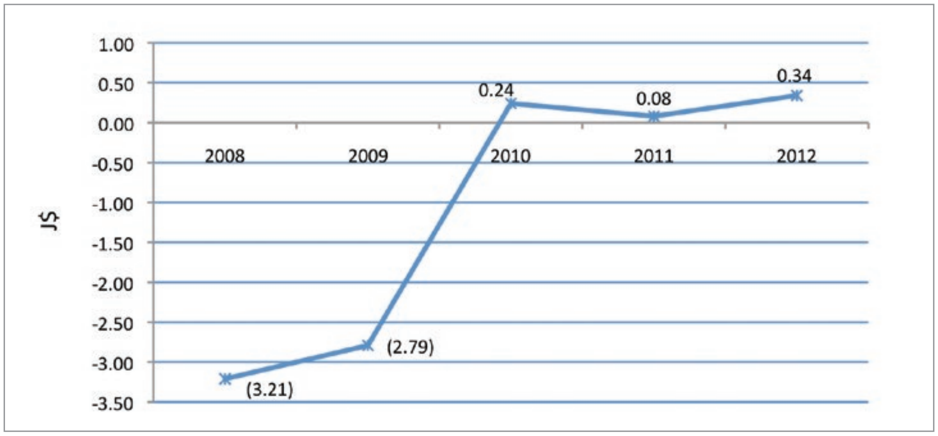
FINANCIAL PERFORMANCE 2

Financial Summary

All figures J$ millions	2012	2011	Change($)
Revenues	6,284	6,056	228
Net Profit	27	6	21
Cash and cash equivalents	206	320	(114)
Shareholders' Equity	995	962	33

There was an overall improvement in the company's performance in the year ended December 31, 2012. Net profit was $27.2 million or 332% more than the 6.3 million recorded in the year before. Earnings per stock unit increased to $0.34 up from $0.08. Shareholders' equity improved by $32.5 million to end the year at $994.6 million.

Earnings Per Stock unit



Revenues:

The company recorded the second consecutive year of revenue growth in the period ended December 31, 2012. Total revenue increased by 3.8% to $6,284.1 million (2011: $6,055.9 million). The improved performance was driven by:

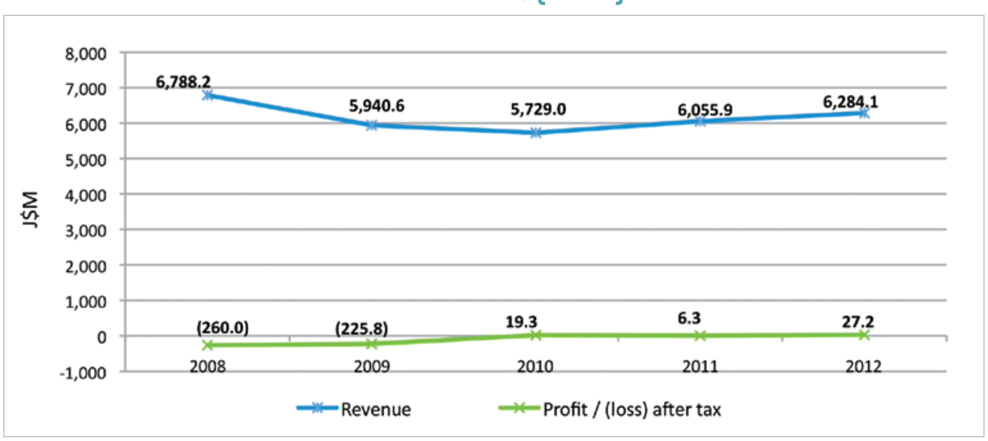
- The Household and Hardware Products retail segment which registered growth of 3.9% to end the year at $3,731.5 million (2011: $3,592.9 million).

- The Agricultural Products and Equipments segment which grew by 9.3% to $1,656.9 million (2011: $1,515.7 million).

The revenue of the Wholesale of Hardware and Building products declined by 5.5% to end the year at $895.6 million (2011: $947.3 million).

(See Note 5 of the Financial Statement).

Revenue and Profit/(Loss) after Tax



Gross Margins:

Despite the challenging trading environment, overall gross margin for 2012 improved to 25.9% (2011: 25.8%). There was increased focus placed on offering the best product mix at the right margins. Input costs such as transportation, demurrage and obsolete stock provisions all registered decline compared to the prior year.

Direct and Administrative Expenses:

Total expenses for the year amounted to $1,503.7 million representing a 1.7% reduction compared to the previous year's $1,530.2 million. This was achieved through careful monitoring of all expenditure in order to reduce non-essential and discretionary costs. This process will become a new way-of-working within the company as we seek opportunities to improve operational efficiencies.

Finance Costs:

Finance costs totaled $66.9 million (2011: $70.7m), down by 5.4%. All short-term loans were repaid during the year and replaced with longer-term loans which were negotiated at more favourable interest rates.

Segment Performance and Developments

During the year under review, the Company operated under 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")**

Effective January 1, 2013, the company re-organised its operations into two operating segments which will see the wholesale segment subsumed into the retail segment. The operating segments will now be renamed:

- Household, Hardware and Building Products **("Rapid True Value")**
- Agricultural Products and Equipment **("AgroGrace")**

This new business model will improve the agility with which we meet our customers' needs, as small to medium size orders will be delivered from the respective branches within the stores network. Our sales and customer service teams will be closer to our customers and this will allow us to build more mutually beneficial relationships. We are confident that this new business model will deliver the anticipated business results.

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

Rapid True Value

The Jamaican market remained very competitive. As industry leaders we differentiated ourselves with more selective customer offerings by providing higher quality houseware, superior and reliable tools, excellent paints and finishes, the latest technology in energy saving bulbs and quality building materials. During the year we increased our marketing activities with innovative promotional initiatives, including television programs designed to share decorative and building ideas with our customers.

The Retail of Household and Hardware Products ("Rapid True Value") segment contributed revenue of $3,731.6 million (2011:$3,592.9 million), equivalent to 59.4% of the company's total revenue, being the same proportion as the previous year. The 3.9% increase in revenue was transacted across our network comprising eleven (11) stores. At the end of the year however, we ceased commercial operations at the Rapid True Value New Port East location and will continue to serve those valued customers from the Spanish Town Road and Cross Roads locations or from any other location most convenient to them.

We continued to take our commitment to providing a great shopping experience to our customers very seriously. Towards the end of the year, the Rapid True Value Store in Mandeville was renovated, bringing the number of renovations over the last two years to three; the other two being Lane Plaza and Montego Bay. Our customers have responded favourably to the cleaner, well-lit, better apportioned and secure stores which boast ample parking. In the near future we will commence work on the remaining stores to improve the service to our customers. In the meantime, we are taking all steps to ensure that all our stores' personnel are well-trained as we continuously seek to exceed our customers' shopping expectation.

Rapid True Value remained partners with GraceKennedy Money Services Ltd. offering Western Union ® Remittances, FX Trader ® and Bill Express ® services in our Lane, Mandeville and Ocho Rios outlets.

AgroGrace

AgroGrace continued to maintain a leadership position in the market. Total revenue generated by the Agricultural Products and Equipment division increased by 9.3% to $1,656.9 million (2011: $1,515.7 million). During the year the business benefited from all segments of the agricultural industry with sugar cane and vegetable production being the primary contributors.

We continued our collaborative efforts with our world-renowned manufacturers and suppliers to identify and offer innovative solutions for the Jamaican market which will enhance productivity while reducing environmental impact. We remain committed to our role in aiding the development of the agricultural sector towards food security. We will continue to partner with the various stakeholder groups in an effort to provide the widest range of product offering and technical support which we are known for, while maintaining excellent customer service.

H&L Wholesale

The revenue generated from the Wholesale and Special Projects Division declined by 5.5%, to end the year at $895.6 million (2011: 947.3 million). During 2012, the construction industry experienced negative growth after a temporary upturn in 2011, at which time the wholesale segment recorded growth of 6.3%. The company however continued to be the supplier of choice for quality lumber and other building materials for project developers, wholesalers and resellers.

