

# **Hardware & Lumber Limited**

**Unaudited Financial Statements  
30 June 2013**

# Hardware & Lumber Limited

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30 June 2013

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## CEO's Report

## Statements

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**HARDWARE & LUMBER LIMITED**  
**UNAUDITED FINANCIAL RESULTS**  
**June 30, 2013**

Profit after tax for the six-months period ended June 30, 2013 was \$53.2 million compared to the \$6.3 million loss (restated) for the same period in the previous year. This translated to earnings per stock unit of \$0.66, compared to a loss per stock unit of \$0.08 (restated) for the comparative period in the previous year. The performance gained momentum in the second quarter, with the company achieving net profit of \$43.3 million compared to a net loss of \$1.4 million in the similar quarter in the year before.

Total revenue for the period was \$3,292.6 million representing a 5.7% increase over the \$3,114.5 million achieved in the same period last year with the Household, Hardware and Building and the Agricultural Products and Equipment segments recording growth of 5.4% and 6.7% respectively.

Gross profit increased by 9.0% to end the period at \$865.9 million. Gross profit margins improved to 26.3%, up from 25.5% for the corresponding period in the previous year. This growth was the result of increased sales, improved operational efficiencies and ongoing focus on margin management.

Total operating expenses were \$792.8 million, being 5.0% higher than the comparative period in the prior year. Operating efficiencies were achieved through the rationalization of the staffing model as well as in other areas such as security and utilities. However, there was a significant increase in the costs associated with the company's pension scheme and other retirement benefits, in keeping with the revision of the accounting rules governing such benefits which became effective January 1, 2013. For the first six-months, these charges increased by \$40.7 million compared to the same period last year.

The management of the company's working capital continued to be of paramount importance. At June 30, 2013, inventory balance was \$1,316.7 million or 4.6% lower than the balance at June 30, 2012, even though the value of the inventory was impacted by the devaluation of the Jamaican dollar. The inventory levels are trending towards optimal levels and are more current as we have been successful in improving the stock turns through various sales initiatives. Trade and other receivables balances increased by 18.1% to \$541.7 million following an increase in sales, during the latter part of the second quarter. The balances owed to trade and other creditors increased by 13.1% to end the period at \$1,121.8 million as we took advantage of better credit terms extended by our suppliers. Over the six-month period, \$296.8 million was generated from operating activities while \$126.6 million was used to service loan commitments, pay dividends as well as to finance capital improvements to the stores and other infrastructure. At June 30, 2013, the Company held cash balances of \$376.1 million, representing a 92.1% increase over the balance held at June 30, 2012.

We continued to be the destination of choice for agricultural, building and home improvement solutions in Jamaica, and much focus was directed towards improving our relationships with our customers as well as our suppliers. We remain committed to providing an excellent selection of products and services at the best value, accompanied by exceptional customer service. At the beginning of the second quarter we launched the

'Destination True Value' concept at the Rapid True Value in Mandeville and have also invested significant capital in renovating the Rapid True Value Store in Sovereign Plaza in Kingston. Our customers have responded favourably and it is our intention to upgrade two additional Rapid True Value stores by year end. At the same time, we will continue to focus on reviewing our risk management systems, internal processes and operational controls in order to improve the efficiency and effectiveness of the organization.

As always, we thank all our customers, suppliers and other stakeholders for their continued patronage and support as well as our fellow directors, management and colleagues for their unwavering commitment to the business.



