

Hardware & Lumber Limited

**Unaudited Financial Statements
30 June 2014**

Hardware & Lumber Limited

Index

30 June 2014

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	6 - 9

HARDWARE & LUMBER LIMITED
UNAUDITED FINANCIAL RESULTS
June 30, 2014

Revenue of \$1,719.6 million for the 2nd quarter was 1.4% lower than the same period last year, while gross margin fell to 22.7% from 26.2%, principally as a result of product mix. Continued improvements in other income, operating expenses and finance costs resulted in net profit for the quarter of \$28.5 million (\$0.35 per stock unit) compared to last year's \$43.3 million (\$0.54 per stock unit).

During the quarter, we began a comprehensive review of and improvement to offerings in several major categories, including tiles, paints, hardware items, tools, fasteners and lawn and garden supplies. However, results were adversely affected by an extremely challenging trading environment.

Year-to-date performance remained ahead of last year in all areas except gross margin. Profit after tax for the six-month period ended June 30, 2014 was \$68.9 million, or 29.6% more than the \$53.2 million for the same period in the previous year. This translated to earnings per stock unit of \$0.85, compared to \$0.66 for the comparative period in 2013.

Total revenue was \$3,529.6 million representing an increase of 7.2% over the \$3,292.6 million achieved in the same period last year. Revenue in the 'Household, Hardware and Building Products' segment increased by 7.7% to \$2,589.4 million. Inflation, weak purchasing power and a sluggish construction industry directly impacted the performance of this segment but despite a very competitive trading environment, all divisions performed well, including building supplies, paints, hardware items, tiles, sanitary ware and plumbing supplies.

The 'Agricultural Products and Equipment' segment recorded revenue growth of 6.0%, with increases in both the wholesale and retail divisions. Under the AgroGrace banner, we continued to be the leading supplier of quality inputs and technical support to farmers to help improve efficiencies and generate increased yield. Unfortunately, much of this year has been affected by prolonged drought, which has significantly affected agricultural production.

Total gross profit for the six-month period was \$801.8 million compared to \$865.9 million for the comparative period last year. The combined effect of variations in sales mix and higher product costs resulted in average gross margins of 22.7%, representing a 3.6% decline compared to the same period in the prior year. Profit from operations increased by 8.9% to \$108.0 million, supported by an increase in other income.

Total operating expenses were \$753.3 million or 5.0% lower than the comparative period in the prior year as the company continued to control all categories of expenses. Several cost-saving initiatives were pursued, including conversion to energy-saving LED lighting throughout the stores network and the administrative offices. In addition, savings were realized in several categories of expense, including staff costs, utilities and repairs and maintenance.

Net current assets increased by 8.3% to \$1,058.9 million, due to increased inventory and accounts receivable balances. The carrying value of inventory increased to \$1,474.3 million, partly due to the higher cost of the United States dollar and our ongoing commitment to maintain adequate inventory levels to ensure consistent product availability for our customers.

Cash on hand at the end of the six-month period was \$227.9 million. In addition to regular operating activities, we refurbished the Rapid True Value Portmore and Montego Bay stores. Long-term debt was \$277.3 million, representing a 40.1% reduction on the \$462.9 million balance which existed at the same time last year.

We increased our investments in marketing and promotions with the introduction of “Island Dreams”, a new home improvement television program sponsored by Rapid True Value and AgroGrace featuring kitchens, paints, tiles and lawn and garden products. This program complements the ‘Design Diva’ feature which airs on prime time morning television. We also launched a new live television promotional programme “Grow It Yourself” (GIY) sponsored by AgroGrace, established for empowering and inspiring first time gardeners while informing seasoned enthusiasts of how to growth their own ornamental, vegetable and other crops.

The prospects for the rest of 2014 remain challenging. We have in place strategies to improve our customers’ experience through service excellence driven by our people and fuelled by our passion. We continue to train our teams as we seek new and innovative ways to do things better, faster and more efficiently. At the same time we will forge deeper relationships with our suppliers as we collaborate to provide the best building, home improvement and agricultural inputs to our customers.

We thank all stakeholders for their contribution to the business performance and look forward to their continued support in the months ahead.