Financial Position

Total assets at the year-end was $2,519.2 million (2011: $2,909.9 million), representing a 13.4% decline. We reduced our investments in inventory to $1,107.8 million (2011: $1,290.3 million) while still fulfilling our customers' requirements. At the same time, the balance of trade and other receivables ended the year at $427.2 million (2011: $450.0 million). The combination of the reduction in inventory and the increased collections from customers allowed us to utilise available cash balances to improve payments to our suppliers, thereby reducing cash and cash equivalents to $206 million. Deferred tax assets also recorded a reduction, ending the year at $90.2 million down from $147.2 million in the previous year. This reduction was primarily attributable to the lowering of the corporate income tax rate for unregulated entities, from 33 1/3% to 25%. This new tax rate triggered a one-off, non-cash, tax expense of $39.2 million to reduce the previously recorded deferred tax asset.

Total current liabilities at the year-end amounted to $879.7 million or 41.6% lower than the $1,506.8 million at the end of 2011. In addition to the more efficient settlement of suppliers' balances to whom we owed $693.8 million at the December 31, 2012 (2011: $728.1 million), this significant reduction was directly impacted by the repayment and conversion of all short-term loans to longer-term debt.

Shareholders' Equity

Shareholders' equity at the end of 2012 was $994.6 million representing an increase of 3.4% compared to the $962.0 million at the end of the prior year. The increase was attributable to the achievement of net profit of $27.2 million in addition to net gains on the revaluation of land and buildings of $14.7 million.

Dividends

The Board approved a dividend of 12.5 cents per stock unit for the year ended December 31, 2012. The dividend which was the first in five years was paid on January 31, 2013 to stockholders on record at the close of business on 15 January 2013.

Stock Performance

The company's stock price at December 31, 2012 was $3.40 down from $5.90 on December 30, 2011. The market capitalization at the end of 2012 stood at $274.9 million (2011: $477.0 million).

Capital Investment

Capital expenditure for the year totaled $50.7 million (2011: 60.1 million). Expenditure was mainly on refurbishment of the stores, fixtures and fittings for the offices and stores as well as on machinery and equipment used in the company's operations.

INSPIRED, COMPETENT AND HIGH-PERFORMANCE TEAM ANCHORED BY CULTURE OF COOPERATION AND RESPECT 3

Hardware & Lumber receiving three prestigious awards from **The True Value Company** on March 11, 2013.

L to R:
Dave Patrizi, Director International, Eric Lane, VP Specialty Business and Lyle Heidemann, President & CEO, Veronica Hughes, Category Manager & Carol Jamieson, Buyer, Hardware & Lumber Ltd.

Human Resources strategy was centred around the following areas:-

1. Ensuring we recruit, develop and retain high quality staff.
2. Developing the leadership who will in turn ensure effective management of performance, to facilitate flawless execution in delivery of our business results.
3. Implementing initiatives that support a positive, inclusive and high-performance culture; marked by cooperation and respect.

Leadership Development

Our aim was to develop leaders who are flexible, proactive, analytical, strategic, technically competent and adept at competitive positioning; and who also live the core ethical values of the GK Group. We partnered with the learning and development arm of the Group, exposing six (6) individuals to the Supervisory Development Programme and other interventions that encouraged growth and closed development gaps.

Ultimately our leaders achieved the desired results whilst demonstrating appropriate conduct through personal actions and interpersonal relationships, and promoted such conduct among direct-reports through two-way communication, reinforcement and decision-making.

Positive High-Performance Culture

Guided by feedback from our Employee Satisfaction Index (ESI), efforts were made to address the concerns of staff in a structured, deliberate and transparent way. Included in the initiatives was a programme that provided education assistance to employees' children at the primary and secondary levels.

Our reward and recognition programmes are structured to foster the performance driven culture, encouraging employees to be their best selves. Additionally, we encouraged camaraderie and teamwork by reviving and re-branding the H&L sports and social programme.

Risk Management & Internal Controls 4

The activities of Hardware & Lumber's exposes it to a variety of risks. 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.

Risk management is integral to the strategic planning process, where business and strategy risks are identified, measured, relevant mitigation measures formulated and responsible officers assigned. Each of the key strategic objectives identified in the performance areas of the balanced scorecard (BSC) is risk assessed. The risks and mitigation measures identified are keenly monitored.

The major risks affecting the company are credit risk, liquidity risk, market risk and other operational risks. Market risk includes currency risk and interest rate risk.

Credit Risk

Refer to Note 3a of the audited financial statements.

Liquidity Risk

Refer to Note 3b of the audited financial statements.

Market Risk (including Currency Risk, Interest Rate Risk)

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

Internal Controls & Business Processes Review

The company continued to strengthen its internal controls, risk management and governance processes. During the year we continued to work closely with the GraceKennedy Group Internal Audit Department and several operational audits were conducted.

The company is committed to maintaining a safe environment for our employees, customers and associates and protecting the environment of the communities in which we do business. Our Environmental, Health and Safety (EH&S) programme continued to be deployed across all of our operations, with team members at each location having been trained on the execution of the EH&S programmes. We have complied with 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, 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 Pricewater-houseCoopers ("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, 2012 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, 2012 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, 2012 has been reviewed by PwC, as stated in their report which is included herein.

CORPORATE SOCIAL RESPONSIBILITY & SPORTS DEVELOPMENT 5

Grace & Staff Community Development Foundation

Hardware & Lumber continued to actively participate in the Foundation, which celebrated its 33rd Anniversary in 2012. 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. Several staff volunteers from Hardware & Lumber have committed themselves to making a difference in our society, both through the Grace & Staff Community Development Foundation and other church and community organizations.

OUTLOOK: 2013 AND BEYOND 6

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 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.

We will seek all opportunities to improve our portfolio of product offerings in 2013 by adding innovative products and discontinuing those which are no longer adding value to our customers' lifestyle and productivity. In everything we do, we will take our corporate and social responsibility seriously. Risk management and internal controls will remain a focus area in 2013, as we continuously strengthen our control systems.

We are confident that we have a sound foundation on which to grow the business and will seek to satisfy and exceed our customers' requirements from our vantage point of being Jamaica's largest chain engaged in the supply of building materials, home improvement and household items as well as agricultural products and equipments.

Andrea Coy
Chief Executive Officer

February 28, 2013

Donna Doran
Chief Financial Officer

February 28, 2013

BOARD OF DIRECTORS

Erwin Burton, B.Sc., M.Sc., JP
Appointed:10 September 2003

Mr. Burton serves on the boards of several GraceKennedy subsidiaries including GraceKennedy (Belize) Limited, Grace Foods USA, Inc., Grace Foods UK Limited. He is also a member of the Board of Mona Institute of Applied Science, The Consumer Affairs Commission on Utilities and Pastry Passions Ltd.

Andrea D. Coy, B.Sc., M.Sc., (Acctg), F.C.A.
Appointed: 26 July 2010 as director and in April 2012 appointed Chief Executive Officer

Mrs. Coy served as the General Manager of World Brands Services, a division of GK Foods & Services Limited and prior to that served as General Manager of Hi-Lo Foods Stores, a division of GK Foods & Services Limited. Prior to joining GraceKennedy 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.

Michael A. Ammar, B.Sc.
Appointed: 9 February 2012

Mr. Ammar is currently the Managing Director of Ammar and Azar Limited. He also serves on the Corporate Governance and Audit Committees of Hardware & Lumber Limited. He is a director of Orr-Rus Limited, NCB Capital Markets Limited and, Kingston City Centre Improvement District Limited. He was a past President of the Jamaica Chamber of Commerce and a current member of Bacchanal Jamaica.

Grace Burnett, LLB, CI.
Appointed: 1 March 2011

Mrs. Burnett 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 Jamaica International Insurance Company Limited. 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 a member of the Jamaica Bar Association, The Chartered Insurance Institute (UK) and Toastmasters International.

Paul A.B. Facey, M.B.A., B.Sc.
Appointed: 30 July 2012

Mr. Paul Facey is the Vice President of Investments for the Pan-Jamaican Group of Companies and has held that position since 2004. He brings to Hardware & Lumber Board his substantial experience in trading, manufacturing and finance. He was an integral part of the team in the last 1990's that developed the concept of the H & L True Value and retail stores in Jamaica. Mr. Facey sits on the Boards of Pan-Jamaican Investment Trust Limited, Sagicor Investments Jamaica Limited and Sagicor Life Jamaica Ltd where he is a member of the Investment and Audit Committees.

