



# Hardware & Lumber Ltd

**RAPID** *True Value.*

Everything you need to...  
**BUILD. RENOVATE. DECORATE.**



# 2013

ANNUAL REPORT



**AGROGRACE**  
Your Complete Farm & Garden Centre





## Vision

To be the destination of choice for Agricultural, building and home improvement solutions.

## Mission

To satisfy our customers' agricultural, building and home improvement needs, in Jamaica, through a motivated and competent team; to maximize stakeholders' value.







# Hardware & Lumber Ltd

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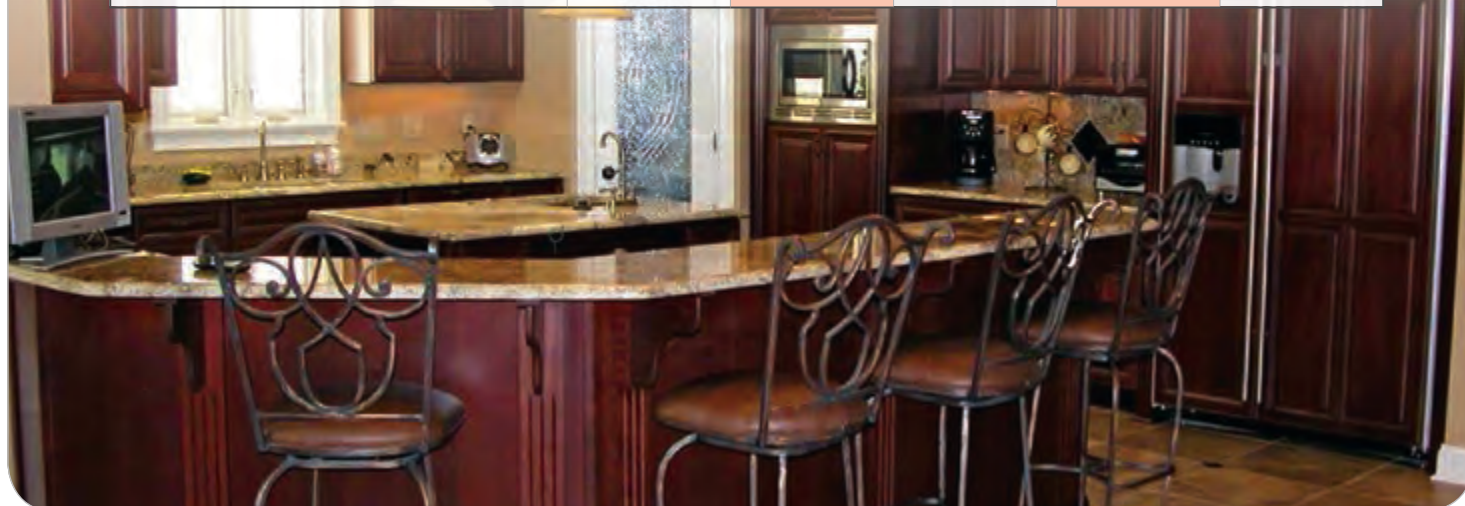
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## TEN YEAR FINANCIAL REVIEW

	2013	Restated 2012	2011	2010	2009
REVENUE -J\$'000	6,810,599	6,284,052	6,055,922	5,728,987	5,940,599
NET PROFIT/(LOSS) - J\$'000	609,963	2,812	6,296	19,341	(225,762)
STOCKHOLDERS' EQUITY - J\$'000	1,176,722	684,488	622,855*	951,501	903,747
NET CURRENT ASSETS - J\$'000	1,055,375	920,945	614,526	397,073	421,870
EARNINGS/(LOSS)per STOCK UNIT	\$7.55	\$0.03	\$0.08	\$0.24	(\$2.79)
DIVIDENDS per STOCK UNIT	\$0.30	\$0.125	\$0.00	\$0.00	\$0.00

\* restated

	2008	2007	2006	2005	2004
REVENUE -J\$'000	6,788,162	6,648,066	5,597,276	5,332,857	5,518,947
NET PROFIT/(LOSS) - J\$'000	(259,956)	133,550	37,718	20,268	156,045
STOCKHOLDERS' EQUITY - J\$'000	1,119,168	1,211,266	1,103,500	1,065,782	707,412
NET CURRENT ASSETS - J\$'000	607,265	839,635	686,629	625,223	369,295
EARNINGS/(LOSS)per STOCK UNIT	(\$3.21)	\$1.65	\$0.47	\$0.26	\$2.32
DIVIDENDS per STOCK UNIT	\$0.00	\$0.32	\$0.00	\$0.00	\$0.32





# NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Eighty-sixth Annual General Meeting of Hardware & Lumber Limited will be held at the Registered Office, 697 Spanish Town Road, Kingston 11 on Monday June 9, 2014 at 10:30 a.m. for the following purposes:

1. To receive and consider the Directors' Report and Financial Statements for the year ended December 31, 2013, and the Report of the Auditors thereon.

To consider and (if thought fit) pass the following Resolution: -

## Resolution 1

"THAT the Balance Sheet and the Profit and Loss Account together with the Reports of the Directors and the Auditors circulated with the Notice convening the meeting be and are hereby adopted."

2. To elect the Directors and fix their remuneration

- (i) The Directors retiring from office by rotation pursuant to Article 100 of the Articles of Incorporation are Mr. Donald G. Wehby, Mr. Michael Ammar and Mrs. M. Audrey Hinchcliffe, and being eligible offer themselves for re-election.

To consider and (if thought fit) pass the following Resolutions: -

## Resolution 2 (a)

"That retiring Director Mr. Donald Wehby be and is hereby re-elected a Director of the Company."

## Resolution 2 (b)

"That retiring Director Mr. Michael Ammar be and is hereby re-elected a Director of the Company."

## Resolution 2 (c)

"That retiring Director Mrs. M. Audrey Hinchcliffe be and is hereby re-elected a Director of the Company."

3. To confirm the remuneration of the Non- Executive Directors.

To consider and (if thought fit) pass the following Resolutions:-

## Resolution 3 (a)

"THAT the Directors be and are hereby empowered to fix the remuneration of the non- executive Directors."

## Resolution 3 (b)

"THAT the amount of \$4,185,000 shown in the accounts for the year ended December 31, 2013 for Directors' fees be and is hereby approved."



4. To approve Dividend

To consider and (if thought fit) pass the following Resolution:

**Resolution 4**

THAT the interim dividend of THIRTY CENTS (\$0.30) per stock unit paid on 17 January 2014 be and is hereby declared as final dividend for the year ended 31 December 2013.

5. To appoint the Auditors and authorize the Directors to fix their remuneration.

To consider and (if thought fit) pass the following Resolution: -

**Resolution 5**

"THAT the Directors be authorized to fix the remuneration of the Auditors, PricewaterhouseCoopers, who have signified their willingness to continue in office."

By Order of the Board



*Gene M. Douglas*

Gene M. Douglas

Secretary

Kingston, Jamaica

March 15, 2014

.....  
*A member entitled to attend and vote at the above-mentioned meeting is entitled to appoint one or more proxies to attend and on a poll to vote instead of him. Such proxy must be lodged at the Company's Registered Office not less than forty-eight hours before the meeting. A proxy need not be a member. A suitable form of proxy is enclosed.*  
.....



# STOCKHOLDER'S REPORT

The year ended December 31, 2013 delivered solid financial performance of which we are extremely proud. Net profit attributable to shareholders was \$609.9 million, equivalent to earnings of \$7.55 per stock unit. Based on the improved performance, the Board of Directors approved an interim dividend of thirty cents (\$0.30) per stock unit.

	2013	2012
Net profit attributable to stockholders	\$609.9 million	\$2.8 million*
Earnings per stock unit	\$7.55	\$0.03*
Dividends per stock unit	30.0 cents	12.5 cents
Return on equity	51.8%	0.4%*

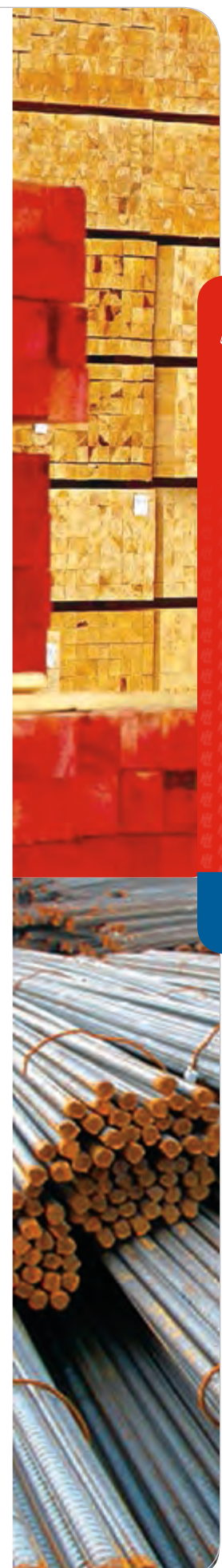
\* restated

Our operations span the construction and agricultural industries, both of which are critical sectors in promoting national development. During 2013, the construction industry was energized via its linkages to developments in other sectors, particularly housing and tourism. Through our Rapid True Value division, we partnered with developers, resellers, investors and homemakers to provide complete building and home improvement solutions. In the agricultural sector, Jamaica experienced an upsurge in farming activities and larger investments which drove the need for increased farming inputs. We were also strategically positioned through our AgroGrace division to partner with our farmers and other investors to supply quality seeds, herbicides, pesticides and other agricultural inputs.

Over the year, the Jamaican dollar experienced 14.6% depreciation while inflation rose by 9.5%. While this affected the business, we exceeded our financial targets by utilizing our organizational strength to satisfy the diverse needs of our customers. We remain committed to deepening our support of the construction and agricultural industries, as they will continue to play an even more critical role in the island's economic recovery.

Hardware & Lumber continued to partner with some of the world's leading suppliers of construction and agricultural inputs to ensure that our customers have access to quality products. The Category Management team kept abreast of new offerings in agricultural supplies, building materials, paints, house-ware, sanitary-ware, plumbing fixtures and other hardware and outdoor supplies in order to provide the widest assortment of products.

The Company continued to service both wholesale and retail customers, whose needs were met through efficient service. Keen attention was paid to developing and training our staff and service providers to better serve our customers. We increased our investments in our island-wide network of Rapid True Value and AgroGrace stores to enhance the appearance and ambience which ultimately improved the shopping experience. Our lumber storage



facilities were improved to guarantee the consistent quality standards of this important commodity.

Growth in shareholders' value continued to be the Company's focus. Our management team is tasked with improving efficiencies within the operations. Significant inroads have been made in containing expenses, and we recognize the need to further reduce operational losses as we seek to optimize our financial results.

Mr. Harry Smith joined the board of directors on March 7, 2013 and was later appointed to the Audit Committee and Corporate Governance & Nomination Committee. We thank all members of the board for their outstanding service.

In closing, we would also like to thank all our stakeholders and customers for their unwavering support during the year. We also thank our employees for their resilience and commitment to the business during an extremely challenging period. Together, everyone's contribution resulted in an exceptional performance for the year ended December 31, 2013.



A handwritten signature in black ink that reads "Erwin Burton".

**ERWIN BURTON**  
CHAIRMAN



A handwritten signature in black ink that reads "Andrea Coy".

**ANDREA COY**  
CHIEF EXECUTIVE OFFICER

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# MANAGEMENT DISCUSSION AND ANALYSIS

## 1. CORE BUSINESS AND STRATEGY

### Core Business

Hardware & Lumber Limited is a Jamaican company retailing and wholesaling building materials, home improvement supplies, household items and agricultural products. Our parent company, GraceKennedy Limited, is one of the Caribbean's largest and most dynamic groups. Headquartered in Jamaica, the group now has interests in the United Kingdom, North and Central America, Africa and the Caribbean and it is listed on the stock exchanges of Jamaica and Trinidad and Tobago.

#### Our Vision

To be the destination of choice for agricultural, building and home improvement solutions.

#### Our Mission

To satisfy our customers' agricultural, building and home improvement needs, in Jamaica, through a motivated and competent team; to maximize stakeholders' value.

#### Our Core Values

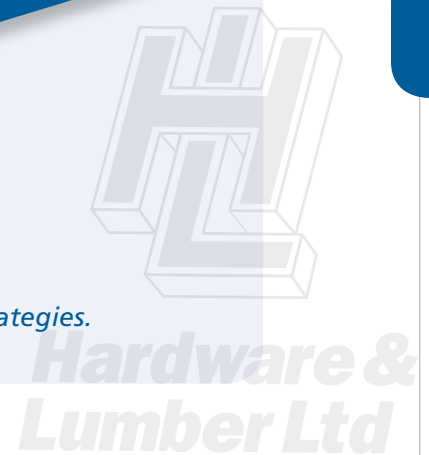
1. Our word is our bond
2. The promise that is kept
3. Ethics and integrity
4. Respect and consideration
5. Commitment and openness

*Our core values are paramount in the execution of our strategies.*

### Strategy and Key Performance Drivers

#### Customer Centricity

The customer remains at the heart of all that we do, and as such we continuously review our product offerings to deliver more value. Our quarterly customer satisfaction surveys were used to inform the improvements made during the year to enhance the shopping experience of all who do business with us. In 2013 we completed the renovation of three of our Rapid True Value stores located in Mandeville, Manor Park and Sovereign Centre. We also invested in the Lane plaza location and expanded our offerings in tiles, appliances and sanitary ware. Customers have responded favourably to the changes.



We continued to invest in the training of our team members and in 2013 we significantly increased the hours of technical and customer service training. This was a part of our continued focus on creating and delivering an exceptional shopping experience for customers, which we anticipate will enhance our revenues and improve our market share.

### **People**

We trade in very difficult operating environment and must rely on our valued staff to execute our business strategy in order to satisfy our customers' and shareholders' needs. Accordingly, we will continue to invest in the training and welfare of our team members as we seek to achieve improved customer satisfaction and deliver stronger financial results in the years ahead.

The H.Y.P.E.R.S. (Help Your Peers Enjoy Recreational Synergies) employee-based group was formed to organise team activities to foster fun and enjoyment throughout the year. The team hosted several activities including participation in several GraceKennedy internal competitions.

### **Cost containment & efficiency**

Significant inroads have been realised in eliminating waste and reducing the cost of operations. More progress was made during the year in optimizing our supply chain to ensure that we have the right goods, in the right place, at the right time. Our logistics tool which was developed by one of our team members was successfully implemented and resulted in a reduction in the dock to shelf time. We also reviewed the other business processes with a view to simplifying the way we work and allowing our staff to be more accessible to our customers.

### **Working Capital Management**

Our business model requires that we manage our working capital as efficiently as possible. We have determined an optimum inventory level to satisfy our customers' requirements and will work with our key suppliers to ensure product availability at very short notice. We continue to work with our customers to facilitate prompt payment, from which we accumulate the funds to meet all our financial obligations, including payments to our suppliers.

### **Performance Measurement**

Hardware & Lumber Limited utilises the Balanced Scorecard (BSC) system in tracking and assessing performance which is cascaded to all divisions and departments. Areas of focus include financial performance, customer centricity, efficiency of internal processes and the fostering of learning and growth of our people. Key financial indicators include net profit, net free cash flow and return on equity, while non-financial indicators include customer satisfaction, brand recognition, audit ratings, employee satisfaction and performance assessment of our team members.

Using the BSC Strategy Map we have established strategic initiatives in each area to drive and track performance. All initiatives are specific, measurable and time based. All team members have quantifiable objectives that are directly linked to one or more initiatives. This ensures that individual and team performance will lead to the achievement of the financial and non-financial goals of the company.

We are also ensuring that our team members are being trained in the skills and provided with the tools that are necessary to perform their roles well.

Employee and customer satisfaction are routinely measured and initiatives are identified and implemented to improve overall scores.

The company also utilizes a single Enterprise Resource Planning (ERP) software platform to manage and record all transactions. Information from the platform is used for the continuous evaluation of





performance in each of our core sectors to make changes to the business and/or the business model to ensure we are always relevant to the markets we serve.

### Our Brands:

Our company operates two distinct brands:



We operate ten Rapid True Value outlets across Jamaica, retailing and wholesaling building materials, home improvement supplies and household items.



We operate five AgroGrace outlets across Jamaica retailing and wholesaling agricultural products and offering technical advice.

## 2. » FINANCIAL PERFORMANCE

### Financial Summary

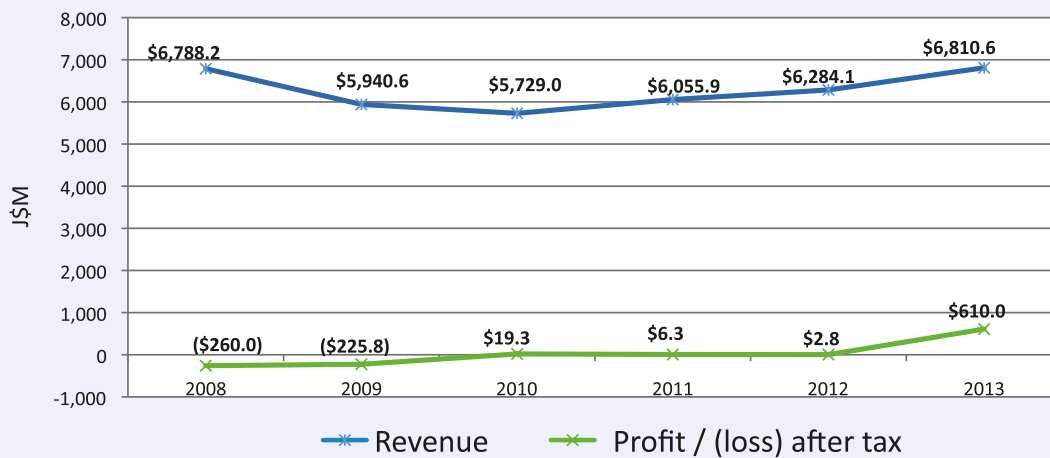
All figures in J\$ million	2013	2012	Change J\$
Revenues	6,810.6	6,284.0	526.6
Net Profit	609.9	2.8*	607.1
Cash and Cash Equivalents	417.9	205.9	212.0
Shareholders' equity	1,176.7	684.5*	492.2

\* restated

Net Profit was \$609.9 million compared to \$2.8 million which translated to earnings of \$7.55 per stock unit. Included in this profit is a credit of \$502.5 million (included in administrative expenses) arising from the company's decision to exit the defined benefit plan operated by GraceKennedy at November 30, 2013.

