

Hardware & Lumber Limited

**Interim Financial Statements
30 September 2011**

Hardware & Lumber Limited
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**HARDWARE & LUMBER LIMITED
UNAUDITED FINANCIAL RESULTS
SEPTEMBER 30 , 2011**

For the three months ended September 30, 2011, revenues and net profit were \$1,534 million (+14%) and \$7 million, respectively, compared to \$1,340 million and a net loss of \$7 million for the comparative period in 2010. For the nine months ended September 30, 2011, revenues and net profit were \$4,556 million (+9%) and \$5 million, compared to \$4,182 million and net loss of \$14 million for the comparative period in 2010. Despite increased revenues and gross margins, results have been broadly offset by increased post retirement, transportation and utility costs.

Revenues in the retail segment increased by 6% for the nine months, compared to 2010. Improved product mix and margin management resulted in an 11% increase in gross margins versus 2010. While this has translated into significantly reduced losses in the segment, we continue to focus on improving supply chain management and product mix variation to ensure profitability. In the wholesale segment, despite a revenue increase of 14% for the nine months, margins were reduced due to competitive pricing pressure. In addition, rising transportation costs continue to present challenges for the division.

The Agricultural segment recorded a 12% increase in revenue for the nine months, compared to 2010. For the period, the segment sold higher volumes of lower margin products resulting in reduced gross margins. Demand for our products is growing, and we continue to provide technical assistance and training to farmers aimed at enhancing their yields and productivity.

Late in the quarter we completed the revamping of our Rapid True Value (RTV) Montego Bay and Ocho Rios stores. We expect this to translate into improved performance at these stores going forward. We have made significant improvements in order turn-around time for our wholesale customers, and have seen significant improvements in our quarterly customer satisfaction scores in all three divisions. Inventories have trended down during the quarter, as planned.

We expect the remainder of 2011 to show further improvement, as we continue to make changes to attract and retain our customers, while ensuring improved cost management and margins.

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
9 months to 30 September 2011
(expressed in Jamaican dollars)

	Note	3 months to 30 September 2011 \$'000	9 months to 30 September 2011 \$'000	3 months to 30 September 2010 \$'000	9 months to 30 September 2010 \$'000
Revenue		1,534,474	4,555,754	1,339,535	4,181,977
Cost of Sales		<u>(1,132,778)</u>	<u>(3,382,107)</u>	<u>(985,086)</u>	<u>(3,101,857)</u>
Gross Profit		401,696	1,173,647	354,449	1,080,120
Other Operating Income		7,005	27,095	9,002	28,348
Operating Expenses		<u>(380,837)</u>	<u>(1,142,879)</u>	<u>(352,288)</u>	<u>(1,076,425)</u>
Profit from operations		27,864	57,863	11,163	32,043
Finance Costs	3	<u>(17,539)</u>	<u>(49,694)</u>	<u>(22,387)</u>	<u>(52,582)</u>
Profit/(Loss) before Taxation		10,325	8,169	(11,224)	(20,539)
Taxation		<u>(3,442)</u>	<u>(2,723)</u>	<u>3,741</u>	<u>6,846</u>
Profit/(Loss), total comprehensive income for the period		<u>6,883</u>	<u>5,446</u>	<u>(7,483)</u>	<u>(13,693)</u>
Number of Stock Units Issued ('000)		80,842	80,842	80,842	80,842
Profit/(Loss) per Stock Unit		<u>0.09</u>	<u>0.07</u>	<u>(0.09)</u>	<u>(0.17)</u>

Hardware & Lumber Limited
Unaudited Statement of Financial Position
As at 30 September 2011
(expressed in Jamaican dollars)

	September 2011 \$'000	December 2010 \$'000	September 2010 \$'000
NET ASSETS EMPLOYED			
Non-Current Assets			
Property, plant & equipment	626,138	613,941	580,356
Intangible assets	28,538	50,325	58,624
Deferred tax asset	147,928	150,640	161,528
Retirement plan asset	27,906	97,051	119,202
	830,510	911,957	919,710
Current Assets			
Inventories	1,479,292	1,457,784	1,242,665
Trade and other receivables	550,268	452,226	442,534
Group companies	16,702	5,655	18,074
Taxation recoverable	51,541	51,121	50,950
Cash and bank balances	76,942	104,786	73,338
	2,174,745	2,071,572	1,827,561
Current Liabilities			
Bank overdrafts	-	12,016	-
Trade, other payables and provisions	901,985	945,220	732,326
Short term loans	463,998	593,445	624,012
Group companies	9,305	4,029	9,398
Current portion of long term debt	178,447	119,789	94,679
	1,553,735	1,674,499	1,460,415
Net Current Assets	621,010	397,073	367,146
	<u>1,451,520</u>	<u>1,309,030</u>	<u>1,286,856</u>
Financed by:			
Share capital	616,667	616,667	616,667
Share option	-	-	10,341
Capital reserve	290,619	290,619	262,206
Retained earnings	49,661	44,215	840
	956,947	951,501	890,054
Non-Current Liabilities			
Long term debt	256,940	133,836	185,294
Retirement plan obligations	237,633	223,693	211,508
	<u>1,451,520</u>	<u>1,309,030</u>	<u>1,286,856</u>

