

Hardware & Lumber Limited

**Unaudited Financial Statements
31 March 2016**

Hardware & Lumber Limited

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31 March 2016

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CEO's Report

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Hardware & Lumber Limited

3 months to 31 March 2016

Chief Executive Office's Report

(expressed in Jamaican dollars)

On behalf of the Board of Directors of Hardware & Lumber Limited (H&L), we are pleased to present the financial results for the three-month period ended 31 March 2016.

The company's performance improved significantly, when compared to the first quarter of the previous year. Profit after tax for the three-month period was \$48.5 million or 40.4% more than the \$34.5 million for the same period last year. This was equivalent to earnings of \$0.60 per stock unit, compared to \$0.43 for the comparative period in 2015. A special dividend of \$88.1 million or 109.0 cents per stock unit (approved by the Board of Directors on December 2015) was paid to stockholders on January 29, 2016. This represented a 340% increase over the previous year's payment

Total revenue was \$1,952.2 million or 13.0% more than the comparative period in the previous year. The 'household, hardware and building products' segment recorded revenue of \$1,493.9 million, representing an increase of 16.5%. The 'agricultural products and equipment' segment also recorded growth in revenue, increasing by 3.0%, to end the quarter at \$458.3 million. The improved revenue performance was positively impacted by the continued growth in the construction industry and more favorable weather conditions in the agricultural sector.

Total operating expenses were \$391.5 million or 2.2% higher than the comparative period in the prior year, well below the last twelve-month period inflation rate. The relatively stable exchange rate as well as lower global oil prices contributed to lower expenses, including fuel and electricity charges.

Operating profit was \$73.0 million representing an increase of 47.6% compared to the same quarter in the previous year. The significant improvement was mainly driven by higher sales. Increased focus continued to be placed on improving product assortment and availability to satisfy the needs of our customers.

The value of inventories at the end of the quarter was \$1,819.5 million, being 15.6% more than at the same time last year. This increase was attributable to the combination of increased volumes and the impact of the 6.1% devaluation of the Jamaican Dollar on the cost of imported stocks over the last twelve months. Trade and other payables grew by 17.0% to \$1,297.5 when compared with the same period last year, but was down by 13.8% compared to the balance at December 31, 2015 quarter. Increase in credit sales for the period resulted in higher Trade and Other Receivables balance of \$671.9 million at the end of the period.

During the period, the company negotiated a \$600 million credit facility for the purposes of refinancing \$152.5 million of existing loan balances, providing lines of credit to suppliers, as well as working capital support. Capital investments in the three-month period totaled \$12.9 million which was mainly spent on improving the information technology infrastructure of the company. The cash reserves at the end of the period was \$440.0 million, being significantly higher than the opening cash balances of \$201.2 million.

Hardware & Lumber Limited

3 months to 31 March 2016

Chief Executive Office's Report
(expressed in Jamaican dollars)

Argyle Industries Inc., (Argyle) the new majority shareholders of Hardware & Lumber Ltd, issued an Offer Circular dated January 29, 2016, containing a cash offer to purchase the 33,764,719 of issued ordinary stock units in the capital of the company, not already owned by Argyle, at a price of \$18.50. The offer opened on February 1, 2016 and closed on March 24, 2016, with a minority stockholder acceptance rate of 94.5% of outstanding units.

The company, through its Rapid True Value and AgroGrace operations, remains Jamaica's premier destination for agricultural, building and home improvement solutions. Our customers continue to be at the heart of all we do, as we strive to satisfy their needs by providing an excellent supply of products. We invest in ongoing training of our team members, so that they can help create the context where each customer will enjoy an exceptional shopping experience whenever they do business with us.

Again, we would like to thank all our customers, suppliers and other stakeholders for their contribution to the company's performance during the quarter and look forward to their continued support.



Erwin Burton
Chairman



Donna Doran
Chief Executive Officer

Hardware & Lumber Limited

Unaudited Income Statement

3 months to 31 March 2016

(expressed in Jamaican dollars)

	3 months to 31 March 2016 \$'000	3 months to 31 March 2015 \$'000
Revenue	1,952,179	1,727,729
Cost of sales	<u>(1,495,246)</u>	<u>(1,304,896)</u>
Gross Profit	456,933	422,833
Other operating income	7,634	9,644
Operating expenses	<u>(391,519)</u>	<u>(382,996)</u>
Profit from Operations	73,048	49,481
Interest expense	<u>(7,957)</u>	<u>(5,363)</u>
Profit before Taxation	65,091	44,118
Taxation	<u>(16,636)</u>	<u>(9,614)</u>
Net Profit after Taxation	<u>48,455</u>	<u>34,504</u>
Earnings per Stock Unit	<u>\$0.60</u>	<u>\$0.43</u>

