Hardware & Lumber Limited

Financial Statements
31 December 2014

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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 1 to 51, which comprise the statement of financial position as at 31 December 2014 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
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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 2014, 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
2 March 2015
Kingston, Jamaica

Hardware & Lumber Limited
Statement of Comprehensive Income
Year ended 31 December 2014
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2014 $'000	2013 $'000
Revenue		7,137,578	6,810,599
Cost of sales		(5,454,422)	(5,064,288)
Gross Profit		1,683,156	1,746,311
Other operating income	6	94,538	64,755
		1,777,694	1,811,066
Direct expenses		(1,081,341)	(1,041,011)
Administrative expenses		(411,701)	94,415
		(1,493,042)	(946,596)
Profit from Operations		284,652	864,470
Finance cost	9	(29,924)	(46,753)
Profit before Tax		254,728	817,717
Taxation	10	(37,412)	(207,754)
Profit for the Year		217,316	609,963
Other Comprehensive Income:			
Items that will not be reclassified to profit and loss			
Net gain on revaluation of land and buildings, net of taxes	12	53,473	-
Remeasurement of retirement benefit obligation, net of taxes	14	2,935	(93,774)
		56,408	(93,774)
Total Comprehensive Income for the Year		273,724	516,189
Earnings per stock unit attributable to owners of the company	11	2.69	7.55

Hardware & Lumber Limited

Statement of Financial Position

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2014 $'000	2013 $'000
NET ASSETS EMPLOYED			
Non-current Assets			
Property, plant and equipment	12	721,620	608,806
Intangible assets	13	2,053	7,059
Deferred tax asset	14	66,794	59,474
		790,467	675,339
Current Assets			
Inventories	16	1,797,995	1,233,338
Trade and other receivables	17	609,015	498,332
Group companies	18	702	1,685
Taxation recoverable		14,666	18,262
Cash and cash equivalents	19	152,015	417,891
		2,574,393	2,169,508
Current Liabilities			
Trade and other payables	20	1,346,417	932,157
Provisions	21	-	618
Taxation payable		3,537	24,389
Short term loans	22	13,910	13,434
Group companies	18	2,694	1,868
Current portion of long term loans	23	101,923	145,097
		1,468,481	1,117,563
Net Current Assets		1,105,912	1,051,945
		1,896,379	1,727,284

Hardware & Lumber Limited

Statement of Financial Position

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2014 $'000	2013 $'000
FINANCED BY			
Stockholders' Equity			
Share capital	24	616,667	616,667
Capital reserve	25	358,815	305,342
Other reserve	26	5,259	5,259
Retained earnings		443,836	249,454
		1,424,577	1,176,722
Non-current Liabilities			
Long term loans	23	125,000	225,000
Retirement benefit obligation	15	346,802	325,562
		471,802	550,562
		1,896,379	1,727,284

Approved for issue by the Board of Directors on 2 March 2015 and signed on its behalf by:

Erwin Burton — Director

Paul Hanworth — Director

Hardware & Lumber Limited

Statement of Changes in Stockholders' Equity

Year ended 31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

	Note	Share Capital $'000	Capital Reserve $'000	Other Reserve $'000	(Accumulated Deficit)/Retained Earnings $'000	Total $'000
Balance at 1 January 2013		616,667	305,342	4,961	(242,482)	684,488
Total comprehensive income		-	-	-	516,189	516,189
Transactions with owners						
Dividends	28	-	-	-	(24,253)	(24,253)
Employee stock option scheme: value of employee services received	26	-	-	298	-	298
Balance at 31 December 2013		616,667	305,342	5,259	249,454	1,176,722
Total comprehensive income		-	53,473	-	220,251	273,724
Transaction with owners						
Dividends	28	-	-	-	(25,869)	(25,869)
Balance at 31 December 2014		616,667	358,815	5,259	443,836	1,424,577

Hardware & Lumber Limited

Statement of Cash Flows

Year ended 31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2014 $'000	2013 $'000
Cash Generated from Operating and Investing Activities:			
Profit for the year		217,316	609,963
Items not affecting cash:			
Amortisation of computer software	13	5,193	5,076
Change in retirement benefit obligation		25,153	(471,988)
Depreciation of property, plant and equipment	12	46,782	42,679
Foreign exchange gain		(15,557)	(21,025)
Withholding tax write-off		-	2,284
Interest expense	9	29,924	46,752
Interest income	6	(3,665)	(5,919)
Loss on disposal of property, plant and equipment	6	58	2,324
Stock option expense		-	298
Taxation charge	10	37,412	207,754
Warranty provisions	21	-	58
		342,616	418,256
Changes in non-cash working capital components:			
Inventories (*)		(576,301)	(134,365)
Group companies		1,809	6,855
Trade and other receivables		(110,683)	(65,573)
Trade and other payables		412,597	224,251
Warranties	21	(618)	(58)
		69,420	449,366
Interest received		3,665	5,919
Tax paid		(70,791)	-
Net cash provided by operating activities		2,294	455,285
Cash Flows from Investing Activities			
Proceeds from sale of property, plant and equipment		-	699
Purchase of computer software	13	(187)	(282)
Purchase of property, plant and equipment (*)		(86,712)	(29,930)
Net cash used in investing activities		(86,899)	(29,513)
Cash (used in)/provided by operating and investing activities (carried forward to page 6)		(84,605)	425,772

Hardware & Lumber Limited

Statement of Cash Flows

Year ended 31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2014 $'000	2013 $'000
Cash (Used in)/Provided by Operating and Investing Activities (brought forward from Page 5)		(84,605)	425,772
Cash Flows from Financing Activities			
Dividends paid		(24,206)	(10,105)
Interest paid		(31,431)	(49,284)
Long term loans repaid		(141,667)	(183,333)
Short term loans received		83,463	80,605
Short term loans repaid		(82,987)	(67,171)
Net cash used in financing activities		(196,828)	(229,288)
Effects of exchange rate changes on cash and cash equivalents		15,557	15,472
Net (decrease)/increase in cash and cash equivalents		(265,876)	211,956
Cash and cash equivalents at beginning of year		417,891	205,935
Cash and Cash Equivalents at End of the Year	19	152,015	417,891

The principal non-cash transactions –

(*) During the year $11,644,000 (2013 - $8,848,000) was transferred from inventories to property, plant and equipment.