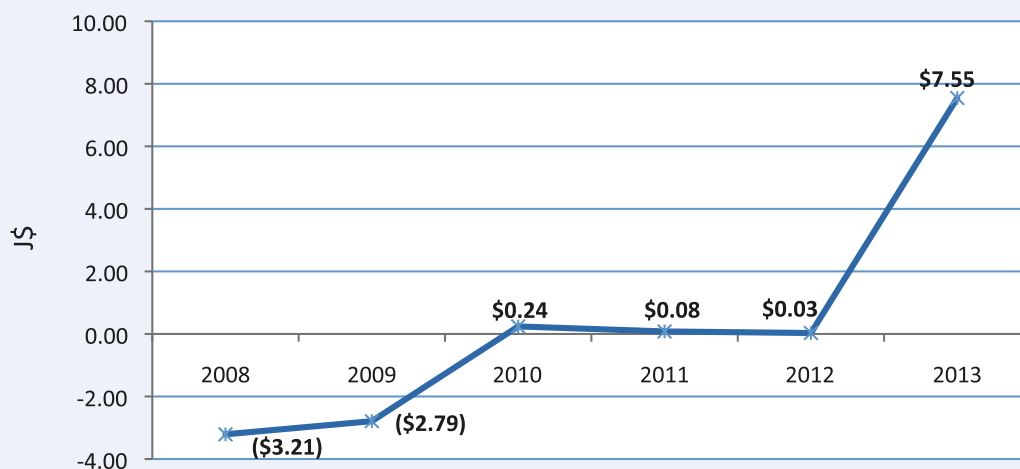


### Revenue and Profit/(Loss) after Tax (\$m)



Total revenue for the year ended December 31, 2013 was \$6,810.6 million representing an 8.4% increase over the previous year. The agricultural division trading as AgroGrace recorded revenue growth of 8.2% while the retail, hardware and household segment which trades as Rapid True Value grew by 9.0%.

### Earnings per Stock Unit (\$)



### Gross Margins:

Gross profit for the year was \$1,746.3 million representing a 7.3% increase over the \$1,628.1 million achieved in the previous year. The ongoing devaluation affected the cost of sales, but improvements in our product range allowed us to consistently deliver increased value to our customers. Consequently, we achieved our increased gross profits at slightly lower margins of 25.6% compared to 25.9% in the previous year.



### **Direct and Administrative Expenses:**

Total expenses for the year amounted to \$946.6 million compared to the previous year's \$1,478.8 million. During the year, the Board of Directors took the decision to cease the company's participation in the GraceKennedy Defined Benefits (DB) pension scheme effective November 30, 2013. Employees were instead offered the option to enrol in the GraceKennedy Defined Contributions (DC) pension scheme. This resulted in a one-time non-cash pension credit of \$502.5 million, thereby reducing the administrative expenses to a credit of \$94.4 million for the year.

The operating expenses were monitored throughout the year and core processes were reviewed, updated and improved to deliver greater operational efficiencies. Various cost savings initiatives resulted in year-on-year reduction in areas such as equipment rental, security costs, repairs and maintenance.

During the year, the company incurred no demurrage charges in the handling of shipping containers, representing a significant improvement over previous years. Even with increased shipments from our suppliers, freight charges were reduced 2.7% compared to the previous year. Logistics and planning efficiency improvements resulted in reduced transportation charges to our stores and customer network in Jamaica.

### **Finance Costs**

Finance costs totalled \$46.7 million (2012: \$72.5m), down by 35.6%. The loan portfolio is denominated in Jamaican dollars and consists of a short-term insurance premium financing facility and two longer-term loans slated to be repaid by 2014 and 2017 respectively (see note 23 and note 24 of the Financial Statements).

### **Financial Position**

Total assets at the year-end was \$2,844.8 million (2012: \$2,621.8 million), representing an 8.5% increase over the previous year. The value of inventories increased by 11.3% to \$1,233.3 million, partially due to an increase of the assortment of products as well as the impact of the ongoing devaluation of the Jamaican dollar. Trade and other receivables ended the year at \$498.3 million given the higher sales (2012: \$427.2 million). Cash and bank balances increased to \$417.9 million, up from \$205.9 million at the end of the previous year.

Total current liabilities at the year-end amounted to \$1,114.1 million or 26.6% higher than the \$879.7 million recorded at the end of 2012. Included in this increase were higher trade and other payables of \$932.2 million (2012: \$693.8 million) as several shipments arrived close to the end of the year to support our busiest trade period as well as to prepare for the start of the new year.

### **Shareholders' Equity**

Shareholders' equity increased to \$1,176.7 million, up from \$684.5 million at the end of the previous year delivered through the significant profit after tax, aided in part by the one-time adjustment associated with the ceasing of participation in the GraceKennedy Defined Benefit Pension plan.

### **Dividends**

The Board approved a dividend of 30.0 cents per stock unit for the year ended December 31, 2013 paid on January 17, 2014 to stockholders on record at the close of business on December 20, 2013. This represented a 140% increase on the 12.5 cents paid in the previous year.

### **Stock Performance**

The company's stock price at December 31, 2013 was \$6.10 up from \$3.40 at December 31, 2012, bringing the market capitalization at the end of 2013 to \$493.1 million (2012: \$274.9 million).



### Capital Investment

Capital expenditure for the year totalled \$39.1 million (2012: \$50.7 million). Expenditure was mainly on upgrading the company's buildings, refurbishment of the stores, acquisition of fixtures and fittings as well as the purchase of machinery and equipment used in the company's operations.

### Segment Performance and Developments

Effective January 1, 2013, we reorganised the company's operations and merged the Wholesale of Hardware and Building Products ("H&L Wholesale") into the Rapid True Value operations. The company now trades under two divisions:

The Household, Hardware and Building Supplies division ("Rapid True Value")

The Agricultural Products and Equipment division("AgroGrace")

This strategy helped deliver the year's trading results as our wholesale customers were now serviced from our network of stores.

Segment operating and financial performance is detailed in Note 5 of the Financial Statement.



Sales in the Rapid True Value division increased by 8.2% to \$5,004.5 million up from \$4,627.2 million recorded in 2012. Profit before tax was \$446.2 million, up from a loss of \$44.1 million in the previous year.

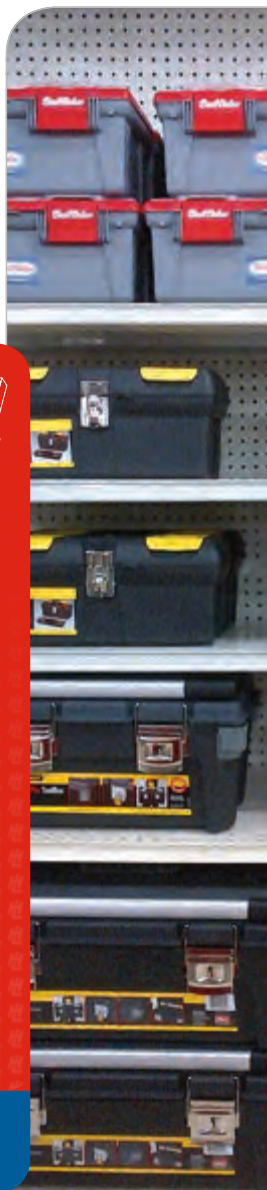
The division embarked on a number of activities and changes throughout the year. As stated before, the Hardware and Building Products ("H&L Wholesale") segment was merged into the retail operation. This led to improved efficiencies, greater management control and better margin management as the various stores in the Rapid True Value network were assigned to customers in closer proximity.

Our Sovereign Centre and Manor Park stores were renovated during the second quarter, bringing the number of stores being renovated in the last four years to four. This was in keeping with our commitment to provide greater shopping experience to our customers. We invested in tile and sanitary-ware displays, installed new kitchen vignettes at all the locations in addition to creating an "Inspiration Studio" at the Rapid True Value Lane Plaza store.

### Partnerships

Rapid True Value partnered with our developers, resellers and commercial customers to identify new solutions in building supplies, sanitary ware, LED lighting, windows, doors solar products and other core requirements of the industry. We also supported and staged the model units of two housing developers which served to place our products and services on display to the wider community.

We forged new partnerships with Appliance Traders Ltd which will see us acting as distributors of large appliances in our larger format stores. During the last quarter of





the year, we also aligned with First Global Bank (FGB) to offer extended credit facilities to customers wishing to make large purchases. As a result, our customers can now access the "Rapid Credit Option" unsecured loan facility starting from \$300,000 with up to three (3) years to repay. In addition, the partnership also offers "Go-Green" and "Home Equity" loans up to a maximum of \$2 million and \$15 million respectively.

The visit of Kim Myles, 2007 Design Star Winner from HGTV and Producer & Personality of Myles of Styles on HGTV was another highlight of the year. Kim was a special guest at the re-launch of our Rapid True Value Sovereign Store. In addition she participated in "Do-It-Yourself" (DIY) sessions at our Rapid True Value Lane Plaza and Montego Bay locations which allowed interaction between her and customers and the sharing of design tips.

In an effort to share information with our customers we teamed with a number of local skilled professionals in offering DIY sessions in painting, plumbing, car and tool care. These were well-received by all who participated.



The Agricultural Products and Equipment division, trading under the banner of AgroGrace continued to maintain a leadership position in the market. Total revenue increased by 9.0% to \$1,806.1 million (2012: \$1,656.9 million). Profit before tax was \$371.5 million, compared to the previous year's \$169.5 million.

There was increased emphasis on development of the agricultural sector, being positioned as a key driver towards Jamaica's economic growth. In all sectors of the industry we witnessed actions by growers towards increased production and productivity. An example of one of these success stories was the collaborative effort of the leadership of the Minister of Agriculture and other key stakeholders, to increase Jamaica's production of Irish Potato to satisfy approximately 80% of Jamaica's needs. We saw similar trends in other segments including sugar cane, vegetables and sorghum. This is confirmation of our capability as a nation to become self-sufficient through the production of major crops.

AgroGrace is proud to be the leading supplier of inputs and technical support to the various sectors of Agricultural production in Jamaica. Our commitment extends beyond sales performance as we have a vested interest in driving productivity and efficiency as part of nation building. We supported the Ministry of Agriculture/RADA's Youth and Women Agriculture Potato Project by providing planting materials, pesticides and technical advice. This project was geared towards increasing and inspiring more women and youth to participate in agriculture production. We also worked closely with the Agro-park management and its farmers to share our knowledge and insights on various crop care programs.

We maintain a wide-range of high quality products inclusive of hybrid vegetable seeds and pesticides. Our selections are geared towards ensuring enhancement of productivity with low environmental impact. In addition to the farming sector we also provided solutions to the public health sector particularly in rodent management, termites and other public health issues. Our avid gardeners benefitted from various selections of hybrid roses and the biannual offerings of bare-root orchids and other plants.

We maintain a technically competent team that benefits from continuous internal and



external training to ensure that we remain current with best practices in the agricultural industry. Our technical team provides support to the agriculture sector through the training of farmers and other stakeholder groups. During the year, we benefitted from the direct involvement of international scientists who provided local field assessments and made recommendations for improved efficiencies.

AgroGrace will continue to be a key partner in the agricultural and public health sectors as we work with our farmers and other stakeholders towards achieving food security. We will also endeavour to satisfy the needs of our avid gardeners and hobbyists with quality products.

### 3.》INSPIRATIONAL LEADERSHIP AND COMMITTED TEAMS

The Human Resource strategy was centred on building and strengthening organizational capability, achieving efficiencies through better use of resources and improving service levels

#### Leadership Development

We continued to develop leaders who are flexible, proactive, analytical, strategic and technically competent. Focus was placed on developing skills and resources in key areas to deliver superior

**Hardware & Lumber Ltd. receives Top Retailer Award 2013:** In recognition of Outstanding Performance in Lumber Purchases, from **True Value International**

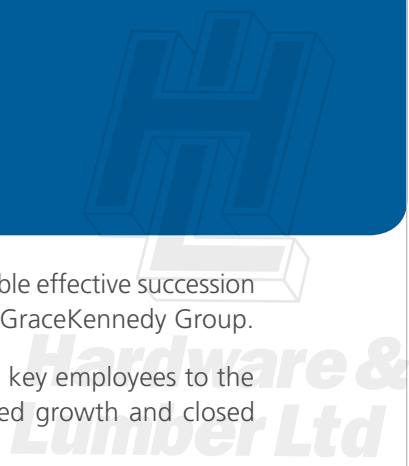
**L-R** - Dave Patrizi, Director International Department True Value, John Hartmann, President & CEO, True Value; Andrea Coy, CEO, Hardware & Lumber; Marsha Evans, General Manager, Raid True Value; Patrick Chambers, Chief Category Manager, Hardware & Lumber and Eric Lane, VP Specialty Business, True Value.



performance and strong business results. We developed a cadre of leaders to enable effective succession planning. All employees were encouraged to live the core ethical values of the GraceKennedy Group.

We partnered with the learning and development arm of the Group, exposing key employees to the Supervisory Development Programme and other interventions that encouraged growth and closed development gaps.

Our Employee Satisfaction Survey guided our efforts to address the concerns and development of staff in a structured and transparent way.



### Staff Welfare

We care about our employees' welfare. Educational assistance was granted to employees' children at the primary and secondary levels. A pool of funds was allocated to provide concessionary loans to employees, while goods and services available throughout the Group were made more affordable as part of the ongoing drive to buffer the tough economic challenges being faced.

### Training

We value our reputation as Jamaica's premier lumber supplier and took steps to build on our knowledge of the business. With that in mind, the Southern Pine Inspection Bureau conducted extensive training in lumber identification, handling and storage to a wide cross-section of employees during the year.

Other training initiatives covered a wide array of business needs including customer service, product knowledge as well as leadership development. We also ensured that our team members were provided with the tools that are necessary to perform their roles well.

The "Hardware & Lumber Exceptional Customer Experience Mantra" was rolled out during the last quarter which will see particular focus being placed on delivering Exceptional Customer Experience (ECE) as another initiative geared towards improving the level of service offered to our customers.

### Improving organisational efficiencies

During the year we implemented a new staffing model which complemented the programmes geared at improving customer service throughout our network. The staffing was reconfigured to ensure optimal placement and utilisation of human resources to meet the business demands.

## 4. » RISK MANAGEMENT & INTERNAL CONTROLS

Operational risks are an inevitable consequence of being in business. The Company's activities expose it to a variety of risks which must be analysed, evaluated and mitigated against on an ongoing basis. The Company leverages the GraceKennedy Enterprise-Wide Risk Management Framework to help monitor and manage major risks and challenges which could impact the business.

Hardware & Lumber maintains a comprehensive Business Continuity Plan to ensure that the business operations will recover in the shortest possible time should a major hazard or event disrupt the business.

### Credit, Liquidity and Market Risk (including Currency and Interest Rate Risks)

Refer to Note 3a, 3b and 3c respectively, of the audited financial statements.

### Internal Controls & Business Processes Review

The company continues to strengthen its internal controls, risk management and governance processes. Through our self audits, we proactively identify and remedy weak controls. Ernst & Young Services Ltd was contracted to provide internal audit services to the company. Their mandate includes providing greater internal audit focus for the Company and improving the quality of the audit process and recommendations.

Through the "whistleblowing" policy, employees are encouraged to confidentially report concerns of breaches of policies and procedures.

The Company is committed to maintaining a safe environment for our employees, customers and associates. We have complied with all relevant laws and regulations pertaining to the operation.





Hardware & Lumber is also committed to conducting business in an environmentally responsible manner. This impacts all areas of our business, including store operations, energy usage, product selection and delivery of product knowledge to our customers.

### **Management's Responsibility for Financial Statements**

The financial statements presented in this Annual Report are the responsibility of the management of Hardware & Lumber. These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and properly reflect certain estimates and judgments based upon the best available information.

The financial statements of the Company have been audited by PricewaterhouseCoopers ("PwC"), an independent registered public accounting firm. Their accompanying report is based upon an audit conducted in accordance with International Standards on Auditing (ISA).

The Audit Committee of the Board of Directors, consisting solely of independent directors, meets at least four times a year. PwC, the internal auditors and representatives of management are invited to discuss auditing and financial reporting matters. The Audit Committee regularly reviews the internal accounting controls, the reports of PwC and internal auditors and the financial condition of the Company. Both PwC and the internal auditors have free access to the Audit Committee.

## **5. » CORPORATE SOCIAL RESPONSIBILITY & SPORTS DEVELOPMENT**

Several staff volunteers from Hardware & Lumber have committed themselves to making a difference in our society. One such vehicle is the Grace & Staff Community Development Foundation which was established in 1979 to facilitate the development of communities that border our business locations. Employees participated in community activities organised by the Foundation as well as through other church and community organizations. As good corporate citizens, the company continued to donate its material and financial resources to several charitable organizations as well as to individuals.

## **6. » OUTLOOK: 2014 AND BEYOND**

Certain statements contained in the Management Discussion & Analysis of Financial Condition and Results of Operations are forward-looking statements that involve risks and uncertainties. The forward-looking statements are not historical facts, but rather are based on current expectations, estimates, assumptions and projections about our industry, business and future financial results. Our actual results could differ materially from the results contemplated by these forward-looking statements due to a number of factors, including those discussed in other sections of this Annual Report.

We are committed to continuously improving our offerings to our customers through rigorous purchasing and ongoing assessment of our portfolio. We will keep our customers abreast of developments and trends in the Household, Hardware and Building Supplies division ("Rapid True Value") as well as in the Agricultural Products and Equipment division ("AgroGrace").

