

Hardware & Lumber Limited

**Unaudited Financial Statements
31 March 2013**

Hardware & Lumber Limited

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CEO's Report

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HARDWARE & LUMBER LIMITED
UNAUDITED FINANCIAL RESULTS
March 31, 2013

Total revenue for the three months ended March 31, 2013 was \$1,547.8 million or 2.4% more than the \$1,511.8 million reported in the same quarter in the previous year. The Household, Hardware and Building Products segment (trading as Rapid True Value) led the revenue growth with a 3.7% increase, being the result of increased focus on core business and satisfying our customers' needs through better stock management. Sales in the Agricultural Products and Equipment segment (trading as AgroGrace) declined by 1.1%, as less than favorable field conditions in some sections of the island negatively affected the sales of various agricultural inputs.

Total gross profit increased by 6.2% to \$408.3 million, achieved at an average margin of 26.4%, a full 1% higher than the comparative quarter in the previous year. The improved performance was delivered through increased sales, greater focus on margin management and the integration of the wholesale segment into the Rapid True Value operations. Effective January 1, 2013, the company re-organised its operations into two operating divisions, down from the previous three, which saw the wholesale segment subsumed into the retail segment.

Operating expenses increased by 8.5% to \$394.3 million. Gains made from operational cost-saving initiatives and ongoing control of discretionary spending were not enough to offset the significant increase in the charges associated with the company's pension scheme and other retirement benefits. The revision of the accounting rules governing such benefits which became effective January 1, 2013, triggered a restatement of the expense recorded in 2012 and a significant increase in the carrying value of the liability in the Statement of Financial Position as at December 31, 2012.

The net result for the three-months period ended March 31, 2013 was profit after tax of \$9.9 million compared to a loss of \$5.2 million in 2012. This translated to earnings per stock unit of \$0.12, compared to a loss per stock unit of \$0.06 (restated) in the first quarter of the previous year.

Working capital management continued to receive significant management focus. At March 31, 2013, inventory balances were \$1,158.4 million or 13.9% lower than the balance at March 31, 2012. Over the same period, improved credit management resulted in a 4.9% reduction in trade and other receivables balance to \$459.9 million. At the end of the period, the amount owed to trade and other creditors was \$913.2 million, being 3.1% lower than the balance at March 31, 2012. Total cash generated from operating activities was \$209.0 million while \$57.0 million was used to service loan commitments and pay dividends, leaving cash balance of \$357.8 million at the end of the period.

The trading environment remains very competitive, but we will continue to meet our customers' needs by providing the best selection of quality home improvement, agriculture, garden and building supplies. On April 9, 2013 the newly refurbished Rapid True Value store in Mandeville was officially opened to positive review from

our customers. This brought to three the number of stores which have been refurbished over the last two years, the other two being Rapid True Value Lane and Rapid True Value Montego Bay. In the months ahead, we will make further capital investments in three additional stores in the network as well as in the ongoing training of our employees as we deliver on our commitment to improve the shopping experience of our customers. We will also continue the ongoing review of our risk management systems, internal processes and operational controls in order to improve the efficiency and effectiveness of the organization.

During the quarter Mr. Harry Smith was appointed to the Board of Directors, effective March 7, 2013.

We wish 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.



Erwin Burton - Chairman



Andrea D. Lewis-Coy – Chief Executive Officer

Hardware & Lumber Limited

Unaudited Income Statement

3 months to 31 March 2013

(expressed in Jamaican dollars)

	Note	3 months to 31 March 2013 \$'000	(Restated) * 3 months to 31 March 2012 \$'000
Revenue		1,547,784	1,511,813
Cost of sales		<u>(1,139,523)</u>	<u>(1,127,348)</u>
Gross Profit		408,261	384,465
Other operating income		5,350	6,501
Operating expenses		<u>(394,288)</u>	<u>(363,531)</u>
Profit from Operations		19,323	27,435
Finance costs	3	<u>(6,840)</u>	<u>(22,274)</u>
Profit before Taxation		12,483	5,161
Taxation		<u>(2,630)</u>	<u>(10,333)</u>
Net Profit/(Loss)		<u>9,853</u>	<u>(5,172)</u>
Number of stock units issued ('000)		80,842	80,842
Earnings per Stock Unit		<u>\$0.12</u>	<u>(\$0.06)</u>

* The comparative numbers have been restated to give effect to the amendments to IFRS. See note 8.

