

# **Hardware & Lumber Limited**

**Interim Financial Statements**

**30 September 2009**

**Hardware & Lumber Limited**  
**Index**  
**30 September 2009**

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**Page**

**CEO's Report**

**Statements**

Statement of comprehensive income	5
Statement of financial position	6
Statement of changes in stockholders' equity	7
Statement of cash flows	8
Notes	9 & 10



**HARDWARE & LUMBER LIMITED**  
**UNAUDITED FINANCIAL RESULTS**  
**SEPTEMBER 30, 2009**

For the three months ended September 30, 2009 revenues and net losses were \$1,420 million and \$43 million respectively compared to \$1,596 million and net losses of \$23 million for the comparative period in 2008. For the nine months ended September 30, 2009, revenues and net losses were \$4,401 million and \$183 million respectively compared to revenue of \$5,154 million and net profit of \$5 million for the same period in 2008. The results for the third quarter continue to reflect the effects of the general economic slowdown and the decline in local construction activity.

Revenues in the retail division declined by 17% in the quarter compared to the same period in 2008 reflecting consumers' continued resistance towards discretionary spending and debt accumulation. During the quarter, promotional activities that were established in previous months continued and began to show positive results in terms of a reversal of the declining sales trend observed in the first 2 quarters.

The Wholesale Hardware Division continues to experience a decline in revenues and recorded a 7.5% drop in the third quarter of 2009 compared to the same period for 2008. The postponement of major housing and hotel construction projects and a significant increase in competitive activity continue to be the major factors influencing the decline. We continue to leverage our strong buying position with suppliers and our full service offering with customers. As a result we have managed to improve wholesale margins in the third quarter while managing to capture a larger share of our clients' limited spend.

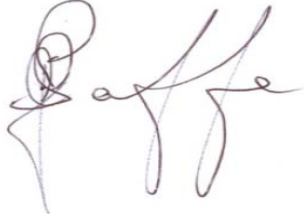
The Agricultural Division however, recorded a 5.5% increase in revenues compared to the third quarter of 2008. The division has also shown an increase in operating profit attributable to improved margins plus the cost cutting initiatives that began late 2008. The vegetable sector continues to show positive signs, with the sugar sector showing some improvement over the second quarter. The Banana sector continues to decline.

The company has made significant reductions in overall inventory levels and significantly improved stocking assortment at our stores. As a result we have experienced improved working capital and management also expects to see improved customer satisfaction and sales as we enter the critical fourth quarter holiday season. The continuing focus on cost containment and inventory reduction has generated \$278 million in operating cash flow year-to-date compared to -\$301 million in 2008. This additional operating cash has enabled the Company to aggressively pay down foreign denominated debt and reduce overall borrowing costs.

We expect the rest of 2009 to remain challenging. We will continue our drive for profitable and efficient store operations, and improving efficiencies in our support services. We will also continue to manage our US

denominated debt in order to minimize our exposure to further exchange losses, and optimize our borrowing costs.

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

A handwritten signature in black ink, appearing to read 'J. Taffe', with a stylized, cursive script.

**JOSEPH TAFFE**  
**ACTING CHIEF EXECUTIVE OFFICER**

**Hardware and Lumber Limited**  
**Unaudited Statement of Comprehensive Income**  
**9 months to 30 September 2009**  
**(expressed in Jamaican dollars)**