Hardware & Lumber Limited

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 actions, 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.

- Amendment to IAS 32, 'Financial instruments: Presentation', on offsetting financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2014). This amendment updates the application guidance in IAS 32, 'Financial instruments: Presentation', to clarify some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position. The standard did not have a significant impact on the company's financial statements.

Hardware & Lumber Limited

Notes to the Financial Statements
31 December 2014
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

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

- IFRIC 21, 'Levies', (effective for annual periods beginning on or after 1 January 2014). IFRIC 21 addresses the accounting for a liability to pay a levy recognised in accordance with IAS 37, 'Provisions', and the liability to pay a levy whose timing and amount is certain. It excludes income taxes within the scope of IAS 12, 'Income taxes'. IFRIC 21 indicates that the obligating event that gives rise to a liability to pay a levy is the event identified by the legislation that triggers the obligation to pay the levy. It concludes that the fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern principle, does not create an obligation to pay a levy that will arise from operating in the future. Accordingly, a liability to pay a levy is recognised when the obligating event occurs. This might arise at a point in time or progressively overtime. The interpretation also requires that an obligation to pay a levy triggered by a minimum threshold is recognised when the threshold is reached. The standard did not have a significant impact on the company's financial statements as it is not currently subjected to any material levies.

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.

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:

- Amendment to IAS 1, 'Disclosure initiative'. These amendments clarify the existing requirements of IAS 1 and provide additional assistance to apply judgement when meeting the presentation and disclosure requirements in IFRS. The amendment does not affect recognition and measurement and is effective for accounting periods beginning on or after 1 January 2016. The amendment is not expected to have a significant impact on the 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 and is mandatory for accounting periods beginning on or after 1 January 2018. 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 but intends to adopt IFRS 9 no later than the mandatory adoption period.

Hardware & Lumber Limited
Notes to the Financial Statements
31 December 2014
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

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

- IFRS 15, 'Revenue from Contracts with Customers'. The IASB has published its new revenue standard, IFRS 15 'Revenue from Contracts with Customers'. The U.S. Financial Accounting Standards Board (FASB) has concurrently published its equivalent revenue standard which is the result of a convergence project between the two Boards. IFRS 15 applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. It specifies how and when an entity will recognise revenue. It also requires entities to provide more informative, relevant disclosures. The standard supersedes IAS 18, 'Revenue', IAS 11, 'Construction Contracts' and a number of revenue-related interpretations. Application of the standard is mandatory for accounting periods beginning on or after 1 January 2017. The company is assessing the impact of future adoption of the standard.

IASB Annual Improvements -
The IASB annual improvements project for the 2010 - 2012 cycle resulted in amendments to the following standards which may be relevant to the company's operations. These amendments are effective for the accounting periods beginning on or after 1 July 2014. The company is assessing the impact of future adoption of the amendments.

- IFRS 8, 'Operating Segments'. The standard is amended to require disclosure of the judgements made by management in aggregating operating segments. This includes a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics. The standard is further amended to require a reconciliation of segment assets to the entity's assets when segment assets are reported.

- IFRS 13, 'Fair value measurements'. When IFRS 13 was published, certain paragraphs of IAS 39 were deleted as consequential amendments. This led to a concern that entities no longer had the ability to measure short-term receivables and payables at invoice amounts where the impact of not discounting is immaterial. The IASB has amended the basis for conclusions of IFRS 13 to clarify that it did not intend to remove the ability to measure short-term receivables and payables at invoice amounts in such cases.

- IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets. Both standards are amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model. The carrying amount of the asset is to be restated to the revalued amount. The split between gross carrying amount and accumulated depreciation is treated in one of two ways. The gross carrying amount may restated in a manner consistent with the revaluation of the carrying amount, and the accumulated depreciation is adjusted to equal the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses. Alternatively, the accumulated depreciation may be eliminated against the gross carrying amount of the asset.

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

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

IASB Annual Improvements -
The IASB annual improvements project for the 2012 - 2014 cycle resulted in amendments to the following standards which may be relevant to the company's operations. These amendments are effective for the accounting periods beginning on or after 1 January 2016. The company is assessing the impact of future adoption of the amendments.

- IFRS 7, 'Financial instruments: Disclosures'. The amendment clarifies, among other things, that the additional disclosure required by the amendments to IFRS 7, 'Disclosure – Offsetting financial assets and financial liabilities' is not specifically required for all interim periods, unless required by IAS 34.

- IAS 19 (Revised), 'Employee benefits'. The amendment clarifies that, when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, and not the country where they arise. The assessment of whether there is a deep market in high-quality corporate bonds or not is based on corporate bonds in that currency, and not corporate bonds in a particular country. Similarly, where there is no deep market in high-quality corporate bonds in that currency, government bonds in the relevant currency should be used.

- IAS 34, 'Interim financial reporting'. The amendment clarifies what is meant by the reference in the standard to 'information disclosed elsewhere in the interim financial report'. The amendment further amends IAS 34 to require a cross-reference from the interim financial statements to the location of that information.

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.

(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.

2. Significant Accounting Policies (Continued)

(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 buildings	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.

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. Land is not depreciated.

Property, plant and equipment are reviewed for impairment as described in Note 2(f)(i).

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with the carrying amount and are included in profit or loss in the statement of comprehensive income. 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
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 the asset of three to five years.