We will continue to develop closer partnerships with our customers and suppliers. Our teams will receive the requisite training to excel at their jobs. We will continue to take our corporate social responsibility seriously. Risk management and internal controls will remain a focus area in 2014, as we continuously strengthen our control systems.



We expect the future trading environment to be challenging, but bolstered by the improved results, we believe that the positive performance trajectory will be maintained in the years ahead.



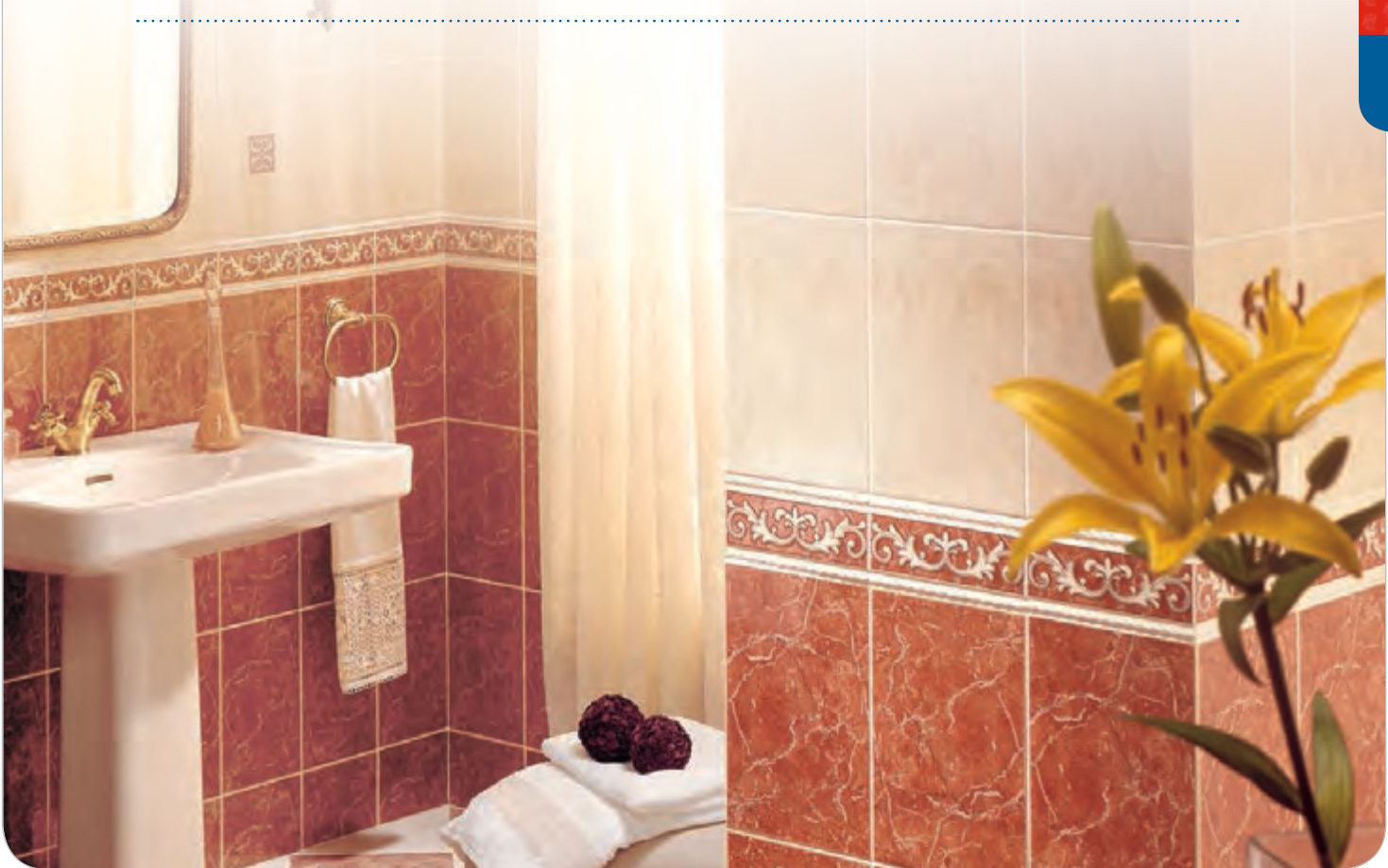
A handwritten signature in black ink, appearing to read 'Andrea Coy'.

**Andrea Coy** – Chief Executive Officer  
February 26, 2014



A handwritten signature in black ink, appearing to read 'Donna Doran'.

**Donna Doran** – Chief Financial Officer  
February 26, 2014





# BOARD OF DIRECTORS



**Erwin Burton, B.Sc., M.Sc., JP**  
Appointed: 10 September 2003

Mr. Burton serves on the boards of several GraceKennedy subsidiaries including GraceKennedy (Belize) Limited, Grace Foods USA, Inc., He is also a member of the Board of Mona Institute of Applied Science, The Consumer Affairs Commission on Utilities, Pastry Passions Limited and Top Hill Cricket Club Ltd.



**Andrea D. Coy, B.Sc., M.Sc., (Acctg), F.C.A.**

Appointed: 26 July 2010 as director and in April 2012 appointed Chief Executive Officer

Mrs. Coy served as the General Manager of World Brands Services, a division of GK Foods & Services Limited and prior to that served as General Manager of Hi-Lo Foods Stores, a division of GK Foods & Services Limited. Prior to joining GraceKennedy she was Group Financial Controller of Shirlhome Chemical Corporation Group of Companies. She is a Fellow of the Institute of Chartered Accountants, and holds a Master's degree of Science in Accounting (Distinction), and a Bachelor of Science in Accounting, both from the University of the West Indies, Mona and a certificate in Turnaround Management Strategies from Harvard Business School.



**Michael A. Ammar, B.Sc.**  
Appointed: 9 February 2012

Mr. Ammar is currently the Managing Director of Ammar and Azar Limited. He also serves on the Corporate Governance and Audit Committees of Hardware & Lumber Limited. He is a director of Orr-Rus Limited, NCB Capital Markets Limited and, Kingston City Centre Improvement District Limited. He was a past President of the Jamaica Chamber of Commerce and a current member of Bacchanal Jamaica.



**Harry A. J. Smith, B.Sc. (Hons), M.B.A.**

Appointed: 7 March 2013

Mr. Smith is a retired business executive who has had a career at Board and Senior Executive level in General Management, Marketing and Sales for over 35 years involving local as well as multinational corporations in various industries. He currently serves as Executive-in-Residence at the Mona School of Business and Management, UWI as well as a Board member of Carimed Limited, Kirk Distributors Limited, NCB Capital Markets Limited, Digicel Jamaica Limited and as a member of The Board of Trustees of the Munro and Dickenson Trust.

Graduating with a science degree from the UWI, Mr. Smith also has had post graduate training in business (MBA) at the Mona School of Business and Management, UWI as well as executive training at Kellogg Graduate School of Business, Northwestern University, USA.

He is a member on both the Audit and Corporate Governance Committees at H & L. He serves as a Justice of the Peace and Lay Magistrate in the parish of St. Andrew.





**Grace Burnett, LLB, CI.**

Appointed: 1 March 2011

Mrs. Burnett is an Attorney at Law and Chartered Insurer, with over 20 years' experience in the general insurance industry. She has served in senior positions within the GraceKennedy Group and is currently the Managing Director of Jamaica International Insurance Company Limited. Grace holds a Bachelor of Laws from the University of the West Indies and her Chartered status from the Chartered Insurance Institute UK. She has participated in several leadership development courses including the Leadership Journey at the Wharton Business School. Grace currently serves as a director of the Jamaica Chamber of Commerce. She is a member of the Jamaican Bar Association, The Chartered Insurance Institute (UK) and Toastmasters International.



**Paul A.B. Facey, M.B.A., B.Sc.**

Appointed: 30 July 2012

Mr. Paul Facey is the Vice President of Investments for the Pan-Jamaican Group of Companies and has held that position since 2004. He brings to Hardware & Lumber Board his substantial experience in trading, manufacturing and finance. He was an integral part of the team in the late 1990's that developed the concept of the H & L True Value and retail stores in Jamaica. Mr. Facey sits on the Boards of Pan-Jamaican Investment Trust Limited, Sagicor Investments Jamaica Limited and Sagicor Life Jamaica Ltd where he is a member of the Investment and Audit Committees.



**Paul Hanworth, A.C.A., C.P.A., M.Sc., M.A.**

Appointed: 3 December 2007

Mr. Hanworth has been Chief Financial Officer for Pan-Jamaican Investment Trust Limited since 2006. He is currently Chairman of the H & L Audit Committee and a member of the Corporate Governance Committee. An accountant by training, Paul spent 14 years in the accounting profession with KPMG and 9 years in the wine and spirits industry with Diageo plc in various countries before moving to Jamaica in 1998 to work with Mechala Group (now ICD Group) as Chief Financial Officer. Mr. Hanworth holds a Masters degree in Classics from Cambridge University, and is a member both of the Institute of Chartered Accountants in England and Wales and of the American Institute of Certified Public Accountants.





# BOARD OF DIRECTORS



**M. Audrey Hinchcliffe, C.D., B.A., M.Sc., J.P.**

Appointed: 9 February 2012

Mrs. M. Audrey Hinchcliffe is founder, Chairman and Chief Executive Officer of Manpower & Maintenance Services Limited and its subsidiaries. She is Chairman of the Corporate Governance Committee and a member of the Audit Committee. She has previously served as Director of GraceKennedy Limited and Chairman of Hi-Lo Food Stores and is currently Chairman of the Board of Allied Insurance Brokers Ltd. She was invited by US Secretary of State – Hillary Rodham Clinton – to serve a two-year term on the US Department of State's new International Council on Women's Business Leadership. She is Chairman of the Board of Jamaica Foundation for Lifelong Learning (JFLL), and a Past President of the Jamaica Employers' Federation where she was the first female president.

She is the recipient of several commendations and awards including Fellow of the Jamaica Institute of Management and enjoys the distinction of being among Jamaica's Most Influential Women by both the Jamaica Observer and The Gleaner.



**Donald G. Wehby, B.Sc. (Hons), M.Sc. (Acctg), F.C.A.**

Appointed: 1 February 2010

Mr. Wehby was appointed Chief Executive Officer of the GraceKennedy Group on July 1, 2011. He is also a member of its Board. He was Deputy CEO for GraceKennedy Limited and CEO GK Investments up to September 2007, when he resigned to take up the position of Senator and Cabinet Minister in the Ministry of Finance & Public Service for two years. He was reappointed to the GraceKennedy Board on October 5, 2009 and is also a Board member of several other GraceKennedy subsidiaries. He is a member of the Corporate Governance Committee of H & L Limited. His current professional affiliations include Vice Chairman of the Diaspora Implementation Council, Vice President of the Private Sector Organization of Jamaica (PSOJ) and Chairman of the PSOJ Economic Policy Committee. He is also a Director of the West Indies Cricket Board (WICB) and Chairman of the WICB Audit, Risk and Compliance Committee. He holds both a Bachelor of Science (Hons) degree and a Master of Science degree in Accounting from the University of the West Indies and has completed an Advance Management College certificate course at Stanford University. He is a chartered accountant and a Fellow of the Institute of Chartered Accountant in Jamaica.



**Gordon K. G. Sharp, B.Sc. Eng., M.B.A.**

Appointed: 27 November 2006

Mr. Sharp was a director of GraceKennedy Limited since 1976 to 2013 and a member of the Corporate Governance and Compensation Committees of the Board. He is a Founding Member of both the Private Sector Organization of Jamaica (PSOJ) and the Jamaica Institute of Management (JIM). He has served as Chairman of the Coffee Industry Board from 1981 to 1985. He is currently Chairman of Trout Hall Limited, an agricultural and export trading company.





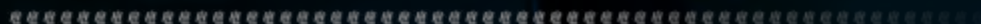


**The Rapid True Value Lane Plaza Team.**

*Forefront L-R: Jacqueline Wedderburn, Branch Manager and Andrea Coy, CEO, Hardware & Lumber.*



# CORPORATE DATA » as at 31 December 2013



## » Board of Directors

Erwin M. Burton, B.Sc., M.Sc., J.P.  
Chairman

Andrea D. Lewis-Coy, B.Sc., M.Sc. (Acctg.) F.C.A  
Chief Executive Officer

Donald G. Wehby, B.Sc., (Hons), M.Sc. (Acctg), F.C.A.

Michael A. Ammar Jnr., B.Sc.

Paul Hanworth, A.C.A., C.P.A., M.Sc., MA.

M. Audrey Hinchcliffe, C.D., B.A., M.Sc., J.P.

Paul A. B. Facey, B.Sc., M.B.A.

Gordon K. G. Sharp, B.Sc. (Eng.), M.B.A.

Harry A. J. Smith, B.Sc, M.B.A, J.P.

Grace Burnett, LLB., CI

## » Secretary

Gene M. Douglas, F.C.I.S., M.B.A.

## » Registered Office

697 Spanish Town Road  
Kingston 11, Jamaica

## » Registrar

**Sagicor Bank Jamaica Limited**  
Corporate Trust Division  
60 Knutsford Boulevard  
Kingston 5

## » Bankers

The Bank of Nova Scotia (Jamaica) Limited  
Citigroup, N.A.  
FirstCaribbean International (Jamaica) Limited  
National Commercial Bank Jamaica Limited  
First Global Bank Limited

## » Auditors

PricewaterhouseCoopers

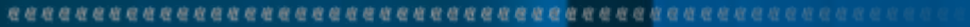
## » Attorneys-at-Law

DunnCox

Nunes Scholefield DeLeon & Co



# CORPORATE DATA » as at 31 December 2013



## » Executive Team

**Andrea D. Lewis-Coy**, B.Sc., M.Sc. (Acctg.) F.C.A.  
Chief Executive Officer

**Donna Doran**, F.C.A., M.B.A  
Chief Financial Officer

**Olive Downer-Walsh**, B.Sc., M.B.A  
General Manager, Agro Grace

**Marsha Evans**, B.Sc., M.B.A  
General Manager, Rapid True Value

**Annette Morrison**, M.Sc., GPHR  
Human Resource Business Partner

**Kerry Edwards**, B.Sc., (Fin.), Assoc. (Acctg.)  
Manager, Central Services

**Anthony Lindo**  
Retail Operations Manager

**Patrick Chambers**  
Chief Category Manager



## INTEREST OF DIRECTORS AND SENIOR MANAGEMENT » AS AT 31 DECEMBER 2013

DIRECTORS	PERSONAL SHAREHOLDINGS	STOCKHOLDINGS IN WHICH DIRECTOR/OFFICER HAS AN INTEREST
Michael A. Ammar	50,000	
Erwin M. Burton	33,563	-
Grace Burnett	1,000	
Andrea Coy	2,100	-
Paul A. B. Facey	Nil	-
Paul Hanworth	101,000	-
M. Audrey Hinchcliffe	Nil	-
Gordon K. G. Sharp	204,348	
Harry A. J. Smith	Nil	-
Donald Wehby	1,000	-
SENIOR MANAGEMENT		
Andrea Coy	2,100	
Donna Doran	Nil	-
Olive Downer Walsh	2,000	-
Marsha Evans	Nil	
Annette Morrison	Nil	-
Kerry Edwards	Nil	
Anthony Lindo	Nil	
Patrick Chambers	Nil	





## HARDWARE & LUMBER LIMITED

### MAJOR SHAREHOLDERS » AS AT 31 DECEMBER 2013

	NAME	STOCKHOLDINGS
1	GraceKennedy Limited	47,013,417 - 58.15%
2	Pan-Jamaican Investment Trust Ltd.	16,840,106 - 20.83%
3	Mayberry Company A/C 120008	3,286,775 - 4.07%
4	JCSD Trustee Services Ltd. – Sigma Optima	1,500,000 - 1.86%
5	Mayberry Investments Limited A/C 09022	1,092,833 - 1.35%
6	Trading A/c - National Insurance Fund	1,000,000 - 1.24%
7	Sagikor PIF Equity Fund	995,997 - 1.23%
8	Guardian Life Limited	761,700 - 0.94%
9	Mayberry West Indies Limited	614,949 - 0.76%
10	NCB Insurance Company Ltd A/C WT 105	600,000 - 0.74%

Total	73,705,777 - 91.17%
Others	7,136,,246 - 8.83%



## REPORT OF THE DIRECTORS

1. The Directors submit herewith their Annual Report and the Audited Financial Statements for the year ended December 31, 2013.

	\$'000
The net profit before Tax	817,717
The charge for taxation was	(207,754)
Making the profit after taxation	609,963
Less Re-measurement of pension assets/obligation	(93,774)
Less Dividend Declared	(24,253)
To which is added the retained loss brought forward from the previous year of	(242,482)
Leaving retained earnings to be carried forward to the next year of	249,454



2. *The Directors as at December 31, 2013 were as follows:*

Erwin M. Burton, Andrea Lewis-Coy, Michael A. Ammar Jnr., Grace Burnett, Paul Hanworth, M. Audrey Hinchcliffe, Paul A.B. Facey, Gordon K. G. Sharp, Harry A. J. Smith and Donald G. Wehby.

In accordance with Article 100 of the Company's Articles of Incorporation, Mr. Michael Ammar, Mr. Donald Wehby and Mrs. M. Audrey Hinchcliffe will retire by rotation and being eligible offer themselves for re-election.

3. *Auditors*

Messrs. PricewaterhouseCoopers, have expressed their willingness to continue in office in accordance with Section 154 of the Companies Act 2004.



**6. Dividend**

In December 2013 the Directors recommend a dividend in the amount of \$0.30 payable on 17 January 2014 to stockholders on record at the close of business on 20 December 2013.