	Note	3 months to 30 Sept 2009 \$'000	9 months to 30 Sept 2009 \$'000	3 months to 30 Sept 2008 \$'000	9 months to 30 Sept 2008 \$'000
<b>Revenue</b>		<b>1,419,897</b>	<b>4,400,744</b>	<b>1,595,703</b>	<b>5,154,109</b>
Cost of Sales		(1,066,827)	(3,330,126)	(1,188,153)	(3,848,669)
<b>Gross Profit</b>		<b>353,070</b>	<b>1,070,618</b>	<b>407,550</b>	<b>1,305,440</b>
Other Operating Income		11,934	24,263	6,080	21,452
Operating Expenses		(376,312)	(1,126,188)	(416,048)	(1,234,950)
<b>Profit/(Loss) from operations</b>		<b>(11,308)</b>	<b>(31,307)</b>	<b>(2,418)</b>	<b>91,942</b>
Finance Costs	3	(43,867)	(231,127)	(32,446)	(84,330)
<b>(Loss)/Profit before Taxation</b>		<b>(55,175)</b>	<b>(262,434)</b>	<b>(34,864)</b>	<b>7,612</b>
Taxation		12,084	79,670	11,621	(2,536)
<b>(Loss)/Profit for the Period</b>		<b>(43,091)</b>	<b>(182,764)</b>	<b>(23,243)</b>	<b>5,076</b>
<b>Total Comprehensive (Loss)/Income for Period</b>		<b>(43,091)</b>	<b>(182,764)</b>	<b>(23,243)</b>	<b>5,076</b>
Number of Stock Units Issued ('000)		80,842	80,842	80,842	80,842
<b>(Loss)/Earnings per Stock Unit</b>		<b>(0.53)</b>	<b>(2.26)</b>	<b>(0.29)</b>	<b>0.06</b>

**Hardware and Lumber Limited**  
**Unaudited Statement of Financial Position**  
**30 September 2009**  
**(expressed in Jamaican dollars)**

	<b>September 2009 \$'000</b>	<b>December 2008 \$'000</b>
<b>Net Assets Employed</b>		
<b>Non-Current Assets</b>		
Property, plant & equipment	597,014	625,798
Intangible assets	89,831	102,658
Deferred tax asset	164,505	84,835
Retirement plan asset	152,532	238,789
	1,003,882	1,052,080
<b>Current Assets</b>		
Inventories	1,182,500	1,584,230
Trade and other Receivables	422,696	347,081
Group companies	5,507	12,024
Taxation recoverable	86,282	82,504
Cash and bank balances	402,940	369,449
	2,099,925	2,395,288
<b>Current Liabilities</b>		
Bank overdrafts	128,135	60,867
Payables	734,146	828,844
Short term loans	623,491	766,105
Group companies	9,690	2,495
Current portion of long term loans	99,842	129,712
	1,595,304	1,788,023
	504,621	607,265
	1,508,503	1,659,345
<b>Net Current Assets</b>		
<b>Financed by:</b>		
Share capital	616,667	616,667
Capital reserve	262,206	262,206
Retained earnings	57,531	240,295
	936,404	1,119,168
<b>Non-Current Liabilities</b>		
Long term debt	317,448	308,000
Retirement plan obligations	254,651	232,177
	1,508,503	1,659,345

Approved for issue by the Board of Directors on 10 November 2009 and signed on its behalf by:



Joseph Taffe - Director



Rodney Davis - Director

## Hardware and Lumber Limited

### Unaudited Statement of Changes in Stockholders' Equity

9 Months to 30 September 2009

(expressed in Jamaican dollars)

	2009			
	Share Capital \$'000	Capital Reserve \$'000	Retained Earnings \$'000	Total \$'000
<b>Balance at 1 January 2009</b>	616,667	262,206	240,295	1,119,168
Net loss	-	-	(182,764)	(182,764)
Total comprehensive loss for the period	-	-	(182,764)	(182,764)
<b>Balance at 30 September 2009</b>	616,667	262,206	57,531	936,404

	2008			
	Share Capital \$'000	Capital Reserve \$'000	Retained Earnings \$'000	Total \$'000
<b>Balance at 1 January 2008</b>	616,667	94,348	500,251	1,211,266
Net profit	-	-	5,076	5,076
Total comprehensive income for the period	-	-	5,076	5,076
<b>Balance at 30 September 2008</b>	616,667	94,348	505,327	1,216,342

**Hardware and Lumber Limited**  
**Unaudited Statement of Cash Flow**  
**9 Months to 30 September 2009**  
**(expressed in Jamaican dollars)**

