

**Hardware & Lumber Limited**

**Unaudited Financial Statements  
30 September 2012**

# Hardware & Lumber Limited

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30 September 2012

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## **CEO's Report**

## **Statements**

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**HARDWARE & LUMBER LIMITED**  
**UNAUDITED FINANCIAL RESULTS**  
**September 30, 2012**

Revenue for the three months ended September 30, 2012 was \$1,543.2 million or 0.6% more than the same quarter in the previous year. This brought total revenue for the nine months ended September 30, 2012 to \$4,657.7 million, representing a 2.2% increase over the \$4,555.7 million in the comparative period of the prior year. Year to date revenue growth was led by the agricultural and the retail, hardware and household segments which grew by 9.7% and 3.0% respectively when compared to the same period in the previous year. The wholesale segment declined by 10.9% over the comparative nine months period reflecting the ongoing decline in the construction sector.

Despite generally lower margins, gross profit was \$1,182.5 million or 2.9% more than the \$1,173.6 million recorded in the same period last year, due to the higher revenues. We continued to implement cost savings initiatives and contained discretionary spending wherever possible. The net result for the nine-months period ended September 30, 2012 was profit after tax of \$14.2 million compared to \$5.4 million in 2011.

Improvements continued to be realized in working capital management. At September 30, 2012, inventory balances were \$1,273 million or 13.9% lower than the balance at September 30, 2011, achieved through improved inventory management. Over the same period, trade receivables balances improved, reducing by 17.0% to \$456.9 million as we continued our focused on better credit management. Amounts owed to trade creditors ended the period at \$811.4 million representing a 10% reduction compared to the balance at September 30, 2011. Cash of \$215.7 million was generated from operating activities and primarily used to liquidate short-term loans and service long-term loan commitments.

As we enter the fourth quarter of the year and look towards 2013, we continue to operate in a very difficult environment. Our immediate focus is to ensure that our customers' needs are met by providing a wide selection of quality home improvement, agriculture, garden and building supplies at competitive prices. We will also continue to invest in our stores as well as in the training of our employees to ensure continuous improvement in the shopping experience of our customers.

Hardware & Lumber Ltd takes this opportunity to thank all our stakeholders and customers for their continued patronage and support. We also thank our fellow directors, management and colleagues for their dedication and commitment to the business.

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**ERWIN BURTON**  
**CHAIRMAN**

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**ANDREA COY**  
**CHIEF EXECUTIVE OFFICER**

# Hardware & Lumber Limited

## Unaudited Statement of Comprehensive Income

9 months to 30 September 2012

(expressed in Jamaican dollars)

	Note	3 months to 30 September 2012 \$'000	9 months to 30 September 2012 \$'000	3 months to 30 September 2011 \$'000	9 months to 30 September 2011 \$'000
<b>Revenue</b>		1,543,190	4,657,686	1,534,474	4,555,754
Cost of sales		<u>(1,155,165)</u>	<u>(3,475,208)</u>	<u>(1,132,778)</u>	<u>(3,382,107)</u>
<b>Gross profit</b>		388,025	1,182,478	401,696	1,173,647
Other operating income		11,023	25,623	7,005	27,095
Operating expenses		<u>(366,198)</u>	<u>(1,133,591)</u>	<u>(380,837)</u>	<u>(1,142,879)</u>
<b>Profit from operations</b>		32,850	74,510	27,864	57,863
Finance costs	<b>3</b>	<u>(15,026)</u>	<u>(53,194)</u>	<u>(17,539)</u>	<u>(49,694)</u>
<b>Profit before taxation</b>		17,824	21,316	10,325	8,169
Taxation		<u>(5,941)</u>	<u>(7,105)</u>	<u>(3,442)</u>	<u>(2,723)</u>
<b>Profit, being total comprehensive income for the period</b>		<u>11,883</u>	<u>14,211</u>	<u>6,883</u>	<u>5,446</u>
Number of stock units issued ('000)		80,842	80,842	80,842	80,842
<b>Earnings per stock unit</b>		<u>\$0.15</u>	<u>\$0.18</u>	<u>\$0.09</u>	<u>\$0.07</u>

**Hardware & Lumber Limited**  
 Unaudited Statement of Financial Position  
**30 September 2012**  
 (expressed in Jamaican dollars)

**Hardware & Lumber Limited**  
 Unaudited Statement of Financial Position  
 As at 30 September 2012  
 (expressed in Jamaican dollars)