Erwin Burton
Chairman



Donna Doran
Chief Executive Officer (acting)

Hardware & Lumber Limited

Unaudited Income Statement

6 months to 30 June 2014

(expressed in Jamaican dollars)

June 2014					
	Note	3 months to 30 June 2014 \$'000	6 months to 30 June 2014 \$'000	3 months to 30 June 2013 \$'000	6 months to 30 June 2013 \$'000
Revenue		1,719,590	3,529,612	1,744,824	3,292,608
Cost of sales		<u>(1,329,276)</u>	<u>(2,727,759)</u>	<u>(1,287,194)</u>	<u>(2,426,717)</u>
Gross Profit		390,314	801,853	457,630	865,891
Other operating income		32,379	59,509	14,471	26,079
Operating expenses		<u>(377,341)</u>	<u>(753,327)</u>	<u>(398,472)</u>	<u>(792,760)</u>
Profit from Operations		45,352	108,035	73,629	99,210
Finance costs	3	<u>(7,333)</u>	<u>(16,187)</u>	<u>(11,748)</u>	<u>(24,846)</u>
Profit before Taxation		38,019	91,848	61,881	74,364
Taxation		<u>(9,506)</u>	<u>(22,962)</u>	<u>(18,563)</u>	<u>(21,193)</u>
Net Profit after Taxation		<u>28,513</u>	<u>68,886</u>	<u>43,318</u>	<u>53,171</u>
Number of stock units issued ('000)		80,842	80,842	80,842	80,842
Earnings per Stock Unit		<u>\$0.35</u>	<u>\$0.85</u>	<u>\$0.54</u>	<u>\$0.66</u>

Hardware & Lumber Limited

Unaudited Statement of Comprehensive Income

6 months to 30 June 2014

(expressed in Jamaican dollars)

	3 months to 30 June 2014 \$'000	6 months to 30 June 2014 \$'000	3 months to 30 June 2013 \$'000	6 months to 30 June 2013 \$'000
Net Profit after Taxation	28,513	68,886	43,318	53,171
Other Comprehensive Income:				
Items that will not reclassified to profit and loss				
Remeasurement of retirement benefit obligation	(684)	(1,368)	14,249	(27,904)
Deferred Tax on IAS 19 remeasurements	171	342	(4,275)	8,371
Income/(Loss), being Total Comprehensive Income for the Period	28,000	67,860	53,292	33,638

Hardware & Lumber Limited
 Unaudited Statement of Financial Position
30 June 2014
 (expressed in Jamaican dollars)

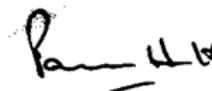
		June	June	(Audited) December
	Note	2014	2013	2013
		\$'000	\$'000	\$'000
NET ASSETS EMPLOYED				
Non-Current Assets				
Property, plant & equipment		636,496	600,686	608,806
Intangible assets		4,623	9,315	7,059
Deferred tax asset		63,512	180,753	59,474
		704,631	790,754	675,339
Current Assets				
Inventories		1,474,267	1,316,739	1,233,338
Trade and other receivables		591,886	541,733	498,332
Group companies	5	4,451	5,744	1,685
Taxation recoverable		14,333	49,683	18,262
Cash and bank balances		227,866	376,105	417,891
		2,312,803	2,290,004	2,169,508
Current Liabilities				
Trade and other payables		1,141,108	1,114,434	932,157
Provision		1,518	2,718	618
Taxation payable		1,660	-	24,389
Short-term loans		-	-	13,434
Group companies	5	9,570	11,360	1,868
Current portion of long-term debt	6	102,277	187,944	141,667
		1,256,133	1,316,456	1,114,133
Net Current Assets		<u>1,056,670</u>	<u>973,548</u>	<u>1,055,375</u>
		<u>1,761,301</u>	<u>1,764,302</u>	<u>1,730,714</u>
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)		317,314	(208,843)	249,454
		1,244,582	718,127	1,176,722
Non-Current Liabilities				
Long-term debt	6	175,000	275,000	228,430
Retirement benefit obligation		341,719	771,175	325,562
		<u>1,761,301</u>	<u>1,764,302</u>	<u>1,730,714</u>

Approved for issue by the Board of Directors on 28 July 2014 and signed on its behalf by:



Erwin Burton

Chairman



Paul Hanworth

Director

Hardware & Lumber Limited

Unaudited Statement of Changes in Equity
30 June 2014
 (expressed in Jamaican dollars)

	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 tax for the period	-	-	-	68,886	68,886
Remeasurement of retirement benefit obligation	-	-	-	(1,026)	(1,026)
Balance at 30 June 2014	616,667	5,259	305,342	317,314	1,244,582

	2013				
	Share	Other	Capital	Accumulated	Total
	Capital	Reserve	Reserve	Deficit	
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 January 2013	616,667	4,961	305,342	(242,481)	684,489
Net profit after tax for the period	-	-	-	53,171	53,171
Remeasurement of retirement benefit obligation	-	-	-	(19,533)	(19,533)
Balance at 30 June 2013	616,667	4,961	305,342	(208,843)	718,127