(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.

Hardware & Lumber Limited

Notes to the Financial Statements
31 December 2014
(expressed in Jamaican dollars unless otherwise indicated)

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 cash equivalents 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).

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.

The fair values of the company's financial assets are discussed in Note 3(e) and impairment is discussed in Note 2(f)(ii).

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 adjustments to the basis of provisioning.

(i) Trade and other receivables

Trade and other receivables are amounts due from third parties 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 and other 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 costs directly attributable to the issue of new shares are included in equity as a deduction from proceeds.

(l) Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired inthe ordinary course of business from suppliers. Payables 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 and other 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 participated in a defined benefit pension plan operated by Grace. The plan was generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. During the prior year the company terminated its participation in the defined benefit plan operated by Grace.

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 the defined benefit pension plan was the present value of the defined benefit obligation at the statement of financial position date less the fair value of plan assets. The defined benefit obligation was calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation was determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that were denominated in the currency in which the benefits would have been paid, and that had terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions were charged or credited to equity in other comprehensive income in the period in which they arose.

Past-service costs were recognised immediately in the profit and loss in the statement of comprehensive income.

For the defined contribution plan, the company pays contributions to privately administered pension insurance plans on a contractual basis. The company has no further payment obligations once the contributions have been paid. The contributions are charged to the profit and loss in the statement of comprehensive income in the period to which they relate.

Hardware & Lumber Limited

Notes to the Financial Statements
31 December 2014
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(o) Employee benefits (continued)

(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 reserve 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 weighted average price of the shares on the Jamaica Stock Exchange for the previous ten (10) trading days before the grant date and are exercisable at that price.The grant price to other employees is the weighted average price of the shares on the Jamaica Stock Exchange for the previous ten (10) trading days before the date on which the grant of options is approved by the Board, with a 25% discount.

Options are exercisable beginning one year from the date of grant and have a contractual option term of six years.

(iii) Termination obligations

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

(iv) Other post-employment obligations

The company provides post-employment health care benefits to its retirees. 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 an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. 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.

Hardware & Lumber Limited

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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. Wholesale sales are primarily granted on credit.

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.

Hardware & Lumber Limited

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3. Financial Risk Management

The company's activities expose it to a variety of financial risks: credit risk liquidity risk and market risk (including currency risk and cash flow interest rate 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 to oversee 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.

(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.

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Credit review process
The company has established a credit quality review process and has credit policies and procedures which require regular analysis of the ability of credit customers and other counterparties to meet interest, capital and other repayment obligations.

(i) Trade and other receivables
The company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. 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 business 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. 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

	2014 $'000	2013 $'000
Credit risk exposures are as follows:		
Trade receivables (Note 17)	379,774	318,684
Other receivables (Note 17)	144,364	70,991
Group companies (Note 18)	702	1,685
Cash and cash equivalents (Note 19)	152,015	417,891
	676,855	809,251

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

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)

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

Trade receivables that are less than 90 days past due are not considered impaired. As at 31 December 2014, trade receivables totalling $140,839,000 (2013 - $120,258,000) 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:

	2014 $'000	2013 $'000
1 to 30 days past due	100,831	80,573
31 to 60 days past due	27,124	28,131
Over 60 days past due	12,884	11,554
	140,839	120,258

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

As at 31 December 2014, trade receivables of $83,660,000 (2013 - $62,886,000) were past due and impaired. The amount of the provision was $68,735,000 (2013 – $54,962,000). The individually impaired receivables mainly relate to wholesalers and developers 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:

	2014 $'000	2013 $'000
91 to 120 days past due	7,873	4,889
Over 120 days past due	75,787	57,997
	83,660	62,886

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)

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

	2014 $'000	2013 $'000
At 1 January	54,962	28,822
Provision for receivables impairment	21,711	32,791
Recoveries	(7,938)	(6,651)
At 31 December	68,735	54,962

The creation and release of provisions 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:

	2014 $'000	2013 $'000
Agriculture, fishing and mining	102,114	101,137
Construction and real estate	70,104	60,765
Wholesalers	220,453	159,365
Retail distributors and others	55,838	52,379
	448,509	373,646
Less: Provision for credit losses	(68,735)	(54,962)
	379,774	318,684

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.

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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 2014:					
Financial liabilities					
Trade payables	640,603	319,740	163,657	-	1,124,000
Other payables	144,941	-	-	-	144,941
Group companies	2,694	-	-	-	2,694
Short term loans	13,999	-	-	-	13,999
Long term loans	-	32,333	88,263	135,371	255,967
	802,237	352,073	251,920	135,371	1,541,601

	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 2013:					
Financial liabilities					
Trade payables	196,353	552,826	-	-	749,179
Other payables	111,662	-	-	-	111,662
Group companies	1,868	-	-	-	1,868
Short term loans	13,648	-	-	-	13,648
Long term loans	-	32,820	140,832	250,597	424,249
	323,531	585,646	140,832	250,597	1,300,606

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

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3. Financial Risk Management (Continued)

(c) Market risk

The company takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk mainly arises 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 United States (US) dollar. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.The statement of financial position at 31 December 2014 includes aggregate net foreign liabilities of $809,326,000 (2013 - $259,711,000) in respect of such transactions.

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.

