

Hardware & Lumber Limited

**Unaudited Financial Statements
30 September 2015**

Hardware & Lumber Limited

Index

30 September 2015

	Page
CEO's Report	
Statements	
Unaudited Income Statement	1
Unaudited Statement of Comprehensive Income	2
Unaudited Statement of Financial Position	3
Unaudited Statement of Changes in Stockholders' Equity	4
Unaudited Statement of Cash Flows	5
Notes to the Unaudited Financial Statements	6 - 9



Hardware & Lumber Limited

CEO's Report

9 months to 30 September 2015

(expressed in Jamaican dollars)

HARDWARE & LUMBER LIMITED UNAUDITED FINANCIAL RESULTS September 30, 2015

Following its announcement in May 2015 that it had entered into a conditional agreement for the sale of its 58.1% shareholding in Hardware & Lumber Ltd, GraceKennedy Limited has recently advised in a release that the divestment is anticipated to close by the end of the current year as the main conditions of the transaction have now been met. The company's operations have continued to perform well and with greater efficiency, with the maintenance of strong trading partnerships with suppliers, customers, developers, resellers and other stakeholders, supported by increased investments in marketing and promotional programs.

Total revenue for the nine months was \$5,373.0 million or 2.3% more than the comparative period in the previous year. Of note, the 'Household, Hardware and Building products' segment, trading as Rapid True Value, performed 5.7% ahead of the same period in the previous year, recording revenue of \$4,092.9 million. The 'Agricultural Products and Equipment' segment, trading as AgroGrace, recorded a revenue decline of 7.1%, to end the period at \$1,280.1 million. The performance of this segment was severely affected by the extensive drought the country has been suffering since the start of the year, but improvement in performance is expected as the weather improves. In the third quarter, total revenue for both divisions grew by 7.8% compared to the same quarter in the previous year, led by the 'Household, Hardware and Building Products' segment.

Total year to date gross profit was \$1,273.6 million representing 23.7% of revenue (2014: \$1,224.0 million representing 23.3% of revenue), an increase of \$49.6 million or 4.1%. Gross profit for the third quarter was \$434.0 million or \$11.9 million more than the \$422.1 million recorded for the same period in 2014. The margin improvement would have been greater, but for the adverse impact of the drought on the sales of agricultural inputs. Improved sourcing, margin management and operational efficiencies continued to be key areas of focus.

Total operating profit for the nine-month period was \$96.2 million representing a decrease of 44.6% compared to the same period in 2014, partly attributable to a reduction in 'other income' from \$72.8 million in last year's nine-month period to \$20.0 million in the current year. Last year's results benefitted from higher levels of supplier rebates, one-off credit adjustments in accounts receivable balances as well as greater exchange gains on funds held in foreign currency. In addition, there was a 6.6% increase in operating expenses to \$1,197.3 million or \$74.2 million more than the comparative period in the prior year. This increase was primarily due to inflation, higher staff costs, one-off expenses commencing with the shift to utilize 'Cloud Technology' and increased training of staff to improve product knowledge and customer service levels.

Profit after tax for the nine-month period ended September 30, 2015 was \$64.1 million, 43.2% less than the \$112.9 million for the same period last year. This was equivalent to earnings of \$0.79 per stock unit, compared to \$1.40 for the

Hardware & Lumber Limited

CEO's Report

9 months to 30 September 2015

(expressed in Jamaican dollars)

comparative period in 2014. Shareholders' equity increased to \$1,475.8 million at September 30, 2015, up 14.6% over the same prior year period.

Working capital management continued to receive significant management focus, as strategies were implemented to improve the company's liquidity. The value of inventories at the end of the quarter was \$1,905.7 million, or 17.0% more than at the same time last year, with accounts payable balances increasing commensurately by 16.3%. This increase reflected normal preparations for the busiest sales quarter of the year. Trade and other receivables increased by 14.1% to \$715.1 million. Trade receivables increased by 7.5% in line with revenue while other receivables increased by 25.9% due to an increase in supplier pre-payments.

The company's cash reserves at the start of the year were \$152.0 million. During the period, net cash of \$75.1 million was generated from operating activities, most of which was used to purchase fixed assets, service loan commitments, pay taxes and dividends. The cash balance at the end of the period was \$174.1 million.

During the quarter, the company, through its AgroGrace division, was awarded the trophy for the "Best Commercial Exhibition" at the Denbigh Agricultural, Industrial and Food Show. In addition to sharing information on crop care and innovations in agricultural technology, the display also provided greater visibility of the company's offerings of animal and public health solutions as well as small tools and equipment.

We appreciate the contribution of all our customers, suppliers and other stakeholders to the business and look forward to their continued support.



