

Hardware & Lumber Limited

**Unaudited Financial Statements
31 March 2011**

Hardware & Lumber Limited

Index

31 March 2011

Page

CEO's Report

Statements

Statement of comprehensive income	1
Statement of financial position	2
Statement of changes in stockholders' equity	3
Statement of cash flows	4
Notes	5 - 8



HARDWARE & LUMBER LIMITED
UNAUDITED FINANCIAL RESULTS
March 31, 2011

For the three months ended March 31, 2011, revenues were \$1,469 million and net profit was \$0.7 million compared to \$1,436 million and net loss of \$10 million, respectively, for the comparative period in 2010. The significant improvement in the quarter's results was due to increased revenues, improved margins and reduced finance costs.

Revenues increased by 2.3%, gross profit increased by 9.8% and finance costs declined by 45.7% versus the comparative period in 2010. Improved product variety and availability, margin management and significantly reduced interest rates contributed to the improved performance.

Revenues in the retail segment increased by 5.8% in the quarter compared to 2010, due to improvements in product mix, availability and customer service. Revenues in the wholesale segment improved from the previous quarter, although remaining behind first quarter 2010 levels, due largely to supply challenges which were resolved late in the quarter.

The Agricultural segment recorded a 9.2% increase in revenues in the quarter compared to 2010, in keeping with the overall growth trend in the agricultural sector. The segment is performing well, and product demand remains strong despite the recent glut of certain crops.

We continue to actively manage selection and availability of key items, and we remain focused on improving our working capital position through the aggressive collection of receivables and the ongoing retirement of expensive debt. During the quarter, work continued to refresh our retail outlets, following on from the very successful remodeling of our Lane branch in 2010. Major improvements are underway at our Montego Bay Rapid True Value store, and significant re-merchandising is underway at other outlets. All of these changes are geared toward enhancing our customer experience and improving performance.

We expect that the remainder of 2011 will continue the trend of improved performance experienced since the second half of 2010. We will continue to make changes to attract and retain customers, while ensuring improved cost management and controls. We are hopeful that the economy will continue to show signs of stabilization, as evidenced by increasing activity in the construction and agricultural sectors. This should drive increased demand for our products.

We wish to thank our customers, employees and other stakeholders for their continued commitment and support.

SIMON ROBERTS
CHIEF EXECUTIVE OFFICER

Hardware & Lumber Limited

Unaudited Statement of Comprehensive Income

3 months to 31 March 2011

(expressed in Jamaican dollars)

	Note	3 months to 31 Mar 2011 \$'000	3 months to 31 Mar 2010 \$'000
Revenue		1,469,169	1,435,542
Cost of Sales		<u>(1,083,232)</u>	<u>(1,083,878)</u>
Gross Profit		385,937	351,574
Other Operating Income		9,794	9,378
Operating Expenses		<u>(378,839)</u>	<u>(353,809)</u>
Profit from operations		16,892	7,143
Finance Costs	3	<u>(15,794)</u>	<u>(29,110)</u>
Profit/(Loss) before Taxation		1,098	(21,967)
Taxation		<u>(366)</u>	<u>12,335</u>
Profit/(Loss), being total comprehensive income for the Period		<u>732</u>	<u>(9,632)</u>
Number of Stock Units Issued ('000)		80,842	80,842
Earnings/(Loss) per Stock Unit		<u>\$0.01</u>	<u>(\$0.12)</u>

Hardware & Lumber Limited
 Unaudited Statement of Financial Position
 31 March 2011
 (expressed in Jamaican dollars)