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

	% Change in Currency Rate 2014	Effect on Profit before Tax 2014 $'000	% Change in Currency Rate 2013	Effect on Profit before Tax 2013 $'000
Devaluation	10	(80,933)	15	(38,957)
Revaluation	1	8,093	1	2,597

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3. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk

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

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

The following tables summarises the company's exposure to interest rate risk. It includes the company's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Non-Interest Bearing $'000	Total $'000
At 31 December 2014:						
Financial assets						
Trade receivables	-	-	-	-	379,774	379,774
Other receivables	-	-	-	-	144,364	144,364
Group companies	-	-	-	-	702	702
Cash and cash equivalents	149,528	-	-	-	2,487	152,015
Total financial assets	149,528	-	-	-	527,327	676,855
Financial liabilities						
Trade payables	-	-	-	-	1,124,000	1,124,000
Other payables	-	-	-	-	144,941	144,941
Short term loans	13,910	-	-	-	-	13,910
Group companies	-	-	-	-	2,694	2,694
Long term loans	-	26,923	75,000	125,000	-	226,923
Total financial liabilities	13,910	26,923	75,000	125,000	1,271,635	1,512,468
Total interest repricing gap	135,618	(26,923)	(75,000)	(125,000)	(744,308)	(835,613)

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3. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Non-Interest Bearing $'000	Total $'000
At 31 December 2013:						
Financial assets						
Trade receivables	-	-	-	-	318,684	318,684
Other receivables	-	-	-	-	70,991	70,991
Group companies	-	-	-	-	1,685	1,685
Cash and cash equivalents	182,168	192,393	-	-	43,330	417,891
Total financial assets	182,168	192,393	-	-	434,690	809,251
Financial liabilities						
Trade payables	-	-	-	-	749,179	749,179
Other payables	-	-	-	-	111,662	111,662
Short term loans	13,434	-	-	-	-	13,434
Group companies	-	-	-	-	1,868	1,868
Long term loans	-	28,430	116,667	225,000	-	370,097
Total financial liabilities	13,434	28,430	116,667	225,000	862,709	1,246,240
Total interest repricing gap	168,734	163,963	(116,667)	(225,000)	(428,019)	(436,989)

Interest rate sensitivity
All the company's loans and cash and cash equivalents are at fixed rates, accordingly, they are not sensitive to changes in prevailing interest rates.

Hardware & Lumber Limited

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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 (Note 28).

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 cash equivalents. 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:

	2014 $'000	2013 $'000
Total borrowings	240,833	383,531
Less: Cash and cash equivalents	(152,015)	(417,891)
Net debt	88,818	(34,360)
Total equity	1,424,577	1,176,722
Total capital	1,513,395	1,142,362
Gearing ratio	6%	(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.

Financial instruments that, subsequent to initial recognition, are measured at fair value are grouped into levels 1 to 3 based on the degree to which the fair values are observable, as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The amounts included in the financial statements for cash and cash equivalents, trade and other receivables, group companies, short term loans 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.

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3. Financial Risk Management (Continued)

(e) Fair value of financial instruments (continued)

Non-financial assets carried at fair value include property, plant and equipment, which fall within level 3 of the fair value hierarchy. The valuation has been performed using the sales comparison approach. There have been a limited number of similar sales in the local market, and consequently the sales comparison approach incorporates unobservable inputs, which in the valuator's judgement reflects suitable adjustments regarding size, age, condition, time of sale and quality of land, buildings and improvements. The most significant input into this valuation is the price per square foot. The higher the price per square foot the higher the fair value.

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 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.

Post-employment obligations
The cost of these benefits and the present value of the 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 retirement benefits include 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 retirement benefits. 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 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 retirement benefit 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. Past experience has shown that actual medical costs have increased on average by one time the rate of inflation. Other key assumptions for the retirement benefits cost and credits are based in part on current market conditions. Additional assumptions and sensitivity information is disclosed in Note 15.

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4. Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

Deferred tax asset
A net deferred tax asset of approximately $66,794,000 (2013 - $59,474,000) has been recognised in the financial statements as management is of the view that sufficient future taxable profits will be available to fully utilise the asset given the company's profitability. The recoverability of the deferred tax asset will be reassessed at each reporting date.

Income taxes
Significant judgement is required in determining the provision for income taxes. There are some 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.

Revaluation of freehold land and buildings
Freehold land and buildings are carried in the statement of financial position at fair value. The company uses independent qualified property appraisers to value its land and buildings every two years, generally with reference to market prices. This approach takes into consideration various assumptions and factors including the nature, location and condition of the properties and recent comparable sales. Changes in these assumptions and factors could have an impact on the valuation of the properties.

Depreciable assets
Estimates of the useful life and residual value of property, plant and equipment are required in order to apply an adequate rate of transferring the economic benefits embodied in these assets in the relevant periods. The company applies a variety of rates in an effort to arrive at these depreciation estimates. Any changes in the useful lives and residual values may have an impact on the depreciation charge.

Hardware & Lumber Limited

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5. Segment Information

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

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

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. These two segments represent 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: household, hardware and building products and agricultural products and equipment. The household, hardware and building products segments sells mainly household "do it yourself" items along with cement, lumber and heavy 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.

	2014		
	Household Hardware and Building Products	**Agricultural Products and Equipment**	**Total**
	$'000	**$'000**	**$'000**
External operating revenue	5,296,481	1,841,097	7,137,578
Profit from operations	40,068	244,584	284,652
Interest expense	(22,155)	(7,769)	(29,924)
Profit before tax	17,913	236,815	254,728
Other segment disclosures -			
Interest income	2,726	939	3,665
Depreciation and amortisation	42,153	9,822	51,975
Capital expenditure (*)	84,838	13,705	98,543

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5. Segment Information (Continued)

No single customer accounted for 10% or more of total revenues of the company either in 2014 or in 2013.

	2013		
	Household Hardware and Building Products	Agricultural Products and Equipment	Total
	$'000	$'000	$'000
External operating revenue	5,004,489	1,806,110	6,810,599
Profit from operations	480,565	383,905	864,470
Interest expense	(34,356)	(12,397)	(46,753)
Profit before tax	446,209	371,508	817,717
Other segment disclosures -			
Interest income	4,389	1,530	5,919
Depreciation and amortisation	(37,296)	(10,459)	(47,755)
Capital expenditure (*)	24,271	14,789	39,060

(*) Included in these balances are amounts transferred from inventory of $11,644,000 (2013 - $8,848,000).