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**Erwin Burton - Chairman**



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**Andrea D. Lewis-Coy – Chief Executive Officer**

# Hardware & Lumber Limited

## Unaudited Income Statement

6 months to 30 June 2013

(expressed in Jamaican dollars)

	Note	3 months to 30 June 2013 \$'000	6 months to 30 June 2013 \$'000	(Restated) * 3 months to 30 June 2012 \$'000	(Restated) * 6 months to 30 June 2012 \$'000
<b>Revenue</b>		<b>1,744,823</b>	<b>3,292,607</b>	<b>1,602,683</b>	<b>3,114,496</b>
Cost of sales		(1,287,193)	(2,426,717)	(1,192,696)	(2,320,043)
<b>Gross Profit</b>		<b>457,630</b>	<b>865,891</b>	<b>409,987</b>	<b>794,453</b>
Other operating income		12,010	17,360	8,099	14,599
Operating expenses		(398,472)	(792,760)	(391,436)	(754,967)
<b>Profit from Operations</b>		<b>71,168</b>	<b>90,491</b>	<b>26,650</b>	<b>54,085</b>
Finance costs	3	(9,287)	(16,127)	(15,892)	(38,168)
<b>Profit before Taxation</b>		<b>61,881</b>	<b>74,364</b>	<b>10,758</b>	<b>15,917</b>
Taxation		(18,563)	(21,193)	(12,199)	(22,178)
<b>Net Profit/(Loss)</b>		<b>43,318</b>	<b>53,171</b>	<b>(1,441)</b>	<b>(6,260)</b>
Number of stock units issued ('000)		80,842	80,842	80,842	80,842
<b>Earnings per Stock Unit</b>		<b>\$0.54</b>	<b>\$0.66</b>	<b>(\$0.02)</b>	<b>(\$0.08)</b>

\* The comparative numbers have been restated to give effect to the amendments to IFRS. See note 7.

# Hardware & Lumber Limited

## Unaudited Statement of Comprehensive Income

### 6 months to 30 June 2013

(expressed in Jamaican dollars)

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	3 months to 30 June 2013 \$'000	6 months to 30 June 2013 \$'000	3 months to 30 June 2012 \$'000	6 months to 30 June 2012 \$'000
<b>Net Profit/(Loss)</b>	<b>43,318</b>	<b>53,171</b>	<b>(1,441)</b>	<b>(6,260)</b>
<b>Other Comprehensive Income:</b>				
Remeasurement of retirement benefit obligation	14,249	(27,904)	17,625	35,251
Deferred Tax on IAS 19 remeasurements	<u>(4,275)</u>	<u>8,371</u>	<u>(5,875)</u>	<u>(11,750)</u>
<b>(Loss)/Income, being Total Comprehensive Income for the Period</b>	<b><u>57,567</u></b>	<b><u>33,638</u></b>	<b><u>10,309</u></b>	<b><u>17,240</u></b>

\* The comparative numbers have been restated to give effect to the amendments to IFRS. See note 7.

# Hardware & Lumber Limited

## Unaudited Statement of Financial Position

### 30 June 2013

(expressed in Jamaican dollars)

		June	(Restated) *	(Restated) *
		June	June	December
		2013	2012	2012
	Note	\$'000	\$'000	\$'000
<b>NET ASSETS EMPLOYED</b>				
<b>Non-Current Assets</b>				
Property, plant & equipment		600,686	608,410	615,730
Intangible assets		9,315	14,429	11,853
Deferred tax asset		180,753	282,902	193,576
		790,754	905,741	821,159
<b>Current Assets</b>				
Inventories		1,316,739	1,379,569	1,107,821
Trade and other receivables		541,733	458,726	427,206
Group companies	5	5,744	16,713	8,661
Taxation recoverable		49,683	51,884	51,020
Cash and bank balances		376,105	195,816	205,935
		2,290,004	2,102,709	1,800,643
<b>Current Liabilities</b>				
Trade, other payables and provisions		1,121,763	992,050	694,376
Group companies		11,360	9,519	1,989
Current portion of long-term debt	6	183,333	193,121	183,333
		1,316,456	1,194,690	879,698
<b>Net Current Assets</b>				
		973,548	908,019	920,945
		1,764,302	1,813,760	1,742,104
<b>Financed by:</b>				
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		(208,843)	(271,434)	(242,481)
		718,127	640,096	684,489
<b>Non-Current Liabilities</b>				
Long-term debt	6	275,000	458,333	372,629
Retirement benefit obligation		771,175	715,332	684,986
		1,764,302	1,813,760	1,742,104

\* The comparative numbers have been restated to give effect to the amendments to IFRS. See note 7.