Paul Hanworth, A.C.A., C.P.A., M.Sc., M.A.
Appointed: 3 December 2007

Mr. Hanworth has been Chief Financial Officer for Pan-Jamaican Investment Trust Limited since 2006. He is currently Chairman of the H & L Audit Committee and a member of the Corporate Governance Committee. An accountant by training, Paul spent 14 years in the accounting profession with KPMG and 9 years in the wine and spirits industry with Diageo PLC in various countries before moving to Jamaica in 1998 to work with Mechala Group (now ICD Group) as Chief Financial Officer. Mr. Hanworth holds a Masters degree in Classics from Cambridge University, and is a member both of the Institute of Chartered Accountants in England and Wales and of the American Institute of Certified Public Accountants.

M. Audrey Hinchcliffe C.D., B.A., M.Sc., J.P.

Appointed: 9 February 2012

Mrs. Audrey Hinchcliffe is founder, Chairman and Chief Executive Officer of Manpower & Maintenance Services Limited and its subsidiaries. She is Chairman of the Corporate Governance Committee and a member of the Audit Committee. She has served as Director of GraceKennedy Limited and Chairman of Hi-Lo Food Stores and was the first chairman of the Board of Medecus Health Insurance Company. Recently she was invited by US Secretary of State – Hillary Rodham Clinton to serve on the US Department of State's new International Council on Women's Business Leadership for a two-year term. She is Chairman on the Board of Jamaica Foundation for Lifelong Learning (JFLL) and as a member of the Council of University College of the Caribbean, Chairman of the Jamaica Business Council on HIV & AIDS and is the immediate Past President of the Jamaica Employers' Federation where she served as its first female president.

She is the recipient of several commendations and awards; she was inducted as a Fellow of the Jamaica Institute of Management and enjoys the distinction of being among the Jamaica Observer's 50 Most Influential Women in 2007.

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

Appointed: 1 February 2010

Mr. Wehby 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 & 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. His current professional affiliations include, Chairman of the Taskforce on Tourism Contributions & Linkages, Vice-President of the Private Sector Organization of Jamaica (PSOJ) and Chairman of the PSOJ Economic Policy Committee. He is a member of the Corporate Governance Committee of H & L Limited. 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 Advance Management College certificate course at Stanford University. He is a chartered accountant and a Fellow of the Institute of Chartered Accountants in Jamaica.

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

Appointed: 27 November 2006

Mr. Sharp has been a director of GraceKennedy Limited since 1976 and a member of the Corporate Governance and Compensation Committees of the Board. He is a Founding Member of both the Private Sector Organization 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.

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CORPORATE DATA AS AT 31 DECEMBER 2012

Board of Directors

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

Andrea D. Coy, B.Sc., M.Sc. (Acctg.) F.C.A
Chief Executive Officer

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

Michael A. Ammar Jnr. BSc.

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

M. Audrey Hinchcliffe, C.D., B.A., M.Sc., J.P.

Paul A.B. Facey, M.B.A.

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

Grace Burnett, LLB., CI.

Secretary

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

Registered Office

697 Spanish Town Road

Kingston 11, Jamaica

Registrar

Sagicor Bank Jamaica 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

Senior Management Team

Andrea D. Coy, B.Sc., M.Sc. (Acctg.) F.C.A.
Chief Executive Officer

Donna Doran, F.C.C.A., M.B.A.
Chief Financial Officer

Olive Downer-Walsh, B.Sc., M.B.A.
General Manager, AgroGrace

Annette Morrison, M.Sc., GPHR
Human Resource Business Partner

Andrew Kerr, A.C.C.A.
General Manager, Central Services

Dean Clarke, J.P.
Retail Operations Manager

Anthony Lindo
Sales Manager, Wholesale Division

INTEREST OF DIRECTORS AND SENIOR MANAGEMENT

AS AT 31 DECEMBER 2012

DIRECTORS	PERSONAL SHAREHOLDINGS	STOCKHOLDINGS IN WHICH DIRECTOR/ OFFICER HAS AN INTEREST
Michael A. Ammar	50,000	
Erwin M. Burton	30,563	-
Grace Burnett	1,000	
Andrea D. Coy	2,100	-
Paul A.B. Facey	Nil	-
Paul Hanworth	101,000	-
M. Audrey Hinchcliffe	Nil	-
Gordon K. G. Sharp	175,517	-
Donald Wehby	1,000	-
SENIOR MANAGEMENT		
Andrea D. Coy	2,100	
Donna Doran	Nil	
Olive Downer-Walsh	2,000	
Annette Morrison	Nil	
Dean Clarke	Nil	-
Andrew Kerr	Nil	-
Anthony Lindo	Nil	-

MAJOR SHAREHOLDERS
AS AT 31 DECEMBER 2012

	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	1,791,560 - 2.22%
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	**73,975,794 - 91.51%**
	Others	6,866,229 - 8.49%

Total stocks in issue – 80,842,023
Total no. of stockholders – 1,399

REPORT OF THE DIRECTORS

1. The Directors submit herewith their Annual Report and the Audited Financial Statements for the year ended December 31, 2012.

	$'000
The net profit before Tax	100,541
The charge for taxation was	(73,359)
Making the profit after taxation	27,182
Less Dividend Declared	(10,105)
To which is added the retained profits brought forward from the previous year of	50,511
Leaving retained earnings to be carried forward to the next year of	67,588

2. The Directors as at December 31, 2012 were as follows:

Erwin M. Burton, Andrea Lewis Coy, Michael A. Ammar Jnr. Grace Burnett, Paul Hanworth, M. Audrey Hinchcliffe, Paul A.B. Facey, Gordon K.G. Sharp and Donald G. Wehby

Mr. Stephen Facey resigned from the Board on 30 July 2012 and Mr. Paul Facey was appointed to replace him. Mr. Rodney Davis resigned 9 October 2012 from the Board and also as a member of the Audit Committee. Mr. Harry Smith was appointed to replace him. Mr. Paul Facey and Mr. Harry Smith will retire at this annual general meeting and being eligible offers themselves for election.

In accordance with Article 100 of the Company's Articles of Incorporation, **Mr. Paul Hanworth, Mr. Erwin Burton and Mrs. Grace Burnett** 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

In December 2012 the Directors recommend a dividend in the amount of $0.125 payable on 31 January 2013 to stock-holders on record at the close of business on 15 January 2013. This was the first dividend being declared since 2005

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

By order of the Board

Dated this 15th day March 2013

Gene M. Douglas

Secretary

CORPORATE GOVERNANCE

In July 2012, the Board of Directors of Hardware & Lumber Limited re-established its Corporate Governance Charter and the full Code and Terms of Reference are available on the Company's website at www.hardwareandlumberja.com. Highlights of the Terms of Reference are as follows:

Mandate 1

The Corporate Governance Committee shall assist the Board in:

1. Enhancing the Company's system of corporate governance by establishing, monitoring and reviewing the principles of good governance with which the Company and its directors will comply;

2. Promoting high standards of corporate governance based on the principles of openness, integrity and accountability taking into account the Company's existing legal and regulatory requirements;

3. Promoting Corporate Governance best practices, keeping the effectiveness of the corporate governance systems of the Company under regular review and making recommendations to the Board in respect of the implementation of policies and guidelines to facilitate such best practices;

4. Establishing such procedures, policies and codes of conduct to meet these aims as it considers appropriate from time to time;

5. Identifying individuals qualified to become directors and recommending to the Board the candidates for all directorships to be filled by the Board of Directors or by the shareholders;

6. Recommending to the Board of Directors candidates for membership on Board committees;

7. Leading the Board of Directors in its annual review of the Board's performance.

8. Discharge the Board's responsibilities relating to the Total Compensation (defined as compensation, benefits and perquisites) of the Company's Chief Executive Officer and other Senior Executives in a manner consistent with and in support of the business objectives of the Company, competitive practice, and all applicable rules and regulations.

