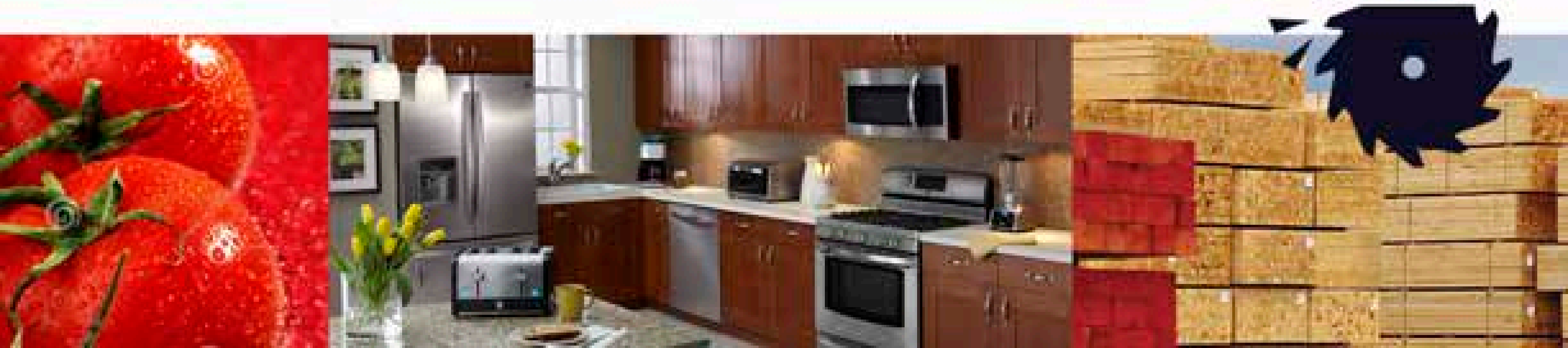
Hardware & Lumber Ltd

2014
ANNUAL REPORT

RAPID True Value
Everything you need to...
BUILD. RENOVATE. DECORATE.

AGROGRACE
Your Complete Farm & Garden Centre



Our VISION

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

Our MISSION

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

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Ten Year
FINANCIAL REVIEW

	2014	2013	2012	2011	2010
REVENUE -J$'000	7,137,578	6,810,599	6,284,052	6,055,922	5,728,987
NET PROFIT/(LOSS) - J$'000	217,316	609,963	2,812	6,296	19,341
STOCKHOLDERS' EQUITY - J$'000	1,424,577	1,176,722	684,488	962,041	951,501
NET CURRENT ASSETS - J$'000	1,105,912	1,051,945	920,945	614,526	397,073
EARNINGS/(LOSS) per STOCK UNIT	$ 2.69	$ 7.55	$ 0.03	$ 0.08	$ 0.24
DIVIDENDS per STOCK UNIT	$ 0.32	$ 0.30	$ 0.125	$ 0.00	$ 0.00

	2009	2008	2007	2006	2005
REVENUE -J$'000	5,940,599	6,788,162	6,648,066	5,597,276	5,332,857
NET PROFIT/(LOSS) - J$'000	(225,762)	(259,956)	133,550	37,718	20,268
STOCKHOLDERS' EQUITY - J$'000	903,747	1,119,168	1,211,266	1,103,500	1,065,782
NET CURRENT ASSETS - J$'000	421,870	607,265	839,635	686,629	625,223
EARNINGS/(LOSS) per STOCK UNIT	($ 2.79)	($ 3.21)	$ 1.65	$ 0.47	$ 0.26
DIVIDENDS per STOCK UNIT	$ 0.00	$ 0.00	$ 0.32	$ 0.00	$ 0.00

Notice of Annual GENERAL MEETING

Notice is hereby given that the Eighty-Seventh Annual General Meeting of Hardware & Lumber Limited will be held at the Registered Office, 697 Spanish Town Road, Kingston 11 on Monday June 8, 2015 at 10:30 a.m. for the following purposes:

1. To receive and consider the Directors' Report and Financial Statements for the year ended December 31, 2014, and the Report of the Auditors thereon.

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

   Resolution 1

   "THAT the Balance Sheet and the Profit and Loss Account together with the Reports of the Directors and the Auditors circulated with the Notice convening the meeting be and are hereby adopted."

2. To elect the Directors and fix their remuneration

   (i) The Directors retiring from office by rotation pursuant to Article 100 of the Articles of Incorporation are Mr. Paul Facey, Mr. Harry Smith, Mr. Gordon Sharp and Mrs. Andrea Lewis Coy and being eligible offer themselves for re-election.

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

   Resolution 2 (a)

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

   Resolution 2 (b)

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

   Resolution 2 (c)

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

   Resolution 2 (d)

   "That retiring Director Mrs. Andrea Lewis Coy be and is hereby re-elected a Director of the Company."

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

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

   Resolution 3 (a)

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

   Resolution 3 (b)

   "THAT the amount of $4,385,000 shown in the accounts for the year ended December 31, 2014 for Directors' fees be and is hereby approved."

4. Dividend

   To declare the interim dividend of $0.32 paid as final for the year ended 2014.

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

   Resolution 4

   "THAT the interim dividend of 32 cents declared on 18 December 2014 and paid on 23 January 2015 to stockholders on record on the close of business on 7 January 2015 be declared as final dividend for the year under review"

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

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

   Resolution 5

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

6. To consider any other business of an Annual General Meeting.

By Order of the Board

Gene M. Douglas
Secretary

Kingston , Jamaica
March 12, 2015

A member entitled to attend and vote at the above-mentioned meeting is entitled to appoint one or more proxies to attend and on a poll to vote instead of him. Such proxy must be lodged at the Company's Registered Office not less than forty-eight hours before the meeting. A proxy need not be a member. A suitable form of proxy is enclosed.

Stockholder's REPORT

The year ended December 31, 2014 was a challenging but successful one for Hardware & Lumber Limited, operator of the Rapid True Value and AgroGrace network of stores. While the company recorded sales growth, the AgroGrace segment which provides solutions to the agricultural sector, was hard hit by one of the worst droughts in Jamaica's recent history. Despite this, the company delivered net profit attributable to shareholders of $217.3 million translating to earnings per stock unit of $2.69. Dividend of 32.0 cents per stock unit was paid. We intend to build on these results in the years ahead in support of our commitment to grow shareholders' value.

	2014	2013 *
Net Profit Attributable to Stockholders	217.3 M	609.9 M
Earnings per Stock Unit	$ 2.69	$ 7.55
Dividends per Stock Unit	32 Cents	30 Cents
Return on Equity	15.3 %	51.8%

*Includes a credit of $ 502.5 million arising from the company's decision to exit the defined benefit pension plan operated by GraceKennedy at November 30,2013.

In 2014 the Jamaican construction industry grew by 1.6% while the country's GDP declined by 1.4%. In an industry where many of the construction inputs are imported, the 7.8% devaluation of the Jamaican dollar resulted in generally higher costs, while the 6.4% inflation rate further reduced purchasing power of our customers. Through the Rapid True Value division, we continued to offer the most comprehensive and cost effective solutions to our builders, contractors, homeowners and "Do-It-Yourselfers". We were also very proud to be the supplier of choice to a wide-cross section of resellers and developers who depend on us to carry quality inventory to fulfill the needs of their customers. We are pleased to report that the performance of the Rapid True Value segment registered increased sales during the year.

The AgroGrace division continued to support the agricultural sector through its expert sourcing and provision of quality seeds, herbicides, pesticides and other agricultural requirements. The upsurge in farming which was evident in the previous year was curtailed by severe drought conditions which resulted in a decline of over 20% in the country's agricultural sector. This unfortunate weather occurrence slowed the sales of all agricultural inputs during the period under review. Notwithstanding that setback, the segment also recorded increased sales over the previous year as planting and crop care activities picked up towards the end of the period.

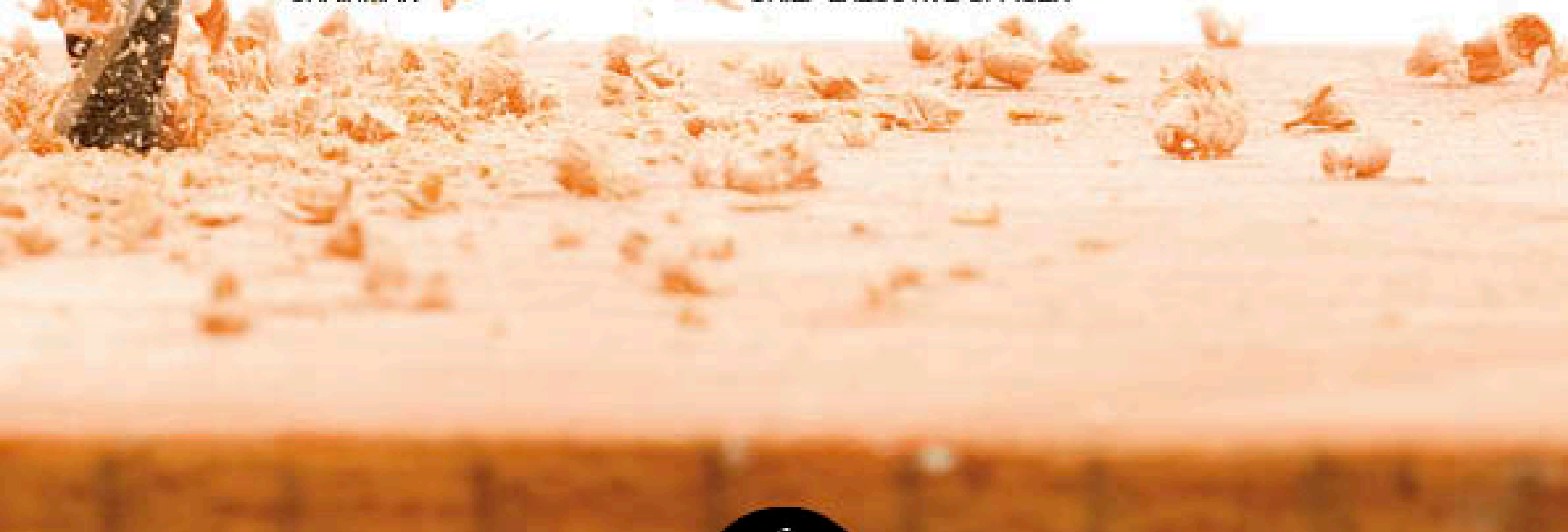
We put our customers first and endeavor to carry the right range of products to meet their changing needs. On an ongoing basis, the portfolio of product offerings are reviewed to ensure that we carry brands which represent quality, strength, durability, style, comfort and effectiveness. Offering value for money has been part of our strategy for success and will continue in the future. Simultaneously, we also train our customer-facing staff to be knowledgeable, friendly and helpful to better serve our customers. This approach to business has allowed us to deliver substantial profit amidst a difficult trading environment.

