

Hardware & Lumber Limited

**Unaudited Financial Statements
30 September 2014**

Hardware & Lumber Limited

Index

30 September 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 - 8



HARDWARE & LUMBER LIMITED
UNAUDITED FINANCIAL RESULTS
September 30, 2014

Profit after tax for the three-month period ended September 30, 2014 was \$44.1 million or \$0.54 per stock unit, representing an increase of 19.7% compared to the same quarter last year. Sales for the quarter of \$1,720.5 million were marginally above the \$1,710.0 million recorded in last year's 3rd quarter. Margins improved as a result of favourable sales mix compared to last quarter's 22.7%, but were lower than last year's 3rd quarter level, resulting in a decline in gross profit of \$12.9 million year-on-year to \$422.1 million. Careful attention to operating expenses and a reduction in borrowings resulted in improved net profit for the quarter.

Year to date profit after tax of \$112.9 million or \$1.40 per stock unit, represents a 25.5% increase on the \$90.0 million or \$1.11 per stock unit for the comparative period in the previous year. Despite lower gross profits, savings in operating expenses and better other income resulted in improved operational profit. Interest expenses declined to \$23.1 million as the company retired one of its long-term loans, resulting in better net profit for the nine months.

Year-to-date revenue in the 'Household, Hardware and Building Products' segment increased by 6.2% to \$3,872.4 million despite the continued challenges within the economy. We are pleased that sales in most divisions registered growth. We are pleased that sales in most divisions registered growth. This we attribute to our increased marketing efforts and an expansion in product range. In addition, increased activities in several large projects, particularly in the hotel and commercial construction sectors, generated increased revenue. Sales in the 'Agricultural Products and Equipment' segment increased only marginally due to the prolonged drought. However, we were encouraged by increased sales activity in the last month of the quarter as the country saw an increase in rainfall.

Total operating expenses for the nine-month period were \$1,123.1 million or 4.3% lower than the comparative period in the prior year. The company realized savings in several categories of expenses through ongoing process improvement and cost containment.

In preparation for the busiest sales quarter of the year, the value of inventory increased to \$1,628.1 million to ensure consistent product availability to our customers over the season. This resulted in a commensurate increase in accounts payable balances to \$1,273.6 million, even as we maintained timely payments to our suppliers. Capital investment for the nine-month period was \$71.3 million and includes purchase of machinery, upgrades to retail infrastructure and computer equipment. The net cash balance at the end of the period was \$256.8 million.

During the period under review, significant investments were made in training for all levels of staff to improve product knowledge and customer service levels. Renovation work was concluded at the Rapid True Value Portmore, being the seventh in a series of upgrades across our store network.

The industry in which we operate is very challenging and disposable income is under immense pressure. However, we continued to seek ways to provide solutions for our customers thereby offering increased value for money. We have been working closely with our suppliers to maintain consistency in inventory levels and to introduce innovative products to the market. These include an expanded range of hand and power tools, bathroom fixtures and accessories, mosaic, porcelain and ceramic tiles as well as an extensive outlay of hardware supplies including Midwest Fasteners. Through Rapid True Value, we have extended the sponsorship of Island Dreams, a home improvement television program featuring several categories of products and services, including kitchen, tiles, paints and bathroom accessories.

We remain committed to initiatives to achieve national food security. In support of this, we participated in various horticultural and agricultural expositions inclusive of the Denbigh Agricultural, Industrial and Food Show where we showcased quality products and shared new technology for the enhancement of productivity. We continued to align ourselves with top manufacturers to bring to market quality products especially in hybrid vegetable seeds and pesticides. There was great interactivity with end-users and resellers as we conducted several field evaluations and disseminated information on new products and improved technology. We have also continued the live television promotional programme "Grow It Yourself" (GIY) sponsored by AgroGrace, which informs and inspires gardening enthusiasts on how to develop and improve on their care of tree crops and back yard gardening of herbs, spices and vegetables.

