

Hardware & Lumber Limited

**Unaudited Financial Statements
31 March 2015**

Hardware & Lumber Limited

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31 March 2015

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CEO's Report

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Hardware & Lumber Limited

CEO Report

3 months to 31 March 2015

HARDWARE & LUMBER LIMITED UNAUDITED FINANCIAL RESULTS

March 31, 2015

Profit after tax for the three-month period ended March 31, 2015 was \$34.5 million, 14.5% less than the \$40.4 million for the same period last year. This was equivalent to earnings of \$0.43 per stock unit, compared to \$0.50 for the comparative period in 2014. Dividends of \$25.9 million or 32 cents per stock unit (approved by the Board of Directors in December 2014) were paid to stockholders on January 23, 2015. This represented a 6.7% increase over the previous year's payment

The core business performed creditably despite the tough trading environment. Total revenue was \$1,727.7 million or 4.5% less than the comparative period in the previous year. The 'household, hardware and building products' segment recorded revenue of \$1,282.6 million, representing a reduction of 3.4% compared to the previous year. The 'agricultural products and equipment' segment also recorded a revenue decline of 7.7%, to end the quarter at \$445.1 million. During the quarter, the sales were negatively impacted by the inability of some suppliers to meet order requirements. A major fire at the Riverton City Land Fill during the month of March resulted in delays in clearing shipments from the ports as well as the closure of Spanish Town Road stores and warehouses.

During the quarter, increased focus was placed on improving the performance of the retail segment of the business resulting in an overall improvement in margins. Given the more favorable sales mix, total gross profit increased by 2.7% to \$422.8 million. Average margin for the quarter was 24.5%, being 180 bps higher than the 22.7% recorded in the comparative quarter in the previous year. Total operating expenses were \$383.0 million or 1.9% higher than the comparative period in the prior year. The company continued to control all categories of expenses such that overall increases were below inflation. The relatively stable exchange rate as well as the reduction in global oil prices also converted to lower expenses such as fuel and electricity charges.

Operating profit was \$49.5 million representing a decrease of 21.1% compared to the same quarter last year. The reduction was driven by the marginal increase in expenses as well as the reduction in other income from \$27.1 million in last year's first quarter to \$9.6 million in the current year. In the previous year, the result included higher levels of supplier rebates as well as more exchange gains on funds held in foreign currency.

Working capital management continued to receive significant management focus, as strategies were implemented to sustain the company's liquidity. The value of inventories at the end of the quarter was \$1,574.2 million, being 8.7% more than at the same time last year. This increase was attributable to the combination of increased volumes and the impact of the 5.0% devaluation of the Jamaican Dollar on the cost of imported stocks. Trade and other payables declined by 6.9% as amounts owing to suppliers and other creditors were paid down. Trade and other receivables benefitted from improved credit management resulting in a decline of 5.9% to \$586.0 million.



Hardware & Lumber Limited

CEO Report cont'd

3 months to 31 March 2015

The company's cash reserves at the start of the year were \$152.0 million. During the period, net cash of \$73.4 million was generated from operating activities, most of which was used to service loan commitments, pay dividends and taxes. The cash position at the end of the period was \$155.3 million.

The trading environment remains competitive but the company is committed to being the destination of choice for agricultural, building and home improvement solutions in Jamaica. The marketing and promotional activities for both the Rapid True Value and AgroGrace divisions have increased both in the print and electronic media as well as in-stores, to support sales activities. We will continue to forge partnerships with both current and new suppliers to maintain consistency in supplies and introduce innovative products into the market. At the same time we will collaborate with our customers, developers and resellers to garner an even greater understanding of their evolving needs in order to provide quality products and programs.

During the quarter, Hardware & Lumber Ltd received the prestigious "3 Million US Dollar Club Award" from True Value International in recognition of the high level of purchases in 2014. The company also received special recognition from True Value International for its outstanding achievement in the sales and marketing of True Value Paint products, under the "Easy Care and Weather All" paint lines.

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

Hardware & Lumber Limited

Unaudited Statement of Comprehensive Income

3 months to 31 March 2015

(expressed in Jamaican dollars)

	3 months to 31 March 2015 \$'000	3 months to 31 March 2014 \$'000
Revenue	1,727,729	1,810,022
Cost of sales	<u>(1,304,896)</u>	<u>(1,398,483)</u>
Gross Profit	422,833	411,539
Other operating income	9,644	27,130
Operating expenses	<u>(382,996)</u>	<u>(375,986)</u>
Profit from Operations	49,481	62,683
Interest Expense	<u>(5,363)</u>	<u>(8,854)</u>
Profit before Taxation	44,118	53,829
Taxation	<u>(9,614)</u>	<u>(13,456)</u>
Net Profit after Taxation	<u>34,504</u>	<u>40,373</u>
Earnings per Stock Unit	<u>\$0.43</u>	<u>\$0.50</u>

Hardware & Lumber Limited

Unaudited Statement of Comprehensive Income

3 months to 31 March 2015

(expressed in Jamaican dollars)

	3 months to 31 March 2015 \$'000	3 months to 31 March 2014 \$'000
Net Profit after Taxation	34,504	40,373
Other Comprehensive Income:		
Remeasurement of retirement benefit obligation	(5,730)	(684)
Deferred Tax on IAS 19 remeasurements	1,433	171
Income, being Total Comprehensive Income for the Period	30,207	39,860