	Note	March 2011 \$'000	December 2010 \$'000	March 2010 \$'000
NET ASSETS EMPLOYED				
Non-Current Assets				
Property, plant & equipment		610,546	613,941	584,330
Intangible assets		42,909	50,325	73,808
Deferred tax asset		150,274	150,640	167,016
Retirement plan asset		74,004	97,051	156,756
		877,733	911,957	981,910
Current Assets				
Inventories		1,434,823	1,457,784	1,350,676
Trade and other receivables		461,936	452,226	437,557
Group companies	5	9,109	5,655	2,102
Taxation recoverable		51,338	51,121	51,017
Cash and bank balances		129,309	104,786	147,634
		2,086,515	2,071,572	1,988,986
Current Liabilities				
Bank overdrafts		-	12,016	168,489
Trade, other payables and provisions		951,549	945,220	739,112
Short term loans	6	592,994	593,445	578,033
Group companies	5	8,532	4,029	3,223
Current portion of long term debt		112,690	119,789	102,650
		1,665,765	1,674,499	1,591,507
Net Current Assets		420,750	397,073	397,479
		1,298,483	1,309,030	1,379,389
Financed by:				
Share capital		616,667	616,667	616,667
Share option		-	-	10,341
Capital reserve		290,619	290,619	262,206
Retained earnings		44,947	44,215	4,901
		952,233	951,501	894,115
Non-Current Liabilities				
Long term debt	7	117,911	133,836	266,300
Retirement plan obligations		228,339	223,693	218,974
		1,298,483	1,309,030	1,379,389

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



Simon Roberts

Director



Rodney Davis

Director

Hardware & Lumber Limited
Unaudited Statement of Financial Position
31 March 2011
(expressed in Jamaican dollars)

Hardware & Lumber Limited

Statement of Changes in Stockholders' Equity

31 March 2011

(expressed in Jamaican dollars)

	2011				
	Share Capital \$'000	Other Reserves \$'000	Capital Reserve \$'000	Retained Earnings \$'000	Total \$'000
Balance at 1 January 2011	616,667	-	290,619	44,215	951,501
Profit, being total comprehensive income for the period	-	-	-	732	732
Balance at 31 March 2011	616,667	-	290,619	44,947	952,233
	2010				
	Share Capital \$'000	Other Reserves \$'000	Capital Reserve \$'000	Retained Earnings \$'000	Total \$'000
Balance at 1 January 2010	616,667	10,341	262,206	14,533	903,747
Loss, being total comprehensive income for the period	-	-	-	(9,632)	(9,632)
Balance at 31 March 2010	616,667	10,341	262,206	4,901	894,115

Hardware & Lumber Limited

Unaudited Statement of Cash Flows

3 Months to 31 March 2011

(expressed in Jamaican dollars)

	March 2011 \$'000	March 2010 \$'000
Cash Generated from Operating and Investing Activities:		
Operating Activities		
Profit/(Loss) for the period	732	(9,632)
Items not affecting cash	44,618	40,559
	<u>45,350</u>	<u>30,927</u>
Changes in non-cash working capital components	<u>39,656</u>	<u>(202,320)</u>
Net Cash provided by/(used in) Operating Activities	<u>85,006</u>	<u>(171,393)</u>
Net Cash used in Investing Activities	<u>(7,414)</u>	<u>(8,117)</u>
Cash provided by/(used in) Operating and Investing Activities	<u>77,592</u>	<u>(179,510)</u>
Cash (used in)/provided by Financing Activities	<u>(41,053)</u>	<u>152,108</u>
Net increase/(decrease) in cash and cash equivalents	36,539	(27,402)
Cash and cash equivalents at the beginning of the period	<u>92,770</u>	<u>6,547</u>
Cash and Cash Equivalents at the end of the period	<u><u>129,309</u></u>	<u><u>(20,855)</u></u>
Comprised of:		
Cash at bank	129,309	147,634
Bank Overdraft	<u>-</u>	<u>(168,489)</u>
Cash and Cash Equivalents at the end of the period	<u><u>129,309</u></u>	<u><u>(20,855)</u></u>

Hardware & Lumber Limited

Notes to the Interim Financial Statements

31 March 2011

(expressed in Jamaican dollars)

1. Identification and Principal Activities

Hardware & Lumber Limited (the company) is a 58.1% subsidiary of GraceKennedy Limited. The company trades in hardware, lumber, household items and agricultural products. The company is a public company listed on the Jamaica Stock Exchange.

The company and GraceKennedy Ltd. are incorporated and domiciled in Jamaica. The registered office of the company is located at 697 Spanish Town Road, Kingston 11, Jamaica.