Composition: 2

The Committee shall have a membership of 5 members appointed by the Board from the directors of the Company all of whom shall be non-executive directors. For purpose of this policy "non-executive directors" refers to directors who are not employees of the Company or persons acting in an executive capacity with the Company.

Responsibilities 3

The duties of the Committee shall be:

1. To develop and recommend to the Board for adoption a set of corporate governance guidelines as may be deemed necessary by the committee to ensure that the company effectively protects and enhances its shareholder value.
2. To review, at least annually the company's Corporate Governance Policies and Guidelines and Philosophies and Policies and to recommend any proposed changes to the Board for approval.
3. To periodically review and make recommendations to the Board on issues regarding the Company's conduct of its business as a responsible corporate citizen.
4. To keep under review legislative and regulatory developments in relation to corporate governance issues that might affect the Company's operations.
5. (To review conflicts or potential conflicts of interest involving directors of the Company and make recommendations in respect thereof to the Board.
6. **To undertake responsibility for the nomination of new Directors and review of the existing Board of Directors as follows:**

(i) To consider and make representations to the Board on it's composition and balance.

Factors for consideration shall include but not be restricted to the:

- total number of directors;
- mix of executive and non-executive directors;
- average length of service of directors;
- skill, mix and industry experience of directors;
- responsibilities of specific directors; and
- scope and mix of outside experience brought to the Board.

(ii) To identify, review and recommend candidates for potential appointment as directors (both executive and non-executive) of the Company; and

(iii) To review, at regular intervals and at least once per year, the Company's succession plan in respect of senior executive positions within the Company.

7. **In respect of executive compensation:**

(i) Approve all aspects of Total Compensation for the Chief Executive Officer of the Company ("CEO"), including, but not limited to:

(a) A review of corporate and individual goals and objectives relevant to CEO Total Compensation, an evaluation of the CEO's performance relative to those goals and objectives, and a determination of the CEO's Total Compensation level based on this evaluation.

(b) In determining the long-term incentive component of CEO Total Compensation, the Committee will consider the Company's performance, relative shareholder return, the value of long-term incentive compensation given to CEO's at comparable companies, and the awards given to the CEO in past years.

(ii) Review and approve proposals made by the CEO with regard to the Total Compensation of Senior Executives of the Company and the overall policy or strategy for compensation within the GraceKennedy Group.

(iii) Review and recommend the adoption of significant Benefits Plans and changes to Benefits Plans to the Board of Directors.

8. To undertake such additional activities within the scope of its functions as the Committee may from time to time determine or as may otherwise be required by law, the Company's charter, or directive of the Board.

The current members of the Governance & Nomination Committee are: Mrs. M. Audrey Hinchcliffe (Chairperson), Mr. Paul Hanworth, Mr. Donald Wehby and Mr. Michael Ammar, Jnr. The fifth member was Mr. Rodney Davis who resigned in October and as soon as a replacement is identified, the person would be nominated to the committee.

During the year the committee was re-activated and a revised set of Corporate Governance Code and Terms of Reference was established using the PSOJ Code as a guide.

The matters discussed at the meeting were:

- Confirmation and approval of the Corporate Governance Code and Terms of Reference and the setting up of the committee members. The five (5)member committee comprised:
    - One representing Pan-Jamaican Investment Trust Limited
    - One representing GraceKennedy Limited
    - Three (3) independent members
- Review of overhead charges by parent company
- Made recommendation for the replacement of the vacancy created on the Audit Committee and on the Board.

BOARD ATTENDANCE REGISTER -2012

		Board meetings	Audit Committee	Corporate Governance & Nomination Committee	Annual General Meeting
	Number of meetings held	**11**	**6**	**1**	**1**
1	Erwin M. Burton – (Chairman)	11:11	-	-	1:1
2	Andrea D. Coy – CEO	10:11	-	-	1:1
3	Michael Ammar, Jnr *	5:9	1:4	0:1	0:1
4	Grace Burnett	10:11	-	-	1:1
5	Paul A.B. Facey**	6:6	-	-	-
6	Paul Hanworth	10:11	6:6 **(C)**	1:1	1:1
7	M. Audrey Hinchcliffe ***	6:9	2:2	1:1 **(C)**	1:1
8	Gordon Sharp	10:11	-	-	-
9	Donald G. Wehby	9:11	-	1:1	1:1

* Mr. Michael Ammar, Jnr was appointed to the Board effective 9 February 2012 and to the Audit Committee.

** Mr. Paul Facey was appointed to the Board effective 30 July 2012.

*** Mrs. M. Audrey Hinchcliffe was appointed to the Board effective 9 February 2012 and to the Audit Committee effective 19 October 2012

(C) Chairman of the Committee

DIRECTOR	Executive (E) Independent (I) Non-Executive (NE)	Finance & Accounting	Human Resources Development	Retail	Policy & Strategy	Risk & Governance	Consumer Marketing
Erwin M. Burton	NE	•		•	•	•	
Andrea D. Coy	E	•	•	•	•		•
Michael Ammar, Jnr	I	•		•	•	•	•
Grace Burnett	NE	•			•	•	
Paul A.B. Facey	NE	•		•	•		•
Paul Hanworth	NE	•			•	•	•
M. Audrey Hinchcliffe	I	•	•	•	•	•	•
Gordon Sharp	I	•			•	•	
Donald G. Wehby	NE	•			•	•	

AUDIT COMMITTEE TERMS OF REFERENCE

Mandate 1

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.

Composition 2

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.

Responsibilities 3

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. 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. ii. To review the composition, powers, duties and responsibilities of other Audit Committees within the Group, where applicable.

iii. 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, Paul Hanworth (Chairman); Michael Ammar and Audrey Hinchcliffe.

During the year the committee met six (6) times and among the items discussed were:

- Review the annual audited financial statements and make recommendation for their approval to the Board of directors and subsequent release to the Jamaica Stock Exchange
- Review the quarterly financial statements and make recommendation to the Board for their release to the Jamaica Stock Exchange
- Review the systems of internal controls
- Review the effectiveness and cost of the current providers of internal audit services, and review the qualifications of potential alternative providers
- Review the financial and accounting policies and practices.


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Cross Roads Tel: 876.929.0048
Montego Bay Tel: 876.684.9067-8
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HARDWARE & LUMBER LTD.

AUDITED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

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 40 to 90, which comprise the statement of financial position as at 31 December 2012 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and with the requirements of the Jamaican Companies Act, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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

pwc

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

Opinion
In our opinion, the financial statements give a true and fair view of the financial position of Hardware & Lumber Limited as at 31 December 2012, and of its financial performance and 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 Jamaican Companies Act, in the manner so required.

PricewaterhouseCoopers

Chartered Accountants
26 February 2013
Kingston, Jamaica

STATEMENT OF COMPREHENSIVE INCOME

Year Ended 31 December 2012 (expressed in Jamaican dollars unless otherwise indicated)

	Note	2012	2011
		$'000	**$'000**
Revenue		6,284,052	6,055,922
Cost of sales		(4,655,902)	(4,492,409)
Gross Profit		1,628,150	1,563,513
Other operating income	6	42,979	47,140
		1,671,129	1,610,653
Direct expenses		(1,084,674)	(1,044,578)
Administrative expenses		(419,028)	(485,647)
		(1,503,702)	(1,530,225)
Profit from Operations		167,427	80,428
Finance costs	9	(66,886)	(70,730)
Profit before Tax		100,541	9,698
Taxation	10	(73,359)	(3,402)
Profit for the Year		27,182	6,296
Other Comprehensive Income:			
Net gain on revaluation of land and buildings, net of taxes	14	14,723	-
Total Comprehensive Income for the Year		41,905	6,296
Earnings per stock unit attributable to owners of the company	11	0.34	0.08