6. Other Operating Income

	2014	2013
	$'000	$'000
Loss on sale of property, plant and equipment	(58)	(2,324)
Rental income	2,618	1,834
Interest income	3,665	5,919
Purchase rebate	35,262	22,448
Agent commission	4,673	8,631
Write back of credits in accounts receivable	22,113	-
Foreign exchange gains	15,557	21,025
Other	10,708	7,222
	94,538	64,755

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7. Expenses by Nature

Total cost of sales, direct and administrative expenses

	2014 $'000	2013 $'000
Advertising and marketing	42,013	40,563
Auditors' remuneration	7,604	7,804
Bags and straps	9,349	8,471
Cost of inventories recognised as expenses	5,335,925	4,957,764
Demurrage	282	(1,475)
Depreciation and amortisation	51,975	47,755
Equipment rental	9,946	10,228
Freight	108,866	99,528
Impairment charge for receivables	13,748	26,140
Insurance	70,388	67,413
Licences and taxes	20,111	12,292
Occupancy – rent, utilities, etc.	329,601	313,966
Parent company charges (Note 18(e))	55,111	57,666
Processing and facility	46,310	44,171
Professional and contractual	162,537	158,851
Repairs, maintenance and renewals	39,941	44,783
Security	46,552	44,660
Staff costs (Note 8)	516,084	(11,333)
Stationery and computer expense	42,030	67,637
Other	39,091	14,000
	6,947,464	6,010,884

The prior year administrative expenses totaled $408,076,000; however, this balance was reduced by the pension credit for $502,491,000 (Note 8) thus resulting in the administrative expenses being a credit of $94,415,000.

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8. Staff Costs

	2014 $'000	2013 $'000
Wages and salaries	348,170	338,534
Payroll taxes, employer's contribution	38,194	36,655
Pension credit – defined benefit plan (Note 15)	-	(502,491)
Contribution to defined contribution plan (Note 15)	26,166	7,297
Other retirement benefits (Note 15)	37,367	44,162
Staff welfare	62,035	58,067
Gratuity	3,947	2,247
Stock option expense (Note 26)	-	298
Redundancy costs	205	3,898
	516,084	(11,333)

9. Finance Cost

	2014 $'000	2013 $'000
Interest expense	29,924	46,753

10. Taxation

Taxation is based on the profit for the year adjusted for taxation purposes and comprises:

	2014 $'000	2013 $'000
Current income tax charge	53,535	54,863
Deferred tax (Note 14)	(16,123)	152,891
	37,412	207,754

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10. Taxation (Continued)

The actual tax expense differs from the theoretical amount as follows:

	2014 $'000	2013 $'000
Profit before tax	254,728	817,717
Tax calculated at 25%	63,682	204,429
Adjusted for the effects of:		
Employment tax credit	(23,302)	-
Effect of change in tax rate	-	7,156
Adjustment to prior year deferred tax	(2,869)	(2,506)
Expenses not deductible for tax purposes	526	983
Income not subject to tax	(36)	(185)
Net effect of other charges and allowances	(589)	(2,123)
Taxation	37,412	207,754

During the 2014/15 budget presentation, the Government of Jamaica announced the following:

An Employment tax credit (ETC) is now available to unregulated entities. These entities are now able to claim a credit of up to a maximum of 30% of the tax liability resulting from trading income, if statutory deductions (employee and employer) are paid in full by the due date. This has the potential to reduce the effective tax rate. The ETC is not available to carry forward. There are some provisions for the credit to be restricted based on dividend payments and/or other distributions. The company has recognised an employment tax credit in the amount of $23,302,000.

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.

	2014	2013
Net profit attributable to stockholders ($'000)	217,316	609,963
Number of stock units in issue ('000)	80,842	80,842
Earnings per stock unit ($)	2.69	7.55

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12. Property, Plant and Equipment

2014

	Freehold Land $'000	Freehold Buildings $'000	Furniture and Office Equipment $'000	Leasehold Improvements $'000	Equipment and Scaffolding $'000	Vehicles and Forklift Trucks $'000	Construction in Progress $'000	Total $'000
Cost or Valuation -								
1 January 2014	220,000	227,456	386,691	208,580	102,534	7,716	11,193	1,164,170
Additions	-	12,410	14,207	9,070	14,814	-	47,855	98,356
Revaluation	30,000	21,581	-	-	-	-	-	51,581
Disposals	-	-	(96)	-	-	-	-	(96)
Transfers	-	18,553	11,303	24,432	-	-	(54,288)	-
31 December 2014	250,000	280,000	412,105	242,082	117,348	7,716	4,760	1,314,011
Depreciation -								
1 January 2014	-	4,549	331,999	133,590	77,510	7,716	-	555,364
Charge for the year	-	5,168	18,886	15,116	7,612	-	-	46,782
Revaluation	-	(9,717)	-	-	-	-	-	(9,717)
Relieved on disposals	-	-	(38)	-	-	-	-	(38)
31 December 2014	-	-	350,847	148,706	85,122	7,716	-	592,391
Net Book Value -								
31 December 2014	250,000	280,000	61,258	93,376	32,226	-	4,760	721,620

2013

	Freehold Land $'000	Freehold Buildings $'000	Furniture and Office Equipment $'000	Leasehold Improvements $'000	Equipment and Scaffolding $'000	Vehicles and Forklift Trucks $'000	Construction in Progress $'000	Total $'000
Cost or Valuation -								
1 January 2013	220,000	220,000	391,496	208,536	101,676	7,716	-	1,149,424
Additions	-	7,456	8,038	8,355	3,736	-	11,193	38,778
Disposals	-	-	(12,843)	(8,311)	(2,878)	-	-	(24,032)
31 December 2013	220,000	227,456	386,691	208,580	102,534	7,716	11,193	1,164,170
Depreciation -								
1 January 2013	-	-	324,166	129,257	72,555	7,716	-	533,694
Charge for the year	-	4,549	19,629	11,937	6,564	-	-	42,679
Relieved on disposals	-	-	(11,796)	(7,604)	(1,609)	-	-	(21,009)
31 December 2013	-	4,549	331,999	133,590	77,510	7,716	-	555,364
Net Book Value -								
31 December 2013	220,000	222,907	54,692	74,990	25,024	-	11,193	608,806

