

# HARDWARE & LUMBER LIMITED

UNAUDITED FINANCIAL RESULTS MARCH 31, 2007

The financial results for the three months ending March 31, 2007 showed net profit of \$24.6 Million compared to net profit of \$3.1 Million for the comparative period in 2006. Sales increased by 26% moving from \$1,269 Million in 2006 to \$1,599 Million in 2007.

The results for the quarter reflect a significant improvement in the Company's performance compared to 2006 when the industry experienced a crisis with the supply of cement. The stability in the merchandise supply side of the business, coupled with a rebound in the construction sector has contributed to the overall business performance.

The Retail Division had brisk activity during the period with the Home Centre store format continuing to generate acceptable levels of consumer traffic. The general availability of merchandise at the store level, attainment of gross profit targets and customer experience, are primary considerations for this Division and are measured frequently. We continue to work on enhancing our market presence with bi-monthly full colour circulars along with several other promotional initiatives.

The Rapid True Value St. Ann's Bay branch (formerly known as Colour Choice) was closed on the 16<sup>th</sup> March 2007. It had been determined that the unit was no longer viable given its size, offerings and changing market conditions. Our customers can now benefit from an enhanced shopping environment with a wide range of merchandise at the new store in Ocho Rios.

The Agricultural Division performed to expectations during the period achieving overall revenue and profit targets. The vegetable sector of the business continues to be our prime contributor to profits.

The Wholesale and Projects Division had good results for the quarter as we continue to increase our involvement in the projects side of the industry.

We are currently in the process of selecting a new Information Technology system and expect this to be fully implemented by the end of the year.

We wish to thank our employees, customers and other stakeholders for their continued commitment and support.

**A. Anthony Holness**  
**CHIEF EXECUTIVE OFFICER**

<b>HARDWARE &amp; LUMBER LIMITED</b>			
<b>UNAUDITED PROFIT AND LOSS ACCOUNT</b>			
<b>3 MONTHS TO 31 MARCH 2007</b>			
		<b>3 MONTHS TO MARCH 2007</b>	<b>3 MONTHS TO MARCH 2006</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Sales</b>		1,598,945	1,268,612
Cost of Sales		1,204,920	940,430
<b>Gross Profit</b>		394,025	328,182
Other Operating Income		10,214	21,182
		404,239	349,364
Operating Expenses		341,306	317,948
<b>Operating Profit</b>		62,933	31,416
Finance Costs-net		25,985	26,825
<b>Profit before Taxation</b>		36,948	4,591
Taxation		12,311	1,530
<b>Net Profit</b>		24,637	3,061
Number of Stock Units Issued ('000)		80,842	80,842
<b>Earnings per Stock Unit</b>		<b>\$0.30</b>	<b>\$0.04</b>

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<b>HARDWARE &amp; LUMBER LIMITED</b>				
<b>UNAUDITED BALANCE SHEET</b>				
<b>31 MARCH 2007</b>				
				<i>Restated</i>
	<b>MARCH</b>	<b>DECEMBER</b>		<b>MARCH</b>
	<b>2007</b>	<b>2006</b>		<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>		<b>\$'000</b>
<b>Net Assets Employed</b>				
<b>Non-Current Assets</b>				
Property, plant and equipment	416,471	425,823		444,124
Intangible assets	38,685	43,920		63,868
Retirement plan asset	186,598	180,408		157,702
<b>Current Assets</b>				
Inventories	1,426,195	1,605,896		1,285,707
Receivables	382,531	397,123		382,352
Group companies	36,502	49,590		13,820
Taxation recoverable	56,408	57,222		27,097
Cash and bank balances	267,762	215,152		148,225
	<b>2,169,398</b>	<b>2,324,983</b>		<b>1,857,201</b>
<b>Current Liabilities</b>				
Bank overdrafts	206,023	181,176		176,594
Payables	661,178	827,754		553,757
Short term loans	557,000	594,940		477,331
Taxation payable	0	0		0
Group companies	7,076	13,361		3,340
Current portion of long term loans	1,810	13,917		38,410
Current portion of obligations under finance leases	6,191	7,206		151
	<b>1,439,278</b>	<b>1,638,354</b>		<b>1,249,583</b>
<b>Net Current Assets</b>				
	<b>730,120</b>	<b>686,629</b>		<b>607,618</b>
	<b>1,371,874</b>	<b>1,336,780</b>		<b>1,273,312</b>
<b>Financed by:</b>				
Share capital	616,667	616,667		40,421
Share premium	0	0		576,246
Capital reserve	94,348	94,348		94,348
Retained earnings	417,122	392,485		357,828
	<b>1,128,137</b>	<b>1,103,500</b>		<b>1,068,843</b>
<b>Non-Current Liabilities</b>				
Long term debt	53,606	44,569		51,095
Finance lease obligations	9,133	9,834		0
Deferred taxation	13,766	18,585		12,531
Retirement plan obligations	167,232	160,292		140,843
	<b>1,371,874</b>	<b>1,336,780</b>		<b>1,273,312</b>
	-	-		-
Approved for issue by the Board of Directors on April 18, 2007 and signed on its behalf by:				
Douglas R. Orane		A. A. Holness		
<b>Chairman</b>		<b>Director</b>		