During the year we continued to improve the locations from which we conducted business to create a more aesthetically pleasing shopping environment for our customers. Included in this was the renovation of Rapid True Value Portmore, being the seventh in the series of upgrades across the Rapid True Value network of stores. We also commenced the renovation of a new location for the AgroGrace Mandeville store which will now be on the same premises as the existing Rapid True Value stores, thereby creating a one-stop location for our valued customers. This integration will result in significant saving for the company. In addition, we have improved our lumber storage facilities to help deliver the consistent quality products for which we are known.

On behalf of the board of directors, we would like to thank all our stakeholders and customers for their invaluable support throughout the year. We also thank our employees for their resilience and commitment to the business and for their contribution to positive results during an extremely challenging period. Together, we will face the journey ahead as we build a stronger business.

ERWIN BURTON
CHAIRMAN

DONNA DORAN
CHIEF EXECUTIVE OFFICER

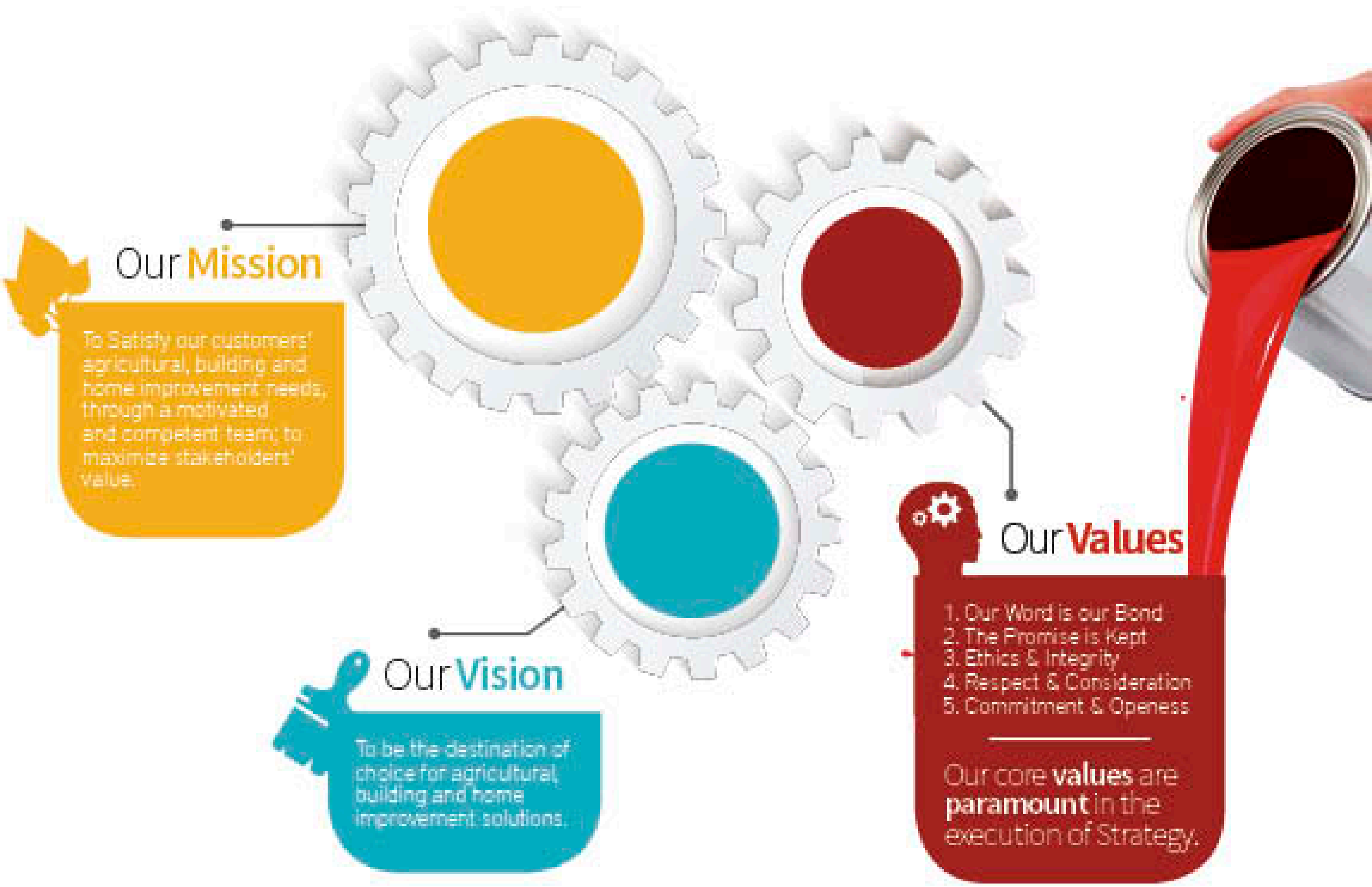


Management DISCUSSION & ANAYLYSIS

1. CORE BUSINESS AND STRATEGY

Core Business

Hardware & Lumber Limited is a Jamaican company retailing and wholesaling building materials, home improvement supplies, household items, public health, horticultural and agricultural products. Our parent company, GraceKennedy Limited, is one of the Caribbean's largest and most dynamic groups. Headquartered in Jamaica, the group now has interests in the United Kingdom, North and Central America, Africa and the Caribbean and it is listed on the stock exchanges of Jamaica and Trinidad and Tobago.



Strategy and Key Performance Drivers

Customer Centricity

The customer remains at the heart of all that we do and as such we will continuously review our product offerings to bring more value to them. We continue to use the findings from our quarterly customer satisfaction surveys to inform the improvements made during the year to enhance the shopping experience. In 2014 we completed the renovation of another Rapid True Value store located in Portmore, St. Catherine. We expanded the offerings in all product categories including tiles, hand and power tools, sanitary ware, lawn and garden supplies. Additionally, we commenced the renovation of a new location for the AgroGrace Mandeville store which is now on the same premises as the existing Rapid True Value store. This created a one-stop location for building, home improvement and agricultural supplies for our valued customers.

In 2014, the company's Human Resource strategy focused on strengthening key areas of the company's organizational capability; enhancing employee engagement, as well as ensuring the welfare of employees, thereby leading to a more productive, focused and motivated workforce. We continued to invest in the training of our team members and in 2014 several product knowledge training exercises were conducted to broaden employees' knowledge of the products which we sell and distribute. We also significantly increased the hours of technical and customer service training utilising in-house talent as well as certified trainers from HEART. This assisted in preparing our employees to offer an exceptional shopping experience to our customers. We will continue to invest in training our employees, so that they are equipped to offer an exceptional level of service to our customers.

People

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

The H.Y.P.E.R.S. (Help Your Peers Enjoy Recreational Synergies) employee-based group, which was formed to organise team activities to foster fun and enjoyment throughout the year, delivered on their mandate in the year. The team hosted several team building activities including a staff fun day and participation in several GraceKennedy staff competitions.

Cost Containment & Efficiency

At Hardware & Lumber we continuously seek ways to improve efficiency. We encourage employees to identify ways in which they can make a positive change. Significant inroads have been realised in eliminating waste, becoming more cost effective and doing things simpler, better and faster. A large part of our business success relies on our ability to have the right goods, in the right place, at the right time and in the right quantities. The key performance indicators (KPIs) which measure the supply chain logistics are tightened in order to improve operational efficiencies, thereby reducing the time taken from "dock to shelf". We also continued to review other relevant business processes, with a view to simplifying the way we work and allowing our staff to be more accessible to our customers.

Working Capital Management

Our business model requires that we manage our working capital as efficiently as possible. We have determined and are guided by an optimum inventory level to satisfy our customers' requirements. Several of our key suppliers are overseas which necessitates that we maintain adequate safety stocks for those items which may not be procured at very short notice. We continue to work with our customers to facilitate prompt payment, from which we accumulate the funds to meet all our financial obligations, including payments to our suppliers.

Performance Measurement

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

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

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

Employee and customer satisfaction levels are routinely measured and initiatives are identified and implemented to improve overall scores.

The company also utilizes a single Enterprise Resource Planning (ERP) software platform to manage and record all transactions. Information from the platform is used for the continuous evaluation of performance in each of our core sectors; this aids in guiding decisions to make changes to the business and/or the business model.

Our Brands:
Our company operates two distinct brands:

RAPID True Value.
Everything you need to...
BUILD. RENOVATE. DECORATE.

Hardware & Lumber Ltd, operates ten Rapid True Value outlets across Jamaica, retailing and wholesaling building materials, home improvement supplies and household items.

AGROGRACE
Your Complete Farm & Garden Centre

Hardware & Lumber Ltd operates five AgroGrace outlets across Jamaica offering technical services, retailing and wholesaling, agricultural, public health and horticultural products.

