

Hardware & Lumber Limited

**Unaudited Financial Statements
31 March 2014**

Hardware & Lumber Limited

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CEO's Report

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HARDWARE & LUMBER LIMITED
UNAUDITED FINANCIAL RESULTS
March 31, 2014

Profit after tax for the three-month period ended March 31, 2014 was \$40.4 million being 309.8% more than the \$9.9 million for the same period in the previous year. This translated to earnings per stock unit of \$0.50, compared to \$0.12 for the comparative period in 2013. This significantly improved financial result is a continuation of the turnaround in the performance of the company which commenced three years ago and represents the best first quarter performance since that time. Dividends of \$24.3 million or 30 cents per stock unit (approved by the Board of Directors in December 2013) were paid to stockholders on January 17, 2014. This represented a 140% increase over the previous year's payment.

Total revenue was \$1,810.0 million or 17% more than the \$1,547.8 million achieved in the same period last year. Revenue in the 'Household, Hardware and Building Products' segment increased by 16.7% while the 'Agricultural Products and Equipment' segment recorded growth of 17.7%. All of our merchandise categories did well, led by the building supplies division which delivered significant revenue growth, albeit at lower margins. We continued to be the leading supplier of various inputs and technical support to the agricultural sector. The overall improved performance was realized in both the wholesale and retail divisions of the business through the expansion of product assortment, improvements in availability and by working closer with our customers to better understand and supply their needs.

Total gross profit was \$411.5 million being an increase of 1% over the corresponding period in the previous year. However, the average margins declined by 3.6%, primarily attributable to the sales mix and higher product costs. With the 17% increase in sales, profit from operations was \$62.7 million, up from \$25.6 million in the comparative quarter of the previous year.

Total operating expenses were \$376.0 million or 4.6% lower than the comparative period in the prior year. The company realized savings in pension and other retirement benefits costs from the changes to the benefits programmes implemented at the end of 2013. In addition, several categories of expenses including staff costs, utilities and repairs and maintenance expenses were reduced through ongoing process improvement and cost containment.

Net current assets increased by 12.4% to \$1,054.0 million, caused mainly by increased inventory and accounts receivable balances. The value of inventory increased to \$1,448.4 million, partly due to the higher cost of the United States dollar as well as a desire to maintain adequate inventory levels to ensure consistent product availability for our customers.

At the end of the three-month period, the cash balance was \$312.8 million representing a decline of \$45.1 million when compared to the balance at March 31, 2013. During the quarter, the company resumed payments of income

taxes, having utilized all available tax losses. Capital expenditure of \$29.6 million was invested primarily to upgrade the Rapid True Value Portmore and Montego Bay stores as part of our ongoing programme to improve the facilities, further enhancing our customers' shopping experience.

The trading environment continues to be very competitive but our results have maintained a positive trajectory as we remain the destination of choice for agricultural, building and home improvement solutions in Jamaica. The Company received the "Top Retailer Award" for 2013 from True Value International in recognition of its outstanding performance as well as recognition as one of their "Top Ten" performers in the sale of paints.

We will continue to seek every opportunity to work closer with our suppliers to maintain consistency in supplies and introduce innovative products into the market. At the same time we will collaborate with our customers to better understand their needs in order to provide quality products and programs in both segments of our operations.

We would like to thank all our customers, suppliers and other stakeholders for their contribution to the business performance during the quarter and look forward to their continued support.



Erwin Burton
Chairman



Donna Doran
Chief Executive Officer (acting)

Hardware & Lumber Limited

Unaudited Income Statement

3 months to 31 March 2014

(expressed in Jamaican dollars)

	Note	3 months to 31 March 2014 \$'000	3 months to 31 March 2013 \$'000
Revenue		1,810,022	1,547,784
Cost of sales		<u>(1,398,483)</u>	<u>(1,139,523)</u>
Gross Profit		411,539	408,261
Other operating income		27,130	11,608
Operating expenses		<u>(375,986)</u>	<u>(394,288)</u>
Profit from Operations		62,683	25,581
Finance costs	3	<u>(8,854)</u>	<u>(13,098)</u>
Profit before Taxation		53,829	12,483
Taxation		<u>(13,456)</u>	<u>(2,630)</u>
Net Profit after Taxation		<u>40,373</u>	<u>9,853</u>
Number of stock units issued ('000)		80,842	80,842
Earnings per Stock Unit		<u>\$0.50</u>	<u>\$0.12</u>