	Note	September 30, 2012 \$'000	December 31, 2011 \$'000	September 30, 2011 \$'000
<b>NET ASSETS EMPLOYED</b>				
<b>Non-Current Assets</b>				
Property, plant & equipment		606,673	621,842	626,138
Intangible assets		14,245	16,116	28,538
Deferred tax asset		140,128	147,238	147,928
Retirement plan asset		3,229	3,367	27,906
		764,275	788,563	830,510
<b>Current Assets</b>				
Inventories		1,273,055	1,290,325	1,479,292
Trade and other receivables		456,943	450,009	550,268
Group companies		13,176	9,486	16,702
Taxation recoverable		50,952	51,818	51,541
Cash and bank balances		172,023	319,659	76,942
		1,966,148	2,121,297	2,174,745
<b>Current Liabilities</b>				
Trade, other payables and provisions		811,415	729,117	901,985
Short term loans	6	50,000	593,198	463,998
Group companies		9,856	10,125	9,305
Current portion of long term debt	7	183,333	174,331	178,447
		1,054,604	1,506,771	1,553,735
<b>Net Current Assets</b>		911,544	614,526	621,010
		1,675,819	1,403,089	1,451,520
<b>Financed by:</b>				
Share capital		616,667	616,667	616,667
Capital reserve		290,619	290,619	290,619
Other reserve		4,244	4,244	4,244
Retained earnings		64,722	50,511	45,417
		976,252	962,041	956,947
<b>Non-Current Liabilities</b>				
Long term debt	7	433,333	201,012	256,940
Retirement plan obligations		266,234	240,036	237,633
		1,675,819	1,403,089	1,451,520

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



Erwin Burton

Director



Andrea Coy

Director

# Hardware & Lumber Limited

Unaudited Statement of Changes in Stockholders' Equity

9 months to 30 September 2012

(expressed in Jamaican dollars)

	<b>2012</b>				
	Share Capital \$'000	Other Reserve \$'000	Capital Reserve \$'000	Retained Earnings \$'000	Total \$'000
	<b>Balance at 1 January 2012</b>	616,667	4,244	290,619	50,511
Profit, being total comprehensive income for the period	-	-	-	14,211	14,211
<b>Balance at 30 September 2012</b>	<b>616,667</b>	<b>4,244</b>	<b>290,619</b>	<b>64,722</b>	<b>976,252</b>

	<b>2011</b>				
	Share Capital \$'000	Other Reserve \$'000	Capital Reserve \$'000	Retained Earnings \$'000	Total \$'000
	<b>Balance at 1 January 2011</b>	616,667	4,244	290,619	39,971
Profit, being total comprehensive income for the period	-	-	-	5,446	5,446
<b>Balance at 30 September 2011</b>	<b>616,667</b>	<b>4,244</b>	<b>290,619</b>	<b>45,417</b>	<b>956,947</b>

# Hardware & Lumber Limited

Unaudited Statement of Cash Flows

9 Months to 30 September 2012

(expressed in Jamaican dollars)

	September 30, 2012 \$'000	September 30, 2011 \$'000
<b>Cash Generated from Operating and Investing activities:</b>		
Operating Activities:		
Net Profit	14,211	5,446
Items not affecting cash	99,249	111,922
	<u>113,460</u>	<u>117,368</u>
Changes in non-cash working capital components	102,221	(86,234)
<b>Net Cash provided by operating activities</b>	<u>215,680</u>	<u>31,134</u>
Net cash used in investing activities	(20,111)	(47,977)
<b>Cash provided by / (used in) operating and investing activities</b>	<u>195,570</u>	<u>(16,843)</u>
<b>Cash (used in) / provided by financing activities</b>	<u>(343,205)</u>	<u>1,015</u>
Net (decrease) / increase in cash and cash equivalents	(147,635)	15,828
Cash and cash equivalents at the beginning of the period	319,659	92,770
<b>Cash and cash equivalents at the end of the period</b>	<u><u>172,023</u></u>	<u><u>76,942</u></u>
<b>Comprised of:</b>		
Cash at bank	172,023	76,942
<b>Cash and Cash Equivalents at the end of the period</b>	<u><u>172,023</u></u>	<u><u>76,942</u></u>

# Hardware & Lumber Limited

Notes to the Interim Financial Statements

**30 September 2012**

**(expressed in Jamaican dollars)**

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## 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 2011 and comply with the requirements of IAS 34, Interim Financial reporting.