2. FINANCIAL PERFORMANCE

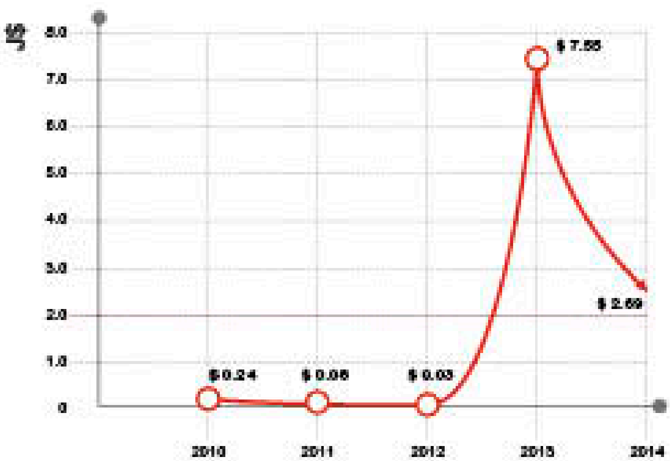
Financial Summary

All Figures in J$ Millions	2014	2013	CHANGE (J$)
Revenues	7,137.6	6,810.6	327.0
Net Profit	217.3	* 609.9	(392.6)
Cash and Cash Equivalents	152.0	417.9	(265.9)
Shareholders' Equity	1,424.6	1,176.7	247.9

* Includes a credit of $ 502.5 Million arising from the company's decision to exit the defined benefit pension plan operated by GraceKennedy on November 30, 2013

Net Profit for the year ended December 31, 2014 was $217.3 million, translating to $2.69 per stock unit. In the previous year, net profit was $609.9 million or $7.55 per sock unit and had included a credit of $502.5 million (included in administrative expenses) arising from the company's decision to exit the defined benefit plan operated by GraceKennedy at November 30, 2013.

Earnings Per Stock Unit ($)

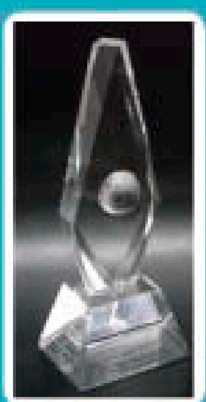


Revenue and Profit/Loss After Tax ($M)

Total revenue for the period ended December 31, 2014 was $7,137.6 million, representing a 4.8% increase over the previous year. Revenue in the household, hardware and building products segment grew by 5.8% to $5,296.5 million, with sales in most divisions registering growth. Revenue in the agricultural products and equipment segment grew by 1.9% to $1,841.1 million; this performance was adversely affected by the prolonged drought in the second and third quarters of the year.

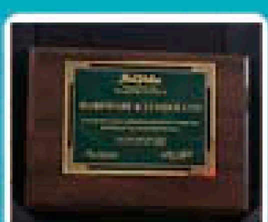
(See Note 5 of the Financial Statement).

Company Performance Awards



Best Practices

Hardware & Lumber Ltd was awarded 1st Runner Up, Best Performing Company on the main market in the Jamaica Stock Exchange's "Best Practice Award", based on the company's results for the year ended December 31, 2013.



Sales & Marketing

Hardware & Lumber Ltd was also recognized by True Value International for outstanding achievement in the Sales and Marketing of True Value Paint Products in 2014.

Appreciation

The AgroGrace division of Hardware & Lumber Ltd. received an award of Appreciation from the Jamaican Fair Trade Certified Cane Farmers' Association. The division was honoured for the outstanding technical support extended to the association in 2013-2014.

Gross Margins:

Total gross profit was $1,683.1 million representing 23.6% of revenue (2013: $1,746.3 million representing 25.6% of revenue), with the reduction in average margins being mainly attributable to significantly reduced sales of agricultural inputs during the extended period of drought.

Direct and Administrative Expenses:

Total administrative expenses for the year amounted to $411.7 million compared to a credit of $94.4 million in 2013, given the one-off pension adjustment of $502.5 million in that year. Excluding that adjustment, expenses would have increased by less than 1% resulting from various cost containment initiatives throughout the year.

On an ongoing basis, operating expenses were monitored and core processes reviewed and improved to deliver greater operational efficiencies. In 2014 most expenses were maintained at previous year's level or lower; however those which were contractually bound, such as lease agreements, freight and haulage costs, security and professional services and contractual costs increased in line with previously signed agreements. Where possible, non-essential and discretionary costs were either reduced or eliminated.

Finance Costs

Finance costs totalled $29.9 million (2013: $46.8 million), down by 36.0%. The loan portfolio is denominated in Jamaican dollars and consists of a short-term insurance premium financing facility and one longer-term loan. During the year, the long-term Commercial Paper facility which was arranged by First Global Financial Services was fully repaid. At the end of the year, only one long-term loan from National Commercial Bank with a balance of $225.0 million was still being serviced by the company (see note 22 and note 23 of the Financial Statements).

Financial Position

Total assets at the year-end was $3,364.8 million (2013: $2,844.8 million), representing an 18.3% increase over the previous year. The value of inventories increased from $1,233.3 million to $1,798.0 million. Towards the end of the year, several high value shipments either arrived or were in-transit to meet the new year's sales requirements. In addition, higher stock levels of selected inventory were carried to support the company's strategic sales thrust. The higher inventory level coupled with the impact of the foreign exchange rate on imports accounted for the increase in inventory levels.

Trade and other receivables ended the year at $609.0 million (2013: $498.3 million), with the increase being mainly due to the inclusion of $67.0 million of General Consumption Tax (GCT) recoverable. This compared to $4.6 million of GCT payable at the end of 2013.

Total current liabilities of $1,468.5 million, representing the company's trade payables, accruals and other payables, was 31.4% higher than the $1,117.67 million recorded at the end of 2013. Trade payables of $1,124.0 million (2013: $749.2 million), represented an increase which was commensurate with the increase in inventory on hand and in-transit. The accruals of $77.5 million (2013: $71.3 million) reflected the company's liabilities for utility charges, the cost of employee vacations due and other obligations incurred for which payment was not yet due. Other trade payables of $144.9 million (2013: $$111.7 million) included dividends payable, customs and other statutory charges as well as customers' deposits.

Cash and bank balances were reduced to $152.0 million, down from the $417.9 million held at the end of the previous year. During the year, the company paid income taxes of $70.8 million as all tax losses available for offset of tax due, were fully utilised in the previous year. In addition, $86.7 million was invested in property, plant and equipment during the year, representing an increase of 189.7% more than the previous year's $29.9 million. More of the company's cash resources was also utilised to finance the higher inventory level.

Shareholders' Equity

Shareholders' equity increased to $1,424.6 million, up from $1,176.7 million at the end of the previous year. Capital reserves increased to $358.8 million (2013: $305.3 million) following revaluation of the company's land and buildings. Retained earnings increased by $194.4 million in line with profit after tax, adjusted for net re-measurement of retirement benefit obligation and dividends.

Dividends

The Board approved a dividend of 32.0 cents per stock unit for the year ended December 31, 2014, paid on January 23, 2015 to stockholders on record at the close of business on January 7, 2015. This represented a 6.7% increase on the 30.0 cents paid in the previous year.

Stock Performance

The company's stock price at December 31, 2014 was $7.51 up from $6.10 at December 31, 2013. This value brought the market capitalization at the end of 2014 to $607.1 million (2013: $493.1 million), an increase of 23.1%.

Capital Investment

Capital expenditure for the year totalled $98.5 million (2013: $39.1 million). Expenditure was mainly on the refurbishment of the stores, upgrading the company's buildings, acquisition of fixtures and fittings as well as the purchase of machinery and computer equipment used in the company's operations.

Segment Performance and Developments

Hardware & Lumber Ltd trades under two divisions:

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

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

*Hardware & Lumber Ltd received the prestigious "**3 Million US Dollar Club Award**" from True Value International in recognition of Total Purchases in 2014.*

L to R: Lars Hybel, Vice President International - True Value, Stacey Henry-O'Sullivan, Category Manager - H&L Ltd, Patrick Chambers, Chief Category Manager - H&L Ltd, Donna Doran, CEO - H&L Ltd, Deborah Reed, True Value International Territory Manager and John R. Hartmann, President & CEO of True Value International.

RAPID True Value.
Everything you need to...
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The Rapid True Value division supports the construction industry and the associated home improvement business. Lumber, ply-boards, hardboards, steel and other building materials continued to drive the performance of the business. The Rapid True Value division recorded sales growth of 5.8% from its retail, wholesale and projects segments, against the context of a construction industry which grew by 1.6% in 2014. This increase was mainly generated from the commercial development across the island especially in St. James and St. Andrew as well as from residential development.

Partnerships

Our partnership with key suppliers served us well during the year. We worked with True Value International to improve and reset the offerings of tools within our stores. This resulted in an expanded product range being vertically merchandised for ease of customers' shopping, as well as improved visibility of key brands of products.

Rapid TRUE VALUE

"In 2014 we upgraded our paint centres to dispense the newly improved paint formula..."