Hardware & Lumber Limited

Unaudited Statement of Comprehensive Income
3 months to 31 March 2013
 (expressed in Jamaican dollars)

	3 months to 31 March 2013 \$'000	(Restated) * 3 months to 31 March 2012 \$'000
Net Profit/(Loss)	9,853	(5,172)
Other Comprehensive Income:		
Remeasurement of retirement benefit obligation	<u>(29,507)</u>	<u>11,750</u>
(Loss)/Income, being Total Comprehensive Income for the Period	<u>(19,654)</u>	<u>6,578</u>

* The comparative numbers have been restated to give effect to the amendments to IFRS. See note 8.

Hardware & Lumber Limited
 Unaudited Statement of Financial Position
31 March 2013
 (expressed in Jamaican dollars)

		March	(Restated) * March	(Restated) * December
		2013	2012	2012
	Note	\$'000	\$'000	\$'000
NET ASSETS EMPLOYED				
Non-Current Assets				
Property, plant & equipment		608,118	619,671	615,730
Intangible assets		10,584	15,273	11,853
Deferred tax asset		203,592	300,624	193,576
		822,294	935,568	821,159
Current Assets				
Inventories		1,158,363	1,349,850	1,107,821
Trade and other receivables		459,930	483,460	427,206
Group companies	5	12,994	12,601	8,661
Taxation recoverable		50,631	52,399	51,020
Cash and bank balances		357,849	427,438	205,935
		2,039,767	2,325,748	1,800,643
Current Liabilities				
Trade, other payables and provisions		913,250	942,709	694,376
Short-term loans	6	-	218,250	-
Group companies		3,465	12,625	1,989
Current portion of long-term debt	7	183,333	202,908	183,333
		1,100,048	1,376,492	879,698
Net Current Assets		939,719	949,256	920,945
		1,762,013	1,884,824	1,742,104
Financed by:				
Share capital		616,667	616,667	616,667
Capital reserve		305,342	290,619	305,342
Other reserve		4,961	4,244	4,961
Accumulated deficit		(262,135)	(282,097)	(242,481)
		664,835	629,433	684,489
Non-Current Liabilities				
Long-term debt	7	341,667	525,000	372,629
Retirement benefit obligation		755,511	730,391	684,986
		1,762,013	1,884,824	1,742,104

* The comparative numbers have been restated to give effect to the amendments to IFRS. See note 8.

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



Erwin Burton

Chairman



Andrea D. Lewis-Coy

Director

Hardware & Lumber Limited

Unaudited Statement of Changes in Stockholders' Equity

31 March 2013

(expressed in Jamaican dollars)

		2013				
		Share Capital \$'000	Other Reserve \$'000	Capital Reserve \$'000	Accumulated Deficit \$'000	Total \$'000
	Note					
Balance at 1 January 2013 (restated) *	8	616,667	4,961	305,342	(242,481)	684,489
Profit, being total comprehensive income for the period		-	-	-	9,853	9,853
Remeasurement of retirement benefit obligation		-	-	-	(29,507)	(29,507)
Balance at 31 March 2013		616,667	4,961	305,342	(262,135)	664,835

		2012 (Restated) *				
		Share Capital \$'000	Other Reserve \$'000	Capital Reserve \$'000	Accumulated Deficit \$'000	Total \$'000
	Note					
Balance at 1 January 2012	8	616,667	4,244	290,619	(288,675)	622,855
Loss, being total comprehensive income for the period		-	-	-	(5,172)	(5,172)
Remeasurement of retirement benefit obligation		-	-	-	11,750	11,750
Balance at 31 March 2012		616,667	4,244	290,619	(282,097)	629,433

* The comparative numbers have been restated to give effect to the amendments to IFRS. See note 8.