## 3. Finance Costs

	<b>9 months to September 30, 2012 \$'000</b>	<b>9 months to September 30, 2011 \$'000</b>
Interest expense	52,739	51,298
Exchange losses/(gains)	455	(1,604)
	<u>53,194</u>	<u>49,694</u>



# Hardware & Lumber Limited

Notes to the Interim Financial Statements  
**30 September 2012**  
**(expressed in Jamaican dollars)**

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## 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:

	<b>9 months to 30 September 2012</b>			<b>Consolidated</b>
	<b>Wholesale Hardware</b>	<b>Retail Hardware Household</b>	<b>Agricultural</b>	
	<b>\$' 000</b>	<b>\$' 000</b>	<b>\$' 000</b>	<b>\$' 000</b>
External operating revenue	<u>704,499</u>	<u>2,725,811</u>	<u>1,227,376</u>	<u>4,657,686</u>
(Loss)/profit from operations	(50,207)	2,550	122,167	74,510
Finance cost	(8,268)	(30,835)	(14,091)	(53,194)
(Loss)/profit before tax	<u>(58,476)</u>	<u>(28,285)</u>	<u>108,076</u>	<u>21,316</u>

	<b>9 months to 30 September 2011</b>			<b>Consolidated</b>
	<b>Wholesale Hardware</b>	<b>Retail Hardware Household</b>	<b>Agricultural</b>	
	<b>\$' 000</b>	<b>\$' 000</b>	<b>\$' 000</b>	<b>\$' 000</b>
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>	<u>119,659</u>	<u>8,169</u>

# Hardware & Lumber Limited

Notes to the Interim Financial Statements  
**30 September 2012**  
 (expressed in Jamaican dollars)

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## 5. Group Companies and Other Related Party Transactions and Balances

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

	<b>Sept. 30, 2012 \$'000</b>	<b>Sept. 30, 2011 \$'000</b>
Due to GraceKennedy	(7,593)	(6,966)
Due to fellow subsidiaries	<u>(2,263)</u>	<u>(2,339)</u>
	<u><u>(9,856)</u></u>	<u><u>(9,305)</u></u>
Due from GraceKennedy	990	8,592
Due from fellow subsidiaries	<u>12,186</u>	<u>8,110</u>
	<u><u>13,176</u></u>	<u><u>16,702</u></u>

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

	<b>9 months Sept. 30, 2012 \$'000</b>	<b>9 months Sept. 30, 2011 \$'000</b>
Income:		
Fellow subsidiaries	12,715	15,812
Parent company	43	2,262
Expenses:		
Fellow subsidiaries	60,763	60,615
Parent company	47,626	41,218
Directors and key management	<u>53,480</u>	<u>59,184</u>

# Hardware & Lumber Limited

Notes to the Interim Financial Statements  
**30 September 2012**  
 (expressed in Jamaican dollars)

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## 6. Short Term Loans

	<b>Sept. 30, 2012 \$'000</b>	<b>Sept. 30, 2011 \$'000</b>
Balance at the beginning of the period	593,198	593,445
Loans received	124,260	598,956
Loans repaid	<u>(667,458)</u>	<u>(728,403)</u>
Balance at the end of the period	<u>50,000</u>	<u>463,998</u>

During the quarter, the company received a short-term loan of \$50,000,000 from GraceKennedy. The annual interest rate is 9.5% and is repayable by November 30, 2012.

## 7. Long Term Loans

	<b>Sept. 30, 2012 \$'000</b>	<b>Sept. 30, 2011 \$'000</b>
Balance at the beginning of the period	375,343	253,625
Loans received	500,000	250,000
Loans repaid	<u>(258,677)</u>	<u>(68,238)</u>
Balance at the end of the period	<u>616,666</u>	<u>435,387</u>

In 2012, the company received a loan of \$500,000,000 from National Commercial Bank Jamaica Limited denominated in Jamaican dollars. The annual interest rate is 9.75%. The loan is repayable by 2017 in quarterly installments.

In 2011, the company accessed the sum of \$250,000,000 through a commercial paper arranged by First Global Financial Services Limited denominated in Jamaican dollars. The interest rate is 10.05%. The loan is repayable by 2013 in biannual installments.