**7. The Directors wish to express their appreciation to the management and staff for the work done during the year.**

By order of the Board

Dated this 15th day March 2014



Gene M. Douglas

Secretary





# CORPORATE GOVERNANCE

In July 2012, the Board of Directors of Hardware & Lumber Limited re-established its Corporate Governance Charter and the full Code and Terms of Reference are available on the Company's website at [www.hardwareandlumberja.com](http://www.hardwareandlumberja.com). Highlights of the Terms of Reference are as follows:

## 1. Mandate»»

The Corporate Governance Committee shall assist the Board in:

- (1) Enhancing the Company's system of corporate governance by establishing, monitoring and reviewing the principles of good governance with which the Company and its directors will comply;
- (2) Promoting high standards of corporate governance based on the principles of openness, integrity and accountability taking into account the Company's existing legal and regulatory requirements;
- (3) Promoting Corporate Governance best practices keeping the effectiveness of the corporate governance systems of the Company under regular review and making recommendations to the Board in respect of the implementation of policies and guidelines to facilitate such best practices.
- (4) Establishing such procedures, policies and codes of conduct to meet these aims as it considers appropriate from time to time;
- (5) Identifying individuals qualified to become directors and recommending to the Board the candidates for all directorships to be filled by the Board of Directors or by the shareholders;
- (6) Recommending to the Board of Directors candidates for membership on Board committees;
- (7) Leading the Board of Directors in its annual review of the Board's performance.
- (8) Discharge the Board's responsibilities relating to the Total Compensation (defined as compensation, benefits and perquisites) of the Company's Chief Executive Officer and other Senior Executives in a manner consistent with and in support of the business objectives of the Company, competitive practice, and all applicable rules and regulations.

## 2. Composition»»

The Committee shall have a membership of five members appointed by the Board from the directors of the Company all of whom shall be non-executive directors. For purpose of this policy "non-executive directors" refers to directors who are not employees of the Company or persons acting in an executive capacity with the Company.





### 3. Responsibilities»»

The duties of the Committee shall be:

- (1) To develop and recommend to the Board for adoption a set of corporate governance guidelines as may be deemed necessary by the committee to ensure that the company effectively protects and enhances its shareholder value.
- (2) To review, at least annually the company's Corporate Governance Policies and Guidelines and Philosophies and Policies and to recommend any proposed changes to the Board for approval.
- (3) To periodically review and make recommendations to the Board on issues regarding the Company's conduct of its business as a responsible corporate citizen.
- (4) To keep under review legislative and regulatory developments in relation to corporate governance issues that might affect the Company's operations.
- (5) To review conflicts or potential conflicts of interest involving directors of the Company and make recommendations in respect thereof to the Board.
- (6) To undertake responsibility for the nomination of new Directors and review of the existing Board of Directors as follows:
  - (i) To consider and make representations to the Board on its composition and balance. Factors for consideration shall include but not be restricted to the:
    - total number of directors;
    - mix of executive and non-executive directors;
    - average length of service of directors;
    - skill, mix and industry experience of directors;
    - responsibilities of specific directors; and
    - scope and mix of outside experience brought to the Board.
  - (ii) To identify, review and recommend candidates for potential appointment as directors (both executive and non-executive) of the Company; and
  - (iii) To review, at regular intervals and at least once per year, the Company's succession plan in respect of senior executive positions within the Company.
- (7) In respect of executive compensation:
  - (i) Approve all aspects of Total Compensation for the Chief Executive Officer of the Company ("CEO"), including, but not limited to:
    - (a) A review of corporate and individual goals and objectives relevant to CEO Total Compensation, an evaluation of the CEO's performance relative to those goals and objectives, and a determination of the CEO's Total Compensation level based on this evaluation.



- (b) In determining the long-term incentive component of CEO Total Compensation, the Committee will consider the Company's performance, relative shareholder return, the value of long-term incentive compensation given to CEO's at comparable companies, and the awards given to the CEO in past years.
- (ii) Review and approve proposals made by the CEO with regard to the Total Compensation of Senior Executives of the Company and the overall policy or strategy for compensation within the GraceKennedy Group.
- (iii) Review and recommend the adoption of significant Benefits Plans and changes to Benefits Plans to the Board of Directors.
- (8) To undertake such additional activities within the scope of its functions as the Committee may from time to time determine or as may otherwise be required by law, the Company's charter, or directive of the Board.

The current members of the Governance & Nomination Committee are Mrs. M. Audrey Hinchcliffe (Chairperson), Mr. Paul Hanworth, Donald Wehby, Mr. Michael Ammar, Jnr and Mr. Harry Smith. The fifth member was Mr. Rodney Davis who resigned in October and as soon as a replacement is identified, the person would be nominated to the committee.

### BOARD ATTENDANCE REGISTER -2013

		Board meetings	Audit Committee	Corporate Governance & Nomination Committee	Annual General Meeting
	Number of meetings held	11	7	4	1
1	Erwin M. Burton – (Chairman)	11	-	-	1
2	Andrea Coy – CEO	10	-	-	1
3	Michael Ammar, Jnr	7	7	2	1
4	Grace Burnett	10	-	-	0
5	Paul A.B. Facey	10	-	-	1
6	Paul Hanworth	11	7 (C)	3	1
7	M. Audrey Hinchcliffe	11	5	4 (C)	1
8	Gordon Sharp	9	-	-	1
9	Donald G. Wehby	8	-	4	1
10	Harry Smith *	7:8	4:4	3:3	1

\*Mr. Harry Smith was appointed to the Board on 7 March 2013, to the Governance Committee on 8 April 2013 and to the Audit Committee with effect from 13 May 2013.

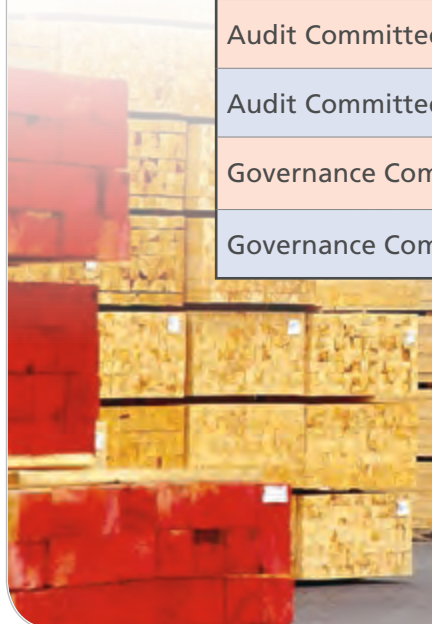


## BOARD EXPERTISE

DIRECTOR	Executive (E) Independent (I) Non-Executive (NE)	Finance & Accounting	Human Resources Development	Retail	Policy & Strategy	Risk & Governance	Consumer Marketing
Erwin M. Burton	NE	•		•	•	•	
Andrea Coy	E	•	•	•	•		•
Michael Ammar, Jnr	I	•		•	•	•	•
Grace Burnett	NE	•			•	•	
Paul A.B. Facey	NE	•		•	•		•
Paul Hanworth	NE	•			•	•	•
M. Audrey Hinchcliffe	I	•	•	•	•	•	•
Gordon Sharp	I	•			•	•	
Harry Smith	I	•			•	•	•
Donald G. Wehby	NE	•			•	•	

## STRUCTURE OF DIRECTORS' EMOLUMENTS 2013

	Annual Retainer	Per Meeting
Board Chairman	1,000,000	-
Directors	333,506	-
Audit Committee Chair	40,020	13,340
Audit Committee Members	-	13,340
Governance Committee Chair	40,020	13,340
Governance Committee Members	-	13,340



## Audit Committee Terms of Reference

### 1. Mandate»»

The Audit Committee shall be responsible for assisting the Board of Directors in the oversight of the:

- i. Reliability and integrity of the accounting principles and practices, financial statements and other financial reporting.
- ii. Internal audit functions of the company and the group.
- iii. Risk management functions and processes of the company and the group.
- iv. Qualifications, independence and performance of the external auditors of the company.
- v. System of internal controls and procedures established by management and reviewing their effectiveness.
- vi. Company's compliance with legal and regulatory requirements.

### 2. Composition»»

The Committee shall be appointed by the Board, from the Directors of the company and shall comprise of no more than 5 or less than 3 members, all of whom shall be non-executive directors who are financially literate and the majority of whom are identified by the Board as independent Directors. At least one member of the Committee shall be an Audit Committee financial expert, that is, a person with the following attributes:

- i. An understanding of financial statements and applicable accounting principles.
- ii. The ability to assess the general application of such principles in connection with accounting for estimates, accruals and reserves.
- iii. Experience in preparing, auditing, analysing, or evaluating financial statements that present accounting issues of a breadth and level of complexity generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the company's financial statements, or experience actively supervising one or more persons engaged in such activities.
- iv. An understanding of internal controls and procedures for financial reporting.
- v. An understanding of Audit Committee functions.

### 3. Responsibilities»»

The duties of the Committee shall include the following:

- (A) Financial Reporting
  - i. To review the audited annual financial statements and the quarterly financial results of the company and recommend the same for adoption by the Board of Directors.
  - ii. To review the company's operating, financial and accounting policies and practices.



- iii. To review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and their impact on financial reports.

In discharging its duties for reviewing financial statements and reporting, the Committee does not provide any expert or special assurance as to financial statements concerning compliance with laws, regulations or generally accepted accounting principles. It is the responsibility of the company's management to prepare consolidated financial statements that are complete and accurate and in accordance with International Financial Reporting Standards (IFRS), and it is the responsibility of the external auditor to audit those financial statements. The Committee's responsibility in this regard is one of oversight and review.

#### **(B) Internal Control**

- i. To review the company's system of internal control (including financial, operational, compliance, information systems and risk management) and make recommendations to the Board.
- ii. To meet with the company's Auditors at least once in every year and more often as required to discuss the Annual Audited Financial Statements and other audit conducted of the company's operations and internal control weaknesses or other observations identified from the same and otherwise to carry out its mandate.
- iii. To meet with the Chief Internal Auditor of the company or other officer or employee acting in a similar capacity and with other members of management to discuss the effectiveness of the internal control procedures established.
- iv. To meet with the Chief Risk Officer of the company or other officer or employee acting in similar capacity and other members of management as appropriate to review the company's risk assessment and risk management policies and procedures and the major financial and other risk and exposures affecting the company and to ensure the monitoring and controlling of such risks and exposures.

#### **(C) External audit**

- i. To make recommendations to the Board for the appointment, reappointment or termination of the appointment of the external auditors and to approve the remuneration and terms of engagement of the external auditors.
- ii. To review with the external auditors the scope of their audit and to review and evaluate their performance.
- iii. To review the external auditors' management letter and management's response.
- iv. To review any significant findings made by the external auditors and managements' proposed response, and ensure that steps are taken to address these findings.
- v. To consider the independence and objectivity of the external auditors and any potential conflicts of interest, and to monitor the effectiveness of the audit process.
- vi. To review policies for the provision of non-audit services by the external auditor, and where applicable, the framework for the pre-approval of audit and non-audit services.
- vii. To oversee the resolution of disagreements between management and independent auditor regarding financial reporting.





- viii. To report to the Board any matter which it considers needs improvement or review, and to make recommendations regarding steps to be taken.

**(D) Internal Audit**

- i. To review the proposed internal audit plan for the coming year and ensure that it addresses key areas of risk and that there is appropriate co-ordination with the external auditor.
- ii. Meet with the Internal Auditors to discuss any matters that the Committee or internal auditors believe should be discussed.
- iii. To ensure that significant findings and recommendations made by the internal auditors and management's proposed response are received, discussed and appropriately acted on.
- iv. To ensure that the Internal Auditor has direct access to the Board Chairman and the Committee.

**(E) Compliance**

- i. To obtain regular updates from the Internal Auditor regarding compliance matters that may have a material impact on the company's financial statements or compliance policies.
- ii. To review management reports of any regulatory examinations or audits and correspondences with regulators or government agencies which raise material issues regarding the company's financial statements, accounting policies and practices, risk management practices or compliance with laws and regulations affecting the business within the company and to ensure that steps are taken to address all weaknesses detected.

**(F) Other Assigned Functions**

- i. To undertake on behalf of the Chairman or the Board such other related tasks as the Chairman or the Board may from time to time entrust to it.
- ii. To review the composition, powers, duties and responsibilities of other Audit Committees within the Group, where applicable.
- iii. To review the effectiveness of the procedures in place under the company's Whistle-blowing Policy.

The Audit Committee is comprised of four (4) members, all of whom are non-executive Directors of the company. The members are, Paul Hanworth (Chairman); Michael Ammar, Harry Smith and Audrey Hinchcliffe.

During the year the committee met seven (7) times and among the items discussed were:

- Review the annual audited financial statements and make recommendation for their approval to the Board of directors and subsequent release to the Jamaica Stock Exchange
- Review the quarterly financial statements and make recommendation to the Board for their release to the Jamaica Stock Exchange.
- Review the systems of internal controls.



- Review the effectiveness and cost of the current providers of internal audit services, and review the qualifications of potential alternative providers. The Committee recommended for approval the appointment of a new Internal Audit provider.
- Review the financial and accounting policies and practices.

### **DIVIDEND POLICY 2013**

Hardware & Lumber Limited has adopted a dividend policy intended to enhance the Company's strategy for growth and to accelerate the creation of additional shareholder value.

The dividend policy is to distribute at least 15% of Net Profit Attributable to Stockholders. The policy must be viewed against the background of an unpredictable economy and is subject to available cash flow.

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# 2013 brought MYLES of Style to Rapid True Value...



L-R: Don Wehby - CEO GraceKennedy Group, Kim Myles - Design Star, Marsha Welcome-Brown - Branch Manager, Rapid True Value Sovereign Centre.

In the life of Rapid True Value, the last quarter of every year is dedicated to inspiring customers to be creative with decorating the home. We share new houseware and decorating trends via what has become a staple of Rapid True Value and a virtual collector's item... our Christmas Catalogue. There we showcase products from various categories targeting those areas which become the focal point for each home owner at that time of year... kitchens, paints, outdoor decor, sanitary ware, bedding, curtains and decor items to name a few.

In 2013, Rapid True Value closed the last quarter on a fashionably high note by inviting internationally acclaimed Design Star, Kim Myles, to the local home of lifestyle solutions and décor products. This was done to inspire home décor enthusiasts, and enhance the shopping experience for the season.

The home decor and design guru, and widely watched interior designer Kim Myles — Season 2 winner of HGTV's Design Star; CEO of her own lifestyle brand, Kim Myles Design; host of HGTV's Myles of Style and America's Biggest Yard Sale; and now a member of OWN's Home Made Simple team of experts...created a buzz at Rapid True Value, in the final weekend in November 2013.

It was a weekend full of activities which included the re-launch of the Rapid True Value Sovereign store on Friday November 29 and DIY Home Décor workshops themed "Decorating for the Holidays" hosted at the Rapid True Value Lane Plaza and Montego Bay stores on Saturday November 30 and Sunday December 1, 2013 respectively.

At the Rapid True Value Sovereign Centre un-veiling event, Kim was one of the designated ribbon cutters, along with GraceKennedy CEO, Don Wehby and Branch Manager Marsha Welcome-Brown. Customers and



Kim selects the lucky winner of a free design consultation with the Design Star.



The audience was extremely attentive as she doled out home decor advice.



Kim relaxes in the Inspiration Studio after her presentation.

members of the media were invited to view the "new-look" store's expanded stock offerings and boutique design elements.

We are aware that the home has become the "new hot spot" as entertainment, dining-out and travel budgets have been scaled back. Because of this renewed focus on the home as a part-time entertainment venue and full-time oasis, more and more customers have expressed the desire to create an elegant retreat at home. Rapid True Value fulfilled that desire by hosting DIY Home Décor workshops themed "Decorating for the Holidays" at the Rapid True Value Lane Plaza and Montego Bay stores, and the response was overwhelming. At both locations, the self-proclaimed "colour-girl", shared her design secrets and gave helpful home décor advice to customers on the simple art of transforming their space from drab to fab!

- Donna Taylor-Wright



Kim autographs the wall in the Inspiration Studio at Rapid True Value Lane Plaza





**Hardware &  
Lumber Ltd**

**AUDITED  
FINANCIAL  
STATEMENTS**

.....

» *Year ended 31 December 2013*

# Hardware & Lumber Ltd. INDEPENDENT AUDITORS' REPORT



## *Independent Auditors' Report*

To the Members of  
Hardware & Lumber Limited

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Hardware & Lumber Limited, set out on pages 40 to 92, which comprise the statement of financial position as at 31 December 2013 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and with the requirements of the Jamaican Companies Act, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

---

PricewaterhouseCoopers, Scotiabank Centre, Duke Street, Box 372, Kingston, Jamaica  
T: (876) 922 6230, F: (876) 922 7581, [www.pwc.com/jm](http://www.pwc.com/jm)



# Hardware & Lumber Ltd. INDEPENDENT AUDITORS' REPORT



Members of Hardware & Lumber Limited  
Independent Auditors' Report  
Page 2

### **Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of Hardware & Lumber Limited as at 31 December 2013, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Jamaican Companies Act.

### **Report on Other Legal and Regulatory Requirements**

As required by the Jamaican Companies Act, we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

In our opinion, proper accounting records have been kept, so far as appears from our examination of those records, and the accompanying financial statements are in agreement therewith and give the information required by the Jamaican Companies Act, in the manner so required.