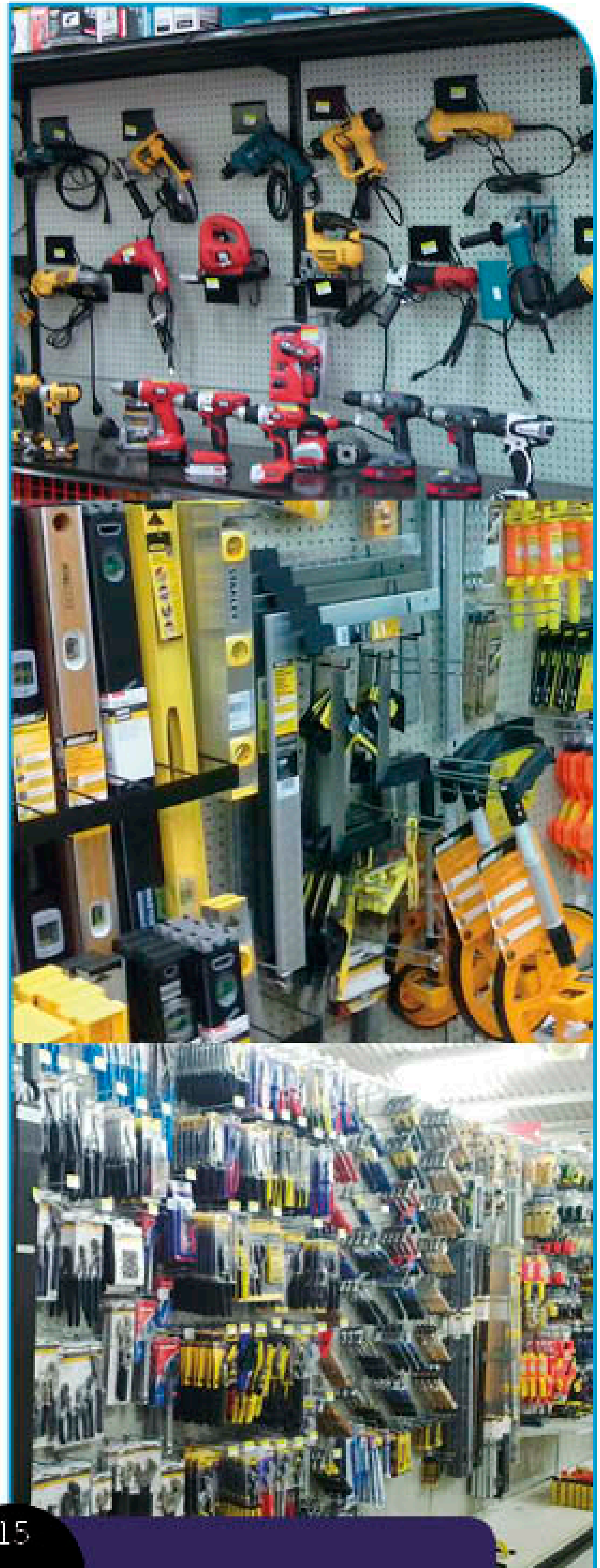
Rapid True Value is an important destination for paints in Jamaica. We continued to partner with True Value International's EasyCare & WeatherAll paints to introduce new international colour trends to our customers. In 2014 we upgraded our paint centres to dispense the newly improved paint formula. All this was supported by updated new promotional materials as well as a wider range of painting accessories. In addition, Rapid True Value remained a major distributor of locally and regionally manufactured paints, which when combined with the EasyCare & WeatherAll line, expanded the offering to our customers.

We established partnership with new suppliers to enhance our offerings of building solutions to include roofing and pavers. This complimented the already wide range of supplies and supports our strategy of being a one-stop destination for fulfilling our customers' building needs. At the same time, significant focus was placed on ensuring that all the accessories such as fasteners, pulls, knobs and other hardware items were available to our customers to complete any project - large or small.

Rapid True Value Portmore in St. Catherine became the seventh in the series of upgrades across the network of stores. We added new features to create a more aesthetically pleasing shopping environment for our customers. The upgrade included installation of a state-of-the-art paint station and new show-room vignettes displaying kitchens, bathroom fixtures and tiles. Across all the Rapid True Value stores the assortment of products was improved throughout the year, in an effort to meet the changing needs of our customers. New products were introduced in the categories of tools, hardware items, bathroom, tiles, kitchen cabinetry and countertops, pets and sporting supplies. as well as lawn and garden offerings.

Marketing and promotional activities increased during the year and in support of this, we coordinated and conducted several "Do-It-Yourself" (DIY) sessions in association with our suppliers. This included "The Art of Laying Pavers" and "Inspirational Room Designs" which saw professional designers sharing know-how and special tips to customers who were keen on taking on smaller projects. In doing so, the customers became more acquainted with the practical use of several of the products which we offer. Rapid True Value extended its sponsorship of "Island Dreams" a home improvement television programme which features several categories of products and services, including kitchens, tiles, paints and bathroom accessories.

Several in-store and promotional activities were organized during the 2014 period in order to continuously engage our customers, including "Customer Appreciation Days" and "Yard Sales". A new and successful concept called "Rapid Auction" was launched in the third quarter which saw customers participating in pricing items which they wished to purchase. For the first time, Rapid True Value observed "Black Friday" in Jamaica on November 27 – 29. Expectations and excitement were high as customers were treated to early bird specials, promotions on key items, radio personality mix and mingle as well as give-aways. Several customers used this event to kick-start end of year preparations. Towards the end of the year, customers participated in the "Black and Decker Bonanza Promotion" which saw the DeWalt, Black & Decker and Stanley brands featured in a major tools promotion, with an opportunity to win several prizes.



AgroGRACE

> "The Gov. of Jamaica continued to position **agriculture** as a **key platform** to achive growth..."

The Agricultural Products and Equipment division, trading under the banner of AgroGrace, continued to maintain a leadership position in the market. Total revenue increased by 1.9% to $1,841.1 million (2013: $1,806.1million). Profit before tax was $236.8 million, compared to the previous year's $371.5 million.

The Government of Jamaica continued to position agriculture as a key platform to achieve economic growth and Hardware & Lumber Ltd through the AgroGrace division, supports relevant initiatives for achievement of national food security. Through its alignment with top manufacturers, the division continued to bring to market quality products, especially hybrid vegetable seeds and pesticides.

The division participated in various horticultural and agricultural expositions as well as other

Mrs. Olive Downer Walsh, General Manager for AgroGrace, engages her listeners with a sample of the product and crop care information that is regularly delivered across the island. (L-R) Mr Donovan Stanberry, Permanent Secretary, Ministry of Agriculture, Labour and Security; Minister of Agriculture, Labour and Social Security, the Hon. Derrick Kellier; Ms Donna Doran, CEO, Hardware & Lumber Ltd, Mr Victor Gomes, Syngenta Marketing Representative; Ms Olive Downer Walsh, General Manager AgroGrace; Mr Luther Buchanan, Minister of State for Agriculture, Labour and Social Security; Mr Silbert O'Meally, Marketing and Business Development Officer, AgroGrace.

field activities where quality products were showcased and new technology shared for enhancement of productivity.

In addition, the first in a series of AgroGrace Pop-Up stores was executed in Port Maria, St. Mary. This allowed for direct marketing and access by local farmers and other local users of products and technical information.

During 2014, the country's agricultural output was stymied by a period of prolonged drought in the second and third quarters. The planting of several key crops, particularly vegetables, were delayed until the fourth quarter and this had a negative impact on the sales and distribution of seeds and products used in the care of such crops.

Live Television

Olive Downer Walsh General Manager of AgroGrace joins **Simone Clarke-Cooper** on the set of Smile Jamaica It's Morning Time on TVJ, for another **Grow-It-Yourself** session.

The selection of products is geared towards ensuring enhancement of productivity with low environmental impact. In addition to the farming sector we also provided solutions to the public health sector particularly in rodent management, termites and other public health issues. Our avid gardeners benefitted from various selections of hybrid roses and the biannual offerings of bare-root orchids and other plants.

We maintained a technically competent team that benefited from continuous internal and external training to ensure that we remained current with best practices in the agricultural industry. Our technical team provided support to the agriculture sector through the training of farmers and other stakeholder groups. During the year, we benefitted from the direct involvement of international scientists who provided local field assessments and made recommendations for improved efficiencies.

AgroGrace also conducted several interactive sessions which encouraged customers and end-users participation. Early in the year, the division launched its live television promotional programme "Grow It Yourself" (GIY), designed to inform and inspire gardening enthusiasts on how to develop and improve on the care of tree crops and back yard gardening of herbs, spices, ornamentals and vegetables.

It is our expectation that the journey towards self-sufficiency in agriculture will continue in 2015, given favourable weather. AgroGrace is prepared to provide the quality inputs and technical support to the various sectors of agricultural production in Jamaica. We will continue to work closely with the Agro-park management and its farmers to share our knowledge and insights on various crop care programs.

3. THE HUMAN RESOURCE AGENDA

In 2014, the company's Human Resource strategy focused on further strengthening of key areas of our organizational capability, enhancing employee engagement, as well as ensuring the welfare of our valued employees, thereby leading to a more productive, focused and motivated workforce.

Organizational Capability

With the goal of improving the effectiveness of our front-line staff as well as boosting sales and customer service levels, we implemented of a comprehensive Product Knowledge Training programme. Facilitated by certified trainers from HEART, the programme was geared at improving the product and technical knowledge of frontline staff in all stores. Areas covered included carpentry, plumbing, electrical and general construction. A wide cross-section of team members graduated from the programme.

Throughout the year, we also partnered with key suppliers to facilitate product knowledge training for our team members in the other areas such as roof installations, laying of tiles and pesticide knowledge and sales. These programmes will continue in 2015.

Employee Training

Employees enthusiastically display their product knowledge certificates following a training session.

There was also a strong focus on customer service training, as we continued to implement the Exceptional Customer Service (ECE) programme which seeks to continuously maintain and raise the standards of service that we provide to our customers. Our front line team members were provided with ongoing training through classroom sessions, branch team meetings, as well as on-the-job coaching and mentoring.

Leadership Development was also an area of focus. Key employees were facilitated to complete the GraceKennedy Supervisory Development Programme (SDP), as well as other strategic focal areas such as Category Management.

Employee Engagement

We believe that an engaged, motivated team is a key ingredient in the success of our business. With this in mind, additional focus was placed on employee engagement initiatives. We joined with the GraceKennedy Group to roll-out the GK Employee Value Proposition (EVP), through which we implemented the inaugural Employee Appreciation Week. We also rolled out an enhanced Rewards and Recognition Programme, entitled 'H&L All Stars'. The programme is tied to the strategic goals of the company, and seeks to spur higher overall levels of performance, greater sales focus and improved customer service from our staff at all levels.

Our sports and recreational committee, H.Y.P.E.R.S. (Helping Your Peers Enjoy Recreational Synergies), continued to organize various activities geared at strengthening camaraderie and team spirit among the staff. This included the coordination of our annual employee fun day, as well as participation in the GraceKennedy Sports day among other sporting competitions.