2. Accounting Policies

Basis of preparation

The accounting policies used in the preparation of these unaudited interim financial statements are consistent with those used in the audited financial statements for the year ended 31 December 2010 and comply with the requirements of IAS 34, Interim Financial reporting.

3. Finance Costs

	March 2011 \$'000	March 2010 \$'000
Interest expense	17,578	29,914
Exchange gains	<u>(1,784)</u>	<u>(804)</u>
	<u>15,794</u>	<u>29,110</u>

Hardware & Lumber Limited

Notes to the Interim Financial Statements
31 March 2011
(expressed in Jamaican dollars)

4. Segment Reporting

The company is organized into three main business segments:

- a) Wholesale of hardware and building products
- b) Retail of household and hardware products
- c) Agricultural products and equipment

The company's operations are located in Jamaica. The summary financial details of its segments are as follows:

	3 months to 31 March 2011			Consolidated \$' 000
	Wholesale Hardware \$' 000	Retail Hardware Household \$' 000	Agricultural \$' 000	
External operating revenue	<u>246,423</u>	<u>872,970</u>	<u>349,776</u>	<u>1,469,169</u>
(Loss)/profit from operations	(9,477)	(6,178)	32,547	16,892
Finance cost	(2,611)	(9,370)	(3,813)	(15,794)
(Loss)/profit before tax	<u>(12,088)</u>	<u>(15,548)</u>	<u>28,734</u>	<u>1,098</u>

	3 months to 31 March 2010			Consolidated \$' 000
	Wholesale Hardware \$' 000	Retail Hardware Household \$' 000	Agricultural \$' 000	
External operating revenue	<u>290,332</u>	<u>824,866</u>	<u>320,254</u>	<u>1,435,452</u>
(Loss)/profit from operations	(3,379)	(28,426)	38,948	7,143
Finance cost	(5,792)	(16,754)	(6,564)	(29,110)
(Loss)/profit before tax	<u>(9,171)</u>	<u>(45,180)</u>	<u>32,384</u>	<u>(21,967)</u>

Hardware & Lumber Limited

Notes to the Interim Financial Statements
31 March 2011
(expressed in Jamaican dollars)

5. Group Companies and Other Related Party Transactions and Balances

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

	March 2011 \$'000	March 2010 \$'000
Due to Grace	(7,041)	(36)
Due to fellow subsidiaries	<u>(1,041)</u>	<u>(3,187)</u>
	<u><u>(8,532)</u></u>	<u><u>(3,223)</u></u>
Due from Grace	2,265	1,120
Due from fellow subsidiaries	<u>6,844</u>	<u>982</u>
	<u><u>9,109</u></u>	<u><u>2,102</u></u>

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

	March 2011 \$'000	March 2010 \$'000
Income:		
Fellow subsidiaries	4,476	2,708
Parent company	1,256	692
Expenses:		
Fellow subsidiaries	5,542	8,323
Parent company	14,257	15,174
Directors and key management	<u>31,929</u>	<u>26,863</u>

Hardware & Lumber Limited

Notes to the Interim Financial Statements
31 March 2011
 (expressed in Jamaican dollars)

6. Short Term Loans

	March 2011 \$'000	March 2010 \$'000
Balance at the beginning of the period	593,445	366,335
Loans received	354,811	364,357
Loans repaid	<u>(355,262)</u>	<u>(152,659)</u>
Balance at the end of the period	<u><u>592,994</u></u>	<u><u>578,033</u></u>

7. Long Term Loans

	March 2011 \$'000	March 2010 \$'000
Balance at the beginning of the period	253,625	398,307
Loans repaid	<u>(23,024)</u>	<u>(29,357)</u>
Balance at the end of the period	<u><u>230,601</u></u>	<u><u>368,950</u></u>

One of the company's loan agreements contains a covenant which states that at the end of each quarter the company's debt service coverage should be 2 times or greater. The modest performance last year along with losses experienced in previous years has caused the company to fall below the minimum leverage threshold. As a result of the breach, \$19,575,000 of principal due for prepayment beyond 12 months has been reclassified to the current portion. This change in presentation has been made as the lender has the option to demand full repayment of the loan.