*PricewaterhouseCoopers*

Chartered Accountants  
26 February 2014  
Kingston, Jamaica





## Hardware & Lumber Ltd.

### STATEMENT OF COMPREHENSIVE INCOME

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

	Note	2013 \$'000	Restated 2012 \$'000
<b>Revenue</b>		6,810,599	6,284,052
Cost of sales		<u>(5,064,288)</u>	<u>(4,655,902)</u>
<b>Gross Profit</b>		1,746,311	1,628,150
Other operating income	6	<u>64,755</u>	<u>48,616</u>
		<u>1,811,066</u>	<u>1,676,766</u>
Direct expenses		(1,041,011)	(1,084,674)
Administrative expenses	7	<u>94,415</u>	<u>(394,177)</u>
		<u>(946,596)</u>	<u>(1,478,851)</u>
<b>Profit from Operations</b>		864,470	197,915
Finance costs	8	<u>(46,753)</u>	<u>(72,523)</u>
<b>Profit before Tax</b>		817,717	125,392
Taxation	10	<u>(207,754)</u>	<u>(122,580)</u>
<b>Profit for the Year</b>		<u>609,963</u>	<u>2,812</u>
<b>Other Comprehensive Income:</b>			
<b>Items that will not be reclassified to profit and loss</b>			
Net gain on revaluation of land and buildings, net of taxes	14	=	14,723
Remeasurement of pension asset/obligation, net of taxes	14	<u>(93,774)</u>	<u>53,486</u>
		<u>(93,774)</u>	<u>68,209</u>
<b>Total Comprehensive Income for the Year</b>		<u>516,189</u>	<u>71,021</u>
<b>Earnings per stock unit attributable to owners of the company</b>	11	<u>7.55</u>	<u>0.03</u>



## Hardware & Lumber Ltd.

# STATEMENT OF FINANCIAL POSITION

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

	Note	2013 \$'000	Restated 2012 \$'000	Restated 2011 \$'000
<b>NET ASSETS EMPLOYED</b>				
<b>Non-current Assets</b>				
Property, plant and equipment	12	608,806	615,730	621,842
Intangible assets	13	7,059	11,853	16,116
Deferred tax asset	14	59,474	193,575	316,830
		675,339	821,158	954,788
<b>Current Assets</b>				
Inventories	16	1,233,338	1,107,821	1,290,325
Trade and other receivables	17	498,332	427,206	450,009
Group companies	18	1,685	8,661	9,486
Taxation recoverable		18,262	51,020	51,818
Cash and bank balances	19	417,891	205,935	319,659
		2,169,508	1,800,643	2,121,297
<b>Current Liabilities</b>				
Trade and other payables	20	932,157	693,758	728,095
Provisions	21	618	618	1,022
Taxation payable		24,389	-	-
Short term loans	22	13,434	-	593,198
Group companies	18	1,868	1,989	10,125
Current portion of long term loans	23	141,667	183,333	174,331
		1,114,133	879,698	1,506,771
<b>Net Current Assets</b>		<u>1,055,375</u>	<u>920,945</u>	<u>614,526</u>
		<u>1,730,714</u>	<u>1,742,103</u>	<u>1,569,314</u>



## Hardware & Lumber Ltd.

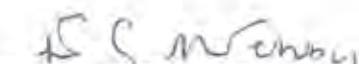
### STATEMENT OF FINANCIAL POSITION *(Cont'd)*

» Year ended 31 December 2013 *(expressed in Jamaican dollars unless otherwise indicated)*

	Note	2013 \$'000	Restated 2012 \$'000	Restated 2011 \$'000
<b>FINANCED BY</b>				
<b>Stockholders' Equity</b>				
Share capital	24	616,667	616,667	616,667
Capital reserve	25	305,342	305,342	290,819
Other reserve	26	5,259	4,961	4,244
Retained earnings/(accumulated deficit)		249,454	(242,482)	(288,675)
		<u>1,176,722</u>	<u>684,488</u>	<u>622,855</u>
<b>Non-current Liabilities</b>				
Long term loans	23	228,430	372,629	201,012
Retirement benefit obligation	15	325,562	684,986	745,447
		<u>553,992</u>	<u>1,057,615</u>	<u>946,459</u>
		<u>1,730,714</u>	<u>1,742,103</u>	<u>1,569,314</u>

Approved for issue by the Board of Directors on 25 February 2014 and signed on its behalf by:

  
 \_\_\_\_\_  
 Erwin Burton Director

  
 \_\_\_\_\_  
 Donald Wehby Director





## Hardware & Lumber Ltd.

### STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

	Note	Share Capital \$'000	Capital Reserve \$'000	Other Reserve \$'000	(Accumulated Deficit)/Retained Earnings \$'000	Total \$'000
<b>Balance at 1 January 2012, as restated</b>	29	616,667	290,619	4,244	(288,675)	622,855
Total comprehensive income		-	14,723	-	56,298	71,021
<b>Transactions with owners</b>						
Dividend	28	-	-	-	(10,105)	(10,105)
Employee stock option scheme: value of employee services received	26	-	-	717	-	717
<b>Balance at 31 December 2012, as restated</b>	29	616,667	305,342	4,961	(242,482)	684,488
Total comprehensive income		-	-	-	516,189	516,189
<b>Transaction with owners</b>						
Dividend	28	-	-	-	(24,253)	(24,253)
Employee stock option scheme: value of employee services received	26	-	-	298	-	298
<b>Balance at 31 December 2013</b>		<b>616,667</b>	<b>305,342</b>	<b>5,259</b>	<b>249,454</b>	<b>1,176,722</b>



## Hardware & Lumber Ltd.

### STATEMENT OF CASH FLOWS

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

	Note	2013 \$'000	Restated 2012 \$'000
<b>Cash Generated from Operating and Investing Activities:</b>			
Profit for the year		609,963	2,812
Items not affecting cash:			
Amortisation of computer software	13	5,076	5,076
Change in retirement benefit asset/obligation		(471,988)	10,039
Depreciation of property, plant and equipment	12	42,679	51,188
Foreign exchange gains		(21,025)	(822)
Withholding tax write-off		2,284	-
Interest expense	8	46,752	67,708
Interest income	6	(5,919)	(5,681)
Loss on disposal of property, plant and equipment	6	2,324	1,631
Stock options		298	717
Taxation charge	10	207,754	122,580
Warranties	21	58	3,891
		<u>418,256</u>	<u>259,139</u>
Changes in non-cash working capital components:			
Inventories (*)		(134,365)	180,553
Group companies		6,855	(7,311)
Trade and other receivables		(65,573)	22,603
Trade and other payables		224,251	(44,442)
Warranties settled	21	(58)	(4,295)
		<u>449,366</u>	<u>406,447</u>
Interest received		5,919	5,681
Tax recovered		-	798
Net cash provided by operating activities		<u>455,285</u>	<u>412,926</u>
<b>Cash Flows from Investing Activities</b>			
Proceeds from sale of property, plant and equipment		699	1,586
Purchase of computer software	13	(282)	(813)
Purchase of property, plant and equipment (*)		(29,930)	(47,958)
Net cash used in investing activities		<u>(29,513)</u>	<u>(47,185)</u>
Cash provided by operating and investing activities (carried forward to page 6)		<u>425,772</u>	<u>365,741</u>



## Hardware & Lumber Ltd.

### STATEMENT OF CASH FLOWS (Cont'd)

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

	Note	2013 \$'000	Restated 2012 \$'000
<b>Cash Provided by Operating and Investing Activities</b> (brought forward from Page 5)		<u>425,772</u>	<u>365,741</u>
<b>Cash Flows from Financing Activities</b>			
Dividends paid	28	(10,105)	-
Interest paid		(49,284)	(73,156)
Long term loans received		-	500,000
Long term loans repaid		(183,333)	(321,627)
Short term loans received		80,605	124,260
Short term loans repaid		(67,171)	(714,579)
Net cash used in financing activities		<u>(229,288)</u>	<u>(485,102)</u>
Effects of exchange rate changes on cash and cash equivalents		<u>15,472</u>	<u>5,637</u>
Net increase/(decrease) in cash and cash equivalents		<u>211,956</u>	<u>(113,724)</u>
Cash and cash equivalents at beginning of year	19	<u>205,935</u>	<u>319,659</u>
<b>Cash and Cash Equivalents at the End of the Year</b>	19	<u><u>417,891</u></u>	<u><u>205,935</u></u>
<b>Comprising:</b>			
Cash at bank	19	<u>225,498</u>	<u>205,935</u>
Short term deposits	19	<u>192,393</u>	-
<b>Cash and Cash Equivalents at the End of the Year</b>		<u><u>417,891</u></u>	<u><u>205,935</u></u>

The principal non-cash transactions -

(\*) During the year \$8,848,000 (2012 - \$1,951,000) was transferred from inventories to property, plant and equipment.





# Hardware & Lumber Ltd.

## NOTES TO THE FINANCIAL STATEMENTS

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

### 1. Identification and Principal Activities

Hardware & Lumber Limited (the company) is a 58.1% subsidiary of GraceKennedy Limited (Grace), the ultimate parent company. Both companies are public companies listed on the Jamaica Stock Exchange, incorporated and domiciled in Jamaica. The registered office is located at 697 Spanish Town Road, Kingston 11, Jamaica.

The company sells retail and wholesale building materials, home improvement supplies, household items and agricultural products.

### 2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### (a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain property, plant and equipment.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. Although these estimates are based on management's best knowledge of current events and action, actual results could differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

#### *Standards, interpretations and amendments to published standards effective in the current year*

Certain new standards, interpretations and amendments to existing standards that have been published, became effective during the current financial year. The company has assessed the relevance of all such new standards, interpretations and amendments and has put into effect the following IFRS, which are immediately relevant to its operations.

- IAS 19 (Revised), 'Employee Benefits'. IAS 19 (revised) amends the accounting for employment benefits to require the immediate recognition of all past service costs which were previously deferred over the period of vesting. It also eliminates the 'corridor approach' and requires that all actuarial gains and losses are recognised immediately in other comprehensive income. The revised standard also replaces the interest cost on the defined benefit obligation and the expected return on plan assets with a net interest cost based on the net defined benefit asset or liability and the discount rate, measured at the beginning of the year. See Note 29 for the prior year impact of the retrospective application of the amendments.

During the year, the company terminated its participation in the defined benefit plan operated by Grace. Accordingly, at year end there are no pension assets recognised in the statement of financial position.

- IFRS 13, 'Fair value measurement'. This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The standard has not had a significant impact on the company's financial statements.



## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

#### 2. Significant Accounting Policies (Continued)

##### (a) Basis of preparation (continued)

###### *Standards, interpretations and amendments to published standards effective in the current year (continued)*

- Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). This has resulted in a minor change to the disclosures in OCI.
- 'Improvements to IFRS' were issued in 2011 and contain several amendments to IFRS, which the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes for presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual standards. Some of the amendments are effective for annual periods beginning on or after 1 January 2013. There were no material changes to accounting policies as a result of these amendments.

There are no other standards, interpretations or amendments to existing standards that are effective that would be expected to have a significant impact on the company.

###### *Standards, interpretations and amendments to published standards that are not yet effective*

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued which were not yet effective at reporting date, and which the company did not early adopt. The company has assessed the relevance of all such new standards, interpretations and amendments and has determined that the following may be relevant to its operations, and has concluded as follows:

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the profit or loss in the statement of comprehensive income, unless this creates an accounting mismatch. The company is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015.

There are no other standards, interpretations or amendments to existing standards that are not yet effective that would be expected to have a significant impact on the company.





## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

#### 2. Significant Accounting Policies (Continued)

##### (b) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer who makes strategic decisions.

##### (c) Foreign currency translation

###### (i) Functional and presentation currency

Jamaica is the primary economic environment in which the company operates, and as such the functional and presentation currency is Jamaican dollars.

###### (ii) Transaction and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss in the statement of comprehensive income.

##### (d) Property, plant and equipment

Land and buildings comprise mainly warehouses, retail outlets and offices.

Property, plant and equipment are carried on the following basis less accumulated depreciation:

Freehold land and building	Valuation
Other property, plant and equipment	Historical cost

Increases in the carrying amount on revaluation of land and buildings are credited to other comprehensive income in the year of revaluation. Decreases that offset previous increases of the same asset are charged against other comprehensive income, all other decreases are charged to the profit or loss in the statement of comprehensive income.

Depreciation is calculated on the straight-line method to write-off the cost or revalued amount of assets to their residual values over their estimated useful lives as follows:

Freehold buildings	10 – 50 years
Furniture and office equipment	3 -10 years
Leasehold improvements	5 -10 years
Equipment and scaffolding	10 - 20 years
Vehicles and forklift trucks	4 - 10 years

Land is not depreciated

The useful lives of the property, plant and equipment are reviewed and adjusted if necessary.

Property, plant and equipment are reviewed periodically for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with the carrying amount and are included in profit from operations. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.





## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS *(Cont'd)*

» Year ended 31 December 2013 *(expressed in Jamaican dollars unless otherwise indicated)*

#### 2. Significant Accounting Policies (Continued)

**(d) Property, plant and equipment (continued)**

Repairs and maintenance expenditures are charged to the profit or loss in the statement of comprehensive income during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the company and the cost can be measured reliably.

**(e) Intangible assets**

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of three to five years.

**(f) Impairment**

**(i) Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffer impairment are reviewed for possible reversal of the impairment at each reporting date.

**(ii) Impairment of financial assets**

The company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indications that the assets are impaired.



## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

#### 2. Significant Accounting Policies (Continued)

##### (g) Financial assets

###### *Classification*

###### **Financial assets**

The company classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

###### ***Financial assets at fair value through profit or loss***

This category has two sub-categories: financial assets held for trading, and those designated as fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the reporting date. These assets are classified as cash and short term deposits and are included in current assets on the statement of financial position.

###### ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The company's loans and receivables comprise trade and other receivables and group balances in the statement of financial position (Notes 17 and 18). The fair values of the company's financial assets are discussed in Note 3(e).

###### ***Recognition and measurement***

Regular purchases of financial assets are recognised on the trade date – the date on which the company commits to purchase or sell the asset. These are initially recognised at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method. Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

##### (h) Inventories

Inventories are stated at the lower of cost and net realisable value, cost being determined on the weighted average cost method. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

The company records an inventory provision for the loss associated with selling inventories below cost. This provision is based on management's current knowledge with respect to inventory levels, sales trends, historical experience, its ability to return inventory to suppliers and to sell inventory through a price reduction process. Management has the ability to adjust purchasing practices based on anticipated sales trends and general economic conditions. However, changes in consumer purchasing patterns could result in the need for additional provisioning.





## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS *(Cont'd)*

» Year ended 31 December 2013 *(expressed in Jamaican dollars unless otherwise indicated)*

#### 2. Significant Accounting Policies (Continued)

**(i) Trade receivables**

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less they are classified as current assets. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

**(j) Cash and cash equivalents**

Cash and cash equivalents are carried in the statement of financial position at cost. Cash and cash equivalents comprise cash on hand and at bank, and short term deposits with maturities of less than 90 days, net of bank overdrafts.

**(k) Share capital**

Ordinary shares are classified as equity.

Incremental cost directly attributable to the issue of new shares are included in equity as a deduction from proceeds.

**(l) Trade payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**(m) Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Subsequently, borrowings are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the profit or loss in the statement of comprehensive income over the period of the borrowings using the effective interest method.

**(n) Income taxes**

Taxation for the period comprises current and deferred tax. Tax is recognised in the profit or loss in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In those cases the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current tax charges are based on taxable profits for the year which differ from the profit before tax reported because it excludes items that are taxable or deductible in other years, and items that are never taxable or deductible. The company's liability to current tax is calculated at tax rates that have been enacted at the reporting date.





## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

#### 2. Significant Accounting Policies (Continued)

##### (n) Income taxes (continued)

Deferred tax liabilities are recognised for temporary differences between the carrying amounts of assets and liabilities and their amounts as measured for tax purposes, which will result in taxable amounts in future periods. Deferred tax assets are recognised for temporary differences which will result in deductible amounts in future periods, but only to the extent it is probable that sufficient taxable profits will be available against which these differences can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset will be realised or the liability will be settled based on enacted rates.

##### (o) Employee benefits

###### (i) Pension obligations

The company participates in a defined contribution plan operated by Grace, whereby it pays contributions to a privately administered fund. The regular contributions constitute net periodic costs for the year in which they are due and are included in staff costs.

The company also participated in a defined benefit pension plan operated by Grace. The plan was generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. During the year the company terminated its participation in the defined benefit plan operated by Grace.

A defined contribution plan is a pension plan under which a company pays fixed contributions into a separate entity. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The asset or liability recognised in the statement of financial position in respect of the defined benefit pension plan was the present value of the defined benefit obligation at the statement of financial position date less the fair value of plan assets, together with adjustments for past service costs. The defined benefit obligation was calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation was determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that were denominated in the currency in which the benefits would have been paid, and that had terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions were charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs were recognised immediately in the profit and loss in the statement of comprehensive income.

For the defined contribution plan, the company pays contributions to privately administered pension insurance plans on a contractual basis. The company has no further payment obligations once the contributions have been paid. The contributions are charged to the profit and loss in the statement of comprehensive income in the period to which they relate.



## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

#### 2. Significant Accounting Policies (Continued)

##### (o) Employee benefits (continued)

###### (ii) Equity compensation benefits

Grace operates an equity-settled, share-based compensation plan. Share options are granted to management and key employees of Grace, its subsidiaries and its associated companies. The fair value of the employee services received in exchange for the grant of the options is expensed and credited to other reserves in stockholders equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of non-market vesting conditions. Options are granted to senior managers at the market price of the shares on the date of the grant and are exercisable at that price. The grant price to other employees is the weighted average price of the shares on the Jamaica Stock Exchange for the previous ten (10) trading days before the date on which the grant of options is approved by the Board, with a 25% discount.

Options are exercisable beginning one year from the date of grant and have a contractual option term of six years.

###### (iii) Termination obligations

Termination benefits are payable when employment is terminated by the company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The company recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the reporting date are discounted to present value.

###### (iv) Other post-employment obligations

The Company provides post-employment health care benefits to its retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries.

##### (p) Provisions

Provisions for redundancies, warranties and legal claims are recognised when there is a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Any increase in provisions due to passage of time is recognised as interest expense.





## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS *(Cont'd)*

» Year ended 31 December 2013 *(expressed in Jamaican dollars unless otherwise indicated)*

#### 2. Significant Accounting Policies (Continued)

##### (q) Revenue and other income recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the company's activities. Revenue is shown net of General Consumption Tax, returns, rebates and discounts. Revenue is recognised as follows:

##### Sales of goods – wholesale

Sales of goods are recognised when the company has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

##### Sales of goods – retail

Sales of goods are recognised when the company sells a product to the customer. Retail sales are usually settled by cash or credit card.