Hardware & Lumber Limited

Unaudited Statement of Comprehensive Income

3 months to 31 March 2014

(expressed in Jamaican dollars)

	3 months to 31 March 2014 \$'000	3 months to 31 March 2013 \$'000
Net Profit after Taxation	40,373	9,853
Other Comprehensive Income:		
Remeasurement of retirement benefit obligation	(684)	(42,153)
Deferred Tax on IAS 19 remeasurements	171	12,646
	<u> </u>	<u> </u>
Income/(Loss), being Total Comprehensive Income for the Period	<u>39,860</u>	<u>(19,654)</u>

Hardware & Lumber Limited

Unaudited Statement of Financial Position

31 March 2014

(expressed in Jamaican dollars)

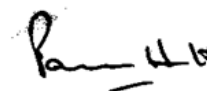
	Note	March 2014 \$'000	March 2013 \$'000	December 2013 \$'000
NET ASSETS EMPLOYED				
Non-Current Assets				
Property, plant & equipment		628,940	608,118	608,806
Intangible assets		5,790	10,584	7,059
Deferred tax asset		61,492	203,592	59,474
		696,222	822,294	675,339
Current Assets				
Inventories		1,448,433	1,158,363	1,233,338
Trade and other receivables		622,594	459,930	498,332
Group companies	5	4,783	12,994	1,685
Taxation recoverable		14,094	50,631	18,262
Cash and bank balances		312,775	357,849	417,891
		2,402,679	2,039,767	2,169,508
Current Liabilities				
Trade, other payables and provisions		1,196,084	913,250	936,204
Taxation payable		2,805	-	24,389
Short-term loans		-	-	13,434
Group companies	5	8,123	3,465	1,868
Current portion of long-term debt		141,667	183,333	141,667
		1,348,679	1,100,048	1,117,562
Net Current Assets		1,054,000	939,719	1,051,946
		1,750,222	1,762,013	1,727,284
Financed by:				
Share capital		616,667	616,667	616,667
Capital reserve		305,342	305,342	305,342
Other reserve		5,259	4,961	5,259
Accumulated surplus/(deficit)		289,314	(262,135)	249,454
		1,216,582	664,835	1,176,722
Non-Current Liabilities				
Long-term debt	6	200,000	341,667	225,000
Retirement benefit obligation		333,640	755,511	325,562
		1,750,222	1,762,013	1,727,284

Approved for issue by the Board of Directors on 5 May 2014 and signed on its behalf by:



Erwin Burton

Chairman



Paul Hanworth

Director

Hardware & Lumber Limited
 Unaudited Statement of Changes in Equity
 31 March 2014
 (expressed in Jamaican dollars)

	2014				
	Share Capital \$'000	Other Reserve \$'000	Capital Reserve \$'000	Accumulated Deficit \$'000	Total \$'000
	Balance at 1 January 2014	616,667	5,259	305,342	249,454
Profit, being total comprehensive income for the period	-	-	-	40,373	40,373
Remeasurement of retirement benefit obligation	-	-	-	(513)	(513)
Balance at 31 March 2014	616,667	5,259	305,342	289,314	1,216,582

	2013				
	Share Capital \$'000	Other Reserve \$'000	Capital Reserve \$'000	Accumulated Deficit \$'000	Total \$'000
	Balance at 1 January 2013	616,667	4,961	305,342	(242,481)
Profit, being total comprehensive income for the period	-	-	-	9,853	9,853
Remeasurement of retirement benefit obligation	-	-	-	(29,507)	(29,507)
Balance at 31 March 2013	616,667	4,961	305,342	(262,136)	664,835

Hardware & Lumber Limited

Unaudited Statement of Cash Flows

3 Months to 31 March 2014

(expressed in Jamaican dollars)