Staff Welfare

We take our employees' welfare seriously. We continued to facilitate employee welfare programmes such as the staff loan facility, as well as providing educational assistance to employees' children attending primary, secondary and tertiary institutions.

4. RISK MANAGEMENT & INTERNAL CONTROLS

Operational risks are an inevitable consequence of being in business. The Company's activities expose it to a variety of risks which must be analysed, evaluated and mitigated against on an ongoing basis. The Company makes good use of the GraceKennedy Enterprise-Wide Risk Management Framework to help monitor and manage major risks and challenges which could impact the business.

Hardware & Lumber Ltd maintains a comprehensive Business Continuity Plan to help ensure that the business operations will recover in the shortest possible time should a major hazard or events disrupt the business.

Credit, Liquidity and Market Risk (including Currency and Interest Rate Risks)
Refer to Note 3a, 3b and 3c respectively, of the audited financial statements.

Internal Controls & Business Processes Review
The company continued to strengthen its internal controls, risk management and governance processes. Ernst & Young Services Ltd was contracted to provide internal audit services to the company. Their mandate includes providing greater internal audit focus for the company and improving the quality of the audit process and recommendations.

Through the "whistle-blowing" policy, employees are encouraged to confidentially report concerns of breaches of policies and procedures.

Hardware & Lumber Ltd is also committed to conducting business in an environmentally responsible manner. This impacts all areas of our business, including store operations, energy usage, product selection and delivery of product knowledge to our customers. The company is committed to maintaining a safe environment for our employees, customers and associates and protecting the environment. We have complied with all relevant laws and regulations pertaining to the operation.

Management's Responsibility for Financial Statements

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

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

Ernst & Young was appointed as our internal auditors during 2014 and conducted several internal audit sessions where in-depth reviews of some internal controls and processes were carried out and reports shared with the Audit Committee of the Board of Directors, and ultimately the full Board.

The Audit Committee of the Board of Directors, consisting solely of independent directors, meets at least four times a year. PwC, Ernst & Young and representatives of management are invited to discuss auditing and financial reporting matters. The Audit Committee regularly reviews the internal accounting controls, the reports of PwC and internal auditors and the financial condition of the Company. Both PwC and the internal auditors have free access to the Audit Committee.

5. CORPORATE SOCIAL RESPONSIBILITY & SPORTS DEVELOPMENT

Several staff volunteers from Hardware & Lumber have committed themselves to making a difference in our society. One such vehicle is the Grace & Staff Community Development Foundation which was established in 1979 to facilitate the development of communities that border our business locations. Employees participated in community activities organised by the Foundation. As a good corporate citizen, the company continued to donate its material and financial resources to various charitable organizations as well as to individuals.

6. OUTLOOK: 2015 AND BEYOND

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

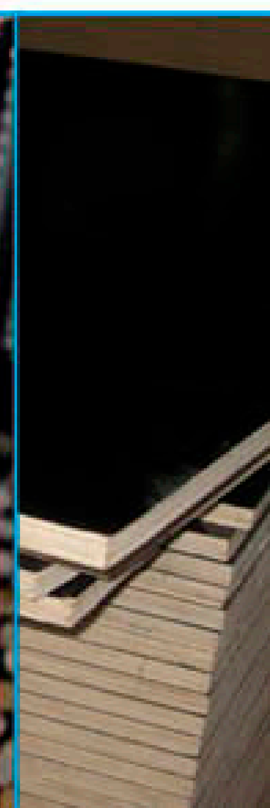
We are committed to continuously improving our offerings to our customers. We will keep our customers abreast of developments and trends in both the hardware and agricultural industries, through the utilisation of the expertise and knowledge which exist within the company and working with our suppliers and associates.

We will continue to strengthen the already close partnerships with our customers and suppliers. Our teams will receive the requisite training to excel at their jobs. We will continue to take our corporate social responsibility seriously. Risk management and internal controls will remain a focus area in 2015, as we continuously seek ways to strengthen our internal control systems.

We anticipate a bright future for Hardware & Lumber Ltd.

Donna Doran
Chief Executive Officer

Johnathan Ruddock
Financial Controller

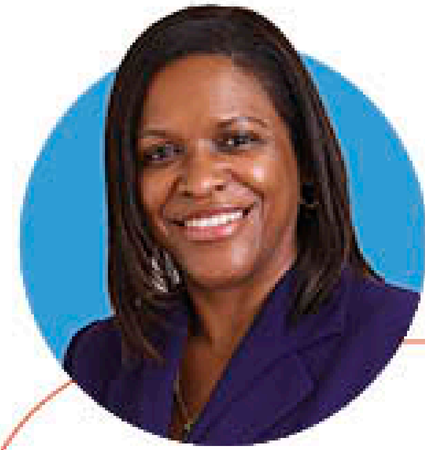


Board of DIRECTORS

Erwin Burton
BSc.,Msc.,J.P.

Appointed: 10 September 2003

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



Andrea Lewis Coy
BSc.,Msc.,FCA

Appointed: 26 July 2010

Mrs. Lewis Coy is currently Senior General Manager, in the Global Category Management Unit within the Food Division of GraceKennedy. Previously, she served as Chief Executive Officer of Hardware & Lumber Limited. She has also served as the General Manager of World Brands Services, a division of GK Foods & Services Limited and as General Manager of Hi-Lo Foods Stores, a division of GK Foods & Services Limited. Prior to joining GraceKennedy she was Group Financial Controller of Shirlhome Chemical Corporation Group of Companies. She is a Fellow of the Institute of Chartered Accountants, and holds a Master's of Science in Accounting (Distinction), and a Bachelor of Science in Accounting, both from the University of the West Indies, Mona and a certificate in Turnaround Management Strategies from Harvard Business School.

Michael A. Ammar
BSc.

Appointed: 9 February 2012

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

Grace **Burnett**
LLB, CI.

Appointed: 1 March 2011

Mrs. Burnett is an Attorney at Law and Chartered Insurer, with over 20 years' experience in the general insurance industry. She has served in senior positions within the GraceKennedy Group and is currently the Managing Director of Jamaica International Insurance Company Limited. Grace holds a Bachelor of Laws from the University of the West Indies and her Chartered status from the Chartered Insurance Institute UK. She has participated in several leadership development courses including the Leadership Journey at the Wharton Business School. Grace currently serves as a director of the Jamaica Chamber of Commerce. She is a member of the Jamaica Bar Association, The Chartered Insurance Institute (UK) and Toastmasters International.

Paul A. B. **Facey**
MBA, BSc.

Appointed: 30 July 2012

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

Paul **Hanworth**
ACA,CPA,MSc., MA

Appointed: 3 December 2007

Mr. Hanworth has been a Director and Chief Operating Officer of Pan-Jamaican Investment Trust Limited since 2013, prior to which he was Chief Financial officer for six years. He is currently Chairman of the H & L Audit Committee and a member of the Corporate Governance Committee. He also sits on the Boards of Sagicor Group Jamaica Limited, British Caribbean Insurance Company Limited, Rainforest Seafoods Limited, and a number of Pan-Jam's subsidiaries and associated companies. An accountant by training, Paul worked with KPMG and Diageo plc in various countries before moving to Jamaica in 1998. Mr. Hanworth holds a Masters degree in Classics from Cambridge University, and is a member both of the Institute of Chartered Accountants in England and Wales and of the American Institute of Certified Public Accountants.

Board of DIRECTORS

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

Appointed: 9 February 2012

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

She is the recipient of several commendations and awards including Fellow of the Jamaica Institute of Management and enjoys the distinction of being among the Jamaica's Most Influential Women by both the Jamaica Observer and The Gleaner.

Gordon K.G. Sharp
B. Eng., MBA

Appointed: 27 November 2006

Mr. Sharp was a director of GraceKennedy Limited from 1976 to 2013 and a member of the Corporate Governance and Compensation Committees of the Board. He is a Founding Member of both the Private Sector Organization of Jamaica (PSOJ) and the Jamaica Institute of Management (JIM). He has served as Chairman of the Coffee Industry Board from 1981 to 1985. He is currently Chairman of Trout Hall Limited, an agricultural and export trading company.

Donald G. Wehby
BSc. (Hons),MSc. (Acc) FCA

Appointed: 1 February 2010

Mr. Wehby was appointed Chief Executive Office of the GraceKennedy Group on July 1, 2011. He is also a member of its Board. He was Deputy CEO for GraceKennedy Limited and CEO GK Investments up to September 2007, when he resigned to take up the position of Senator and Cabinet Minister in the Ministry of Finance & Public Service for two years. He was reappointed to the GraceKennedy Board on October 5, 2009. He is also a Board member of several other GraceKennedy subsidiaries and Vice President of the Private Sector Organization of Jamaica. He is a member of the Corporate Governance Committee of H & L Limited. His current professional affiliations include Vice Chairman of the Diaspora Implementation Council, Vice President of the Private Sector Organization of Jamaica (PSOJ) and Chairman of the PSOJ Economic Policy Committee. He is also a Director of the West Indies Cricket Board (WICB) and Chairman of the WICB Audit Risk and Compliance Committee. He holds both a Bachelor of Science (Hons.) degree and a Master of Science degree in Accounting from the University of the West Indies and has completed an Advance Management College certificate course at Stanford University. He is a chartered accountant and a Fellow of the Institute of Chartered Accountant in Jamaica

Harry A.J. **Smith**
B.Sc. (Hons)**, MBA**

Appointed: 7 March 2013

Mr. Smith is a retired business executive who has had a career at Board and Senior Executive level in General Management, Marketing and Sales for over 35 years involving local as well as multinational corporation in various industries. He currently serves as Executive-in-Residence at the Mona School of Business and Management, UWI as well as a Board member of Carimed Limited, Kirk Distributors Limited, NCB Capital Markets Limited, Digicel Jamaica Limited and as a member of the Board of Trustee of the Munro and Dickenson Trust.

Graduating with a science degree from UWI, Mr. Smith also has had post graduate training in business (MBA) at the Mona School of Business and Management, UWI as well as executive training at Kellogg Graduate School of Business, Northwestern University, USA.