12. Property, Plant and Equipment (Continued)

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

	2014		2013	
	Freehold Land $'000	Freehold Buildings $'000	Freehold Land $'000	Freehold Buildings $'000
Cost	45,000	184,298	45,000	153,335
Accumulated depreciation	-	33,308	-	29,622
Net book value	45,000	150,990	45,000	123,713

Freehold land and buildings are stated at fair value, as appraised by D.C. Tavares & Finson Realty Company Limited, independent qualified real estate brokers and appraisers in November 2014. Fair 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 gain of $53,473,000, net of applicable deferred income taxes, was credited to other comprehensive income. All other property, plant and equipment are stated at cost.

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13. Intangible Assets

	2014		
	Computer Software $'000	**Computer Software Work in Progress $'000**	**Total $'000**
Cost -			
1 January 2014	254,144	282	254,426
Additions	187	-	187
Transfers	282	(282)	-
31 December 2014	254,613	-	254,613
Amortisation -			
1 January 2014	247,367	-	247,367
Amortisation charge for the year	5,193	-	5,193
31 December 2014	252,560	-	252,560
Net Book Value -			
31 December 2014	2,053	-	2,053

	2013		
	Computer Software $'000	**Computer Software Work in Progress $'000**	**Total $'000**
Cost -			
1 January 2013	254,144	-	254,144
Additions	-	282	282
31 December 2013	254,144	282	254,426
Amortisation -			
1 January 2013	242,291	-	242,291
Amortisation charge for the year	5,076	-	5,076
31 December 2013	247,367	-	247,367
Net Book Value -			
31 December 2013	6,777	282	7,059

The amortisation charges of $327,000 and $4,866,000 (2013 - $336,000 and $4,740,000) are included in direct and administrative expenses, respectively, in the profit or loss in the statement of comprehensive income.

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14. Deferred Income Taxes

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

	2014 $'000	2013 $'000
Net asset at beginning of year	59,474	193,575
Credit/(charge) to profit or loss (Note 10)	16,123	(152,891)
(Charge)/credit to other comprehensive income	(8,803)	18,790
Net asset at end of year	66,794	59,474

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:

	2014 $'000	2013 $'000
Deferred income tax assets:		
Interest payable	481	858
Provision for warranties	-	155
Accrued vacation	2,081	2,050
Stock option expense	1,314	1,314
Bad debt general provision	637	216
Retirement benefit obligations	86,700	81,390
	91,213	85,983
Deferred income tax liabilities:		
Unrealised foreign exchange gains	(515)	(2,673)
Property, plant and equipment	(23,904)	(23,836)
	(24,419)	(26,509)
Net asset	66,794	59,474
Deferred tax assets to be recovered after more than one year	86,700	81,390
Deferred tax liabilities to be settled after more than one year	(23,904)	(23,836)

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14. Deferred Income Taxes (Continued)

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

	2014 $'000	2013 $'000
Deferred income tax assets:		
Statutory tax loss	-	(42,985)
Interest payable	(377)	(633)
Provision for warranties	(155)	-
Accrued vacation	31	(1,136)
Stock option expense	-	75
Bad debt general provision	421	97
Retirement benefit obligations	6,288	(108,646)
	6,208	(153,228)
Deferred income tax liabilities:		
Unrealised foreign exchange gains	2,158	(1,590)
Property, plant and equipment	7,757	1,927
	9,915	337
Net deferred tax charged to the profit or loss in the statement of comprehensive income	16,123	(152,891)

The following table reflects the deferred tax effect on items (charged)/credited to other comprehensive income:

	Before Tax $'000	Tax $'000	After Tax $'000
		2014	
Fair value gain on revaluation of land and buildings (Note 25)	61,298	(7,825)	53,473
Remeasurement of retirement benefit obligation (Note 15)	3,913	(978)	2,935
	65,211	(8,803)	56,408
		2013	
Remeasurement of retirement benefit obligation (Note 15)	(112,564)	18,790	(93,774)

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15. Retirement Benefits

	2014 $'000	2013 $'000
Liabilities recognised in the statement of financial position –		
Retirement benefit obligation - medical benefits	(346,802)	(325,562)
Amounts recognised in the profit or loss in the statement of comprehensive income (Note 8) –		
Retirement benefit obligation - pension plan	-	(502,491)
Retirement benefit obligation - medical benefits	37,367	44,162
Amounts recognised in the other comprehensive income (Note 14) –		
Retirement benefit obligation - pension plan	-	(101,082)
Retirement benefit obligation - medical benefits	3,913	(11,482)
	3,913	(112,564)

Pension plan benefits

In November 2013 the Board of Directors took the decision to exit the defined benefit pension plan operated by Grace for all permanent employees who were employed prior to 1 April 2010. As a result of this decision the obligations in relation to the defined benefit pension plan was extinguished in the prior year.

The company participates in the defined contribution pension plan started by Grace and administered by Proven Investment Limited, which is open to all 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 $26,166,000 (2013 - $7,297,000) (Note 8).