Hardware & Lumber Limited

Unaudited Statement of Cash Flows

6 Months to 30 June 2014

(expressed in Jamaican dollars)

	June 30, 2014 \$'000	June 30, 2013 \$'000
Cash Generated from Operating and Investing activities:		
Operating activities:		
Net Profit	68,886	53,171
Items not affecting cash	62,356	71,007
	<u>131,242</u>	<u>124,178</u>
Changes in non-cash working capital components	<u>(128,166)</u>	<u>177,896</u>
Net cash provided by operating activities	<u>3,076</u>	<u>302,074</u>
Net cash used in investing activities	<u>(47,561)</u>	<u>(5,287)</u>
Cash (used in)/provided by operating and investing activities	<u>(44,485)</u>	<u>296,787</u>
Cash used in financing activities	<u>(145,540)</u>	<u>(126,617)</u>
Net (decrease)/increase in cash and cash equivalents	<u>(190,025)</u>	<u>170,170</u>
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>227,866</u></u>	<u><u>376,105</u></u>
Comprised of:		
Cash at bank	<u>227,866</u>	<u>376,105</u>
Cash and Cash Equivalents at the end of the period	<u><u>227,866</u></u>	<u><u>376,105</u></u>

Hardware & Lumber Limited

Notes to the Interim Financial Statements

30 June 2014

(expressed in Jamaican dollars)

1. Identification and Principal Activities

Hardware & Lumber Limited (the company) is a 58.24% 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

	June 2014 \$'000	June 2013 \$'000
Interest expense	16,187	24,846
	<u>16,187</u>	<u>24,846</u>

Hardware & Lumber Limited

Notes to the Interim Financial Statements
30 June 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:

	6 months to 30 June 2014		
	Household Hardware & Building Products \$' 000	Agricultural Products & Equipment \$' 000	Consolidated \$' 000
External operating revenue	<u>2,589,434</u>	<u>940,178</u>	<u>3,529,612</u>
(Loss)/profit from operations	(18,787)	126,822	108,035
Finance cost	(11,863)	(4,324)	(16,187)
(Loss)/profit before tax	<u>(30,650)</u>	<u>122,498</u>	<u>91,848</u>

	6 months to 30 June 2013		
	Household Hardware & Building Products \$' 000	Agricultural Products & Equipment \$' 000	Consolidated \$' 000
External operating revenue	<u>2,405,336</u>	<u>887,272</u>	<u>3,292,608</u>
(Loss)/profit from operations	(36,759)	135,969	99,210
Finance cost	(18,151)	(6,695)	(24,846)
(Loss)/profit before tax	<u>(54,910)</u>	<u>129,274</u>	<u>74,364</u>

Hardware & Lumber Limited

Notes to the Interim Financial Statements
30 June 2014
(expressed in Jamaican dollars)

5. Group Companies and Other Related Party Transactions and Balances

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

	June 2014 \$'000	June 2013 \$'000
Due to GraceKennedy Ltd	(7,549)	(7,034)
Due to fellow subsidiaries	<u>(2,021)</u>	<u>(4,326)</u>
	<u><u>(9,570)</u></u>	<u><u>(11,360)</u></u>
Due from GraceKennedy Ltd	323	286
Due from fellow subsidiaries	<u>4,128</u>	<u>5,458</u>
	<u><u>4,451</u></u>	<u><u>5,744</u></u>

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

	June 2014 \$'000	June 2013 \$'000
Income:		
Fellow subsidiaries	6,635	6,291
Parent company	25	26
Expenses:		
Fellow subsidiaries	273	6,795
Parent company	26,691	34,079
Directors and key management	<u>32,668</u>	<u>39,220</u>

Hardware & Lumber Limited

Notes to the Interim Financial Statements
30 June 2014
 (expressed in Jamaican dollars)

6. Long Term Loans

	June 2014 \$'000	June 2013 \$'000
Balance at the beginning of the period	366,667	550,000
Loans repaid	<u>(91,667)</u>	<u>(91,667)</u>
	275,000	458,333
Interest payable	<u>2,277</u>	<u>4,611</u>
Balance at the end of the period	<u><u>277,277</u></u>	<u><u>462,944</u></u>
Current portion of long-term debt	100,000	183,333
Interest payable	<u>2,277</u>	<u>4,611</u>
	102,277	187,944
Long-term debt	<u>175,000</u>	<u>275,000</u>
Balance at the end of the period	<u><u>277,277</u></u>	<u><u>462,944</u></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.