STATEMENT OF FINANCIAL POSITION

31 December 2012 (expressed in Jamaican dollars unless otherwise indicated)

	Note	2012	2011
		$'000	$'000
NET ASSETS EMPLOYED			
Non-current Assets			
Property, plant and equipment	12	615,730	621,842
Intangible assets	13	11,853	16,116
Deferred tax asset	14	90,218	147,238
Retirement benefit asset	15	758	3,367
		718,559	788,563
Current Assets			
Inventories	16	1,107,821	1,290,325
Trade and other receivables	17	427,206	450,009
Group companies	18	8,661	9,486
Taxation recoverable		51,020	51,818
Cash and bank balances	19	205,935	319,659
		1,800,643	2,121,297
Current Liabilities			
Trade and other payables	20	693,758	728,095
Provisions	21	618	1,022
Short term loans	22	-	593,198
Group companies	18	1,989	10,125
Current portion of long term loans	23	183,333	174,331
		879,698	1,506,771
Net Current Assets		920,945	614,526
		1,639,504	1,403,089

STATEMENT OF FINANCIAL POSITION (Cont'd)

31 December 2012 (expressed in Jamaican dollars unless otherwise indicated)

	Note	2012	2011
		$'000	$'000
FINANCED BY			
Stockholders' Equity			
Share capital	24	616,667	616,667
Capital reserve	25	305,342	290,619
Other reserve	26	4,961	4,244
Retained earnings		67,588	50,511
		994,558	962,041
Non-current Liabilities			
Long term loans	23	372,629	201,012
Retirement benefit obligation	15	272,317	240,036
		644,946	441,048
		1,639,504	1,403,089

Approved for issue by the Board of Directors on 26 February 2013 and signed on its behalf by:

Donald Wehby Director

Erwin Burton Director

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

Year Ended 31 December 2012 (expressed in Jamaican dollars unless otherwise indicated)

	Note	Share Capital	Capital Reserve	Other Reserve	Retained Earnings	Total
		$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2011		616,667	290,619	-	44,215	951,501
Total comprehensive income		-	-	-	6,296	6,296
Transactions with owners						
Employee stock option scheme: expiration of stock options	26	-	-	4,244	-	4,244
Balance at 31 December 2011		616,667	290,619	4,244	50,511	962,041
Total comprehensive income		-	14,723	-	27,182	41,905
Transaction with owners						
Dividend	28	-	-	-	(10,105)	(10,105)
Employee stock option scheme: value of employee services received	26	-	-	717	-	717
Balance at 31 December 2012		616,667	305,342	4,961	67,588	994,558

STATEMENT OF CASH FLOWS

Year Ended 31 December 2012 (expressed in Jamaican dollars unless otherwise indicated)

	Note	2012	2011
		$'000	$'000
Cash Generated from Operating and Investing Activities:			
Profit for the year		27,182	6,296
Items not affecting cash:			
Amortisation of computer software	13	5,076	33,056
Change in retirement benefit asset/obligation		34,890	110,027
Depreciation of property, plant and equipment	12	51,188	47,607
Foreign exchange (gains)/losses	9	(822)	697
Goodwill write-off	13	-	1,736
Interest expense	9	67,708	70,033
Interest income	6	(5,681)	(3,204)
Loss/(gain) on disposal of property, plant and equipment	6	1,631	(157)
Stock options		717	4,244
Taxation charge	10	73,359	3,402
Warranties	21	3,891	3,216
		259,139	276,953
Changes in non-cash working capital components:			
Inventories (*)		180,553	163,105
Group companies		(7,311)	2,265
Trade and other receivables		22,803	2,221
Trade and other payables		(44,442)	(206,739)
Warranties settled	21	(4,295)	(4,010)
		406,447	233,795
Interest received		5,681	3,200
Tax recovered/(paid)		798	(697)
Net cash provided by operating activities		412,926	236,298
Cash Flows from Investing Activities			
Proceeds from sale of property, plant and equipment		1,586	4,179
Purchase of computer software	13	(813)	(583)
Purchase of property, plant and equipment (*)		(47,958)	(55,176)
Net cash used in investing activities		(47,185)	(51,580)
Cash provided by operating and investing activities (carried forward to page 6)		365,741	184,718

STATEMENT OF CASH FLOWS (Cont'd)

Year Ended 31 December 2012 (expressed in Jamaican dollars unless otherwise indicated)

	Note	2012 $'000	2011 $'000
Cash Provided by Operating and Investing Activities (brought forward from Page 5)		365,741	184,718
Cash Flows from Financing Activities			
Interest paid		(73,156)	(67,193)
Long term loans received		500,000	250,000
Long term loans repaid		(321,627)	(133,940)
Short term loans received		124,260	830,025
Short term loans repaid		(714,579)	(840,457)
Net cash (used in)/provided by financing activities		(485,102)	38,435
Effects of exchange rate changes on cash and cash equivalents		5,637	3,736
Net (decrease)/increase in cash and cash equivalents		(113,724)	226,889
Cash and cash equivalents at beginning of year	19	319,659	92,770
Cash and Cash Equivalents at the End of the Year	19	205,935	319,659
Comprising:			
Cash at bank	19	205,935	155,658
Short term deposits	19	-	164,001
Cash and Cash Equivalents at the End of the Year		205,935	319,659

The principal non-cash transaction –
(*) During the year $1,951,000 (2011 - $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 sells retail and wholesale building materials, home improvement supplies, household items and agricultural products.

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.

- 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. This amendment did not have a significant impact on the operations of the company.

'Improvements to IFRS' were issued in 2011 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. Some of the amendments are effective for annual periods beginning on or after 1 January 2012. 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.

- 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.

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.

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 collectability 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.

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

	2012	**2011**
	$'000	**$'000**
Credit risk exposures are as follows:		
Trade receivables (Note 17)	279,556	243,269
Other receivables (Note 17)	98,960	140,842
Group companies (Note 18)	8,661	9,486
Cash and cash equivalents (Note 19)	205,935	319,659
	593,112	713,256

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 2012, trade receivables totalling $100,357,000 (2011 - $105,985,000) 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:

	2012 $'000	2011 $'000
1 to 30 days past due	85,991	79,981
31 to 60 days past due	10,395	18,900
Over 60 days past due	3,971	7,104
	100,357	105,985

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

As at 31 December 2012, trade receivables of $69,031,000 (2011 - $94,994,000) were past due and impaired. The amount of the provision was $28,822,000 (2011 – $64,710,000). 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:

	2012 $'000	2011 $'000
91 to 120 days past due	5,187	8,337
Over 120 days past due	63,844	86,657
Over 90 days past due	69,031	94,994

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

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

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

	2012 $'000	2011 $'000
At 1 January	64,710	54,109
Provision for receivables impairment	28,581	15,602
Recoveries	(4,187)	(5,001)
Receivables written off during the year as uncollectible	(60,282)	-
At 31 December	28,822	64,710

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:

	2012 $'000	2011 $'000
Agriculture, fishing and mining	83,682	64,782
Wholesalers	157,876	105,826
Retail distributors and others	66,820	137,371
	308,378	307,979
Less: Provision for credit losses	(28,822)	(64,710)
	279,556	243,269

All trade receivables are receivable from customers in Jamaica.

3. Financial Risk Management (Continued)

(b) Liquidity risk

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

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 2012:					
Liabilities					
Trade payables	88,264	461,219	-	-	549,483
Other payables and accruals	144,275	-	-	-	144,275
Group companies	1,989	-	-	-	1,989
Long term loans	-	35,218	196,350	424,236	655,804
	234,528	496,437	196,350	424,236	1,351,551

	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

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 company's finance department, which carries out research and monitors the price movement of financial assets on the local and international markets. Market risk exposures are measured using sensitivity analysis.

There has been no change to the company's exposure to market risks or the manner in which it manages and measures the risk.

(i) Currency risk

Currency risk is the risk that the fair value 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 2012:			
Financial Assets			
Trade receivables	279,556	-	279,556
Other receivables	61,237	37,723	98,960
Group companies	8,661	-	8,661
Cash and bank	202,994	2,941	205,935
Total financial assets	552,448	40,664	593,112
Financial Liabilities			
Trade payables	228,852	320,631	549,483
Other payables and accruals	144,275	-	144,275
Group companies	1,989	-	1,989
Long term loans	555,962	-	555,962
Total financial liabilities	931,078	320,631	1,251,709
Net financial position	(378,630)	(279,967)	(658,597)

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 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)

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 2012	Effect on Profit before tax 2012 $'000	% Change in Currency Rate 2011	Effect on Profit before tax 2011 $'000
Devaluation	10	(27,997)	1	(8,510)
Revaluation	1	2,800	0.5	4,255

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 fluctua because of changes in market interest rates.