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

	2014 $'000	2013 $'000
At beginning of year	-	741,380
Interest income	-	75,405
Remeasurement of the plan assets	-	(45,147)
Contributions	-	20,401
Reallocation of plan assets	-	(430,286)
Benefits paid	-	(65,739)
Asset transfer due to curtailment	-	(296,014)
At end of year	-	-

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15. Retirement Benefits (Continued)

Pension plan benefits (continued)

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

	2014 $'000	2013 $'000
At beginning of year	-	1,142,856
Current service cost	-	61,473
Interest cost	-	121,877
Remeasurements -		
Gain due to change in financial assumptions	-	34
Experience gains/(losses)	-	55,900
Benefits paid	-	(65,739)
Curtailment	-	(1,316,401)
At end of year	-	-

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

	2014 $'000	2013 $'000
Current service cost	-	41,138
Interest cost	-	121,877
Interest income	-	(75,405)
Reallocation of plan assets	-	726,300
Curtailment	-	(1,316,401)
Total included in staff costs (Note 8)	-	(502,491)

In the prior year a credit of $502,491,000 was included in administrative expense in the profit or loss in the statement of comprehensive income.

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15. Retirement Benefits (Continued)

Medical and other benefits
In addition to pension benefits, the company offers retirees medical and other benefits. Funds are not built up to cover the obligations under these benefit plans. 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 positionwas determined as follows:

	2014 $'000	2013 $'000
Present value of unfunded obligations	346,802	325,562

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

	2014 $'000	2013 $'000
At beginning of year	325,562	283,510
Current service cost	15,093	13,632
Past service cost	(7,911)	-
Interest cost	30,183	30,530
Actuarial (gains)/losses on obligations	(3,913)	11,482
Benefits paid	(12,212)	(13,592)
At end of year	346,802	325,562

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

	2014 $'000	2013 $'000
Current service cost	15,095	13,632
Past service cost	(7,911)	-
Interest cost	30,183	30,530
Total included in staff costs (Note 8)	37,367	44,162

The total charge of $37,367,000 (2013 – $44,162,000) was included in administrative expenses in the profit or loss in the statement of comprehensive income.

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15. Retirement Benefits (Continued)

Medical and other benefits (continued)

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

	2014 $'000	2013 $'000
Gratuity Plan	41,357	44,565
Group Life Plan	49,029	47,091
Insured Group Health	95,974	80,178
Self Insured Health Plan	117,716	110,882
Supplementary Pension Plan	42,726	42,846
Liability in the statement of financial position	346,802	325,562

Risks associated with pension plans and post-employment plans

Through its post-employment obligation plans, the company is exposed to a number of risks, the most significant of which are detailed below:

Inflation risk

Higher inflation will likely lead to higher liabilities.

Life expectancy

The majority of the plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plan's liabilities. This is particularly significant, where inflationary increases result in higher sensitivity to changes in life expectancy.

The weighted average duration of the obligation in years is as follows:

	2014
Gratuity Plan	10.1
Group Life Plan	14.2
Insured Group Health	19.1
Self Insured Health Plan	12.9
Supplementary Pension Plan	7.1

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15. Retirement Benefits (Continued)

Principal actuarial assumptions used in valuing retirement benefits

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

	2014	**2013**
Discount rate	9.5%	9.5%
Long term rate of inflation	5.5%	5.5%
Future salary increases	6.0%	6.0%
Future pension increases	5.5%	5.5%
Medical cost trend rate	7.0%	7.0%

The average life expectancy in years of a pensioner retiring at age 60 is 23 and 26 years for males and females, respectively (2013 - 23 and 26 years for males and females).

Assumptions regarding future mortality experience are set based on advice, published statistics and experience.

The sensitivity of the defined benefit obligation in respect of the Insured Group Health and Self-insured Health plans (the most significant plans) to changes in the principal assumptions is:

	Impact on defined benefit obligation – medical benefits		
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
		$'000	**$'000**
Discount rate	1%	(27,812)	34,960
Medical cost rate	1%	35,476	(28,611)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the retirement benefit obligation recognised within the statement of financial position.

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16. Inventories

	2014 $'000	2013 $'000
Merchandise	1,731,488	1,120,516
Provision for obsolescence	(136,875)	(131,370)
	1,594,613	989,146
Goods in transit	203,382	244,192
	1,797,995	1,233,338

The cost of inventory written off during the year amounted to $42,807,000 (2013 - $40,342,000).

17. Trade and Other Receivables

	2014 $'000	2013 $,000
Trade	448,509	373,646
Provision for impairment	(68,735)	(54,962)
	379,774	318,684
Prepayments	84,877	108,657
Other	144,364	70,991
	609,015	498,332

Other receivables includes General Consumption Tax recoverable (GCT) of $66,049,000 (2013 – GCT payable of $4,120,000).

18. Group Companies and Other Related Party Transactions and Balances

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

	2014 $'000	2013 $'000
Due to Grace	-	(430)
Due to fellow subsidiaries	(2,694)	(1,438)
	(2,694)	(1,868)
Due from Grace	9	263
Due from fellow subsidiaries	693	1,422
	702	1,685

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 2014. The receivable balances were not interest bearing. There were no provisions held against receivables from group companies.

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

(b) Due (to)/from other related parties

	2014 $'000	2013 $'000
Due from directors and key management	475	795
Due from other related parties	103	107
	578	902

The amounts due from directors, key management and other related parties arose from sales transactions and are included receivables in the statement of financial position. The receivable balances were not interest bearing and there were no provisions held against these receivables.

(c) Loans from fellow subsidiary

	2014 $'000	2013 $'000
Long term loans (Note 23)	-	3,250
Interest payable on long term loans (Note 23)	-	65
	-	3,315

(d) Dividends

	2014 $'000	2013 $'000
Dividends proposed and payable	25,869	24,253

The company declared dividends to its shareholders as disclosed in Note 28. Amounts payable at the year end are included in other payables in the statement of financial position.