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 Changes in Stockholders' Equity
9 Months to 30 September 2011
(expressed in Jamaican dollars)

	2011				
	Share Capital \$'000	Share Option \$'000	Capital Reserve \$'000	Retained Earnings \$'000	Total \$'000
Balance at 1 January 2011	616,667	-	290,619	44,215	951,501
Profit and total comprehensive income	-	-	-	5,446	5,446
Balance at 30 September 2011	616,667	-	290,619	49,661	956,947

	2010				
	Share Capital \$'000	Share Option \$'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 and total comprehensive income	-	-	-	(13,693)	(13,693)
Balance at 30 September 2010	616,667	10,341	262,206	840	890,054

Hardware & Lumber Limited
Unaudited Statement of Cash Flow
9 Months to 30 September 2011
(expressed in Jamaican dollars)

	September 2011 \$'000	September 2010 \$'000
Cash Generated from Operating and Investing Activities:		
Operating Activities		
Profit/(Loss) for the period	5.446	(13,693)
Items not affecting cash	111,922	139,687
	<u>117,368</u>	<u>125,994</u>
Changes in non-cash working capital components	<u>(86,234)</u>	<u>(86,211)</u>
Net Cash provided by Operating Activities	<u>31,134</u>	<u>39,783</u>
Net Cash used in Investing Activities	<u>(47,977)</u>	<u>(36,044)</u>
Cash (used in)/provided by Operating and Investing Activities	<u>(16,843)</u>	<u>3,739</u>
Cash provided by Financing Activities	<u>1,015</u>	<u>63,052</u>
Net (decrease)/increase in cash and cash equivalents	(15,828)	66,791
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>76,942</u></u>	<u><u>73,338</u></u>

Hardware & Lumber Limited
Notes to the Interim Financial Statements
30 September 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 Grace 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

	September 2011 \$'000	September 2010 \$'000
Interest	51,298	75,919
Foreign Exchange Gain	<u>(1,604)</u>	<u>(23,337)</u>
Total	<u><u>49,694</u></u>	<u><u>52,582</u></u>

Hardware & Lumber Limited
Notes to the Interim Financial Statements cont'd
30 September 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 entirely in Jamaica. The summary financial details of its segments are as follows:

	9 months to 30 September 2011			
	Wholesale Hardware	Retail Hardware Household	Agricultural	Consolidated
	\$' 000	\$' 000	\$' 000	\$' 000
External operating revenue	<u>790,741</u>	<u>2,645,971</u>	<u>1,119,042</u>	<u>4,555,754</u>
(Loss)/Profit from operations	(43,567)	(30,510)	131,940	57,863
Finance cost	(8,599)	(28,814)	(12,281)	(49,694)
(Loss)/Profit before tax	<u>(52,166)</u>	<u>(59,324)</u>	119,659	8,169

	9 months to 30 September 2010			
	Wholesale Hardware	Retail Hardware Household	Agricultural	Consolidated
	\$' 000	\$' 000	\$' 000	\$' 000
External operating revenue	<u>694,235</u>	<u>2,489,691</u>	<u>997,851</u>	<u>4,181,997</u>
(Loss)/Profit from operations	(18,304)	(78,983)	129,330	32,043
Finance cost	(8,820)	(31,338)	(12,424)	(52,582)
(Loss)/Profit before tax	<u>(27,124)</u>	<u>(110,321)</u>	116,906	(20,539)

Hardware & Lumber Limited
Notes to the Interim Financial Statements cont'd
30 September 2011
(Expressed in Jamaican dollars)

5) Group Companies and Other Related Party Transactions and Balances

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

	September 2011	September 2010
Due from Parent company	8,592	8,977
Due from Fellow subsidiaries	<u>8,110</u>	<u>9,097</u>
	<u>16,702</u>	<u>18,074</u>
Due to Parent company	(6,966)	(1,407)
Due to Fellow subsidiaries	<u>(2,339)</u>	<u>(7,990)</u>
	<u>(9,305)</u>	<u>(9,397)</u>

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

	September 2011 \$'000	September 2010 \$'000
Income:		
Fellow subsidiaries	15,812	13,898
Parent company	2,262	1,813
Expenses:		
Fellow subsidiaries	60,615	65,794
Parent company	18,799	28,300
Directors and key management	<u>59,184</u>	<u>64,049</u>

Hardware & Lumber Limited
Notes to the Interim Financial Statements cont'd
30 September 2011
(Expressed in Jamaican dollars)

6) Short Term Loans

	September 2011 \$'000	September 2010 \$'000
Balance at the beginning of the period	593,445	366,335
Loans received	598,956	644,297
Loans repaid	(728,403)	(386,620)
Balance at the end of the period	<u>463,998</u>	<u>624,012</u>

7) Long Term Loans

	September 2011 \$'000	September 2010 \$'000
Balance at the beginning of the period	253,625	398,307
Loans Received	250,000	-
Loans repaid	(68,238)	(118,334)
	435,387	279,973
Less Current Portion	(178,447)	(94,679)
Balance at the end of the period	<u>256,940</u>	<u>185,294</u>