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



Erwin Burton
Chairman



Donna Doran
Chief Executive Officer (acting)

Hardware & Lumber Limited

Unaudited Income Statement
 9 months to 30 September 2014
 (expressed in Jamaican dollars)

	3 months to 30 September 2014 \$'000	9 months to 30 September 2014 \$'000	3 months to 30 September 2013 \$'000	9 months to 30 September 2013 \$'000
Revenue	1,720,456	5,250,068	1,709,912	5,002,520
Cost of sales	<u>(1,298,315)</u>	<u>(4,026,074)</u>	<u>(1,274,892)</u>	<u>(3,701,609)</u>
Gross Profit	422,141	1,223,994	435,020	1,300,911
Other operating income	13,336	72,845	9,854	35,933
Operating expenses	<u>(369,810)</u>	<u>(1,123,137)</u>	<u>(380,725)</u>	<u>(1,173,485)</u>
Profit from Operations	65,667	173,702	64,149	163,359
Interest expense	<u>(6,926)</u>	<u>(23,113)</u>	<u>(11,555)</u>	<u>(36,401)</u>
Profit before Taxation	58,741	150,589	52,594	126,958
Taxation	<u>(14,685)</u>	<u>(37,647)</u>	<u>(15,778)</u>	<u>(36,971)</u>
Net Profit after Taxation	<u>44,056</u>	<u>112,942</u>	<u>36,816</u>	<u>89,987</u>
Earnings per Stock Unit for the period	<u>\$0.54</u>	<u>\$1.40</u>	<u>\$0.46</u>	<u>\$1.11</u>

Hardware & Lumber Limited

Unaudited Statement of Comprehensive Income

9 months to 30 September 2014

(expressed in Jamaican dollars)

	3 months to 30 September 2014 \$'000	9 months to 30 September 2014 \$'000	3 months to 30 September 2013 \$'000	9 months to 30 September 2013 \$'000
Net Profit after Taxation	44,056	112,942	36,816	89,987
Other Comprehensive Income:				
Items that will not reclassified to profit and loss				
Remeasurement of retirement benefit obligation	(684)	(2,052)	(131,003)	(158,907)
Deferred Tax on IAS 19 remeasurements	171	513	39,300	47,671
Income/(Loss), being Total				
Comprehensive Income for the Period	43,543	111,403	(54,887)	(21,249)

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

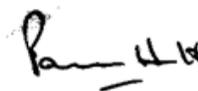
		September 2014 \$'000	September 2013 \$'000	(Audited) December 2013 \$'000
	Note			
NET ASSETS EMPLOYED				
Non-Current Assets				
Property, plant & equipment		647,183	594,140	608,806
Intangible assets		3,329	8,046	7,059
Deferred tax asset		65,532	204,278	59,474
		716,044	806,464	675,339
Current Assets				
Inventories		1,628,146	1,130,941	1,233,338
Trade receivables	4	626,672	486,943	498,332
Group companies	6	5,952	4,586	1,685
Taxation recoverable		14,475	48,929	18,262
Cash and bank balances		256,751	387,780	417,891
		2,531,996	2,059,179	2,169,508
Current Liabilities				
Trade payables	5	1,273,627	768,512	932,157
Provision		1,518	3,768	618
Taxation payable		5,695	-	24,389
Short-term loans		69,552	53,737	13,434
Group companies	6	7,725	4,712	1,868
Current portion of long-term debt		102,003	189,855	141,667
		1,460,120	1,020,584	1,114,133
Net Current Assets		1,071,876	1,038,595	1,055,375
		<u>1,787,920</u>	<u>1,845,059</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)		360,857	(263,730)	249,454
		1,288,125	663,240	1,176,722
Non-Current Liabilities				
Long-term debt		150,000	250,000	228,430
Retirement benefit obligation		349,795	931,819	325,562
		<u>1,787,920</u>	<u>1,845,059</u>	<u>1,730,714</u>

Approved for issue by the Board of Directors on November 3, 2014 and signed on its behalf by:



Erwin Burton

Chairman



Paul Hanworth

Director

Hardware & Lumber Limited

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

	2014				
	Share Capital	Other Reserve	Capital Reserve	Accumulated Surplus	Total
	\$'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	-	-	-	112,942	112,942
Remeasurement of retirement benefit obligation	-	-	-	(1,539)	(1,539)
Balance at 30 September 2014	616,667	5,259	305,342	360,857	1,288,125

	2013				
	Share Capital	Other Reserve	Capital Reserve	Accumulated Deficit	Total
	\$'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	-	-	-	89,987	89,987
Remeasurement of retirement benefit obligation	-	-	-	(111,236)	(111,236)
Balance at 30 September 2013	616,667	4,961	305,342	(263,730)	663,240

Hardware & Lumber Limited

Unaudited Statement of Cash Flows

9 Months to 30 September 2014

(expressed in Jamaican dollars)

	September 30, 2014 \$'000	September 30, 2013 \$'000
Cash Generated from Operating and Investing activities:		
Operating activities:		
Net Profit	112,942	89,987
Items not affecting cash	98,286	111,011
	<u>211,228</u>	<u>200,998</u>
Changes in non-cash working capital components	(193,180)	99,374
Net cash provided by operating activities	<u>18,048</u>	<u>300,372</u>
Net cash used in investing activities	<u>(71,274)</u>	<u>(9,092)</u>
Cash (used in)/provided by operating and investing activities	<u>(53,226)</u>	<u>291,280</u>
Cash used in financing activities	<u>(107,914)</u>	<u>(109,435)</u>
Net (decrease)/increase in cash and cash equivalents	(161,140)	181,845
Cash and cash equivalents at the beginning of the period	417,891	205,935
Cash and cash equivalents at the end of the period	<u><u>256,751</u></u>	<u><u>387,780</u></u>
Comprised of:		
Cash at bank	256,751	387,780
Cash and Cash Equivalents at the end of the period	<u><u>256,751</u></u>	<u><u>387,780</u></u>

Hardware & Lumber Limited

Notes to the Interim Financial Statements

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

Hardware & Lumber Limited

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

3. Segment Reporting (Continued)

	9 months to 30 September 2013		
	Household Hardware & Building Products	Agricultural Products & Equipment	Consolidated
	\$' 000	\$' 000	\$' 000
External operating revenue	<u>3,644,834</u>	<u>1,357,686</u>	<u>5,002,520</u>
(Loss)/profit from operations	(52,736)	216,095	163,359
Finance cost	(26,546)	(9,855)	(36,401)
(Loss)/profit before tax	<u>(79,282)</u>	<u>206,240</u>	<u>126,958</u>

4. Trade and Other Receivables

	September 2014 \$'000	September 2013 \$'000
Trade Receivables	400,935	350,091
Other Receivables	<u>225,737</u>	<u>136,852</u>
	<u>626,672</u>	<u>486,943</u>

5. Trade and Other Payables

	September 2014 \$'000	September 2013 \$'000
Trade Payables	1,136,638	591,402
Other Payables	<u>136,989</u>	<u>177,110</u>
	<u>1,273,627</u>	<u>768,512</u>

Hardware & Lumber Limited

Notes to the Interim Financial Statements

30 September 2014

(expressed in Jamaican dollars)

6. Group Companies and Other Related Party Transactions and Balances

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

	September 2014 \$'000	September 2013 \$'000
Due to GraceKennedy Ltd	(6,269)	(1,103)
Due to fellow subsidiaries	<u>(1,456)</u>	<u>(3,609)</u>
	<u><u>(7,725)</u></u>	<u><u>(4,712)</u></u>
Due from GraceKennedy Ltd	390	125
Due from fellow subsidiaries	<u>5,562</u>	<u>4,461</u>
	<u><u>5,952</u></u>	<u><u>4,586</u></u>

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

	September 2014 \$'000	September 2013 \$'000
Income:		
Fellow subsidiaries	21,678	22,984
Parent company	38	38
Expenses:		
Fellow subsidiaries	1,040	6,606
Parent company	40,317	43,254
Directors and key management	<u>48,683</u>	<u>59,064</u>