Hardware & Lumber Limited

Unaudited Statement of Comprehensive Income
3 months to 31 March 2016
 (expressed in Jamaican dollars)

	3 months to 31 March 2016 \$'000	3 months to 31 March 2015 \$'000
Net Profit after Taxation	48,455	34,504
Other Comprehensive Income:		
Remeasurement of retirement benefit obligation	(132)	(5,730)
Deferred Tax on IAS 19 remeasurements	33	1,433
	<hr/>	<hr/>
Income, being Total Comprehensive Income for the Period	48,356	30,207
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Hardware & Lumber Limited
 Unaudited Statement of Financial Position
 31 March 2016
 (expressed in Jamaican dollars)

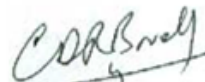
		March 2016 \$'000	March 2015 \$'000	(Audited) December 2015 \$'000
	Note			
NET ASSETS EMPLOYED				
Non-Current Assets				
Property, plant and equipment		716,497	724,691	714,489
Intangible assets		2,054	1,598	2,252
Deferred tax asset		104,583	69,756	101,844
		823,134	796,045	818,585
Current Assets				
Inventories		1,819,533	1,574,207	1,933,130
Trade and other receivables	4	671,882	585,982	602,799
Group companies	6	-	1,923	7,725
Taxation recoverable		2,476	14,233	2,386
Cash and bank balances		440,070	155,330	201,176
		2,933,961	2,331,675	2,747,216
Current Liabilities				
Trade and other payables	5	1,297,489	1,108,545	1,506,709
Provision		-	350	-
Taxation payable		3,604	-	540
Short-term loans		-	-	27,507
Group companies	6	-	1,362	2,362
Current portion of long-term debt		83,148	101,656	101,234
		1,384,241	1,211,913	1,638,352
Net Current Assets		1,549,720	1,119,762	1,108,864
		2,372,854	1,915,807	1,927,449
Financed by:				
Share capital		616,667	616,667	616,667
Capital reserve		358,815	358,815	358,815
Other reserve		-	5,259	-
Accumulated surplus		497,056	474,043	448,700
		1,472,538	1,454,784	1,424,182
Non-Current Liabilities				
Long-term debt		411,099	100,000	25,000
Retirement benefit obligation		489,217	361,023	478,267
		2,372,854	1,915,807	1,927,449

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



Erwin Burton

Chairman



Christopher Bovell

Director

Hardware & Lumber Limited

Unaudited Statement of Changes in Equity

3 Months to 31 March 2016

(expressed in Jamaican dollars)

	2016				
	Share	Other	Capital	Accumulated	Total
	Capital	Reserve	Reserve	Surplus	
\$'000	\$'000	\$'000	\$'000	\$'000	
Balance at 1 January 2016	616,667	-	358,815	448,700	1,424,182
Net profit	-	-	-	48,455	48,455
Remeasurement of retirement benefit obligation, net of deferred tax	-	-	-	(99)	(99)
Balance at 31 March 2016	616,667	-	358,815	497,056	1,472,538

	2015				
	Share	Other	Capital	Accumulated	Total
	Capital	Reserve	Reserve	Surplus	
\$'000	\$'000	\$'000	\$'000	\$'000	
Balance at 1 January 2015	616,667	5,259	358,815	443,836	1,424,577
Net profit	-	-	-	34,504	34,504
Remeasurement of retirement benefit obligation, net of deferred tax	-	-	-	(4,297)	(4,297)
Balance at 31 March 2015	616,667	5,259	358,815	474,043	1,454,784

Hardware & Lumber Limited

Unaudited Statement of Cash Flows

3 Months to 31 March 2016

(expressed in Jamaican dollars)