Hardware & Lumber Limited

Unaudited Statement of Cash Flows

3 Months to 31 March 2013

(expressed in Jamaican dollars)

	March 31, 2013 \$'000	(Restated) * March 31, 2012 \$'000
Cash Generated from Operating and Investing activities:		
Operating activities:		
Net Profit / (Loss)	9,853	(5,172)
Items not affecting cash	<u>28,296</u>	<u>30,210</u>
	<u>38,149</u>	<u>25,038</u>
Changes in non-cash working capital components	<u>173,460</u>	<u>120,622</u>
Net cash provided by operating activities	<u>211,609</u>	<u>145,660</u>
Net cash used in investing activities	<u>(2,638)</u>	<u>(7,646)</u>
Cash provided by operating and investing activities	<u>208,971</u>	<u>138,014</u>
Cash used in financing activities	<u>(57,057)</u>	<u>(30,235)</u>
Net increase in cash and cash equivalents	151,914	107,779
Cash and cash equivalents at the beginning of the period	<u>205,935</u>	<u>319,659</u>
Cash and cash equivalents at the end of the period	<u><u>357,849</u></u>	<u><u>427,438</u></u>
Comprised of:		
Cash at bank	<u>357,849</u>	<u>427,438</u>
Cash and Cash Equivalents at the end of the period	<u><u>357,849</u></u>	<u><u>427,438</u></u>

* The comparative numbers have been restated to give effect to the amendments to IFRS. See note 8.

Hardware & Lumber Limited

Notes to the Interim Financial Statements

31 March 2013

(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 2012 and comply with the requirements of IAS 34, Interim Financial reporting.

Certain amendments to existing standards have been published that became effective during the current financial year. In particular, amendments to IAS 19: Employee benefits, have resulted in the restatement of comparative information. The effects of adopting these amendments on the equity and net profit as previously reported are detailed in Note 8.

These financial statements are presented in Jamaican dollars unless otherwise indicated.

3. Finance Costs

	March 2013 \$'000	March 2012 \$'000
Interest expense	13,098	19,261
Exchange (gains)/losses	(6,258)	3,013
	<u>6,840</u>	<u>22,274</u>

Hardware & Lumber Limited

Notes to the Interim Financial Statements
31 March 2013
(expressed in Jamaican dollars)

4. Segment Reporting

Up to December 31, 2012, the Company operated under three main operating divisions:

- Wholesale of Hardware and Building Products ("H&L Wholesale")
- Retail of Household and Hardware Products ("Rapid True Value")
- Retail and Wholesale of Agricultural Products and Equipment ("AgroGrace")

Effective January 1, 2013, the company re-organised its operations into two operating divisions which will see the wholesale segment subsumed into the retail segment. The operating divisions are now renamed:

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

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

	3 months to 31 March 2013		
	Household Hardware & Building Products	Agricultural Products & Equipment	Consolidated
	\$' 000	\$' 000	\$' 000
External operating revenue	<u>1,138,136</u>	<u>409,648</u>	<u>1,547,784</u>
(Loss)/profit from operations	(32,102)	51,425	19,323
Finance cost	(5,117)	(1,723)	(6,840)
(Loss)/profit before tax	<u>(37,219)</u>	<u>49,702</u>	<u>12,483</u>

	3 months to 31 March 2012 (Restated)		
	Household Hardware & Building Products	Agricultural Products & Equipment	Consolidated
	\$' 000	\$' 000	\$' 000
External operating revenue	<u>1,097,531</u>	<u>414,282</u>	<u>1,511,813</u>
(Loss)/profit from operations	(19,172)	46,607	27,435
Finance cost	(16,185)	(6,089)	(22,274)
(Loss)/profit before tax	<u>(35,357)</u>	<u>40,518</u>	<u>5,161</u>

Hardware & Lumber Limited

Notes to the Interim Financial Statements
31 March 2013
(expressed in Jamaican dollars)