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

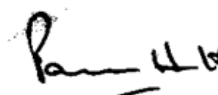
		March	March	(Audited) December
	Note	2015	2014	2014
		\$'000	\$'000	\$'000
NET ASSETS EMPLOYED				
Non-Current Assets				
Property, plant & equipment		724,691	628,940	721,620
Intangible assets		1,598	5,790	2,053
Deferred tax asset		69,756	61,492	66,794
		796,045	696,222	790,467
Current Assets				
Inventories		1,574,207	1,448,433	1,797,995
Trade and other receivables	4	585,982	622,594	609,015
Group companies	6	1,923	4,783	702
Taxation recoverable		14,233	14,094	14,666
Cash and bank balances		155,330	312,775	152,015
		2,331,675	2,402,679	2,574,393
Current Liabilities				
Trade and other payables	5	1,108,545	1,191,223	1,346,417
Provision		350	518	-
Taxation payable		-	2,805	3,537
Short-term loans		-	-	13,910
Group companies	6	1,362	8,123	2,694
Current portion of long-term debt		101,656	141,667	101,923
		1,211,913	1,344,336	1,468,481
Net Current Assets		<u>1,119,762</u>	<u>1,058,343</u>	<u>1,105,912</u>
		<u>1,915,807</u>	<u>1,754,565</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		474,043	289,314	443,836
		1,454,784	1,216,582	1,424,577
Non-Current Liabilities				
Long-term debt		100,000	204,343	125,000
Retirement benefit obligation		361,023	333,640	346,802
		<u>1,915,807</u>	<u>1,754,565</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 Equity
31 March 2015
 (expressed in Jamaican dollars)

	2015				
	Share Capital	Other Reserve	Capital Reserve	Accumulated Surplus	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 January 2015	616,667	5,259	358,815	443,836	1,424,577
Profit, being total comprehensive income for the period	-	-	-	34,504	34,504
Remeasurement of retirement benefit obligation	-	-	-	(4,297)	(4,297)
Balance at 31 March 2015	616,667	5,259	358,815	474,043	1,454,784
	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
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

Hardware & Lumber Limited

Unaudited Statement of Cash Flows

3 Months to 31 March 2015

(expressed in Jamaican dollars)

	March 31, 2015 \$'000	March 31, 2014 \$'000
Cash Generated from Operating and Investing activities:		
Operating activities:		
Net Profit	34,504	40,373
Items not affecting cash	28,779	33,004
	<u>63,283</u>	<u>73,377</u>
Changes in non-cash working capital components	26,177	(77,291)
Net cash provided by/(used in) operating activities	<u>89,460</u>	<u>(3,914)</u>
Net cash used in investing activities	<u>(16,067)</u>	<u>(29,659)</u>
Cash provided by/(used in) operating and investing activities	<u>73,393</u>	<u>(33,573)</u>
Cash used in financing activities	<u>(70,078)</u>	<u>(71,543)</u>
Net increase/(decrease) in cash and cash equivalents	3,315	(105,116)
Cash and cash equivalents at the beginning of the period	152,015	417,891
Cash and cash equivalents at the end of the period	<u>155,330</u>	<u>312,775</u>
Comprised of:		
Cash at bank	155,330	312,775
Cash and Cash Equivalents at the end of the period	<u>155,330</u>	<u>312,775</u>

Hardware & Lumber Limited

Notes to the Interim Financial Statements

31 March 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 Interim Financial Statements
31 March 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:

	3 months to 31 March 2015		
	Household Hardware & Building Products \$' 000	Agricultural Products & Equipment \$' 000	Consolidated \$' 000
External operating revenue	<u>1,282,631</u>	<u>445,097</u>	<u>1,727,729</u>
Profit from operations	3,458	46,023	49,481
Interest expense	(3,982)	(1,381)	(5,363)
(Loss)/profit before tax	<u>(524)</u>	<u>44,642</u>	<u>44,118</u>

	3 months to 31 March 2014		
	Household Hardware & Building Products \$' 000	Agricultural Products & Equipment \$' 000	Consolidated \$' 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
Interest expense	(6,492)	(2,362)	(8,854)
(Loss)/profit before tax	<u>(10,398)</u>	<u>64,227</u>	<u>53,829</u>

Hardware & Lumber Limited
Notes to the Interim Financial Statements
31 March 2015
(expressed in Jamaican dollars)

4. Trade and Other Receivables

	March 2015 \$'000	March 2014 \$'000
Trade Receivables	399,422	434,253
Other Receivables	186,560	188,646
	<u>585,982</u>	<u>622,594</u>

5. Trade and Other Payables

	March 2015 \$'000	March 2014 \$'000
Trade Payables	992,320	1,036,764
Other Payables	116,225	154,459
	<u>1,108,545</u>	<u>1,191,223</u>

Hardware & Lumber Limited

Notes to the Interim Financial Statements
31 March 2015
(expressed in Jamaican dollars)

6. Group Companies and Other Related Party Transactions and Balances

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

	March 2015 \$'000	March 2014 \$'000
Due to GraceKennedy Ltd	(678)	(6,193)
Due to fellow subsidiaries	(684)	(1,930)
	<u>(1,362)</u>	<u>(8,123)</u>
Due from GraceKennedy Ltd	430	420
Due from fellow subsidiaries	1,493	4,363
	<u>1,923</u>	<u>4,783</u>

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

	March 2015 \$'000	March 2014 \$'000
Income:		
Fellow subsidiaries	379	3,479
Parent company	13	12
Expenses:		
Fellow subsidiaries	-	146
Parent company	14,868	13,304
Directors and key management	16,757	16,814
	<u>16,757</u>	<u>16,814</u>