Floating rate instruments expose the company to cash flow interest risk. The company's interest ra risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed ar variable rate instruments. The policy also requires it to manage the maturities of interest bearir financial assets and interest bearing financial liabilities.

The following tables summarises the company's exposure to interest rate risk. It includes tl company's financial instruments at carrying amounts, categorised by the earlier of contractu 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 2012:						
Assets						
Trade receivables	-	-	-	-	279,556	279,556
Other receivables	-	-	-	-	98,960	98,960
Group companies	-	-	-	-	8,661	8,661
Cash and bank	205,935	-	-	-	-	205,935
Total financial assets	205,935	-	-	-	387,177	593,112
Liabilities						
Trade payables	-	-	-	-	549,483	549,483
Other payables and accruals	-	-	-	-	144,275	144,275
Group companies	-	-	-	-	1,989	1,989
Long term loans	-	28,519	160,777	366,666	-	555,962
Total financial liabilities	-	28,519	160,777	366,666	695,747	1,251,709
Total interest repricing gap	205,935	(28,519)	(160,777)	(366,666)	(308,570)	(658,597)

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 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)

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 2012 $'000	Effect on Profit before Tax 2011 $'000
Change in basis points:		
-50 for USD and 100 for JMD (2011 – 50 for USD and 100 for JMD)	-	6,092
+50 for USD and 100 for JMD (2011 – 50 for USD and 200 for JMD)	-	(6,092)

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:

	2012	2011
	$'000	$'000
Total borrowings	555,962	968,541
Less: Cash and bank balances	(205,935)	(319,659)
Net debt	350,027	648,882
Total equity	994,558	962,041
Total capital	1,344,585	1,610,923
Gearing ratio	26.0%	40.3%

(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.

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.

	2012			
	Wholesale of Hardware and Building Products	Retail of Household and Hardware Products	Agricultural Products and Equipment	Total
	$'000	$'000	$'000	$'000
External operating revenue	895,618	3,731,551	1,656,883	6,284,052
(Loss)/profit from operations	(68,155)	54,852	180,730	167,427
Interest expense	(9,994)	(39,790)	(17,924)	(67,708)
Foreign exchange gains	53	599	170	822
(Loss)/profit before tax	(78,096)	15,661	162,976	100,541
Other segment disclosures -				
Interest income	845	3,343	1,493	5,681
Depreciation and amortisation	(7,512)	(38,395)	(10,357)	(56,264)
Capital expenditure	506	38,600	11,616	50,722

5. **Segment Information (Continued)**

	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

No single customer accounted for 10% or more of total revenues of the company either in 2012 or in 2011.

6. **Other Operating Income**

	2012	2011
	$'000	$'000
(Loss)/profit on sale of property, plant and equipment	(1,631)	157
Rent	7,697	8,937
Interest income	5,681	3,204
Purchase rebate	15,457	14,544
Agent commission	14,075	16,561
Other	1,700	3,737
	42,979	47,140

7. Expenses by Nature

Total cost of sales, direct and administrative expenses

	2012 $'000	2011 $'000
Advertising and marketing	33,909	26,256
Auditors' remuneration	8,004	8,004
Bad debt	24,394	10,601
Bags and straps	15,941	13,830
Cost of inventories recognised as expenses	4,536,628	4,349,848
Depreciation and amortisation	56,264	80,663
Equipment rental	12,212	13,378
Freight	102,329	108,318
Demurrage	1,005	20,413
Insurance	72,399	61,706
Licence and taxes	13,307	9,331
Occupancy – rent, utilities, etc.	302,398	289,635
Processing and facility	42,226	36,061
Professional and contractual	200,634	200,010
Repairs, maintenance and renewals	46,927	46,849
Security	53,618	56,344
Staff costs (Note 8)	495,690	555,201
Stationery and computer expense	55,521	47,908
Head office charges	37,923	34,965
Other	48,275	53,313
	6,159,604	6,022,634

8. Staff Costs

	2012 $'000	2011 $'000
Wages and salaries	343,167	338,212
Payroll taxes, employer's contribution	38,390	35,362
Pension charge (Note 15)	2,706	95,012
Pension contribution to defined contribution plan (Note 15)	5,449	1,588
Other retirement benefits (Note 15)	45,835	27,138
Staff welfare	42,798	52,662
Gratuity	3,459	-
Stock option expense (Note 26)	717	4,244
Redundancy costs	13,169	983
	495,690	555,201

9. Finance Costs

	2012 $'000	2011 $'000
Interest expense	67,708	70,033
Foreign exchange (gains)/losses	(822)	697
	66,886	70,730

10. Taxation

Taxation is based on the profit for the year adjusted for taxation purposes and comprises income tax at 25%:

	2012 $'000	2011 $'000
Deferred tax (Note 14)	73,359	3,402

	2012 $'000	2011 $'000
Profit before tax	100,541	9,698
Tax calculated at 33 1/3%	33,514	3,233
Adjusted for the effects of:		
Effect of change in tax rate from 331/3% to 25%	39,208	-
Adjustment to prior year deferred tax	482	(1,128)
Expenses not deductible for tax purposes	282	960
Income not subject to tax purposes	(716)	-
Net effect of other charges and allowances	589	337
Taxation	73,359	3,402

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 $171,940,000 (2011 - $270,969,000).

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.

	2012	2011
Net profit attributable to stockholders ($'000)	27,182	6,296
Number of stock units in issue ('000)	80,842	80,842
Earnings per stock unit ($)	0.34	0.08

12. Property, Plant and Equipment

	2012							
	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 2012	200,000	250,998	378,939	176,279	91,155	7,716	16,699	1,121,786
Additions	-	334	11,980	4,270	8,838	-	24,487	49,909
Revaluation	20,000	(31,671)	-	-	-	-	-	(11,671)
Disposals	-	(15)	(5,167)	(5,151)	(267)	-	-	(10,600)
Transfers	-	354	5,744	33,138	1,950	-	(41,186)	-
31 December 2012	220,000	220,000	391,496	208,536	101,676	7,716	-	1,149,424
Depreciation -								
1 January 2012	-	5,020	303,396	117,990	65,822	7,716	-	499,944
Charge for the year	-	5,035	24,140	15,013	7,000	-	-	51,188
Revaluation	-	(10,055)	-	-	-	-	-	(10,055)
Relieved on disposals	-	-	(3,370)	(3,746)	(267)	-	-	(7,383)
31 December 2012	-	-	324,166	129,257	72,555	7,716	-	533,694
Net Book Value -								
31 December 2012	220,000	220,000	67,330	79,279	29,121	-	-	615,730

12. Property, Plant and Equipment (Continued)

	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
Disposal	-	-	(660)	(3,866)	(5,030)	-	-	(9,556)
Transfer	-	-	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

Freehold land and buildings are stated at fair market value, as appraised by D.C. Tavares & Finson Realty Company Limited, independent qualified real estate brokers and appraisers in December 2012. 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, $14,723,000, 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:

	2012		2011	
	Freehold Land	Freehold Buildings	Freehold Land	Freehold Buildings
	$'000	$'000	$'000	$'000
Cost	45,000	145,879	45,000	145,206
Accumulated depreciation	-	26,575	-	23,664
Net book value	45,000	119,304	45,000	121,542

13. Intangible Assets

	2012		
	Computer Software $'000	Computer Software Work in Progress $'000	Total $'000
Cost -			
1 January 2012	247,342	5,989	253,331
Additions	813	-	813
Transfers	5,989	(5,989)	-
31 December 2012	254,144	-	254,144
Amortisation -			
1 January 2012	237,215	-	237,215
Amortisation charge for the year	5,076	-	5,076
31 December 2012	242,291	-	242,291
Net Book Value -			
31 December 2012	11,853	-	11,853

	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

The amortisation charges of $336,000 and $4,740,000 (2011 - $21,618,000 and $11,438,000) 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 in 2011 as the attributable store was closed.