5. Group Companies and Other Related Party Transactions and Balances

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

	March 2013 \$'000	March 2012 \$'000
Due to Grace	(1,073)	(8,571)
Due to fellow subsidiaries	<u>(2,830)</u>	<u>(4,054)</u>
	<u><u>(3,903)</u></u>	<u><u>(12,625)</u></u>
Due from Grace	456	1,280
Due from fellow subsidiaries	<u>12,538</u>	<u>11,321</u>
	<u><u>12,994</u></u>	<u><u>12,601</u></u>

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

	March 2013 \$'000	March 2012 \$'000
Income:		
Fellow subsidiaries	2,718	3,375
Parent company	13	-
Expenses:		
Fellow subsidiaries	4,488	1,966
Parent company	17,067	15,956
Directors and key management	<u>19,721</u>	<u>21,853</u>

Hardware & Lumber Limited

Notes to the Interim Financial Statements
31 March 2013
 (expressed in Jamaican dollars)

6. Short Term Loans

	March 2013 \$'000	March 2012 \$'000
Balance at the beginning of the period	-	593,198
Loans repaid	-	(374,948)
Balance at the end of the period	<u>-</u>	<u>218,250</u>

All short-term loans were repaid during 2012.

7. Long Term Loans

	March 2013 \$'000	March 2012 \$'000
Balance at the beginning of the period	550,000	375,343
Loans received	-	500,000
Loans repaid	(25,000)	(147,425)
Balance at the end of the period	<u>525,000</u>	<u>727,908</u>
Current portion of long-term debt	183,333	202,908
Long-term debt	<u>341,667</u>	<u>525,000</u>
Balance at the end of the period	<u>525,000</u>	<u>727,908</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.

Hardware & Lumber Limited

Notes to the Interim Financial Statements

31 March 2013

(expressed in Jamaican dollars)

8. Effect of amendments to IFRS

Effective for annual periods beginning on or after 1 January 2013, IAS 19: Employee benefits, was amended with the impact on the company as follows: to eliminate the corridor approach and recognise all actuarial gains and losses in Other Comprehensive Income (OCI) as they occur; to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset).

The amended standard was applied retrospectively, resulting in the restatement of the prior year financial statements along with the opening statement of financial position for that year.

Below is a summary of the line items in the financial statements affected by the restatement.

	31 December 2012 \$'000	31 December 2011 \$'000	31 March 2012 \$'000
Reconciliation of Equity at:			
Equity as previously reported	994,558	962,041	961,340
Increase in Deferred tax assets	103,358	169,593	153,034
Decrease in Pension plan asset	(402,234)	(472,503)	(454,936)
Increase in Other post-employment obligations	(11,193)	(36,276)	(30,006)
Decrease in Retained earnings	(310,069)	(339,186)	(331,908)
Equity as restated	684,489	622,855	629,433
Reconciliation of profit for the period ended:			
	12 months to 31 December 2012 \$'000		3 months to 31 March 2012 \$'000
Profit as previously reported	27,182		(701)
Decrease in expenses	24,851		6,213
Increase in taxation	(42,736)		(10,684)
Decrease in net profit	(17,885)		(4,471)
Profit as restated	9,297		(5,172)
Earnings per Stock Unit (expressed in \$ per stock unit)			
	12 months to 31 December 2012		3 months to 31 March 2012
EPS as previously reported	\$0.34		(\$0.01)
Decrease due to restatement	(\$0.22)		(\$0.05)
EPS as restated	\$0.12		(\$0.06)

Hardware & Lumber Limited

Notes to the Interim Financial Statements

31 March 2013

(expressed in Jamaican dollars)

8. Effect of amendments to IFRS cont'd

Reconciliation of comprehensive income for the period ended:	12 months to 31 December 2012 \$'000	3 months to 31 March 2012 \$'000
Total comprehensive income as previously reported	41,905	(701)
Decrease in net profit	(17,885)	(4,471)
Remeasurement on retirement benefit obligation	47,001	11,750
Increase in total comprehensive income, net of tax	29,116	7,279
Total comprehensive income as restated	71,021	6,578