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

30 June 2013

(expressed in Jamaican dollars)

		2013				
	Note	Share Capital \$'000	Other Reserve \$'000	Capital Reserve \$'000	Accumulated Deficit \$'000	Total \$'000
<b>Balance at 1 January 2013 (restated) *</b>	7	616,667	4,961	305,342	(242,481)	684,489
Profit, being total comprehensive income for the period		-	-	-	53,171	53,171
Remeasurement of retirement benefit obligation		-	-	-	(27,904)	(27,904)
Deferred Tax on IAS 19 remeasurements					8,371	8,371
<b>Balance at 30 June 2013</b>		<b>616,667</b>	<b>4,961</b>	<b>305,342</b>	<b>(208,843)</b>	<b>718,127</b>

  

		2012 (Restated) *				
	Note	Share Capital \$'000	Other Reserve \$'000	Capital Reserve \$'000	Accumulated Deficit \$'000	Total \$'000
<b>Balance at 1 January 2012</b>	7	616,667	4,244	290,619	(288,675)	622,855
Loss, being total comprehensive income for the period		-	-	-	(6,260)	(6,260)
Remeasurement of retirement benefit obligation		-	-	-	35,251	35,251
Deferred Tax on IAS 19 remeasurements					(11,749)	(11,749)
<b>Balance at 30 June 2012</b>		<b>616,667</b>	<b>4,244</b>	<b>290,619</b>	<b>(271,434)</b>	<b>640,096</b>

\* The comparative numbers have been restated to give effect to the amendments to IFRS. See note 7.



# Hardware & Lumber Limited

## Unaudited Statement of Cash Flows

6 Months to 30 June 2013

(expressed in Jamaican dollars)

	June 30, 2013 \$'000	(Restated) * June 30, 2012 \$'000
<b>Cash Generated from Operating and Investing activities:</b>		
Operating activities:		
Net Profit / (Loss)	53,171	(6,260)
Items not affecting cash	71,007	62,051
	<u>124,178</u>	<u>55,790</u>
Changes in non-cash working capital components	177,896	170,553
Net cash provided by operating activities	<u>302,074</u>	<u>226,343</u>
Net cash used in investing activities	(5,287)	(8,184)
<b>Cash provided by operating and investing activities</b>	<u>296,787</u>	<u>218,159</u>
<b>Cash used in financing activities</b>	<u>(126,617)</u>	<u>(342,002)</u>
Net increase/(decrease) in cash and cash equivalents	170,170	(123,843)
Cash and cash equivalents at the beginning of the period	205,935	319,659
<b>Cash and cash equivalents at the end of the period</b>	<u><u>376,105</u></u>	<u><u>195,816</u></u>
<b>Comprised of:</b>		
Cash at bank	376,105	195,816
<b>Cash and Cash Equivalents at the end of the period</b>	<u><u>376,105</u></u>	<u><u>195,816</u></u>

\* The comparative numbers have been restated to give effect to the amendments to IFRS. See note 7.

# Hardware & Lumber Limited

## Notes to the Interim Financial Statements

### 30 June 2013

(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 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 7.

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

#### 3. Finance Costs

	June 2013 \$'000	June 2012 \$'000
Interest expense	24,846	36,324
Exchange (gains)/losses	(8,719)	1,844
	<u>16,127</u>	<u>38,168</u>

# Hardware & Lumber Limited

## Notes to the Interim Financial Statements

### 30 June 2013

(expressed in Jamaican dollars)

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#### 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:

	6 months to 30 June 2013		
	Household Hardware & Building Products	Agricultural Products & Equipment	Consolidated
	\$' 000	\$' 000	\$' 000
External operating revenue	<u>2,405,335</u>	<u>887,272</u>	<u>3,292,607</u>
(Loss)/profit from operations	(43,128)	133,619	90,491
Finance cost	(11,884)	(4,243)	(16,127)
(Loss)/profit before tax	<u>(55,012)</u>	<u>129,376</u>	<u>74,364</u>