He is a member on both the Audit and the Corporate Governance Committees at H & L. He serves as a Justice of the Peace and Lay Magistrate in the parish of St. Andrew.

Corporate DATA

Board of Directors

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

Andrea Lewis Coy, B.Sc., M.Sc. (Acctg.) F.C.A.

Donald G. Wehby
BSc., (Hons), MSc. (Acctg), F.C.A.

Michael A. Ammar Jnr. B.Sc.

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

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

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

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

Grace Burnett, LLB., CI.

Harry A.J. Smith, B.Sc.(Hon.), M.B.A., J.P.

Executive Team

Donna Doran
F.C.C.A.,M.B.A.
Chief Executive Officer
Hardware & Lumber Limited

Marsha Evans
B.Sc.,M.B.A.
General Manager
Rapid True Value

Johnathan Ruddock
Financial Controller
Hardware & Lumber Limited

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

Corporate DATA

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

Registered Office
697 Spanish Town Road
Kingston 11, Jamaica

Registrar

Sagicor Bank Jamaica Limited
Corporate Trust Division
Sagicor Life Building
28-48 Barbados Avenue, Kingston 5.

Bankers
The Bank of Nova Scotia (Jamaica) Limited
Citigroup, N.A.
FirstCaribbean International (Jamaica) Limited
National Commercial Bank Jamaica Limited
First Global Bank Limited

Auditors
PricewaterhouseCoopers

Attorneys-at-Law
DunnCox
Nunes Scholefield DeLeon & Co.

Tanya White-Martin
B.A. (Hons.),M.Sc. (HRD)
Manager, Human Resource
Hardware & Lumber Limited

Kerry Edwards
B.Sc.,(Fin.), Assoc. (Acctg.)
Manager, Central Services
Hardware & Lumber Limited

Patrick Chambers
Chief Category Manager

Anthony Lindo
Operations Manager
Rapid True Value

Interest of Directors & SENIOR MANAGEMENT

DIRECTORS	PERSONAL SHAREHOLDINGS	STOCKHOLDINGS IN WHICH DIRECTOR/OFFICER HAS AN INTEREST
Michael A. Ammar	50,000	-
Erwin M. Burton	30,563	-
Grace Burnett	1,000	-
Andrea Lewis Coy	2,100	-
Paul A.B. Facey	-	-
Paul Hanworth	101,000	-
M. Audrey Hinchcliffe	-	-
Gordon K. G. Sharp	175,517	-
Harry A. J. Smith	-	-
Donald Wehby	1,000	-
SENIOR MANAGERS		
Donna Doran	-	-
Olive Downer Walsh	2,000	-
Johnathan Ruddock	-	-
Kerry Edwards	-	-
Patrick Chambers	-	-
Tanya White-Martin	-	-
Marsha Evans	-	-

Hardware & Lumber Ltd.
MAJOR SHAREHOLDERS

NAME	STOCKHOLDINGS	
GRACEKENNEDY LTD.	47,013,417	58.15 %
PAN-JAMAICAN INVESTMENT TRUST LTD.	16,840,106	20.83 %
MAYBERRY COMPANY A/C 120008	3,286,775	4.07 %
JCSD TRUSTEE SERVICES LTD. SIGMA OPTIMA	1,500,000	1.86 %
MAYBERRY INVESTMENTS LTD. A/C 09022	1,092,833	1.35 %
TRADING A/C - NATIONAL INSURANCE FUND	1,000,000	1.24 %
SAGICOR PIF EQUITY FUND	995 997	1.23 %
GUARDIAN LIFE LTD.	761,700	0.94 %
NCB INSURANCE CO. LTD. A/C WT105	600,000	0.74 %
P.A.M. LTD - JPS EMPLOYEES SUPERANN. FUND	593,406	0.73 %
TOTAL	73,684,234	91.14%
OTHERS	7,157,789	8.86%

Total Stocks in Issue – 80,842,023

Total Number of Stockholders – 1,373

Report of the DIRECTORS

1. The Directors submit herewith their Annual Report and the Audited Financial Statements for the year ended December 31, 2014.

	($) '000
The net profit before tax	254,728
The charge for taxation was	(37,412)
Making the profit after taxation	217,316
Add remeasurement of retirement benefit obligation net of tax	2,935
Less dividend declared	(25,869)
To which is added the retained profits brought forward from the previous year of	249,454
Leaving retained earnings to be carried forward to the next year of	443,836

2. The Directors as at December 31, 2014 were as follows:

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

   In accordance with Article 100 of the Company's Articles of Incorporation, Mr. Paul Facey, Gordon Sharp, Harry Smith and Mrs. Andrea Lewis Coy will retire by rotation and being eligible offer themselves for re-election.

3. Auditors

   Messrs. PricewaterhouseCoopers, have expressed their willingness to continue in office in accordance with Section 154 of the Companies Act 2004.

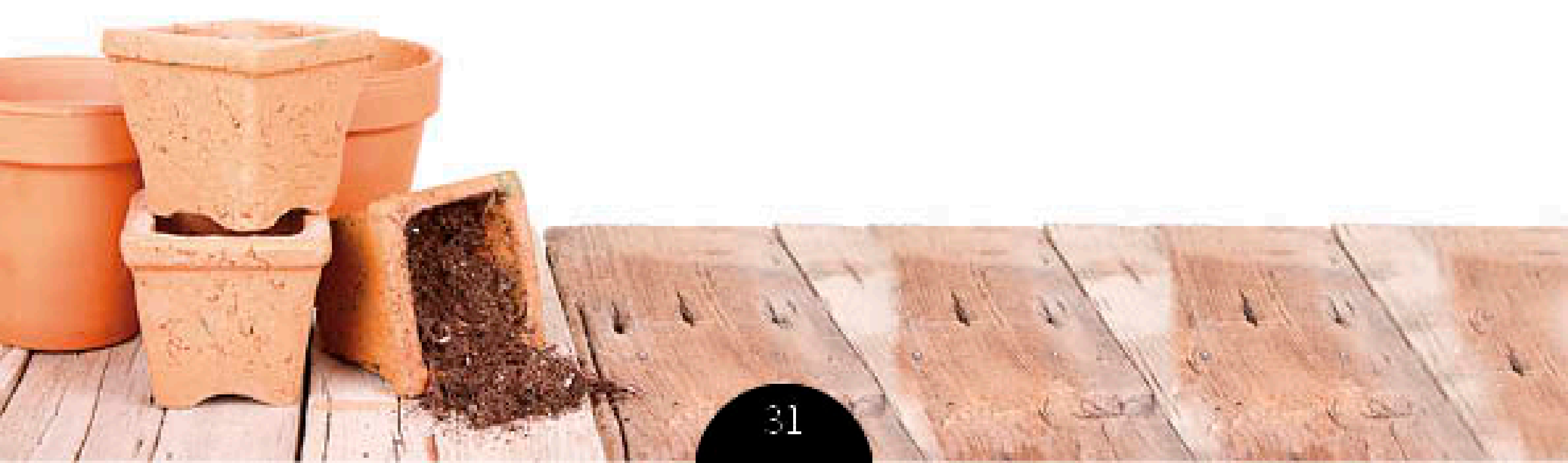
4. Dividend

   On 18 December 2014 the Directors recommended a dividend in the amount of $0.32 payable on 23 January 2015 to stockholders on record at the close of business on 7 January 2015.

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

By order of the Board
Dated this 12th day of March 2015

Gene M. Douglas
Secretary



Corporate GOVERNANCE

In November 2014, the Board of Directors of Hardware revised its Corporate Governance Charter and the full Code and Terms of Reference are available on the Company's website at ***www.hardwareandlumberja.com.*** Highlights of the Terms of Reference are as follows:

1. Mandate

The Corporate Governance Committee shall assist the Board in:

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

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

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

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

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

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

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

(8) Discharge the Board's responsibilities relating to the Total Compensation (defined as compensation, benefits and perquisites) of the Company's Chief Executive Officer and other Senior Executives in a manner consistent

with and in support of the business objectives of the Company, competitive practice, and all applicable rules and regulations.

2. Composition

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

3. Responsibilities

The duties of the Committee shall be:

(1) To develop and recommend to the Board for adoption a set of corporate governance guidelines as may be deemed necessary by the committee to ensure that the company effectively protects and enhances its shareholder value.

(2) To review, at least annually, the company's Corporate Governance Policies and Guidelines and Philosophies and Policies and to recommend any proposed changes to the Board for approval.

(3) To periodically review and make recommendations to the Board on issues regarding the Company's conduct of its business as a responsible corporate citizen.

(4) To keep under review legislative and regulatory developments in relation to corporate governance issues that might affect the Company's operations.

(5) To review conflicts or potential conflicts of interest involving directors of the Company and make recommendations in respect thereof to the Board.

(6) To undertake responsibility for the nomination of new Directors and review of the existing Board of Directors as follows:

(i) To consider and make representations to the Board on it's composition and balance. Factors for consideration shall include but not be restricted to the:

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

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

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

(7) In respect of executive compensation:

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

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

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

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

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

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

The Current Members of the Corporate Governance & Nomination Committee are Mrs. M. Audrey Hinchcliffe (Chair) Mr. Paul Hanworth, Mr. Donald G. Wehby, Mr. Michael Ammar, Jnr and Mr. Harry Smith.