##### Interest income

Interest income is recognised on the accrual basis.

##### (r) Dividend distributions

Dividend distributions to the company's stockholders are recognised in the company's financial statements in the period in which the dividends are approved by the Board of Directors.

##### (s) Leases

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.





## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS *(Cont'd)*

» Year ended 31 December 2013 *(expressed in Jamaican dollars unless otherwise indicated)*

#### 3. Financial Risk Management

The company's activities expose it to a variety of financial risks: market risk (including currency risk and cash flow interest rate risk), credit risk and liquidity risk. The company's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems.

The Board of Directors is ultimately responsible for the establishment and oversight of the company's risk management framework. The Board has established an Audit Committee to oversee how management monitors compliance with the company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the company. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Additionally, management has established a Credit Committee which issues guidelines with respect to credit limits. The Credit Committee has established a credit policy under which customers are analysed individually for creditworthiness prior to the company offering them a credit facility.

Some of the more important types of risk are credit risk, liquidity risk and market risk. Market risk includes currency risk and interest rate risk.

##### (a) Credit risk

The company takes on exposure to credit risk, which is the risk that its customers will cause a financial loss for the company by failing to discharge their contractual obligations. Credit risk is a very important risk for the company's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally from the company's receivables from customers. The company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single counterparty or groups of related counterparties.



## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

#### 3. Financial Risk Management (Continued)

##### (a) Credit risk (continued)

###### Credit review process

The company has established a credit quality review process and has credit policies and procedures which require regular analysis of the ability of credit customers and other counterparties to meet interest, capital and other repayment obligations.

###### (i) Trade and other receivables

The company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Credit limits are assigned to each customer, which represents the maximum credit allowable without approval from the credit committee; these are reviewed quarterly. The company has procedures in place to restrict customer orders if the order will exceed their credit limits. Customers that fail to meet the company's benchmark creditworthiness may transact business with the company on a prepayment or cash basis.

Customer credit risks are monitored according to their credit characteristics such as whether it is an individual or company, aging profile, and previous financial difficulties.

The company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The company addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

The company's average credit period on the sale of goods is 30 days. The company has provided for receivables based on an evaluation of the total past due balances and the historical experience with individual customers. Trade receivables are provided for based on an estimate of amounts that would be irrecoverable, determined by taking into consideration past default experience, current economic conditions and expected receipts and recoveries once impaired.

###### (ii) Cash and cash equivalents

The company limits its exposure to credit risk by investing mainly in liquid securities, with counterparties that have high credit quality. Accordingly, management does not expect any counterparty to fail to meet its obligations.

###### Maximum exposure to credit risk

	2013	2012
	\$'000	\$'000
Credit risk exposures are as follows:		
Trade receivables (Note 17)	318,684	279,556
Other receivables (Note 17)	70,991	98,960
Group companies (Note 18)	1,685	8,661
Cash and cash equivalents (Note 19)	417,891	205,935
	<u>809,251</u>	<u>593,112</u>

The above table represents a worst case scenario of credit risk exposure to the company.

## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

#### 3. Financial Risk Management (Continued)

##### (a) Credit risk (continued)

Aging analysis of trade receivables that are past due but not impaired:

Trade receivables that are less than 90 days past due are not considered impaired. As at 31 December 2013, trade receivables totalling \$120,258,000 (2012 - \$100,357,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	2013 \$'000	2012 \$'000
1 to 30 days past due	80,573	85,991
31 to 60 days past due	28,131	10,395
Over 60 days past due	11,554	3,971
	<u>120,258</u>	<u>100,357</u>

Aging analysis of trade receivables that are past due and impaired:

As at 31 December 2013, trade receivables of \$62,886,000 (2012 - \$69,031,000) were past due and impaired. The amount of the provision was \$54,962,000 (2012 - \$28,822,000). The individually impaired receivables mainly relate to wholesalers and developers who are experiencing difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered.

The aging of these receivables is as follows:

	2013 \$'000	2012 \$'000
91 to 120 days past due	4,889	5,187
Over 120 days past due	57,997	63,844
	<u>62,886</u>	<u>69,031</u>





## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

#### 3. Financial Risk Management (Continued)

##### (a) Credit risk (continued)

Movements on the provision for impairment of trade receivables are as follows:

	2013 \$'000	2012 \$'000
At 1 January	28,822	64,710
Provision for receivables impairment	32,791	28,581
Recoveries	(6,651)	(4,187)
Receivables written off during the year as uncollectible	-	(60,282)
At 31 December	<u>54,962</u>	<u>28,822</u>

The creation and release of provision for impaired receivables have been included in direct expenses in the profit or loss in the statement of comprehensive income. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

There are no financial assets other than those listed above that were individually impaired.

The following table summarises the company's credit exposure for trade receivables at their carrying amounts, as categorised by the customer sector:

	2013 \$'000	2012 \$'000
Agriculture, fishing and mining	101,137	83,682
Construction and real estate	60,765	23,246
Wholesalers	159,385	134,630
Retail distributors and others	52,379	66,820
	<u>373,646</u>	<u>308,378</u>
Less: Provision for credit losses	(54,962)	(28,822)
	<u>318,684</u>	<u>279,556</u>

All trade receivables are receivable from customers in Jamaica.



## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS *(Cont'd)*

» Year ended 31 December 2013 *(expressed in Jamaican dollars unless otherwise indicated)*

#### 3. Financial Risk Management (Continued)

##### (b) Liquidity risk

Liquidity risk is the risk that the company may be unable to meet its payment obligations associated with its financial liabilities when they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities.

##### Liquidity risk management process

The company's liquidity management process, as carried out within the company and monitored by the Board of Directors, includes:

- (i) Monitoring future cash flows and liquidity on a regular basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral, which could be used to secure funding if required;
- (ii) Maintaining committed lines of credit;
- (iii) Managing the concentration and profile of debt maturities.



## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

#### 3. Financial Risk Management (Continued)

##### (b) Liquidity risk (continued)

The tables below summarise the maturity profile of the company's financial liabilities at 31 December based on contractual undiscounted payments.

	Within 1 Month \$'000	1 to 3 Months \$'000	3 to 12 Months \$'000	1 to 5 Years \$'000	Total \$'000
<b>As at 31 December 2013:</b>					
<b>Liabilities</b>					
Trade payables	196,353	552,826	-	-	749,179
Other payables and accruals	182,978	-	-	-	182,978
Group companies	1,868	-	-	-	1,868
Short term loan	13,648	-	-	-	13,648
Long term loans	-	32,820	140,832	250,597	424,249
	<u>394,847</u>	<u>585,646</u>	<u>140,832</u>	<u>250,597</u>	<u>1,371,922</u>
	Within 1 Month \$'000	1 to 3 Months \$'000	3 to 12 Months \$'000	1 to 5 Years \$'000	Total \$'000
<b>As at 31 December 2012:</b>					
<b>Liabilities</b>					
Trade payables	88,264	461,219	-	-	549,483
Other payables and accruals	144,275	-	-	-	144,275
Group companies	1,989	-	-	-	1,989
Long term loans	-	35,218	196,350	424,236	655,804
	<u>234,528</u>	<u>496,437</u>	<u>196,350</u>	<u>424,236</u>	<u>1,351,551</u>

Assets available to meet all of the liabilities and to cover financial liabilities include cash and cash equivalents.





## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

#### 3. Financial Risk Management (Continued)

##### (c) Market risk

The company takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk mainly arises from changes in foreign currency exchange rates and interest rates. Market risk is monitored by the company's finance department, which carries out research and monitors the price movement of financial assets on the local and international markets. Market risk exposures are measured using sensitivity analysis.

There has been no change to the company's exposure to market risks or the manner in which it manages and measures the risk.

##### (i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The company is exposed to foreign exchange risk primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities. The statement of financial position at 31 December 2013 includes aggregate net foreign liabilities of \$259,711,000 (2012 - \$279,967,000) in respect of such transactions.

The company manages its foreign exchange risk by ensuring that the net exposure in foreign assets and liabilities is kept to an acceptable level by monitoring currency positions. The company further manages this risk by holding foreign currency balances.

##### Foreign currency sensitivity

The change in currency rate below represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis represents outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a possible change in foreign currency rates. The sensitivity of the profit was as a result mainly of foreign exchange losses on translation of US dollar-denominated trade payables, and short term deposits. There is no impact on other comprehensive income.

	% Change in Currency Rate 2013	Effect on Profit before tax 2013 \$'000	% Change in Currency Rate 2012	Effect on Profit before tax 2012 \$'000
Devaluation	15	(38,957)	10	(27,997)
Revaluation	1	2,597	1	2,800



## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

#### 3. Financial Risk Management (Continued)

##### (c) Market risk (continued)

###### (iii) Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Floating rate instruments expose the company to cash flow interest risk. The company's interest rate risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest bearing financial assets and interest bearing financial liabilities.

The following tables summarises the company's exposure to interest rate risk. It includes the company's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Within 1 Month \$'000	1 to 3 Months \$'000	3 to 12 Months \$'000	1 to 5 Years \$'000	Non- Interest Bearing \$'000	Total \$'000
<b>At 31 December 2013:</b>						
<b>Assets</b>						
Trade receivables	-	-	-	-	318,684	318,684
Other receivables	-	-	-	-	70,991	70,991
Group companies	-	-	-	-	1,685	1,685
Cash and bank	182,168	192,393	-	-	43,330	417,891
<b>Total financial assets</b>	<b>182,168</b>	<b>192,393</b>	<b>-</b>	<b>-</b>	<b>434,690</b>	<b>809,251</b>
<b>Liabilities</b>						
Trade payables	-	-	-	-	749,178	749,178
Other payables and accruals	-	-	-	-	182,978	182,978
Short term loan	13,434	-	-	-	-	13,434
Group companies	-	-	-	-	1,868	1,868
Long term loans	-	28,430	116,667	225,000	-	370,097
<b>Total financial liabilities</b>	<b>13,434</b>	<b>28,430</b>	<b>116,667</b>	<b>225,000</b>	<b>934,025</b>	<b>1,317,556</b>
<b>Total interest repricing gap</b>	<b>168,734</b>	<b>163,963</b>	<b>(116,667)</b>	<b>(225,000)</b>	<b>(499,335)</b>	<b>(508,305)</b>



## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

#### 3. Financial Risk Management (Continued)

##### (c) Market risk (continued)

##### (ii) Interest rate risk (continued)

	Within 1 Month \$'000	1 to 3 Months \$'000	3 to 12 Months \$'000	1 to 5 Years \$'000	Non- Interest Bearing \$'000	Total \$'000
<b>At 31 December 2012:</b>						
<b>Assets</b>						
Trade receivables	-	-	-	-	279,556	279,556
Other receivables	-	-	-	-	98,960	98,960
Group companies	-	-	-	-	8,661	8,661
Cash and bank	205,935	-	-	-	-	205,935
<b>Total financial assets</b>	<b>205,935</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>387,177</b>	<b>593,112</b>
<b>Liabilities</b>						
Trade payables	-	-	-	-	549,483	549,483
Other payables and accruals	-	-	-	-	144,275	144,275
Group companies	-	-	-	-	1,989	1,989
Long term loans	-	28,519	160,777	366,666	-	555,962
<b>Total financial liabilities</b>	<b>-</b>	<b>28,519</b>	<b>160,777</b>	<b>366,666</b>	<b>695,747</b>	<b>1,251,709</b>
<b>Total interest repricing gap</b>	<b>205,935</b>	<b>(28,519)</b>	<b>(160,777)</b>	<b>(366,666)</b>	<b>(308,570)</b>	<b>(658,597)</b>

##### *Interest rate sensitivity*

All the company's loans are at fixed rates, accordingly, they are not sensitive to changes in prevailing interest rates.





## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

#### 3. Financial Risk Management (Continued)

##### (d) Capital management

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for stockholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital as well as meet externally imposed capital requirements. The Board of Directors monitors the return on capital, which the company defines as profit for the year divided by total stockholders' equity. The Board of Directors also monitors the level of dividends to ordinary stockholders.

The company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and bank balances. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

The company is not subjected to any external regulatory capital requirements.

The gearing ratios at 31 December were as follows:

	2013	Restated 2012
	\$'000	\$'000
Total borrowings	383,531	555,962
Less: Cash and bank balances	(417,891)	(205,935)
Net debt	(34,360)	350,027
Total equity	1,176,722	684,488
Total capital	1,142,362	1,034,515
Gearing ratio	(3%)	33.8%

##### (e) Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable, willing parties in an arm's length transaction. Market price is used to determine fair value where an active market (such as a recognised stock exchange) exists as it is the best evidence of the fair value of a financial instrument.

The amounts included in the financial statements for cash and bank balances, trade and other receivables, group companies, short term loans, provisions and trade and other payables reflect their approximate fair values because of the short-term maturity of these instruments.

The fair values of long term loans approximate their carrying values because interest rates at the year-end were at market rates.

## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

#### 4. Critical Accounting Estimates and Judgments in Applying Accounting Policies

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

##### Provision for impairment of inventories

Periodically the company assesses the usage and recoverability of its inventories. Provisions are created or increased as described in Note 2(h). This, however, does not necessarily mean that the company will be able to use or sell the total remaining unimpaired items, as some items that are estimated to be good at period end may subsequently be impaired. In addition, some items provided for may eventually be sold at values greater than their carrying values.

##### Provision for impairment of trade receivables

Periodically the company assesses the collectability of its trade receivables. Provisions are established or increased as described in Note 2(f). This, however, does not necessarily mean that the company will collect the total remaining unimpaired balance, as some balances that are estimated to be collectable as at the year-end may subsequently go bad. In addition some debts provided for may be collected subsequently.

##### Retirement benefit assets and post employment obligations

The cost of these benefits and the present value of the pension and the other retirement benefit liabilities depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net periodic cost/income for pension and retirement benefits include the expected long-term rate of return on the relevant plan assets, the discount rate and, in the case of the retirement medical benefits, the expected rate of increase in medical costs. Any changes in these assumptions will impact the net periodic cost/income recorded for pension and retirement benefits and may affect planned funding of the pension plans. The expected return on plan assets assumption is determined on a uniform basis, considering long-term historical returns, asset allocation and future estimates of long-term investment returns. Grace, its subsidiaries and its associated companies (the Group) determines the appropriate discount rate at the end of each year, which represents the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension and post-retirement benefit obligations. In determining the appropriate discount rate, the Group considered interest rate of high-quality Government of Jamaica bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. The expected rate of increase of medical costs has been determined by comparing the historical relationship of the actual medical cost increases with the rate of inflation in the respective economies. Past experience has shown that actual medical costs have increased on average by one time the rate of inflation. Other key assumptions for the pension and post retirement benefits cost and credits are based in part on current market conditions.





## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

#### 5. Segment Information

Management has determined the operating segments based on the reports reviewed by the Chief Executive Officer (CEO) that are used to make strategic decisions.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

Effective 1 January 2013, the company re-organised its operations into two operating segments. As a result of the reorganisation the wholesale segment was subsumed into the retail segment. The operating segments were renamed Household, Hardware and Building Products and Agricultural Products and Equipment. These two segments represent the company's strategic business units. The strategic business units offer different products and services, and are managed separately because they require among other things, different marketing strategies. For each of the strategic business units, the company's CEO reviews internal management reports on at least a monthly basis. These reports do not include details of segment assets. The following summary describes the operations in each of the company's reportable segments: household, hardware and building products and agricultural products and equipment. The household, hardware and building products segments sells mainly household "do it yourself" items along with cement, lumber and heavy hardware products. The agricultural products and equipment segment sells mainly insecticides, fertilizers, fungicides and other such agricultural related items to the agricultural industry. There are no inter-divisional sales.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit/(loss) before income tax, not including non-recurring gains and losses, as included in the internal management reports that are reviewed by the company's CEO. Segment profit/(loss) is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Income and expenses that are directly related to segments are reported within those segments. Head office income and expenses are allocated to segments based on sales.

The company's operations are located entirely in Jamaica.

	2013		Total \$'000
	Household Hardware and Building Products \$'000	Agricultural Products and Equipment \$'000	
External operating revenue	5,004,489	1,806,110	6,810,599
Profit from operations	480,565	383,905	864,470
Interest expense	(34,356)	(12,397)	(46,753)
Profit before tax	446,209	371,508	817,717
Other segment disclosures -			
Interest income	4,389	1,530	5,919
Depreciation and amortisation	(37,296)	(10,459)	(47,755)
Capital expenditure (*)	24,271	14,789	39,060





## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

#### 5. Segment Information (Continued)

No single customer accounted for 10% or more of total revenues of the company either in 2013 or in 2012.

	2012 Restated		
	Household Hardware and Building Products	Agricultural Products and Equipment	Total
	\$'000	\$'000	\$'000
External operating revenue	4,627,169	1,656,883	6,284,052
Profit from operations	9,467	188,448	197,915
Interest expense	(49,784)	(17,924)	(67,708)
Foreign exchange losses	(3,819)	(996)	(4,815)
(Loss)/profit before tax	(44,136)	169,528	125,392
Other segment disclosures -			
Interest income	4,188	1,493	5,681
Depreciation and amortisation	(45,907)	(10,357)	(56,264)
Capital expenditure (*)	39,106	11,516	50,722

(\*) Included in these balances are amounts transferred from inventory of \$8,848,000 (2012 - \$1,951,000)

#### 6. Other Operating Income

	2013	2012
	\$'000	\$'000
Loss on sale of property, plant and equipment	(2,324)	(1,631)
Rent	1,834	7,697
Interest income	5,919	5,681
Purchase rebate	22,448	15,457
Agent commission	8,631	14,075
Foreign exchange gain	21,026	5,637
Other	7,221	1,700
	<u>64,755</u>	<u>48,616</u>



## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

#### 7. Expenses by Nature

Total cost of sales, direct and administrative expenses

	2013	Restated 2012
	\$'000	\$'000
Advertising and marketing	40,563	33,909
Auditors' remuneration	7,804	8,004
Bad debt	26,140	24,394
Bags and straps	8,471	15,941
Cost of inventories recognised as expenses	4,957,764	4,536,628
Depreciation and amortisation	47,755	56,264
Equipment rental	10,228	12,212
Freight	99,528	102,329
Demurrage	(1,475)	1,005
Insurance	67,413	72,399
Licence and taxes	12,292	13,307
Occupancy – rent, utilities, etc.	313,966	302,398
Processing and facility	44,171	42,226
Professional and contractual	158,851	200,634
Repairs, maintenance and renewals	44,783	46,927
Security	44,660	53,618
Staff costs (Note 8)	(11,333)	470,839
Stationery and computer expense	67,637	55,521
Head office charges	57,666	63,631
Other	14,000	22,567
	<u>6,010,884</u>	<u>6,134,753</u>

Administrative expenses totaled \$408,076,000; however, this balance was reduced by the pension credit for \$502,491,000 thus resulting in the administrative expenses being a credit of \$94,415,000.



## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

#### 8. Staff Costs

	2013 \$'000	Restated 2012 \$'000
Wages and salaries	338,534	343,167
Payroll taxes, employer's contribution	36,655	38,390
Pension credit (Note 15)	(502,491)	(19,194)
Pension contribution to defined contribution plan (Note 15)	7,297	5,449
Other retirement benefits (Note 15)	44,162	42,884
Staff welfare	58,067	42,798
Gratuity	2,247	3,459
Stock option expense (Note 26)	298	717
Redundancy costs	3,898	13,169
	<u>(11,333)</u>	<u>470,839</u>

#### 9. Finance Costs

	2013 \$'000	2012 \$'000
Interest expense	46,753	67,708
Foreign exchange losses	-	4,815
	<u>46,753</u>	<u>72,523</u>

#### 10. Taxation

Taxation is based on the profit for the year adjusted for taxation purposes and comprises:

	2013 \$'000	Restated 2012 \$'000
Current income tax charge	54,863	-
Deferred tax (Note 14)	152,891	122,580
	<u>207,754</u>	<u>122,580</u>





## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

#### 10. Taxation (Continued)

The actual tax expense differs from the theoretical amount as follows:

	2013	Restated
	\$'000	2012
	\$'000	\$'000
Profit before tax	<u>817,717</u>	<u>125,392</u>
Tax calculated at 25% (2012 – 33 1/3%)	204,429	41,797
Adjusted for the effects of:		
Effect of change in tax rate	7,156	80,146
Adjustment to prior year deferred tax	(2,506)	482
Expenses not deductible for tax purposes	983	282
Income not subject to tax	(185)	(716)
Net effect of other charges and allowances	<u>(2,123)</u>	<u>589</u>
Taxation	<u>207,754</u>	<u>122,580</u>

Subject to agreement with the Taxpayer Audit and Assessment Department, losses of approximately \$161,916,000 were available for indefinite carry forward in 2012 for offset against future taxable income. There are no carry forward losses remaining at 31 December 2013.

#### 11. Earnings per Stock Unit

Earnings per stock unit is calculated by dividing the profit for the year, by the number of ordinary stock units in issue during the year.

	2013	Restated
		2012
Net profit attributable to stockholders (\$'000)	609,963	2,812
Number of stock units in issue ('000)	80,842	80,842
Earnings per stock unit (\$)	<u>7.55</u>	<u>0.03</u>



## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

#### 12. Property, Plant and Equipment

	2013							Total \$'000
	Freehold Land \$'000	Freehold Buildings \$'000	Furniture and Office Equipment \$'000	Leasehold Improvements \$'000	Equipment and Scaffolding \$'000	Vehicles and Forklift Trucks \$'000	Construction in Progress \$'000	
Cost or Valuation -								
1 January 2013	220,000	220,000	391,496	208,536	101,676	7,716	-	1,149,424
Additions	-	7,455	8,038	8,355	3,736	-	11,193	38,778
Disposals	-	-	(12,843)	(8,311)	(2,878)	-	-	(24,032)
31 December 2013	220,000	227,455	388,691	208,580	102,534	7,716	11,193	1,164,170
Depreciation -								
1 January 2013	-	-	324,166	129,257	72,555	7,716	-	533,694
Charge for the year	-	4,549	19,629	11,937	6,564	-	-	42,679
Relieved on disposals	-	-	(11,796)	(7,604)	(1,609)	-	-	(21,009)
31 December 2013	-	4,549	331,899	133,590	77,510	7,716	-	555,364
Net Book Value -								
31 December 2013	220,000	222,907	54,692	74,990	25,024	-	11,193	608,806



## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

#### 12. Property, Plant and Equipment (Continued)

	2012							Total \$'000
	Freehold Land \$'000	Freehold Buildings \$'000	Furniture and Office Equipment \$'000	Leasehold Improvements \$'000	Equipment and Scaffolding \$'000	Vehicles and Forklift Trucks \$'000	Construction in Progress \$'000	
Cost or Valuation -								
1 January 2012	200,000	250,996	378,939	176,279	91,155	7,716	16,699	1,121,786
Additions	-	334	11,980	4,270	8,838	-	24,487	49,909
Revaluation	20,000	(31,671)	-	-	-	-	-	(11,671)
Disposals	-	(15)	(5,167)	(5,151)	(267)	-	-	(10,800)
Transfers	-	354	5,744	33,138	1,950	-	(41,186)	-
31 December 2012	220,000	220,000	391,496	208,536	101,676	7,716	-	1,149,424
Depreciation -								
1 January 2012	-	5,020	303,398	117,990	65,822	7,716	-	499,944
Charge for the year	-	5,035	24,140	15,013	7,000	-	-	51,186
Revaluation Relieved on disposals	-	(10,055)	-	-	-	-	-	(10,055)
	-	-	(3,370)	(3,746)	(267)	-	-	(7,383)
31 December 2012	-	-	324,166	129,257	72,555	7,716	-	533,694
Net Book Value -								
31 December 2012	220,000	220,000	67,330	79,279	29,121	-	-	615,730

If freehold land and buildings were stated on the historical cost basis, the amounts would be as follows:

	2013		2012	
	Freehold Land \$'000	Freehold Buildings \$'000	Freehold Land \$'000	Freehold Buildings \$'000
Cost	45,000	153,335	45,000	145,879
Accumulated depreciation	-	29,622	-	26,575
Net book value	45,000	123,713	45,000	119,304

The different levels of fair values have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The land and buildings are level 2 fair values.





## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

#### 12. Property, Plant and Equipment (Continued)

Freehold land and buildings are stated at fair value, as appraised by D.C. Tavares & Finson Realty Company Limited, independent qualified real estate brokers and appraisers in December 2012. Fair value is determined by reference to market based evidence. This means that valuations performed by the valuer are based on active market prices, adjusted for any difference in the nature, location or condition of the specific property. The revaluation surplus net of applicable deferred income taxes, \$14,723,000, was credited to other comprehensive income. All other property, plant and equipment are stated at cost.

#### 13. Intangible Assets

	2013		
	Computer Software \$'000	Computer Software Work in Progress \$'000	Total \$'000
Cost -			
1 January 2013	254,144	-	254,144
Additions	-	282	282
31 December 2013	254,144	282	254,426
Amortisation -			
1 January 2013	242,291	-	242,291
Amortisation charge for the year	5,076	-	5,076
31 December 2013	247,367	-	247,367
Net Book Value -			
31 December 2013	6,777	282	7,059

	2012		
	Computer Software \$'000	Computer Software Work in Progress \$'000	Total \$'000
Cost -			
1 January 2012	247,342	5,989	253,331
Additions	813	-	813
Transfers	5,989	(5,989)	-
31 December 2012	254,144	-	254,144
Amortisation -			
1 January 2012	237,215	-	237,215
Amortisation charge for the year	5,076	-	5,076
31 December 2012	242,291	-	242,291
Net Book Value -			
31 December 2012	11,853	-	11,853



## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

#### 13. Intangible Assets (Continued)

The amortisation charges of \$336,000 and \$4,740,000 (2012 - \$336,000 and \$4,740,000) are included in direct and administrative expenses, respectively, in the profit or loss in the statement of comprehensive income.

#### 14. Deferred Income Taxes

Deferred income taxes are calculated in full on all temporary differences under the liability method using a tax rate of 25%. The movement in the deferred income tax balance is as follows:

	2013	Restated 2012
	\$'000	\$'000
Net asset at beginning of year	193,575	316,830
Charge to profit or loss (Note 10)	(152,891)	(122,580)
Credit/(charge) to other comprehensive income	18,790	(875)
Net asset at end of year	<u>59,474</u>	<u>193,575</u>

The company recognises the deferred tax asset as it is of the opinion that sufficient taxable profits will be made in the future against which these assets will be utilised.

Deferred income tax assets and liabilities are due to the following items:

	2013	Restated 2012
	\$'000	\$'000
Deferred income tax assets:		
Statutory tax loss	-	42,985
Interest payable	858	1,491
Provision for warranty	155	155
Accrued vacation	2,050	3,188
Stock option expense	1,314	1,240
Bad debt general provision	216	119
Retirement benefit obligations	<u>81,390</u>	<u>171,246</u>
	85,983	220,424
Deferred income tax liabilities:		
Unrealised foreign exchange gains	(2,673)	(1,083)
Property, plant and equipment	<u>(23,836)</u>	<u>(25,766)</u>
	(26,509)	(26,849)
Net Asset	<u>59,474</u>	<u>193,575</u>
Deferred tax assets to be recovered after more than one year	81,390	171,246
Deferred tax liabilities to be settled after more than one year	<u>(23,836)</u>	<u>(25,766)</u>



## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

#### 14. Deferred Income Taxes (Continued)

Deferred income tax (charged)/credited to the profit or loss in the statement of comprehensive income is as follows:

	2013 \$'000	Restated 2012 \$'000
<b>Deferred income tax assets:</b>		
Statutory tax loss	(42,985)	(47,338)
Interest payable	(633)	(2,312)
Provision for warranty	-	(186)
Accrued vacation	(1,136)	(137)
Stock option expense	75	(175)
Bad debt general provision	97	(118)
Unrealised foreign exchange losses	-	(16,390)
Retirement benefit obligations	(108,646)	(60,222)
	<u>(153,228)</u>	<u>(126,878)</u>
<b>Deferred income tax liabilities:</b>		
Unrealised foreign exchange gains	(1,590)	(656)
Interest receivable	-	67
Property, plant and equipment	1,927	4,887
	<u>337</u>	<u>4,298</u>
<b>Net deferred tax charged to the profit or loss in the statement of comprehensive income</b>	<u>(152,891)</u>	<u>(122,580)</u>

The following table reflect the deferred tax effect on the items credited/charged to other comprehensive income:

	Before Tax \$'000	Tax \$'000	After Tax \$'000
		2013	
Remeasurement of pension obligations	112,564	18,790	(93,774)
		2012 Restated	
Remeasurement of pension obligations	70,000	(17,014)	53,486
Fair value gain on revaluation of land and buildings	(1,616)	16,339	14,723
	<u>69,371</u>	<u>(675)</u>	<u>68,209</u>

During the 2012/13 budget presentation, the Government of Jamaica announced a reduction in the corporate income tax rate for unregulated entities defined as an entity not regulated by the Financial Services Commission, the Bank of Jamaica, the Ministry of Finance and Planning or the Office of Utilities Regulation, from 33 1/3% to 25%, effective 1 January 2013.





## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

#### 14. Deferred Income Taxes (Continued)

The change in the tax rate was signed into law on 28 December 2012 and as such was applied in determining the amounts for deferred taxation in the financial statements for the year ended 31 December 2012.

On 12 February 2013, the Minister of Finance and Planning announced in Parliament that a surtax of 5% would be imposed on the taxable income of "large unregulated companies" effective from 1 April 2013. This represented an addition to the 25% tax rate levied as at 1 January 2013. This additional tax was imposed by Order under the Provisional Collection of Tax Act and was confirmed by Act 21 of August 2013, which amended the Income Tax Act. The amendment imposed a tax rate of 30% on the income of a large unregulated company with effect from 1 April 2013. A "large unregulated company" is defined as an unregulated company which has gross annual income of not less than \$500,000,000.

During the year, the Government of Jamaica continued its reform of taxes. As a result of this The Fiscal Incentives Act dated 20 December 2013 was signed into law. Under this Act the tax rate for large unregulated companies was reduced from 30% to 25% effective 1 January 2014. As such this rate was applied in determining the amounts for deferred taxation in the financial statements for the year ended 31 December 2013.

#### 15. Retirement Benefits

	2013 \$'000	Restated 2012 \$'000
Assets/(liabilities) recognised in the statement of financial position –		
Retirement Benefit Obligation - Pension plan	-	(401,476)
Retirement Benefit Obligation - Medical benefits	(325,562)	(283,510)
	<u>(325,562)</u>	<u>(684,986)</u>
Amounts (credited)/charged in the profit or loss in the statement		
of comprehensive income (Note 8) –		
Retirement Benefit Asset - Pension plan	(502,491)	(19,194)
Retirement Benefit Obligation - Medical benefits	44,162	42,884
	<u>44,162</u>	<u>42,884</u>

##### *Pension plan benefits*

The company participated in a defined benefit pension plan operated by Grace and administered by First Global Financial Services Limited, in which all permanent employees who were employed prior to 1 April 2010 participated. The plan, which commenced on 1 January 1975, was funded by employees' contributions at 5% of salary with the option to contribute an additional 5% and employer contributions as recommended by independent actuaries. Pension at normal retirement age was based on 2% of final 3 year average salary per year of pensionable service, plus any declared bonus pensions.

In addition to the defined benefit pension plan described above, Grace started a new defined contribution pension plan in 2010, open to Jamaican based employees hired on or after 1 April 2010. Employees contribute 5% of pensionable earnings with the option to contribute an additional voluntary contribution of 5%. The employer contributions are currently set at 10%. The company's contribution for the year was \$7,297,000 (2012 - \$5,449,000) (Note 8).

During the year the Board of Directors took the decision to exit the defined benefit plan operated by Grace. As a result of this decision the obligations in relation to the defined benefit plan were extinguished.



## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

#### 15. Retirement Benefits (Continued)

##### *Pension plan benefits (continued)*

The defined benefit asset recognised in the statement of financial position was determined as follows:

	2013 \$'000	Restated 2012 \$'000
Fair value of plan assets	-	(741,380)
Present value of funded obligations	-	1,142,856
	<u>-</u>	<u>(401,476)</u>

The movement in the fair value of plan assets during the year was as follows:

	2013 \$'000	Restated 2012 \$'000
At beginning of year	741,380	634,208
Interest income	75,405	61,249
Remeasurement of the plan assets	(45,147)	(31,909)
Contributions	20,401	17,574
Reallocation of plan assets	(430,286)	121,272
Benefits paid	(65,739)	(61,014)
Asset transfer due to curtailment	(296,014)	-
At end of year	<u>-</u>	<u>741,380</u>



## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

#### 15. Retirement Benefits (Continued)

##### Pension plan benefits (continued)

The movement in the present value of the defined benefit obligation during the year was as follows:

	2013 \$'000	Restated 2012 \$'000
At beginning of year	1,142,856	1,103,344
Current service cost	61,473	66,837
Interest cost	121,877	113,967
Remeasurements -		
Gain from change in demographic assumptions	-	43,026
Gain/(loss) due to change in financial assumptions	34	(12,036)
Experience gains/(losses)	55,900	(111,268)
Benefits paid	(65,739)	(61,014)
Curtailment	<u>(1,316,401)</u>	<u>-</u>
At end of year	<u>-</u>	<u>1,142,856</u>

The amounts recognised in the profit or loss in the statement of comprehensive income are as follows:

	2013 \$'000	Restated 2012 \$'000
Current service cost	41,138	49,360
Interest cost	121,877	113,967
Interest income	(75,405)	(61,249)
Reallocation of plan assets	726,300	(121,272)
Curtailment	<u>(1,316,401)</u>	<u>-</u>
Total included in staff costs (Note 8)	<u>(502,491)</u>	<u>(19,194)</u>

The credit of \$502,491,000 (2012 - \$19,194,000) was included in administrative expense in the profit or loss in the statement of comprehensive income.





## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

#### 15. Retirement Benefits (Continued)

##### *Pension plan benefits (continued)*

Expected contributions to the plan for the year ended 31 December 2013 amount to \$9,789,000.

The distribution of plan assets was as follows:

	2013	2012
	%	%
Quoted equities	-	15.9
Government of Jamaica securities	-	60.0
Repurchase agreements	-	4.2
Other	-	19.9
	<u>-</u>	<u>100.0</u>

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each territory. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 65.

##### *Medical and other benefits*

In addition to pension benefits, the company offers retirees medical and other benefits. Funds are not built up to cover the obligations under these benefit plans. The method of accounting and frequency of valuations are similar to those used for the pension plan. The liability recognised in the statement of financial position was determined as follows:

	2013	Restated 2012
	\$'000	\$'000
Present value of unfunded obligations	<u>325,562</u>	<u>283,510</u>

The movement in the present value of the defined benefit obligation during the year was as follows:

	2013	Restated 2012
	\$'000	\$'000
At beginning of year	283,510	276,312
Current service cost	13,632	14,482
Interest cost	30,530	28,402
Actuarial losses/(gains) on obligations	11,482	(22,132)
Benefits paid	<u>(13,592)</u>	<u>(13,554)</u>
At end of year	<u>325,562</u>	<u>283,510</u>



## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

#### 15. Retirement Benefits (Continued)

##### Medical and other benefits (continued)

The amounts recognised in the profit or loss in the statement of comprehensive income are as follows:

	2013 \$'000	Restated 2012 \$'000
Current service cost	13,632	14,482
Interest cost	<u>30,530</u>	<u>28,402</u>
Total included in staff costs (Note 8)	<u>44,162</u>	<u>42,884</u>

The total charge of \$44,162,000 (2012 – \$42,884,000) was included in administrative expenses in the profit or loss in the statement of comprehensive income.

