

Company Limited

“We Foster Rich Customer Service”

Management Discussion & Analysis And Unaudited Financial Statements Six Months Ended 30 June 2020

The Board of Directors is pleased to report the unaudited results of the Company for the six months ended 30 June 2020 and to report on the performance of the Company.

Financial Highlights

Year-to-date

- Revenues - \$857.1 million, up \$110.7 million or 15% from \$746.4 million in the prior period
- Gross Profit - \$338.6 million, up \$23.4 million or 7% from \$315.2 million in the prior period
- Net Profit - \$22.3 million, compared to 61.7 million in the prior period
- Earnings per stock unit - \$0.04, compared to \$0.12 in the prior period

Quarter 2

- Revenues - \$408.3 million, up \$40.5 million or 11% from \$367.8 million in the prior period
- Gross Profit - \$168.7 million, up \$12.6 million or 8% from \$156.1 million in the prior period
- Net Profit - \$17.4 million, compared to \$28.8 million in the prior period
- Earnings per stock unit \$0.03, compared to \$0.06 in the prior period
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Income Statement

Income

Year-to-date income was \$857.1 million, compared to \$746.4 million for the prior reporting period. An increase of \$110.7 million. Gross Profit for the year-to-date is \$338.6 million compared to \$315.2 million for the prior reporting period. This represents an increase of \$23.4 million. These increases were attributed primarily to the greater availability of the products required by the market. The product lines that had significant increases were Industrial and PVC.

During the second quarter the company generated income of \$408.3 million compared to \$367.8 million for the prior reporting period, representing an increase of \$40.5 million. Gross profit for the quarter was \$168.7 million compared to \$156.1 million for the prior reporting period.

Administration Expenses

Administration expenses for the year-to-date was \$271.5 million, reflecting an increase of \$38.3 million on the prior reporting period amount of \$233.2 million. This was driven primarily, in Q1, by a combination of building out of our Human resources expertise as we build capacity for the future. We now have a new Sales Manager. Other cost increases were incurred due to staff benefits; increased legal and professional fees; increased selling and marketing costs; increased computer expenses; increased motor vehicle expenses; increased insurance costs; increased security cost and increased electricity cost.

\$31.5 million of the increased administration expenses for the year-to-date took place in Q1, with the balance of \$6.8 million coming in Q2. During Q2 we effected certain cost containment measures, which we expect will be the new normal for the company.

Finance Cost

Finance cost for the year-to-date was \$57.3 million compared to \$43.8 million for the prior reporting period, an increase of \$13.5 million. This increase is being driven primarily by the requirements of IFRS 16, which requires that all long-term leases be brought on the balance sheet as right-of-use assets with the financial obligation being reflected as financing and with the appropriate financing cost calculated.

Taxation

The Taxpayer Audit & Assessment Department also conducted an audit of our 2016 Income Tax returns and are seeking to raise additional Income Tax. We have agreed most aspects of their findings, however, we are also now in the appeal stage of the process in respect of some adjustments. We have begun to make provisions to cover these additional taxes.

Profit After Tax

Profit-after-tax generated for the period was \$22.2 million, compared to the \$61.7 million reported for the prior reporting period. Despite having \$40.5 million lower Turnover in Q2 of 2020, compared to Q1 of 2020, we realised a \$12.6 million increase in comprehensive income during Q2 of 2020, compared to Q1 of 2020. We continue to monitor the changes in the purchasing patterns of our customers resulting from the presence of Covid-19, and have reviewed our cost structure.

Earnings Per Stock Unit

Earnings per stock unit was \$0.04, compared to \$0.12 in the prior period

Balance Sheet

Inventories

The company continues to closely manage inventory balances and the supply-chain, with a view to ensuring that inventory balances being carried are optimised, relative to the pace of sales, the time between the orders being made and when goods become available for sale, to avoid both overstocking and stock-outs. Monitoring is done both at the individual product level and by product categories. Sales in most categories were less than anticipated, this due to the uncertainties which resulted from the Covid-19 pandemic, which affected our customers buying patterns.

Trade Receivables

We continue to closely manage trade receivables with an emphasis being placed on balances over 180 days. We have implemented strategies to collect these funds as well as to ensure that the other buckets are managed. As a result of the anticipated impact of Covid-19 on our customers, we have reviewed all credit arrangements. Where necessary credit limits have been reduced and credit periods shortened. For some items we have instituted seven (7) day credit or cash.

Non-current Liabilities

Non-current liabilities have remained stable for the year-to-date.

Shareholders' Equity

Shareholders' equity now stands at \$823.4 million, up from the \$799.6 million at 31 December 2019. The net increase of \$23.8 million arose as a result of retained profits for the year-to-date amounting to \$26.4 million and Treasury Shares amounting to \$2.6 million.