	6 months to 30 June 2012 (Restated)		
	Household Hardware & Building Products	Agricultural Products & Equipment	Consolidated
	\$' 000	\$' 000	\$' 000
External operating revenue	<u>2,282,837</u>	<u>831,659</u>	<u>3,114,496</u>
(Loss)/profit from operations	(33,524)	87,609	54,085
Finance cost	(27,929)	(10,239)	(38,168)
(Loss)/profit before tax	<u>(61,453)</u>	<u>77,370</u>	<u>15,917</u>

# Hardware & Lumber Limited

Notes to the Interim Financial Statements  
30 June 2013  
(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:

	June 2013 \$'000	June 2012 \$'000
Due to Grace	(7,034)	(7,517)
Due to fellow subsidiaries	<u>(4,326)</u>	<u>(2,002)</u>
	<u>(11,360)</u>	<u>(9,519)</u>
Due from Grace	286	4,989
Due from fellow subsidiaries	<u>5,458</u>	<u>11,724</u>
	<u>5,744</u>	<u>16,713</u>

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

	June 2013 \$'000	June 2012 \$'000
Income:		
Fellow subsidiaries	6,291	7,488
Parent company	26	28
Expenses:		
Fellow subsidiaries	6,795	9,862
Parent company	34,079	31,929
Directors and key management	<u>39,220</u>	<u>39,155</u>

# Hardware & Lumber Limited

Notes to the Interim Financial Statements  
30 June 2013  
(expressed in Jamaican dollars)

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## 6. Long Term Loans

	June 2013 \$'000	June 2012 \$'000
Balance at the beginning of the period	550,000	375,343
Loans received	-	500,000
Loans repaid	(91,667)	(223,889)
Balance at the end of the period	<u>458,333</u>	<u>651,454</u>
Current portion of long-term debt	183,333	202,908
Long-term debt	<u>275,000</u>	<u>448,546</u>
Balance at the end of the period	<u>458,333</u>	<u>651,454</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

### 30 June 2013

(expressed in Jamaican dollars)

#### 7. 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	30 June 2012 \$'000
<b>Reconciliation of Equity at:</b>			
Equity as previously reported	<b>994,558</b>	<b>962,041</b>	<b>964,369</b>
Increase in Deferred tax assets	103,358	169,593	136,830
Decrease in Pension plan asset	(402,234)	(472,503)	(437,368)
Decrease in Deferred tax liabilities			
Increase in Other post-employment obligations	(11,193)	(36,276)	(23,735)
Decrease in Retained earnings	(310,069)	(339,186)	(324,273)
Equity as restated	<b>684,489</b>	<b>622,855</b>	<b>640,096</b>
<b>Reconciliation of profit for the period ended:</b>	12 months to 31 December 2012 \$'000		6 months to 30 June 2012 \$'000
Profit as previously reported	<b>27,182</b>		<b>2,328</b>
Decrease in expenses	24,851		12,426
Increase in taxation	(49,221)		(21,014)
Decrease in net profit	(24,370)		(8,588)
Profit as restated	<b>2,812</b>		<b>(6,260)</b>
<b>Earnings per Stock Unit</b> (expressed in \$ per stock unit)	12 months to 31 December 2012		6 months to 30 June 2012
EPS as previously reported	<b>\$0.34</b>		<b>\$0.03</b>
Decrease due to restatement	(\$0.30)		(\$0.10)
EPS as restated	<b>\$0.03</b>		<b>(\$0.08)</b>
<b>Reconciliation of comprehensive income for the period ended:</b>	12 months to 31 December 2012 \$'000		6 months to 30 June 2012 \$'000
Total comprehensive income as previously reported	<b>41,905</b>		<b>2,328</b>
Decrease in net profit	(24,370)		(8,588)
Remeasurement on retirement benefit obligation	53,486		23,500
Increase in total comprehensive income, net of tax	29,116		14,912
Total comprehensive income as restated	<b>71,021</b>		<b>17,240</b>