14. Deferred Income Taxes

Deferred income taxes are calculated in full on all temporary differences under the liability method using a tax rate of 25%. The movement in the deferred income tax balance is as follows:

	2012	2011
	$'000	$'000
Net asset at beginning of year	147,238	150,640
Charge to profit or loss (Note 10)	(73,359)	(3,402)
Credit to other comprehensive income (Note 25)	16,339	-
Net asset at end of year	90,218	147,238

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:

	2012	2011
	$'000	$'000
Deferred income tax assets:		
Statutory tax loss	42,985	90,323
Interest payable	1,491	3,803
Provision for warranty	155	341
Accrued vacation	3,188	3,325
Stock option expense	1,240	1,415
Bad debt general provision	119	237
Unrealised foreign exchange losses	-	16,390
Retirement benefit obligations	68,079	80,012
	117,257	195,846
Deferred income tax liabilities:		
Unrealised foreign exchange gains on deposits	(1,083)	(427)
Property, plant and equipment	(25,766)	(46,992)
Interest receivable	-	(67)
Retirement benefit asset	(190)	(1,122)
	(27,039)	(48,608)
Net Asset	90,218	147,238
Deferred tax assets to be recovered after more than one year	68,079	80,012
Deferred tax liabilities to be settled after more than one year	(25,956)	(48,114)

14. Deferred Income Taxes (Continued)

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

	2012	2011
	$'000	$'000
Deferred income tax assets:		
Statutory tax loss	(47,338)	(53,171)
Interest payable	(2,312)	791
Provision for warranty	(186)	(24)
Accrued vacation	(137)	(1,159)
Stock option expense	(175)	1,415
Bad debt general provision	(118)	237
Unrealised foreign exchange losses	(16,390)	1,420
Retirement benefit obligations	(11,933)	5,448
	(78,589)	(45,043)
Deferred income tax liabilities:		
Unrealised foreign exchange gains on deposits	(656)	1,358
Property, plant and equipment	4,887	9,056
Interest receivable	67	(1)
Retirement benefit asset	932	31,228
	5,230	41,641
Net deferred tax charged to the profit or loss in the statement of comprehensive income	(73,359)	(3,402)

During the 2012/13 budget presentation, the Government of Jamaica announced a reduction in the corporate income tax rate for unregulated entities, from 33 1/3% to 25%, effective 1 January 2013. The change in the tax rate was signed into law on 28 December 2012 and as such has been applied in determining the amounts for deferred taxation in these financial statements.

On 12 February 2013, the Minister of Finance and Planning announced in Parliament that a surtax of 5% will be imposed on the taxable income of "large unregulated companies" effective from 1 April 2013. This represents an addition to the 25% tax rate to be levied as at 1 January 2013. Based on Ministry Paper 15 of 2013 issued by the Ministry of Finance and Planning, "large unregulated companies" are to be defined as those companies with gross income equal to or greater than $500,000,000, that are not regulated by the Financial Services Commission, the Bank of Jamaica, the Ministry of Finance and Planning or the Office of Utilities Regulation. The surtax has not been applied in determining the amounts for taxation in these financial statements as it had not been enacted or substantively enacted at 31 December 2012. Had the surtax been recognised in the financial statements at 31 December 2012, there would have been an increase of 17,160,000 in deferred tax assets in the statement of financial position and a decrease of $22,641,000 in the deferred tax charge in the statement of comprehensive income.

14. Deferred Income Taxes (Continued)

The following table reflect the net impact of the revaluation of the land and buildings:

	Before Tax	Tax	After Tax
	$'000	$'000	$'000
Fair value gain on revaluation of land and buildings	(1,616)	16,339	14,723

15. Retirement Benefits

	2012 $'000	2011 $'000
Assets/(liabilities) recognised in the statement of financial position –		
Retirement Benefit Asset - Pension plan	758	3,367
Retirement Benefit Obligation - Medical benefits	(272,317)	(240,036)
Amounts recognised in the profit or loss in the statement of comprehensive income (Note 8) –		
Retirement Benefit Asset - Pension plan	2,706	95,012
Retirement Benefit Obligation - Medical benefits	45,835	27,138

Pension plan benefits

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.

In addition to the defined benefit pension plan described above; Grace started a new defined contribution pension plan in 2010, 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 $5,449,000 (2011 - $1,588,000) (Note 8).

The defined benefit asset recognised in the statement of financial position was determined as follows:

	2012 $'000	2011 $'000
Fair value of plan assets	(741,380)	(634,208)
Present value of funded obligations	1,142,856	1,103,344
	401,476	469,136
Unrecognised actuarial losses	(402,234)	(472,503)
	(758)	(3,367)

15. Retirement Benefits (Continued)

Pension plan benefits (continued)

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

	2012 $'000	2011 $'000
At beginning of year	634,208	555,081
Expected return on plan assets	61,249	54,369
Actuarial (loss)/gain on plan assets	(31,909)	22,458
Contributions	17,574	30,004
Reallocation of plan assets	121,272	25,077
Benefits paid	(61,014)	(52,781)
At end of year	741,380	634,208

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

	2012 $'000	2011 $'000
At beginning of year	1,103,344	965,446
Current service cost	66,837	69,173
Interest cost	113,967	110,905
Actuarial (gains)/losses on obligations	(80,278)	10,601
Benefits paid	(61,014)	(52,781)
At end of year	1,142,856	1,103,344

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:

	2012 $'000	2011 $'000
Current service cost	49,360	40,497
Interest cost	113,967	110,905
Expected return on plan assets	(61,249)	(54,369)
Reallocation of plan assets	(121,272)	(25,077)
Net actuarial loss recognised during the year	21,900	23,056
Total included in staff costs (Note 8)	2,706	95,012

The charge of $2,706,000 (2011 - $95,012,000) was included in administrative expense in the profit or loss in the statement of comprehensive income.

The actual gain on plan assets was $29,340,000 (2011 – $76,827,000).

Expected contributions to the plan for the year ended 31 December 2013 amount to $9,789,000.

The distribution of plan assets was as follows:

	2012 %	2011 %
Quoted equities	15.9	17.5
Government of Jamaica securities	60.0	63.0
Repurchase agreements	4.2	2.6
Other	19.9	16.9
	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:

	2012 $'000	2011 $'000	2010 $'000	2009 $'000	2008 $'000
Fair value of plan assets	741,380	634,208	555,081	472,136	451,545
Defined benefit obligation	(1,142,856)	(1,103,344)	(965,446)	(581,604)	(593,107)
	(401,476)	(469,136)	(410,365)	(109,468)	(141,562)
Experience adjustments –					
Fair value of plan assets	(31,909)	22,458	49,909	35,542	(70,673)
Defined benefit obligation	(111,268)	(43,248)	56,266	(75,214)	(180,345)

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:

	2012 $'000	2011 $'000
Present value of unfunded obligations	283,510	276,312
Unrecognised actuarial losses	(11,193)	(36,276)
	272,317	240,036

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

	2012 $'000	2011 $'000
At beginning of year	276,312	269,932
Current service cost	14,482	17,153
Past service cost	-	(30,065)
Interest cost	28,402	30,985
Actuarial gains on obligations	(22,132)	(898)
Benefits paid	(13,554)	(10,795)
At end of year	283,510	276,312

15. Retirement Benefits (Continued)

Medical benefits (continued)

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

	2012 $'000	2011 $'000
Past service cost	-	(30,065)
Current service cost	14,482	17,153
Interest cost	28,402	30,985
Net actuarial losses recognised during the year	2,951	9,065
Total included in staff costs (Note 8)	45,835	27,138

The total charge of $45,835,000 (2011 – $27,138,000) 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:

	2012 $'000	2011 $'000
Gratuity Plan	65,510	59,519
Group Life Plan	14,968	11,102
Insured Group Health	62,410	50,036
Self Insured Health Plan	98,741	88,915
Supplementary Pension Plan	30,688	30,464
Liability in the statement of financial position	272,317	240,036

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	5,476	4,283
Effect on the defined benefit obligation	27,842	22,478

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

	2012 $'000	2011 $'000	2010 $'000	2009 $'000	2008 $'000
Defined benefit obligation	283,510	276,312	269,932	170,840	166,016
Experience adjustments	(21,002)	(8,394)	15,701	(7,685)	(29,105)