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

	2014 $'000	2013 $'000
Income:		
Rental charges -		
Fellow subsidiaries	1,457	1,235
Commissions		
Fellow subsidiaries	4,673	8,631
Sales -		
Fellow subsidiaries	6,350	2,061
Parent company	1,042	1,235
Directors and key management	3,217	3,672
Other related parties	1,015	759
	11,624	7,727
Interest income -		
Fellow subsidiary	2,527	3,767
Parent company	50	51
	2,577	3,818

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

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

	2014 $'000	2013 $'000
Expenses:		
Purchases -		
Fellow subsidiaries	8,076	7,799
Parent company	2,881	4,431
	10,957	12,230
Payroll cost -		
Parent company	-	10,477
Interest expense -		
Fellow subsidiaries	165	679
Key management compensation -		
Salary and wages and other short term benefits	41,242	48,576
Directors' emoluments -		
Fees	4,385	4,185
Management remuneration (included above)	6,480	20,892
	10,865	25,077
Property and equipment rental -		
Fellow subsidiary	-	6,873
Other related parties	14,374	13,920
	14,374	20,793
Insurance expense -		
Fellow subsidiary	67,813	65,639
Other charges -		
Parent company	55,111	57,666

Payroll cost represented charges by Grace for preparation of the fortnightly and month payroll on behalf of the company for which 4% of the payroll was charged as an administration fee. In 2014, the company took a decision to prepare its own fortnightly and monthly payroll.

Interest expense resulted from loan facilities offered to the company by fellow subsidiaries (Note 23).

Key management includes the Chief Executive Officer, Chief Financial Officer and the general managers of the main business segments.

Other charges relate to various services provided by Grace exclusively to its subsidiaries and associated companies.

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19. Cash and Cash Equivalents

Cash and cash equivalents comprise the following:

	2014 $'000	2013 $'000
Cash on hand and at bank	152,015	225,498
Short term deposits	-	192,393
	152,015	417,891

The weighted average interest rate on short term deposits was 2.8%.

20. Trade and Other Payables

	2014 $'000	2013 $'000
Trade	1,124,000	749,179
Accruals	77,476	71,316
Other	144,941	111,662
	1,346,417	932,157

21. Provisions

	2014 $'000	2013 $'000
Balance at beginning of year	618	618
Additional provisions	-	58
Amounts reversed	(618)	-
Utilised during the year	-	(58)
Balance at end of year	-	618

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

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22. Short Term Loans

	2014 $'000	2013 $'000
Sagicor Bank Limited	-	13,434
Bank of Nova Scotia Jamaica Limited	13,910	-
	13,910	13,434

The loans represent insurance premium financing and attract fixed interest rates at 7.6% (2013 – 7.8%). The loans, which are denominated in Jamaican dollars, are unsecured and repayable within one month of the year end.

23. Long Term Loans

	2014 $'000	2013 $'000
(a) National Commercial Bank Jamaica Limited	225,000	325,000
(b) Commercial paper	-	41,667
	225,000	366,667
Interest payable	1,923	3,430
	226,923	370,097
Current portion	(101,923)	(145,097)
	125,000	225,000

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

(b) This facility was arranged by First Global Financial Services Limited. It was denominated in Jamaican dollars. The annual interest rate was 10.05% per annum. The loan was repaid in 2014. Allied Insurance Brokers Limited (Allied), a fellow subsidiary, participated in this facility. The balance owed to Allied at 31 December 2013 was $3,250,000.

All long term loans are unsecured. The prior year interest payable included an amount of $65,000 due to related parties.

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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

	2014 $,000	2013 $,000
Revaluation reserve	352,715	299,242
Other	6,100	6,100
	358,815	305,342
At beginning of year	305,342	305,342
Revaluation gain (Note 12)	61,298	-
Deferred taxation (Note 14)	(7,825)	-
At end of year	358,815	305,342

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 revaluation reserve that relates to that asset, and that is effectively realised, is transferred directly to retained earnings.

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26. Other Reserve

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:

	2014 **'000**	**2013** **'000**
At beginning of year	79	99
Forfeited/expired	-	(20)
At end of year	79	79

All options in respect of other permanent employees have expired or been forfeited.

The value of all options at the end of the year was $5,259,000 (2013 – $5,259,000). The significant inputs into the model were the weighted average share price of $51.00 at the grant dates, exercise price of $50.83, standard deviation of expected share price returns of 33.2%, option life of six years and risk-free interest rates of 7.48%. 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. The expense recognised in profit or loss in the statement of comprehensive income is nil (2013 - $298,000).

27. Commitments and Guarantees

(a) Letter of credit
The company has a letter of credit facility with First Caribbean International Bank of US$750,000 as at 31 December 2014 (2013 – US$750,000). These facility expires within one year.

(b) Guarantee
Scotiabank Jamaica Limited has guaranteed $5,000,000 on behalf of the company in favour of Collector of Customs.

(c) Operating lease commitments
The company leases various retail outlets and a distribution centre under non-cancellable operating lease agreements. The minimum lease payment for 2014 was $216,417,000 (2013 -$200,356,000). The leases expire between 2014 and 2021 with renewal options at the end of the lease periods. Included in lease payments for 2014 are amounts totaling $73,654,000 (2013 - $48,467,000) for locations whose leases expired within the year for which the new lease agreements have not been finalised.

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

	2014 **$'000**	**2013** **$'000**
No later than 1 year	130,164	98,870
Later than 1 year and no later than 5 years	312,789	248,841
Over five years	23,352	96,770
	466,305	444,481

Hardware & Lumber Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

28. Ordinary Dividends

	2014 $'000	2013 $'000
30.0 cents per stock unit – 2 December 2013	-	24,253
32.0 cents per stock unit – 18 December 2014	25,869	-
	25,869	24,253

The Board declared dividends of $0.32 per ordinary share on 18 December 2014 in relation to the 2014 financial year. Accordingly, these financial statements reflect this resolution. The amounts were paid on 23 January 2015.