During the year the committee met three times and among the items reviewed was the Corporate Governance policy guidelines

Board Attendance Register 2014

	Board Meetings	Audit Committee	Corporate Governance & Nomination Committee	Annunal General Meeting
Nos. of Meetings	**7**	**6**	**3**	**1**
Erwin Burton	7	-	-	1
Andrea Lewis Coy	6	-	-	1
Michael Ammar Jr.	5	4:5	2	1
Grace Burnett	7	-	-	1
Paul A.B. Facey	6	-	-	1
Paul R. Hanworth	7	5:6 (c)	3	1
M. Audrey Hinchcliffe	6	2:6	2 (c)	1
Gordon Sharp	7	-	-	1
Harry A.J. Smith	6	5:5	3	1
Donald G. Wehby	7	-	3	1

Board Expertise

Director	Executive (E) Independent (I) Non-Executive (NE)	Finance & Accounting	Human Resources Development	Retail	Policy & Strategy	Risk & Compliance	Consumer Marketing
Erwin Burton	NE	●	○	●	●	●	○
Andrea Lewis Coy	NE	●	●	●	●	○	●
Michael Ammar Jr.	I	●	○	●	●	●	●
Grace Burnett	NE	●	○	○	●	●	○
Paul A.B. Facey	NE	●	○	●	●	○	●
Paul R. Hanworth	NE	●	○	○	●	●	●
M. Audrey Hinchcliffe	I	●	●	●	●	●	●
Gordon Sharp	I	●	○	○	●	●	○
Harry A.J. Smith	I	●	○	○	●	●	●
Donald G. Wehby	NE	●	○	○	●	●	○

Structure of Directors' Emoluments 2014

	Annual Retainer ($)	Per Meeting ($)
Board Chairman	1,000,000	-
Directors	333,506	-
Audit Committee Chair	40,020	13,340
Audit Committee Members	-	13,340
Governance Committee Chair	40,020	13,340
Governance Committee Members	-	13,340

AUDIT COMMITTEE TERMS OF REFERENCE

1. Mandate

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

i) Reliability and integrity of the accounting principles and practices, financial statements and other financial reporting;
ii) Internal audit functions of the Company and the Group;
iii) Risk management functions and processes of the Company and the Group;
iv) Qualifications, independence and performance of the external auditors of the Company;
v) System of internal controls and procedures established by Management and reviewing their effectiveness;
vi) Company's compliance with legal and regulatory requirements.

2. Composition

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

i) An understanding of financial statements and applicable accounting principles;
ii) The ability to assess the general application of such principles in connection with accounting for estimates, accruals and reserves;
iii) Experience in preparing, auditing, analyzing, or evaluating financial statements that present accounting issues of a breadth and level of complexity generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the company's financial statements, or experience actively supervising one or more persons engaged in such activities;
iv) An understanding of internal controls and procedures for financial reporting;
v) An understanding of Audit Committee functions.

3. Responsibilities

The duties of the Committee shall include the following:

(A) Financial Reporting

i) To review the audited annual financial statements and the quarterly financial results of the Company and recommend the same for adoption by the Board of Directors;

ii) To review the Company's operating, financial and accounting policies and practices;

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

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

(B) Internal Control

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

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

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

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

(C) External Audit

i) To make recommendations to the Board for the appointment, reappointment or termination of the appointment of the external auditors and to approve the remuneration and terms of engagement of the external auditors;

ii) To review with the external auditors the scope of their audit and to review and evaluate their performance;

iii) To review the external auditors' management letter and management's response;

iv) To review any significant findings made by the external auditors and managements' proposed response, and ensure that steps are taken to address these findings;

v) To consider the independence and objectivity of the external auditors and any potential conflicts of interest, and to monitor the effectiveness of the audit process;

vi) To review policies for the provision of non-audit services by the external auditor and, where applicable, the framework for the pre-approval of audit and non-audit services;

vii) To oversee the resolution of disagreements between management and the independent auditor regarding financial reporting.

viii) To report to the Board any matter, which it considers is need of improvement or review, and to make recommendations regarding steps to be taken.

(D) Internal Audit

i) To review the proposed internal audit plan for the coming year and ensure that it addresses key areas of risk and that there is appropriate co-ordination with the external auditor.

ii) Meet with the Internal Auditors to discuss any matters that the committee or internal auditors believe should be discussed;

iii) To ensure that significant findings and recommendations made by the internal auditors and management's proposed response are received, discussed and appropriately acted on;

iv) To ensure that the Internal Auditor has direct access to the Board Chairman and the Committee.

(E) Compliance

i) To obtain regular updates from the Internal Auditor regarding compliance matters that may have a material impact on the company's financial statements or compliance policies;

ii) To review Management reports of any regulatory examinations or audits and correspondence with regulators or government agencies which raise material issues regarding the company's financial statements, accounting policies and practices, risk management practices or compliance with laws and regulations affecting the businesses within the Company and to ensure that steps are taken to address all weaknesses detected;

(F) Other assigned functions

i) To undertake on behalf of the Chairman or the Board such other related tasks as the Chairman or the Board may from to time entrust to it.

ii) To review the composition, powers, duties and responsibilities of other Audit Committees within the Group, where applicable; To review the effectiveness of the procedures in place under the Company's Whistle-blowing Policy.

The Audit Committee is comprised of four (4) members all of whom are non-executive Directors of the Company. The members are Mr. Paul Hanworth (Chairman) Mr. Michael Ammar, Harry Smith and Mrs. M. Audrey Hinchcliffe.

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

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

Dividend Policy

Hardware & Lumber Limited has adopted a dividend policy intended to enhance the Company's strategy for growth and to accelerate the creation of additional shareholder value.

The dividend policy is to distribute at least 15% of Net Profit Attributable to Stockholders. The policy must be viewed against the background of an unpredictable economy and is subject to available cash flow.

Employee Recognition HIGLIGHTS 2014

Employee Recognition Programme

The H&L All Stars Employee Recognition Programme was launched with a view to rewarding the committment and dedication of our Team members. The programme encourages employees to show recognition and appreciation to their peers on an ongoing basis, such that good work never goes unnoticed. Below are some pictures showing employees being recognized and presented with tokens by their managers and peers.

AGROGRACE Your Complete Farm & Garden Centre POPUP STORE

AgroGrace celebrated the success of its first ever Pop-Up Store, held from November 27 - 29, 2014 at Stennett Street in Port Maria, St. Mary. The initiative was embraced by a wide cross section of stakeholders and created yet another opportunity to connect with the market in demonstrating and providing support towards the drive for national food security.

'Pop-Up' retail is a concept more commonly associated with the apparel and other industries. No stranger to innovation, AgroGrace customized the concept in line with market needs, benefitting not just end-users but its network of dealers as well. The success of the initiative heralded a new approach to product stewardship with focus on best practices for enhanced agricultural production and productivity.

Members of the Pop-Up Store committee on location in Port Maria – Market & Product Development Officer Odean Bradshaw, Senior Category Officer Michelle Williams, Marketing Manager Arlene Nelson, General Manager Olive Downer Walsh, and Market & Product Development Officer Silbert O'Meally.

It was a bold promotion executed by AgroGrace, the leading distributor of quality products and services to the agricultural, home gardening and public health sectors. The location was temporarily transformed to replicate a typical AgroGrace shopping environment in order to create a positive customer experience. Patrons were able to purchase from a selection of items across various categories including seeds, hand and power tools, safety gears and equipment. The event included consultations with the technical representatives, distribution of discount coupons redeemable at our local network of dealers, sale day discounts and giveaways.

Port Maria was a-buzz with the presence of the market leader and the event made a lasting impression on those who experienced it. With AgroGrace's impressive range of products, the needs of a wide cross-section of customers in that region were satisfied. The AgroGrace team also provided guidance on product selection as well as offered technical advice to teachers of school gardening projects, hotel landscapers, livestock farmers, vegetable and fruit crops producers.


Senator Robert Montague (centre) endorsed the value of the Pop-Up store concepts to the farming community. Here he accepts a token of appreciation from General Manager Olive Downer Walsh (L) and Market & Product Development Officer Odean Bradshaw (R).

The success of the initiative was evidenced in multiple spheres. Media interest was piqued and articles lauding the novelty of the initiative appeared in the press. Patrons welcomed the opportunity to engage with staff and made informed purchases for their own farms and 'Grow What You Eat' efforts. Indeed, many expressed the wish that the promotion could be extended.

The overwhelming response from the farmers resulted in Market Development Officer, Silbert O'Meally conducting a series of training amongst farmers and dealers in the following month. Emphasis was placed on the production of Irish Potato, being a crop of national focus and economic importance in that region as well as on other vegetables and fruit crops. Subject matters of training included land and seed preparation, crop care, nutrition, pest and disease management, product knowledge and the safe use of pesticides.

Look out for a continuation of the series!


Hotelier Paul Hillard of Casa Maria Hotel, Port Maria, accepts a token of appreciation from General Manager of AgroGrace, Olive Downer Walsh.

Destination RAPID True Value PORTMORE

An investment of over $35 million in the Rapid True Value Portmore existing store has resulted in a new destination which is aesthetically pleasing to the most discerning of customers, boasting state-of-the-art paint equipment and new show-room vignettes displaying kitchens, bathroom fixtures and tiles. Welcome to the new Destination Rapid True Value Portmore! Bright LED lighting illuminates the expanded range of products which covers tools, house-ware and hardware items, bathroom and kitchens fixtures, pets and sporting supplies as well as new lawn and garden offerings.