	March 31, 2014 \$'000	March 31, 2013 \$'000
Cash Generated from Operating and Investing activities:		
Operating activities:		
Net Profit	40,373	9,853
Items not affecting cash	33,004	28,296
	<u>73,377</u>	<u>38,149</u>
Changes in non-cash working capital components	(77,291)	173,460
Net cash (used in)/provided by operating activities	<u>(3,914)</u>	<u>211,609</u>
Net cash used in investing activities	<u>(29,659)</u>	<u>(2,638)</u>
Cash (used in)/provided by operating and investing activities	<u>(33,573)</u>	<u>208,971</u>
Cash used in financing activities	<u>(71,543)</u>	<u>(57,057)</u>
Net (decrease)/increase in cash and cash equivalents	(105,116)	151,914
Cash and cash equivalents at the beginning of the period	<u>417,891</u>	<u>205,935</u>
Cash and cash equivalents at the end of the period	<u><u>312,775</u></u>	<u><u>357,849</u></u>
Comprised of:		
Cash at bank	<u>312,775</u>	<u>357,849</u>
Cash and Cash Equivalents at the end of the period	<u><u>312,775</u></u>	<u><u>357,849</u></u>

Hardware & Lumber Limited

Notes to the Interim Financial Statements

31 March 2014

(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 2013 and comply with the requirements of IAS 34, Interim Financial reporting.

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

3. Finance Costs

	March 2014 \$'000	March 2013 \$'000
Interest expense	8,854	13,098
	<u>8,854</u>	<u>13,098</u>

Hardware & Lumber Limited

Notes to the Interim Financial Statements
31 March 2014
(expressed in Jamaican dollars)

4. 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:

	3 months to 31 March 2014		
	Household Hardware & Building Products	Agricultural Products & Equipment	Consolidated
	\$' 000	\$' 000	\$' 000
External operating revenue	<u>1,327,958</u>	<u>482,064</u>	<u>1,810,022</u>
(Loss)/profit from operations	(3,906)	66,589	62,683
Finance cost	(6,492)	(2,362)	(8,854)
(Loss)/profit before tax	<u>(10,398)</u>	<u>64,227</u>	<u>53,829</u>

	3 months to 31 March 2013		
	Household Hardware & Building Products	Agricultural Products & Equipment	Consolidated
	\$' 000	\$' 000	\$' 000
External operating revenue	<u>1,138,136</u>	<u>409,648</u>	<u>1,547,784</u>
(Loss)/profit from operations	(30,352)	55,933	25,581
Finance cost	(6,867)	(6,231)	(13,098)
(Loss)/profit before tax	<u>(37,219)</u>	<u>49,702</u>	<u>12,483</u>

Hardware & Lumber Limited

Notes to the Interim Financial Statements

31 March 2014

(expressed in Jamaican dollars)

5. Group Companies and Other Related Party Transactions and Balances

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

	March 2014 \$'000	March 2013 \$'000
Due to GraceKennedy Ltd	(6,193)	(1,073)
Due to fellow subsidiaries	<u>(1,930)</u>	<u>(2,392)</u>
	<u><u>(8,123)</u></u>	<u><u>(3,465)</u></u>
Due from GraceKennedy Ltd	420	456
Due from fellow subsidiaries	<u>4,363</u>	<u>12,538</u>
	<u><u>4,783</u></u>	<u><u>12,994</u></u>

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

	March 2014 \$'000	March 2013 \$'000
Income:		
Fellow subsidiaries	3,479	2,718
Parent company	12	13
Expenses:		
Fellow subsidiaries	146	4,488
Parent company	13,304	17,067
Directors and key management	<u>16,814</u>	<u>19,721</u>

Hardware & Lumber Limited

Notes to the Interim Financial Statements
31 March 2014
 (expressed in Jamaican dollars)

6. Long Term Loans

	March 2014 \$'000	March 2013 \$'000
Balance at the beginning of the period	366,667	550,000
Loans repaid	<u>(25,000)</u>	<u>(25,000)</u>
Balance at the end of the period	<u>341,667</u>	<u>525,000</u>
Current portion of long-term debt	141,667	183,333
Long-term debt	<u>200,000</u>	<u>341,667</u>
Balance at the end of the period	<u>341,667</u>	<u>525,000</u>

In 2012, the company received a loan of \$500,000,000 from National Commercial Bank Jamaica Limited denominated in Jamaican dollars. The annual interest rate is 9.75%. The loan is repayable by 2017 in quarterly installments.

In 2011, the company accessed the sum of \$250,000,000 through a commercial paper arranged by First Global Financial Services Limited denominated in Jamaican dollars. The interest rate is 10.05%. The loan was repaid in April 2014.