Erwin Burton
Chairman



Donna Doran
Chief Executive Officer

Hardware & Lumber Limited

Unaudited Income Statement
 9 months to 30 September 2015
 (expressed in Jamaican dollars)

	3 months to 30 September 2015 \$'000	9 months to 30 September 2015 \$'000	3 months to 30 September 2014 \$'000	9 months to 30 September 2014 \$'000
Revenue	1,854,502	5,373,007	1,720,456	5,250,068
Cost of sales	<u>(1,420,444)</u>	<u>(4,099,376)</u>	<u>(1,298,315)</u>	<u>(4,026,074)</u>
Gross Profit	434,058	1,273,631	422,141	1,223,994
Other operating income	3,923	19,974	13,336	72,845
Operating expenses	<u>(414,380)</u>	<u>(1,197,333)</u>	<u>(369,810)</u>	<u>(1,123,137)</u>
Profit from Operations	23,601	96,272	65,667	173,702
Interest expense	<u>(5,519)</u>	<u>(16,012)</u>	<u>(6,926)</u>	<u>(23,113)</u>
Profit before Taxation	18,082	80,260	58,741	150,589
Taxation	<u>(3,255)</u>	<u>(16,119)</u>	<u>(14,685)</u>	<u>(37,647)</u>
Net Profit after Taxation	<u>14,827</u>	<u>64,141</u>	<u>44,056</u>	<u>112,942</u>
Earnings per Stock Unit	<u>\$0.18</u>	<u>\$0.79</u>	<u>\$0.54</u>	<u>\$1.40</u>

Hardware & Lumber Limited

Unaudited Statement of Comprehensive Income

9 months to 30 September 2015

(expressed in Jamaican dollars)

	3 months to 30 September 2015 \$'000	9 months to 30 September 2015 \$'000	3 months to 30 September 2014 \$'000	9 months to 30 September 2014 \$'000
Net Profit after Taxation	14,827	64,141	44,056	112,942
Other Comprehensive Income:				
Remeasurement of retirement benefit obligation	(5,731)	(17,190)	(684)	(2,052)
Deferred tax on retirement benefit obligation remeasurements	1,433	4,298	171	513
Total Income, being Total Comprehensive Income for the Period	10,529	51,249	43,543	111,403

Hardware & Lumber Limited
 Unaudited Statement of Financial Position
30 September 2015
 (expressed in Jamaican dollars)

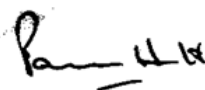
		30 September	30 September	(Audited) 31 December
	Note	2015	2014	2014
		\$'000	\$'000	\$'000
NET ASSETS EMPLOYED				
Non-Current Assets				
Property, plant & equipment		714,644	647,183	721,620
Intangible assets		1,898	3,329	2,053
Deferred tax asset		75,686	65,532	66,794
		792,228	716,044	790,467
Current Assets				
Inventories		1,905,713	1,628,146	1,797,995
Trade and other receivables	4	715,147	626,672	609,015
Group companies	6	6,246	5,952	702
Taxation recoverable		21,869	14,475	14,666
Cash and bank balances		174,182	256,751	152,015
		2,823,157	2,531,996	2,574,393
Current Liabilities				
Trade and other payables	5	1,481,733	1,273,627	1,346,417
Provision		-	1,518	-
Taxation payable		-	5,695	3,537
Short-term loans		113,299	69,552	13,910
Group companies	6	3,317	7,725	2,694
Current portion of long-term debt		101,734	102,003	101,923
		1,700,083	1,460,120	1,468,481
Net Current Assets		<u>1,123,074</u>	<u>1,071,876</u>	<u>1,105,912</u>
		<u>1,915,302</u>	<u>1,787,920</u>	<u>1,896,379</u>
Financed by:				
Share capital		616,667	616,667	616,667
Capital reserve		358,815	305,342	358,815
Other reserve		5,259	5,259	5,259
Accumulated surplus		495,085	360,857	443,836
		1,475,826	1,288,125	1,424,577
Non-Current Liabilities				
Long-term debt		50,000	150,000	125,000
Retirement benefit obligation		389,476	349,795	346,802
		439,476	499,795	471,802
		<u>1,915,302</u>	<u>1,787,920</u>	<u>1,896,379</u>

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



Erwin Burton

Chairman



Paul Hanworth

Director

Hardware & Lumber Limited

Unaudited Statement of Changes in Stockholders' Equity

9 Months to 30 September 2015

(expressed in Jamaican dollars)

	2015				
	Share	Other	Capital	Accumulated	Total
	Capital	Reserve	Reserve	Surplus	
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 January 2015	616,667	5,259	358,815	443,836	1,424,577
Net Profit after taxation for the period	-	-	-	64,141	64,141
Remeasurement of retirement benefit obligation, net of deferred tax	-	-	-	(12,892)	(12,892)
Balance at 30 September 2015	616,667	5,259	358,815	495,085	1,475,826