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	<b>September 2009 \$'000</b>	<b>September 2008 \$'000</b>
<b>Cash Generated from Operating and Investing Activities:</b>		
Operating Activities		
Net (Loss)/Profit	(182,765)	5,076
Items not affecting cash	103,979	80,742
	<u>(78,786)</u>	<u>85,818</u>
Changes in non-cash working capital components	366,016	(300,664)
Net Cash provided by/(used in) operating Activities	<u>287,230</u>	<u>(214,846)</u>
Net Cash provided by/(used in) Investing Activities	<u>(9,021)</u>	<u>(86,281)</u>
<b>Cash provided by (used in) operating and investing activities</b>	<u>278,209</u>	<u>(301,127)</u>
<b>Cash provided by (used in) Financing Activities</b>	<u>(311,986)</u>	<u>135,796</u>
Net increase (decrease) in cash and cash equivalents	(33,777)	(165,331)
Cash and cash equivalents at the beginning of the period	308,582	179,631
<b>Cash and Cash Equivalents at the end of the period</b>	<u><u>274,805</u></u>	<u><u>14,300</u></u>
<b>Comprised of:</b>		
Cash at bank	402,940	116,804
Bank Overdraft	<u>(128,135)</u>	<u>(102,504)</u>
<b>Cash and Cash Equivalents at the end of the period</b>	<u><u>274,805</u></u>	<u><u>14,300</u></u>

**Hardware and Lumber Limited**  
**Notes to the Interim Financial Statements**  
**30 September 2009**  
**(expressed in Jamaican dollars)**

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**1) Identification and Principal Activities**

Hardware & Lumber Limited (the company) is a 58.1% subsidiary of GraceKennedy Limited. The company trades in hardware, lumber, household items and agricultural products. The company is a public company listed on the Jamaica Stock Exchange.

The company and Grace are incorporated and domiciled in Jamaica. The registered office of the company is located at 697 Spanish Town Road, Kingston 11, Jamaica.

**2) Accounting Policies**

**Basis of preparation**

The accounting policies used in the preparation of these unaudited interim financial statements are consistent with those used in the audited financial statements for the year ended 31 December 2008 and comply with the requirements of IAS 34.

***International Financial Accounting Standards, interpretations and amendments to published standards effective in the current period.***

Certain new standards, interpretations and amendments to existing standards have been published that became effective during the current period. The company has assessed the relevance of all such new standards, interpretations and amendments and has adopted IAS 1(Revised) – Presentation of Financial Statements which is immediately relevant to its operations. The effect of the adoption is that all recognized income and expenses will be reflected in the statement of comprehensive income and not in the statement of changes in equity e.g. the effects of revaluation of land and building.

**3) Finance Costs**

	<b>September 2009 \$'000</b>	<b>September 2008 \$'000</b>
Interest	128,868	72,246
Exchange losses	102,259	12,084
	<u>231,127</u>	<u>84,330</u>

#### 4) Segment Reporting

The company is organized into three main business segments:

- a) Wholesale of hardware and building products
- b) Retail of household and hardware products
- c) Agricultural products and equipment

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

	<b>9 months to 30 September 2009</b>			
	<b>Wholesale Hardware</b>	<b>Retail Hardware Household</b>	<b>Agricultural</b>	<b>Consolidated</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
External operating revenue	862,298	2,580,323	958,123	4,400,744
(Loss)/Profit from operations	(26,047)	(120,893)	115,633	(31,307)
Finance cost				(231,127)
Loss before tax				(262,434)
Taxation				79,670
Net loss				(182,764)

	<b>9 months to 30 September 2008</b>			
	<b>Wholesale Hardware</b>	<b>Retail Hardware Household</b>	<b>Agricultural</b>	<b>Consolidated</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
External operating revenue	1,055,333	3,129,288	969,488	5,154,109
Profit from operations	16,217	55,207	20,518	91,942
Finance cost				(84,330)
Profit before tax				7,612
Taxation				(2,536)
Net profit				5,076