15. Retirement Benefits (Continued)

Principal actuarial assumptions used in valuing retirement benefits

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

	2012	2011
Discount rate	10.5%	10.0%
Long term rate of inflation	6.0%	6.0%
Expected return on plan assets	10.0%	10.0%
Future salary increases	7.5%	7.5%
Future pension increases	6.0%	6.0%
Medical cost trend rate	7.5%	7.5%

The average expected remaining service life of the employees is 23 and 26 years for males and females respectively (2011 - 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

	2012	2011
	$'000	$'000
Merchandise	1,199,637	1,305,658
Provision for obsolescence	(153,965)	(155,038)
	1,045,672	1,150,620
Goods in transit	62,149	139,705
	1,107,821	1,290,325

17. Trade and Other Receivables

	2012	2011
	$'000	$'000
Trade	308,378	307,979
Provision for impairment	(28,822)	(64,710)
	279,556	243,269
Prepayments	48,690	65,898
Other	98,960	140,842
	427,206	450,009

18. Group Companies and Other Related Party Transactions and Balances

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

	2012	2011
	$'000	$'000
Due to Grace	(553)	(8,019)
Due to fellow subsidiaries	(1,436)	(2,106)
	(1,989)	(10,125)
Due from Grace	599	1,132
Due from fellow subsidiaries	8,062	8,354
	8,661	9,486

18. Group Companies and Other Related Party Transactions and Balances

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

The payables to related parties arose primarily from purchase transactions and were due 15 days after the invoice date. The payables bore no interest.

The receivables due from related party arose mainly from shared costs that were not yet due as at 31 December 2012. The receivable balances were not interest bearing. There were no provisions held against receivables from related parties.

(b) Loans

	2012	**2011**
	$'000	**$'000**
Short term loans (Note 22)	-	23,515
Interest payable on short term loans (Note 22)	-	47
	-	23,562
Long term loans (Note 23)	9,750	149,266
Interest payable on long term loans (Note 23)	196	391
	9,946	149,657

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:

	2012	**2011**
	$'000	**$'000**
Income:		
Rental charges -		
Fellow subsidiaries	1,767	1,738
Commissions		
Fellow subsidiaries	14,075	16,561
Sales -		
Fellow subsidiaries	5,211	122
Parent company	1,826	4,375
Interest income -		
Fellow subsidiary	1,973	1,165
Parent company	57	63

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);

	2012	2011
	$'000	$'000
Expenses:		
Purchases -		
Fellow subsidiaries	5,685	4,800
Parent company	3,553	3,431
Goods are purchased based on the current price list on terms that would be available to third parties		
Payroll cost -		
Parent company	9,889	8,275
GraceKennedy 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	2,927	14,831
Parent company	638	59
Interest charges resulted from loan facilities offered to the company by fellow subsidiaries and GraceKennedy.		
Key management compensation		
Salary and wages and other short term benefits	39,408	44,714
Key management includes the Chief Executive Officer, Chief Financial Officer and the General managers of the main business segments.		
Directors emoluments -		
Fees	3,648	3,189
Management remuneration (included above)	15,576	15,084
Property and equipment rental		
Fellow subsidiary	13,200	11,812
Other charges -		
Parent company	28,034	26,690
This relates to various services provided by GraceKennedy exclusively to its subsidiaries and associated companies		

19. Cash and Cash Equivalents

Cash and cash equivalents comprise the following:

	2012	2011
	$'000	$'000
Cash at bank	205,935	155,658
Short term deposits	-	164,001
	205,935	319,659

20. Trade and Other Payables

	2012	2011
	$'000	$'000
Trade	549,483	621,127
Accruals	75,767	46,482
Other	68,508	60,486
	693,758	728,095

21. Provisions

	2012	2011
	$'000	$'000
Balance at beginning of year	1,022	1,816
Additional provisions	3,891	3,216
Utilised during the year	(4,295)	(4,010)
Balance at end of year	618	1,022

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

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

22. Short Term Loans

		2012	2011
		$'000	$'000
Commercial Paper	(a)	-	346,403
FirstCaribbean International Bank	(b)	-	216,502
First Global Bank	(c)	-	23,515
		-	586,420
Interest payable		-	6,778
		-	593,198

(a) This facility was arranged by First Global Financial Services Limited and was denominated in United States Dollars at a rate of 6%. It was evidenced by promissory notes from the company.

(b) This loan was denominated in United States dollars. It was evidenced by promissory note and supported by a comfort letter from Grace. The annual interest rate was six month LIBOR plus 6.3%.

(c) This loan represented insurance premium financing and attracted interest at 4.26%.

All short term loans were repaid during the year.

Included in interest payable in 2011 were amounts totaling $47,000 due to related parties.

23. Long Term Loans

		2012	2011
		$'000	$'000
GraceKennedy Trade Finance Limited	(a)	-	80,596
National Commercial Bank Jamaica Limited	(b)	-	29,362
National Commercial Bank Jamaica Limited	(c)	425,000	-
GraceKennedy (St. Lucia) Limited	(d)	-	52,420
Commercial Paper	(e)	125,000	208,333
		550,000	370,711
Interest payable		5,962	4,632
		555,962	375,343
Current maturities		(183,333)	(174,331)
		372,629	201,012

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

(b) This loan was denominated in Jamaican dollars. At 31 December 2011 the annual interest rate was 13.26%. The loan was repaid during the year.

(c) This loan is denominated in Jamaican dollars. The annual interest rate is 9.75%. The loan is repayable by 2017 in quarterly installments. It is supported by a comfort letter from Grace.

23. Long Term Loans (Continued)

(d) This loan was denominated in United States dollars. At 31 December 2011, the interest rate was 7.5% per annum. The loan was repaid during the year.

(e) This facility was arranged by First Global Financial Services Limited. It is denominated in Jamaican dollars. The annual 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 2012 is $9,946,000 (2011 - $16,250,000).

All long term loans are unsecured.

Included in interest payable is an amount of $196,000 (2011 - $391,000) 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

	2012	2011
	$'000	$'000
Revaluation reserve	299,242	284,519
Other	6,100	6,100
	305,342	290,619
Opening balance	290,619	290,619
Revaluation loss	(1,616)	-
Deferred taxation (Note 14)	16,339	-
At the end of year	305,342	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.

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
In 2011 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:

	2012	2011
	’000	’000
At beginning of year	135	-
Granted	-	173
Forfeited/expired	(36)	(38)
At end of year	99	135

Permanent employees
In 2011 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:

	2012	2011
	’000	’000
At beginning of year	94	-
Granted	-	200
Forfeited/expired	(90)	(99)
Exercised	(4)	(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 $4,961,000 (2011 – $4,244,000). 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 centre under non-cancellable operating lease agreements. The minimum lease payment for 2012 was $182,580,000 (2011 - $172,371,000). The leases expire between 2012 and 2021 with renewal options at the end of the lease periods. Included in lease payments for 2012 are amounts totaling $62,242,000 (2011 - $38,957,000) 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:

	2012	2011
	$'000	$'000
No later than 1 year	103,706	112,694
Later than 1 year and no later than 5 years	228,348	141,802
Over five years	71,412	65,254
	403,466	319,750

28. Ordinary Dividends

The Board declared dividends of $0.125 per ordinary share on 28 December 2012 in relation to the 2012 financial year. Accordingly, these financial statements reflect this resolution. This is to be paid on 31 January 2013.

29. Subsequent Event

Effective 1 January 2013, the Company re-organised its operations into two operating segments. As a result of the reorganisation the wholesale segment was subsumed into the retail segment. The operating segments were renamed Household, Hardware and Building Products and Agricultural Products and Equipment.

The 31 December 2013 financial statements will therefore reflect the revised segment information note inclusive of the comparative amounts. This restatement will not have an impact on the previously reported profit for the year or the retained earnings.

PROXY HARDWARE & LUMBER LTD.

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 3, 2013 at 10:30 a.m. at 697 Spanish Town Road, Kingston 11.

SIGNED this..day of..2013

.... 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

$100

STAMP

HERE

Hardware & Lumber Ltd

A sub-division of:

GraceKennedy

697 Spanish Town Road, Kingston 11
Tel: 876-765-9967 /765-3434

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