Covid-19

As with most companies, we were adversely affected by Covid-19. We have seen reductions in anticipated revenues and have had to make some adjustments to our costs. Some team members living in quarantined areas were not able to come to work during lockdown periods, however, we have thus far been able to keep all our warehouse and shop facilities open.

We have re-evaluated all credit relationships and where necessary have reduced credit limits and term. Some items are now sold only for cash or on a seven (7) day credit basis.

We have adopted the policies promulgated by the Ministry of Health and Wellness and have allowed our team members to work from home where practical.

New Activity

In October 2018 FosRich commenced discussion with JPS with a view to taking over their pole-mount transformer repair activity. This discussion, after 20 months, has resulted in an agreement. We have begun the process of sourcing the necessary equipment and anticipate commencement of activity in October this year.

We are cognizant that despite the challenges ahead within this operating space, that we have the right talents and leadership to deliver on our plans for the ensuing period. We will continue to execute on our plans to ensure that we remain competitive and deliver value solutions to our customers.

As we report on the performance of our Company, we thank our shareholders, employees, customers and other stakeholders for their support as we continue to expand our business and bring greater value to our various stakeholders.



Managing Director

Accounting Policies

Subject to the restatement of the audited balance sheet, the accounting policies used in the preparation of these financial statements have remained unchanged since the last audit and the account classifications have also remained the same.

STATEMENT OF COMPREHENSIVE INCOME

Period ended 30 June 2020

	3 Months to Jun-20 \$	3 Months to Jun-19 \$	6 Months to Jun-20 \$	6 Months to Jun-19 \$
Turnover	408,330,091	367,850,181	857,147,872	746,430,103
Cost of Sales	239,628,635	211,719,824	518,538,157	431,223,831
Gross Profit	168,701,456	156,130,357	338,609,716	315,206,272
Other Income	5,629,729	15,242,663	12,378,818	24,412,174
	174,331,184	171,373,020	350,988,534	339,618,446
Expenses				
Administrative and selling expenses	125,841,216	119,097,292	271,492,933	233,210,277
Finance cost	31,114,772	22,561,469	57,304,082	43,809,603
	156,955,988	141,658,761	328,797,015	277,019,880
Operating profit	17,375,196	29,714,259	22,191,519	62,598,566
Taxation	73,472	(930,365)	73,472	(930,365)
Comprehensive income	17,448,669	28,783,894	22,264,991	61,668,201
Earning per stock unit	0.03	0.06	0.04	0.12

STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Unaudited Jun-20 \$	Audited * Dec-19 \$
ASSETS		
Non-current assets:		
Property, plant and equipment	309,400,267	319,487,346
Right-of-use Assets	195,542,115	208,914,651
Due From Related Parties	282,611,824	282,611,824
Investments	31,467,766	21,315,067
	<u>819,021,972</u>	<u>832,328,888</u>
Current assets:		
Inventories	1,245,913,277	1,168,297,433
Accounts Receivables	344,460,606	312,942,974
Due From Related Parties	83,463,308	80,000,000
Cash, cash equivalents and short-term deposits	53,717,333	56,495,021
	<u>1,727,554,524</u>	<u>1,617,735,428</u>
Less Current liabilities:		
Trade Payables & Accruals	303,192,284	235,324,806
Taxation	2,738,826	2,786,023
Short Term Loans	38,436,723	33,548,325
Current Portion of Long-term Liability & Leases	120,848,114	110,269,774
	<u>465,215,947</u>	<u>381,928,928</u>
Net current assets	<u>1,262,338,576</u>	<u>1,235,806,500</u>
	<u>2,081,360,548</u>	<u>2,068,135,389</u>
EQUITY AND LIABILITIES		
Equity:		
Share capital	369,620,810	369,620,810
Treasury Shares	(2,634,030)	-
Capital reserves	67,386,695	67,386,695
Retained earnings	384,852,359	362,587,368
	<u>819,225,834</u>	<u>799,594,873</u>
Non-current liabilities:		
Long-term liabilities	1,072,718,000	1,051,913,999
Lease Obligations	135,793,919	163,925,835
Directors' loan	53,622,793	52,700,682
	<u>1,262,134,713</u>	<u>1,268,540,516</u>
	<u>2,081,360,548</u>	<u>2,068,135,389</u>

* Restated

Approved for issue by the Board of Directors on ____ July 2020 by:



Marion Foster
Chairman



Peter Knibb
Director

STATEMENT OF CHANGES IN EQUITY

Period ended 30 June 2020

	Share capital \$	Treasury Shares \$	Capital reserve \$	Retained earnings \$	Total \$
Balance at 1 January 2019	369,620,810	-	68,026,070	255,701,307	693,348,187
Net profit for period	-	-	-	61,668,200	61,668,200
Balance at 30 June 2019	<u>369,620,810</u>	<u>-</u>	<u>68,026,070</u>	<u>317,369,507</u>	<u>755,016,387</u>
Balance at 1 January 2020	369,620,810	-	67,386,695	362,587,368	799,594,873
Treasury Shares Acquired	-	(2,634,030)	-	-	(2,634,030)
Net profit for period	-	-	-	22,264,991	22,264,991
Balance at 30 June 2020	<u>369,620,810</u>	<u>(2,634,030)</u>	<u>67,386,695</u>	<u>384,852,359</u>	<u>819,225,834</u>

STATEMENT OF CASH FLOWS

Period ended 30 June 2020

	6 Months to Jun-20 \$	6 Months to Jun-19 \$
Cash flows from operating activities:		
Results for the period	22,264,991	61,668,200
Adjustments to:		
Taxation expense	(73,472)	930,365
Damaged Goods	47,610	13,801
Adjustment - Bad debt provision	-	(5,703,769)
Depreciation	27,296,237	11,166,918
Amortization	13,372,536	-
	<u>62,907,902</u>	<u>68,075,515</u>
Changes in non-cash working capital components:		
Tax recoverable		
Inventories	(77,663,454)	(80,306,444)
Accounts receivable	(31,517,631)	41,989,311
Accounts payable	67,893,753	(51,769,780)
Short term loan	4,888,398	14,470,328
Net cash provided/(used) by operations	<u>26,508,968</u>	<u>(7,541,070)</u>
Cash flows from investing activities:		
Purchase of Investment	(10,152,699)	189,809
Related Party	(3,463,308)	42,948,000
Purchase of property plant & equipment	(17,209,158)	(79,687,233)
Cash (used) in investing activities	<u>(30,825,164)</u>	<u>(36,549,424)</u>
Cash flows from financing activities:		
Treasury Shares	(2,634,030)	-
Directors' loan (repayments)/proceeds	922,111	848,725
Finance Lease proceeds	(28,131,916)	2,184,199
Long-term Loan	31,382,342	(2,144,935)
Cash provided by financing activities	<u>1,538,507</u>	<u>887,989</u>
Net increase/ (decrease) in cash and cash equivalents	(2,777,688)	(43,202,505)
Cash and cash equivalents at beginning of period	56,495,021	70,640,720
Cash and cash equivalents at end of period	<u>53,717,333</u>	<u>27,438,215</u>
Cash at bank	53,717,333	28,270,447
Bank overdraft	-	(832,232)
Cash and cash equivalents at end of period	<u>53,717,333</u>	<u>27,438,215</u>

STOCKHOLDER INFORMATION

As at 30 June 2020

Top 10 Stockholders

Name	Shares Held	
	Number	Percentage
1 Cecil Foster	200,910,222	40.0%
2 Marion Foster	200,910,222	40.0%
3 Stocks & Securities Limited (Alpha)	26,243,704	5.2%
4 JCSD Trustee Services Ltd. - Barita Unit Trust Capital Growth Fund	12,681,543	2.5%
5 Peter Knibb & Elizabeth Knibb, Jenine Knibb, Brandon Knibb	11,150,000	2.2%
6 JCSD Trustee Services Ltd. - Sigma Global Ventures	5,000,000	1.0%
7 Sagicor Select Fund Limited - Class C - Manufacturing & Distribution	4,028,960	0.8%
8 Errol A. Lewin	3,473,083	0.7%
9 JMMB Securities Ltd - House Account #2	2,417,775	0.5%
10 Barita Unit Trust Mgmt. Co. Ltd.	2,170,000	0.4%
Total of Top Ten	468,985,509	93.4%
Others	33,290,046	6.6%
Total Shares Allotted	502,275,555	100%
Total Number Of Stockholders	1,369	

Stockholding of Directors, Board Committees Members & Connected Persons

Name	Shares Held
Directors	
1 Cecil Foster	200,910,222
2 Marion Foster	200,910,222
3 Peter Knibb & Elizabeth Knibb, Jenine Knibb, Brandon Knibb	11,150,000
4 Rosalyn Campbell	2,000,000
5 Steadman Fuller	Nil
6 Ian Kelly	Nil
Board Committee Members	
7 Marva Chang	Nil
8 Clive Nicholas	Nil

Stockholding of Senior Managers & Connected Persons

Name	Shares Held
1 Cecil Foster	200,910,222
2 Peter Knibb & Elizabeth Knibb, Jenine Knibb, Brandon Knibb	11,150,000
3 Tricia Edwards	500,000
4 Kerry-Ann Gray & Kyra-Belle Gray	500,000
5 Warren Riley & Cheryl Riley	224,867
6 Vincent Mitchell	7,484
7 Michelle Thame	Nil
8 Stephen Spencer	Nil
9 Hector Mendoza	Nil