<b>HARDWARE &amp; LUMBER LIMITED</b>				
<b>Unaudited Statement of Changes in Stockholders' Equity</b>				
<b>3 MONTHS TO 31 MARCH 2007</b>				
	<b>MARCH</b>	<b>DECEMBER</b>	<i>Restated</i>	
	<b>2007</b>	<b>2006</b>	<b>MARCH</b>	
	<b>\$'000</b>	<b>\$'000</b>	<b>2006</b>	
			<b>\$'000</b>	
Equity at the beginning of period	1,103,500	1,065,782	1,065,782	
Net profit	24,637	37,718	3,061	
	-	-	-	
	-	-	-	
<b>Equity at end of period</b>	<b>1,128,137</b>	<b>1,103,500</b>	<b>1,068,843</b>	
<b>HARDWARE &amp; LUMBER LIMITED</b>				
<b>UNAUDITED STATEMENT OF CASH FLOW</b>				
<b>3 MONTHS TO 31 MARCH 2007</b>				
	<b>MARCH</b>	<b>DECEMBER</b>	<b>MARCH</b>	
	<b>2007</b>	<b>2006</b>	<b>2006</b>	
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	
<b>CASH RESOURCES WERE PROVIDED BY/(USED IN):</b>				
<b>Operating Activities</b>				
Net Profit	24,637	37,718	3,061	
Items not affecting cash resources	50,952	183,790	39,584	
	75,589	221,508	42,645	
Changes in non-cash working capital components	(18,468)	(261,862)	(121,124)	
Funds provided by/(used in) operating activities	57,121	(40,354)	(78,479)	
Funds used in Financing Activities	(26,898)	(21,071)	(36,794)	
Funds used in Investing Activities	(2,460)	(21,578)	(30,075)	
Increase /(Decrease) in cash resources	27,763	(83,003)	(145,348)	
Net cash balance at beginning of period	33,976	116,979	116,979	
<b>Cash and Cash Equivalents at end of period</b>	<b>61,739</b>	<b>33,976</b>	<b>(28,369)</b>	

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<b>HARDWARE &amp; LUMBER LIMITED</b>						
<b>3 MONTHS TO 31 MARCH 2007</b>						
<b>Financial Information by Business Segment</b>						
						<b>2007</b>
						<b>Consolidated</b>
						<b>\$' 000</b>
						<b>\$' 000</b>
						<b>\$' 000</b>
						<b>\$' 000</b>
External operating revenue			290,091	1,025,059	283,795	1,598,945
Profit from operations			13,080	25,989	23,864	62,933
Finance cost, net						(25,985)
Profit before tax						36,948
Taxation						(12,311)
Net profit						24,637
<b>Page 1</b>						
						<b>2006</b>
						<b>Consolidated</b>
						<b>\$' 000</b>
						<b>\$' 000</b>
						<b>\$' 000</b>
						<b>\$' 000</b>

## NOTES

### 1. 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 and comply with International Financial Reporting Standards (IFRS), and have been prepared under the historical cost convention as modified by the revaluation of certain property, plant and equipment and financial assets.

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 managements' best knowledge of current events and action, actual results could differ from those estimates.

#### (b) Business reorganisation

In 2005, the pooling of interest method was used to account for the reorganisation of the subsidiaries (Note 1) as the reorganisation involved entities under common control. In applying the pooling of interests method, the financial statement items of the combining enterprises for the period in which the reorganisation occurred and for any comparative periods disclosed have been included in the financial statements of the combined entity as if the reorganisation had occurred from the beginning of the earliest period presented.

#### (c) Impairment of non-current assets

Property, plant and equipment and other non-current assets 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 carrying amount of the asset exceeds its recoverable amount, which is the greater of an asset's net selling price and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identified cash flows.

#### (d) Employee benefits

##### (i) Pension obligations

The company Participates in a defined benefit pension scheme operated by Grace. The scheme is generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations

A defined contribution plan is a pension plan under which a company pays fixed contributions into a separate entity. That 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 balance sheet in respect of defined benefit pension plans is the difference between the present value of the defined benefit obligation at the balance sheet date and the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability..

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

(ii) 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 balance sheet date are discounted to present value.

(iii) Other post-employment obligations

The company also provides supplementary health, life insurance and other benefits to qualifying employees upon retirement. 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 the same accounting methodology as used for defined benefit pension

plans. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation, are charged or credited to income over the expected average remaining working lives of the related employees. These obligations are valued annually by independent qualified actuaries.

**(e) Income taxes**

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 balance sheet date.

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.

Current and deferred taxes are recognised as income tax expense or benefit in the profit and loss account.

**(f) Intangible assets**

**Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the company's share of the net identifiable assets of the acquired company's operations at the date of acquisition. Goodwill on acquisitions is included in 'intangible assets'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from the business in which the goodwill arose.

**Computer software**

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 (three to five years).

**(g) Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand and at bank, net of bank overdrafts.

**h) Segment reporting**

Business segments is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

**(i) Comparative Information**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year and to account for the prior year adjustment.