The composition of the liability recognised in relation to the retirement obligations in the statement of financial position is as follows:

	2013 \$'000	Restated 2012 \$'000
Gratuity Plan	44,565	44,571
Group Life Plan	47,091	34,369
Insured Group Health	80,178	65,585
Self Insured Health Plan	110,982	101,743
Supplementary Pension Plan	<u>42,846</u>	<u>37,242</u>
Liability in the statement of financial position	<u>325,562</u>	<u>283,510</u>

#### Risks associated with pension plans and post-employment plans

Through its post-employment obligation plans, the company is exposed to a number of risks, the most significant of which are detailed below:

##### Inflation risk

Higher inflation will likely lead to higher liabilities.

##### Life expectancy

The majority of the plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plan's liabilities. This is particularly significant, where inflationary increases result in higher sensitivity to changes in life expectancy.



## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

#### 15. Retirement Benefits (Continued)

##### Medical and other benefits (continued)

The weighted average duration of the obligation in years is as follows:

	2013
Gratuity Plan	10.3
Group Life Plan	11.5
Insured Group Health	18.3
Self Insured Health Plan	13.8
Supplementary Pension Plan	<u>6.6</u>

##### Principal actuarial assumptions used in valuing retirement benefits

The principal actuarial assumptions used in valuing retirement benefits were as follows:

	2013	2012
Discount rate	9.5%	10.5%
Long term rate of inflation	5.5%	6.0%
Future salary increases	6.0%	7.5%
Future pension increases	5.5%	6.0%
Medical cost trend rate	<u>7.0%</u>	<u>7.5%</u>

The average expected remaining service life of the employees is 23 and 26 years for males and females respectively (2012 - 21 and 25 years for males and females).

At normal retirement age, 90% of males and 90% of females are assumed to be married. The age difference between husband and wife is assumed to average 3 years.

Retirement mortality for active members and mortality for pensioners and deferred pensioners is based on the PA (90) Tables for Pensioners (British mortality tables) with ages rated down by 6 years.





## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

#### 16. Inventories

	2013 \$'000	2012 \$'000
Merchandise	1,120,516	1,199,637
Provision for obsolescence	<u>(131,370)</u>	<u>(153,965)</u>
	989,146	1,045,672
Goods in transit	<u>244,192</u>	<u>62,149</u>
	<u>1,233,338</u>	<u>1,107,821</u>

The cost of inventory written off during the year amounted to \$40,342,000 (2012 - \$25,083,000).

#### 17. Trade and Other Receivables

	2013 \$'000	2012 \$'000
Trade	373,646	308,378
Provision for impairment	<u>(54,962)</u>	<u>(28,822)</u>
	318,684	279,556
Prepayments	108,657	48,690
Other	<u>70,991</u>	<u>98,960</u>
	<u>498,332</u>	<u>427,206</u>

The fair values of trade and other receivables equals to their fair values.

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

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

	2013 \$'000	2012 \$'000
Due to Grace	(430)	(553)
Due to fellow subsidiaries	<u>(1,438)</u>	<u>(1,436)</u>
	<u>(1,868)</u>	<u>(1,989)</u>
Due from Grace	263	599
Due from fellow subsidiaries	<u>1,422</u>	<u>8,062</u>
	<u>1,685</u>	<u>8,661</u>



## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

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

##### (a) Due (to)/from group companies (continued)

The payables to related parties arose primarily from purchase transactions and were due 15 days after the invoice date. The payables bore no interest.

The receivables due from related party arose mainly from shared costs that were not yet due as at 31 December 2013. The receivable balances were not interest bearing. There were no provisions held against receivables from related parties.

##### (b) Loans

	2013	2012
	\$'000	\$'000
Long term loans (Note 23)	3,250	9,750
Interest payable on long term loans (Note 23)	65	196
	<u>3,315</u>	<u>9,946</u>

See Note 23 for details of the loan.

##### (c) The profit or loss in the statement of comprehensive income includes the following transactions with related parties:

	2013	2012
	\$'000	\$'000
Income:		
Rental charges -		
Fellow subsidiaries	1,235	1,767
Commissions		
Fellow subsidiaries	8,631	14,075
Sales -		
Fellow subsidiaries	2,061	5,211
Parent company	1,235	1,826
Interest income -		
Fellow subsidiary	3,767	1,973
Parent company	51	57
	<u>51</u>	<u>57</u>



## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

#### 18. Group Companies and Other Related Party Transactions and Balances (Continued)

(c) The profit or loss in the statement of comprehensive income includes the following transactions with related parties (continued):

	2013	2012
	\$'000	\$'000
Expenses:		
Purchases -		
Fellow subsidiaries	7,799	5,685
Parent company	4,431	3,553
Goods are purchased based on the current price list on terms that would be available to third parties		
Payroll cost -		
Parent company	10,477	9,889
GraceKennedy prepares both fortnightly and monthly payroll on behalf of the company and charges an administrative fee of 4% of the payroll cost.		
Interest expense -		
Fellow subsidiaries	679	2,927
Parent company	-	638
Interest charges resulted from loan facilities offered to the company by fellow subsidiaries and GraceKennedy		
Key management compensation:		
Salary and wages and other short term benefits	48,576	39,408
Key management includes the Chief Executive Officer, Chief Financial Officer and the General managers of the main business segments.		
Directors emoluments -		
Fees	4,185	3,648
Management remuneration (Included above)	20,892	15,576
Property and equipment rental		
Fellow subsidiary	6,873	13,200
Other charges -		
Parent company	57,666	63,631
This relates to various services provided by GraceKennedy exclusively to its subsidiaries and associated companies		





## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

#### 19. Cash and Cash Equivalents

Cash and cash equivalents comprise the following:

	2013	2012
	\$'000	\$'000
Cash at bank	225,498	205,935
Short term deposits	<u>192,393</u>	<u>-</u>
	<u>417,891</u>	<u>205,935</u>

The weighted average interest rate on short term deposits is 2.8%.

#### 20. Trade and Other Payables

	2013	2012
	\$'000	\$'000
Trade	749,179	549,483
Accruals	96,307	75,767
Other	<u>86,671</u>	<u>68,508</u>
	<u>932,157</u>	<u>693,758</u>

#### 21. Provisions

	2013	2012
	\$'000	\$'000
Balance at beginning of year	618	1,022
Additional provisions	58	3,891
Utilised during the year	<u>(58)</u>	<u>(4,295)</u>
Balance at end of year	<u>618</u>	<u>618</u>

Prior to 1997, the company sold and installed concrete roof tiles under 40 year warranty agreements. Provisions are created as claims are made and verified. The company is no longer in this line of business and the warranties expire fully in 2036.

The provision at year end is expected to be settled within twelve months.



## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS *(Cont'd)*

» Year ended 31 December 2013 *(expressed in Jamaican dollars unless otherwise indicated)*

#### 22. Short Term Loans

	2013	2012
	\$'000	\$'000
Sagicor Bank	<u>13,434</u>	<u>-</u>

This loan represents insurance premium financing and attracts a fixed interest rate at 3.2% per annum. The loan is unsecured.

#### 23. Long Term Loans

		2013	2012
		\$'000	\$'000
National Commercial Bank Jamaica Limited	(a)	325,000	425,000
Commercial Paper	(b)	<u>41,667</u>	<u>125,000</u>
		366,667	550,000
Interest payable		<u>3,430</u>	<u>5,962</u>
		370,097	555,962
Current maturities		<u>(141,667)</u>	<u>(183,333)</u>
		<u>228,430</u>	<u>372,629</u>

(a) This loan is denominated in Jamaican dollars. The annual interest rate is 9.75%. The loan is repayable by 2017 in quarterly installments. It is supported by a comfort letter from Grace.

(b) This facility was arranged by First Global Financial Services Limited. It is denominated in Jamaican dollars. The annual interest rate is 10.05% per annum. The loan is repayable in 2014. Allied Insurance Brokers Limited (Allied), a fellow subsidiary, participated in this facility. The balance owing to Allied at 31 December 2013 is \$3,250,000 (2012 - \$9,946,000).

All long term loans are unsecured.

Included in interest payable is an amount of \$65,000 (2012 - \$196,000) due to related parties.



## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

#### 24. Share Capital

Number of Authorised Shares	Number of Issued Shares	Stated Capital – Ordinary Shares	Total
000	000	\$'000	\$'000
82,500	80,842	616,667	616,667

Balance at the beginning and end of the year

All issued shares have been fully paid up.

The shares have no par value.

#### 25. Capital Reserve

	2013 \$'000	2012 \$'000
Revaluation reserve	299,242	299,242
Other	6,100	6,100
	<u>305,342</u>	<u>305,342</u>
Opening balance	305,342	290,619
Revaluation loss	-	(1,616)
Deferred taxation (Note 14)	-	16,339
At the end of year	<u>305,342</u>	<u>305,342</u>

The capital reserve is unrealised, however, there are no restrictions on the distribution of the balance to the shareholders.

The properties revaluation reserve arises on the revaluation of freehold land and buildings. When revalued land or buildings are sold, the portion of the properties revaluation reserve that relates to that asset, and that is effectively realised, is transferred directly to retained earnings.





## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

#### 26. Other Reserves

Grace operates a stock option plan for managers and employees of the group, inclusive of employees at subsidiaries. Managers and employees of the company were granted Grace stock options as a part of the plan.

##### Senior managers

In 2011 options were granted at a subscription price of \$50.83, being the weighted average price of Grace's shares on the Jamaica Stock Exchange for the previous ten days prior to the grant date, and are exercisable over a period of six years, at the end of which time unexercised options will expire. One-third of the total of the grant to each senior manager will vest on each anniversary of the grant. The plan provides for equitable adjustment of the allocated number of shares by reason of stock splits, combinations or exchanges of shares, stock dividends, bonus issue, and reclassifications or similar corporate changes.

Movement on this option:

	2013	2012
	'000	'000
At beginning of year	99	135
Forfeited/expired	(20)	(36)
At end of year	<u>79</u>	<u>99</u>

##### Permanent employees

In 2011 options were granted quarterly at subscription prices ranging between of \$39.30 to \$46.81, being the weighted average price of the company's shares on the Jamaica Stock Exchange for the previous ten trading days prior to the dates on which the grants were made less a 25% discount, and are exercisable over a period of three months, at the end of which time unexercised options will expire. The total of the grant to each permanent employee was fully vested at the date of the grant. The plan provides for equitable adjustment of the allocated number of shares by reason of stock splits, combinations or exchanges of shares, stock dividends, bonus issue, and reclassifications or similar corporate changes.

Movement on this option:

	2013	2012
	'000	'000
At beginning of year	-	94
Forfeited/expired	-	(90)
Exercised	-	(4)
At end of year	<u>-</u>	<u>-</u>

The value of all options at the end of the year was \$5,259,000 (2012 – \$4,961,000). All the stock options outstanding at the end of 2009, which amounted to 208,000, had exercise prices of \$115.97 and expired in 2010. The significant inputs into the model were the weighted average share prices of \$51.00 and \$55.65 at the grant dates, exercise prices of \$50.83 and \$41.67, standard deviation of expected share price returns of 33.2%, option life of six years and three months and risk-free interest rates of 7.48% and 6.51%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the term of the options.



## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

#### 27. Operating Lease Commitments

The company leases various retail outlets and a distribution centre under non-cancellable operating lease agreements. The minimum lease payment for 2013 was \$200,356,000 (2012 - \$182,580,000). The leases expire between 2013 and 2021 with renewal options at the end of the lease periods. Included in lease payments for 2013 are amounts totaling \$48,476,000 (2012 - \$62,242,000) for locations whose leases expired within the year for which the new lease agreements have not being finalised.

The future aggregate minimum lease payments under the operating leases are as follows:

	2013	2012
	\$'000	\$'000
No later than 1 year	98,870	103,708
Later than 1 year and no later than 5 years	248,841	228,348
Over five years	96,770	71,412
	<u>444,481</u>	<u>403,468</u>

#### 28. Ordinary Dividends

	2013	2012
	\$'000	\$'000
12.5 cents per stock unit – 28 December 2012	-	10,105
30.0 cents per stock unit – 2 December 2013	24,253	-
	<u>24,253</u>	<u>10,105</u>

The Board declared dividends of \$0.30 per ordinary share on 2 December 2013 in relation to the 2013 financial year. Accordingly, these financial statements reflect this resolution. This is to be paid on 17 January 2014.



## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

#### 29. Prior Year Adjustment

The prior year adjustment represents the impact of IAS 19 (Revised) and consequential adjustments to deferred tax. The opening accumulated deficit for 2012 was decreased by \$339,186,000 which is the amount of the adjustment relating to 2011. The effect of the adjustments are summarised below.

Reconciliation of stockholders' equity at 1 January 2012

	As Previous Stated	Adjustment	As Restated
	\$'000	\$'000	\$'000
<b>Non-Current Assets</b>			
Retirement benefit assets	3,367	(3,367)	-
Deferred tax assets	147,238	169,592	316,830
Other non-current assets	637,958	-	637,958
<b>Total Non Current Assets</b>	<b>788,563</b>	<b>166,225</b>	<b>954,788</b>
<b>Total Current Assets</b>	<b>2,121,297</b>	<b>-</b>	<b>2,121,297</b>
<b>Total Current Liabilities</b>	<b>1,506,771</b>	<b>-</b>	<b>1,506,771</b>
<b>Net Current Assets</b>	<b>614,526</b>	<b>-</b>	<b>614,526</b>
	<b>1,403,089</b>	<b>166,225</b>	<b>1,569,314</b>
<b>FINANCED BY</b>			
<b>Stockholders' Equity</b>			
Retained earnings/(accumulated deficit)	50,511	(339,186)	(288,675)
Other stockholders' equity accounts	911,530	-	911,530
	962,041	(339,186)	622,855
<b>Non-Current Liabilities</b>			
Long term loans	201,012	-	201,012
Retirement benefit obligation	240,036	505,411	745,447
	441,048	505,411	946,459
	<b>1,403,089</b>	<b>166,225</b>	<b>1,569,314</b>



## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

#### 29. Prior Year Adjustment (Continued)

Reconciliation of stockholders' equity at 31 December 2012:

	As Previous Stated	Adjustment	As Restated
	\$'000	\$'000	\$'000
<b>Non-Current Assets</b>			
Retirement benefit assets	758	(758)	-
Deferred tax assets	90,218	103,357	193,575
Other non-current assets	627,583	-	627,583
<b>Total Non Current Assets</b>	<b>718,559</b>	<b>102,599</b>	<b>821,158</b>
<b>Total Current Assets</b>	<b>1,800,643</b>	<b>-</b>	<b>1,800,643</b>
<b>Total Current Liabilities</b>	<b>879,696</b>	<b>-</b>	<b>879,696</b>
<b>Net Current Assets</b>	<b>920,945</b>	<b>-</b>	<b>920,945</b>
	<b>1,639,504</b>	<b>102,599</b>	<b>1,742,103</b>
<b>FINANCED BY</b>			
<b>Stockholders' Equity</b>			
Retained earnings/(accumulated deficit)	67,588	(310,070)	(242,482)
Other stockholders' equity accounts	926,970	-	926,970
	994,558	(310,070)	684,488
<b>Non-Current Liabilities</b>			
Long term loans	372,629	-	372,629
Retirement benefit obligation	272,317	412,669	684,986
	644,946	412,669	1,057,615
	<b>1,639,504</b>	<b>102,599</b>	<b>1,742,103</b>



## Hardware & Lumber Ltd.

### NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

» Year ended 31 December 2013 (expressed in Jamaican dollars unless otherwise indicated)

#### 29. Prior Year Adjustment (Continued)

Reconciliation of the Statement of Comprehensive Income for the year ended 31 December 2012:

	As Previous Stated	Adjustment	As Restated
	\$'000	\$'000	\$'000
<b>Revenue</b>	6,284,052	-	6,284,052
Cost of sales	(4,655,902)	-	(4,655,902)
<b>Gross Profit</b>	1,628,150	-	1,628,150
Other operating income (*)	42,979	5,637	48,616
	1,671,129	5,637	1,676,766
Direct expenses	(1,084,674)	-	(1,084,674)
Administrative expenses	(419,028)	(24,851)	(394,177)
	(1,503,702)	24,851	(1,478,851)
<b>Profit from Operations</b>	167,427	30,488	197,915
Finance costs (*)	(66,886)	(5,637)	(72,523)
<b>Profit before Tax</b>	100,541	24,851	125,392
Taxation	(73,359)	(49,221)	(122,580)
<b>Profit for the Year</b>	27,182	(24,370)	2,812
<b>Other Comprehensive Income:</b>			
<b>Items that will not be reclassified to profit and loss</b>			
Net gain on revaluation of land and buildings, net of taxes	14,723	-	14,723
Remeasurement of pension asset/obligation	-	53,486	53,486
	14,723	53,486	68,209
	41,905	53,486	71,021

(\*) Reclassified.



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\$100  
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HERE

# PROXY » Hardware & Lumber Ltd.

I/We \_\_\_\_\_

of \_\_\_\_\_

being a Member(s) of **HARDWARE & LUMBER LIMITED** hereby appoint

\_\_\_\_\_

of \_\_\_\_\_

or failing him/her \_\_\_\_\_

of \_\_\_\_\_

as my/our Proxy, to vote for me/us on my/our behalf at the Annual General Meeting of the said Company to be held Monday June 9, 2014 at 10:30 a.m. at 697 Spanish Town Road, Kingston11.

SIGNED this \_\_\_\_\_ day of \_\_\_\_\_ 2014

\_\_\_\_\_ Signature

(If executed by a Corporation, the Proxy should be sealed)

Resolutions	For	Against
1		
2(a)		
2(b)		
2(c)		
3(a)		
3(b)		
4		
5		
4		
5		

**N.B.** The instrument appointing proxy must be produced at the meeting or adjourned meeting at which it is to be used, and in default not to be treated as valid. Proxy must be lodged at the company's registered office not later than forty-eight hours before the meeting.







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# Hardware & Lumber Ltd

A division of:  
**GraceKennedy**

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