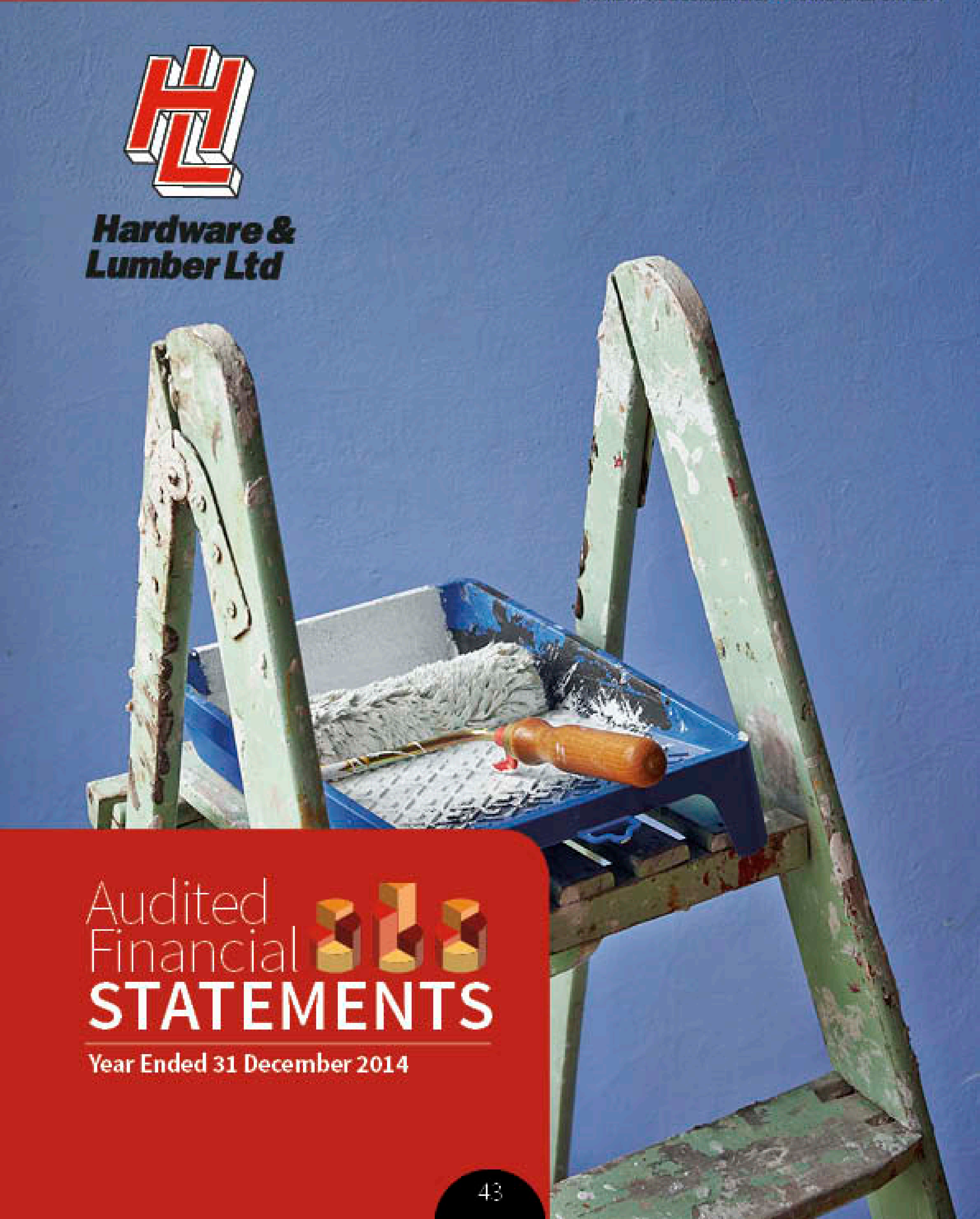
The official Destination Rapid True Value Portmore Centre was officially opened on October 24, 2015 with over 150 invited guests previewing the newest products in hardware, home and garden supplies in Jamaica. To complement the ceremony, customers were feted with live musical interludes while munching on hors d'oeuvres and sipping mixed cocktails. At the end of the function, cash registers were re-opened to facilitate purchases and to allow guests to benefit from the special event discounts. Customers were particularly excited about the new shade house, outdoor living area and the new showrooms.

To mark this event, communication broadcasting and media house coverage were done by Nationwide, Sun City Radio, The Gleaner and Wealth Magazine. The wider community was not left out, as the momentum continued on the following day with special "Sale-a-bration" Activities. The Member of Parliament, Honourable Collin Fagan supported the event along with members from the Portmore Council.

Joining in the celebration were staff members who demonstrated a sense of pride and ownership of the store. Productivity level have improved following the renovation of the store and staff facilities.

Contractors and other customers gravitated to all aisles including the tools area where they were able to touch and feel the products. Not only was it easily accessible given its location at the entrance of the store, but it also boasted an expanded range of power tools, hand tools and safety gears.
Cheers to the Portmore community and the team at Destination Rapid True Value Portmore.

Happy shopping for all your needs to "Build, Renovate and Decorate.



Hardware & Lumber Ltd

Audited Financial STATEMENTS

Year Ended 31 December 2014

pwc

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 46 to 96, 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
T: (876) 922 6230, F: (876) 922 7581, www.pwc.com/jm

pwc

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Hardware & Lumber Limited as at 31 December 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 Ltd

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

	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

	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:

Director

Director

	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 Ltd

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 51)		(84,605)	425,772

	Note	2014 $'000	2013 $'000
Cash (Used in)/Provided by Operating and Investing Activities (brought forward from Page 50)		(84,805)	425,772
Cash Flows from Financing Activities			
Dividends paid		(24,206)	(10,105)
Interest paid		(31,431)	(49,284)
Long term loans repaid		(141,867)	(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.

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.

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.

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.

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.

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.

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.

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.

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.

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

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.

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.

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

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)

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.

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.

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.

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.

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

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 $'000	Agricultural Products and Equipment $'000	Total $'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 - $8,846,000).

6. Other Operating Income

	2014 $'000	2013 $'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

7. Expenses by Nature

Total cost of sales, direct and administrative expenses

	2014	2013
	$'000	$'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	57,866
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.

8. Staff Costs

	2014 $'000	2013 $'000
Wages and salaries	348,170	338,534
Payroll taxes, employer's contribution	38,194	38,855
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	48,753

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

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

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.

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.

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)

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)	(833)
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)

15. Retirement Benefits

	2014 $'000	2013 $'000
Liabilities recognised in the statement of financial position –		
Retirement benefit obligation - medical benefits	(346,802)	(325,582)
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	-	-

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.

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.

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

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.

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.

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

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.

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.

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.

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.

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

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.

Hardware & Lumber Ltd PROXY

PLACE
$100
STAMP
HERE

I/We ____

of ____

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

____

of ____

or failing him/her ____

of ____

as my/our Proxy, to vote for me/us on my/our behalf at the Annual General Meeting of the said Company to be held Monday June 9, 2014 at 10:30 a.m. at 697 Spanish Town Road, Kingston11.

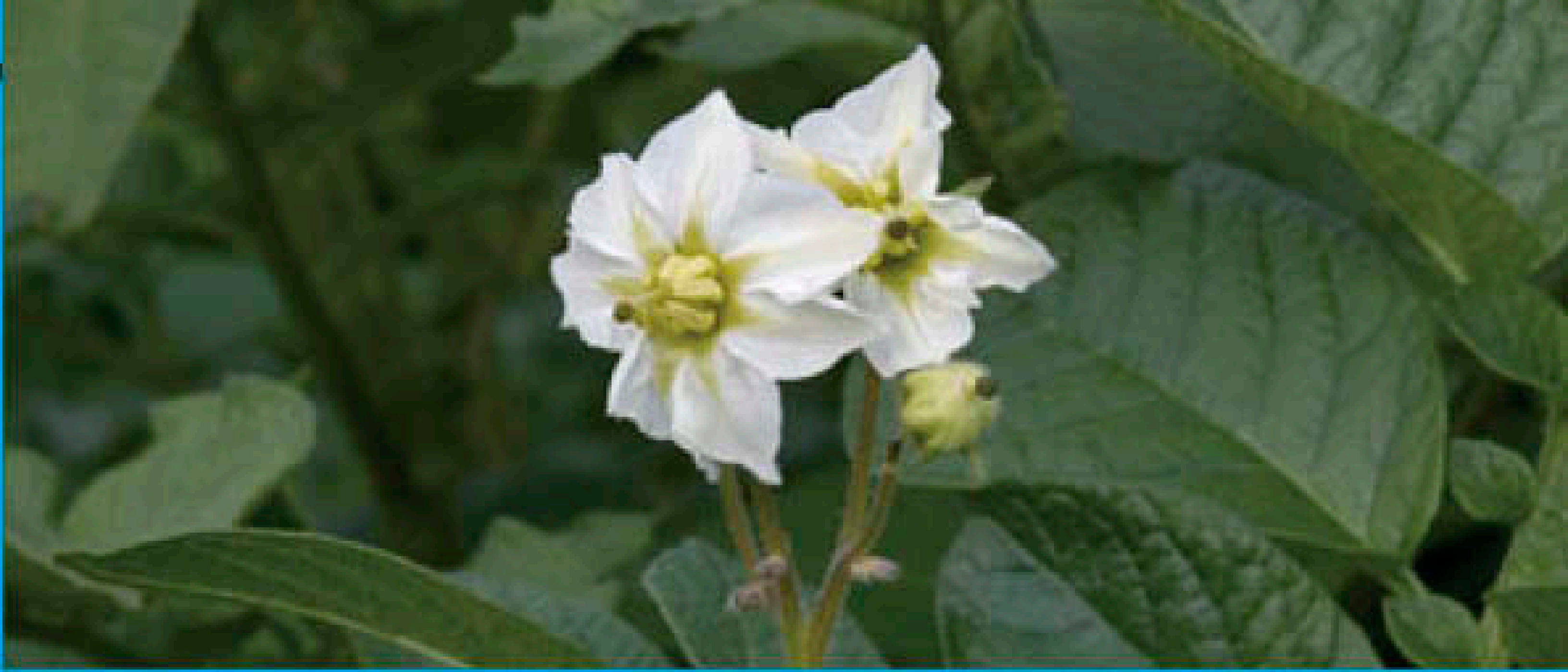
SIGNED this________________ day of _______________________2015

________________________________ Signature

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

Resolutions	For	Against
1		
2(a)		
2(b)		
2(c)		
2(d)		
3(a)		
3(b)		
4		
5		

N.B. The instrument appointing proxy must be produced at the meeting or adjourned meeting at which it is to be used, and in default not to be treated as valid. Proxy must be lodged at the company's registered office not later than forty-eight hours before the meeting.



AgroGrace supports Jamaica's national food security program with quality seeds and related inputs.

Hardware & Lumber Ltd

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www.hardwareandlumberja.com

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