	2014				
	Share	Other	Capital	Accumulated	Total
	Capital	Reserve	Reserve	Surplus	
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 January 2014	616,667	5,259	305,342	249,454	1,176,722
Net Profit after taxation for the period	-	-	-	112,942	112,942
Remeasurement of retirement benefit obligation, net of deferred tax	-	-	-	(1,539)	(1,539)
Balance at 30 September 2014	616,667	5,259	305,342	360,857	1,288,125

Hardware & Lumber Limited

Unaudited Statement of Cash Flows

9 Months to 30 September 2015

(expressed in Jamaican dollars)

	30 September 2015 \$'000	30 September 2014 \$'000
Cash Generated from Operating and Investing activities:		
Operating activities:		
Net Profit	64,141	112,942
Items not affecting cash	74,813	98,286
	<u>138,954</u>	<u>211,228</u>
Changes in non-cash working capital components	<u>(63,809)</u>	<u>(193,180)</u>
Net cash provided by operating activities	<u>75,145</u>	<u>18,048</u>
Net cash used in investing activities	<u>(35,550)</u>	<u>(71,274)</u>
Cash provided by/(used in) operating and investing activities	<u>39,595</u>	<u>(53,226)</u>
Cash used in financing activities	<u>(17,428)</u>	<u>(107,914)</u>
Net increase/(decrease) in cash and cash equivalents	22,167	(161,140)
Cash and cash equivalents at the beginning of the period	<u>152,015</u>	<u>417,891</u>
Cash and cash equivalents at the end of the period	<u><u>174,182</u></u>	<u><u>256,751</u></u>
Comprised of:		
Cash at bank	<u>174,182</u>	<u>256,751</u>
Cash and cash equivalents at the end of the period	<u><u>174,182</u></u>	<u><u>256,751</u></u>

Hardware & Lumber Limited

Notes to the Unaudited Financial Statements
30 September 2015
(expressed in Jamaican dollars)

1. Identification and Principal Activities

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

The company and GraceKennedy Limited 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 2014 and comply with the requirements of IAS 34, Interim Financial reporting.

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

Hardware & Lumber Limited

Notes to the Unaudited Financial Statements

30 September 2015

(expressed in Jamaican dollars)

3. Segment Reporting

The company is organised into two main segments:

- a) Household, Hardware and Building Products (“Rapid True Value”)
- b) Agricultural Products and Equipment (“AgroGrace”)

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

	9 months to 30 September 2015		
	Household Hardware & Building Products	Agricultural Products & Equipment	Consolidated
	\$' 000	\$' 000	\$' 000
External operating revenue	4,092,904	1,280,103	5,373,007
(Loss)/profit from operations	(14,886)	111,158	96,272
Interest expense	(12,194)	(3,818)	(16,012)
(Loss)/profit before tax	(27,080)	107,340	80,260

	9 months to 30 September 2014		
	Household Hardware & Building Products	Agricultural Products & Equipment	Consolidated
	\$' 000	\$' 000	\$' 000
External operating revenue	3,872,353	1,377,715	5,250,068
(Loss)/profit from operations	(15,623)	189,325	173,702
Interest expense	(17,030)	(6,083)	(23,113)
(Loss)/profit before tax	(32,653)	183,242	150,589

Hardware & Lumber Limited

Notes to the Unaudited Financial Statements
30 September 2015
 (expressed in Jamaican dollars)

4. Trade and Other Receivables

	September 2015 \$'000	September 2014 \$'000
Trade receivables	430,942	400,935
Other receivables	284,205	225,737
	<u>715,147</u>	<u>626,672</u>

5. Trade and Other Payables

	September 2015 \$'000	September 2014 \$'000
Trade payables	1,261,612	1,163,806
Other payables	220,121	109,821
	<u>1,481,733</u>	<u>1,273,627</u>

Hardware & Lumber Limited

Notes to the Unaudited Financial Statements

30 September 2015

(expressed in Jamaican dollars)

6. Group Companies and Other Related Party Transactions and Balances

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

	September 2015 \$'000	September 2014 \$'000
Due to GraceKennedy Ltd	(1,265)	(6,269)
Due to fellow subsidiaries	<u>(2,052)</u>	<u>(1,456)</u>
	<u><u>(3,317)</u></u>	<u><u>(7,725)</u></u>
Due from GraceKennedy Ltd	4,475	390
Due from fellow subsidiaries	<u>1,771</u>	<u>5,562</u>
	<u><u>6,246</u></u>	<u><u>5,952</u></u>

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

	September 2015 \$'000	September 2014 \$'000
Income:		
Fellow subsidiaries	1,755	21,678
Parent company	39	38
Expenses:		
Fellow subsidiaries	-	1,040
Parent company	43,788	40,317
Directors and key management	<u>50,525</u>	<u>48,683</u>