	31 March 2016	31 March 2015
	\$'000	\$'000
Cash Generated from Operating Activities		
Net profit for the period	48,455	34,504
Items not affecting cash:		
Amortisation of computer software	199	454
Retirement benefit obligation	(8,525)	(2,652)
Depreciation of property, plant and equipment	10,915	12,998
Foreign exchange loss/(gain)	231	(447)
Interest expense	7,957	5,363
Interest income	(380)	(337)
Warranties	-	350
Profit on disposal of property, plant and equipment	(781)	-
Taxation expense	16,636	9,614
	<u>74,707</u>	<u>59,847</u>
Changes in non-cash working capital components:		
Inventories	113,596	223,787
Trade and other receivables	(63,709)	23,033
Group companies	-	(3,552)
Trade and other payables	(102,746)	(200,216)
	<u>21,848</u>	<u>102,899</u>
Interest received	369	337
Tax paid	(16,278)	(14,223)
Net cash provided by operating activities	<u>5,939</u>	<u>89,013</u>
Cash Flows from Investing Activities		
Proceeds from sale of property, plant and equipment	781	-
Purchase of property, plant and equipment	(12,923)	(16,067)
Net cash used in investing activities	<u>(12,142)</u>	<u>(16,067)</u>
Cash (used in)/provided by operating and investing activities	<u>(6,203)</u>	<u>72,946</u>
Cash Flows from Financing Activities		
Dividend paid	(88,117)	(25,805)
Interest paid	(6,315)	(5,363)
Short term loans paid	(27,507)	(13,910)
Long term loans received	500,000	-
Long term loans paid	(133,629)	(25,000)
Net cash provided by/(used in) financing activities	<u>244,432</u>	<u>(70,078)</u>
Effects of exchange rate changes on cash and cash equivalents	<u>665</u>	<u>447</u>
Net increase in cash and cash equivalents	<u>238,894</u>	<u>3,315</u>
Cash and cash equivalents at beginning of year	<u>201,176</u>	<u>152,015</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u><u>440,070</u></u>	<u><u>155,330</u></u>

Hardware & Lumber Limited

Notes to the Interim Financial Statements

31 March 2016

(expressed in Jamaican dollars)

1. Identification and Principal Activities

Hardware & Lumber Limited (the company), a public company listed on the Jamaica Stock Exchange, is a 58.2% subsidiary of Argyle Industries Inc. (Argyle), a company registered in St. Lucia. Argyle acquired its shareholding in the company from GraceKennedy Limited (Grace) in December 2015.

The company is incorporated and domiciled in Jamaica. The registered office is located at 697 Spanish Town Road, Kingston 11, Jamaica. The company sells retail and wholesale building materials, home improvement supplies, household items and agricultural products. The company is a public company listed on the Jamaica Stock Exchange.

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 2015 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 2016
 (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 2016		
	Household Hardware & Building Products \$' 000	Agricultural Products & Equipment \$' 000	Consolidated \$' 000
External operating revenue	<u>1,493,853</u>	<u>458,326</u>	<u>1,952,179</u>
Profit from operations	26,877	46,171	73,048
Interest expense	(6,084)	(1,873)	(7,957)
Profit before tax	<u>20,793</u>	<u>44,298</u>	<u>65,091</u>

	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>445,098</u>	<u>1,727,729</u>
(Loss)/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>

Hardware & Lumber Limited
 Notes to the Interim Financial Statements
31 March 2016
 (expressed in Jamaican dollars)

4. Trade and Other Receivables

	March 2016 \$'000	March 2015 \$'000
Trade Receivables	487,033	399,422
Other Receivables	184,849	186,560
	<u>671,882</u>	<u>585,982</u>

5. Trade and Other Payables

	March 2016 \$'000	March 2015 \$'000
Trade Payables	1,117,830	992,320
Other Payables	179,659	116,225
	<u>1,297,489</u>	<u>1,108,545</u>

Hardware & Lumber Limited

Notes to the Interim Financial Statements

31 March 2016

(expressed in Jamaican dollars)

6. Group Companies and Other Related Party Transactions and Balances

Except for directors' fees, there are no other related party transactions and balances for the new parent company Argyle Industries Inc. at March 31, 2016. Prior year balances relates to GraceKennedy Group Companies and Other Related Parties.

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

	March 2016 \$'000	March 2015 \$'000
Due to GraceKennedy Ltd	-	(678)
Due to fellow subsidiaries	-	(684)
	<u>-</u>	<u>(1,362)</u>
Due from GraceKennedy Ltd	-	430
Due from fellow subsidiaries	-	1,493
	<u>-</u>	<u>1,923</u>

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

	March 2016 \$'000	March 2015 \$'000
Income:		
Fellow subsidiaries	-	379
Parent company	-	13
Expenses:		
Fellow subsidiaries	-	-
Parent company	-	14,868
Directors and key management	10,980	16,757
	<u>10,980</u>	<u>16,757</u>