

HARWARE AND LUMBER LIMITED

CHAIRMAN'S STATEMENT

The Hardware & Lumber Group recorded significant improvement in its performance for 1995 despite adverse economic conditions in which generally high interest rates and steep escalation costs in the construction sector affected activity in this major market.

The year in review was further characterized by a loss of some 16% of value in the Jamaican dollar during the second half, high inflation rates and reduction in credit to both producers and consumers. Nonetheless, turnover in the Group for 1995 was \$921 million compared to \$696 million in 1994, an increase of 32%. Group pre-tax profit increased 47.5% to \$18.3 million from \$12.4 million in 1994. Earnings per share increased from .30c in 1994 to .38c in 1995.

The improved performance was attributable primarily to Hardware & Lumber's wholesale trading division and to the agricultural company within the Group. The Hole-in-the-Wall retail stores and Office Services Limited, specialists in interior construction, again recorded disappointing results.

Dividends

The Directors recommend that a final dividend of 10% (5 cents per share) be paid on October 4, 1996 to Shareholders on record as of September 19, 1996.

Finance

The net asset value of the Company's Ordinary Shares at December 1995 was \$5.99

compared to \$5.66 for 1994. Working Capital increased to \$105.1 million in 1995 from \$101.3 million the previous year.

Hardware/Lumber Division

Sales in the hardware and lumber division increased 27% to \$530 million during the year under review.

Despite fierce competition in the trade, the company continued to hold its position as the foremost wholesaler of hardware achieving a 38% increase in sales. In the more volatile lumber market sales increased by 21%.

The Builders Depot, catering primarily to industrial accounts, contractors and artisans, recorded a 29% increase in sales during the year and again had satisfactory levels of profit.

The company continues to closely monitor the management of receivables and inventory turns in its effort to achieve optimum efficiencies in these areas.

Hole-in-the-Wall Stores

During the period under review, there was substantial rationalization of the Hole-in-the-Wall retail stores with the closure of two branches located in Montego Bay and Tropical Plaza, Kingston. These were proving inefficient due to their size and location.

Provision for bad debt and the writing off of obsolete stock combined to place the division in a loss position for the year. However, the performance of the remaining stores has shown substantial improvement to date in 1996. Further, we are pleased to advise that during 1995 Hole-in-the-Wall acquired cooperative status with TRUE VALUE Incorporated in the U.S.A. The True Value name, decor and extensive range of merchandise will be accessible to our company and this relationship will be the main vehicle for the redevelopment and relaunch of the Hole-in-the-Wall stores in 1996.

H&L Agri & Marine Ltd.

This division had sales of \$132 million in 1995 compared to \$85 million for 1994

and recorded a net profit, the first since commencing business in 1988.

The division which has been steadily improving its position in the marketplace, has developed into a major supplier of exclusive brand products to the banana and sugar industries as well as the general farming community.

During the year, the division emphasised the introduction of improved technology with the launch of several new products. This, in tandem with energetic marketing support activities including seminars and field days in a number of parishes, has proved very beneficial to extension officers and farmers of major crops such as coffee, vegetables and fruit for export.

We anticipate the improved performance of this division to continue in 1996.

Office Services Limited

Office Services Limited had sales of \$108 million in 1995 compared to \$74 million in 1994 and recorded a modest profit for the year.

The division has maintained an exceptionally strong reputation in its areas of specialization and continues to attract extensive refurbishing and interior construction projects from major clients.

General

The devaluation of the Jamaican dollar and resultant losses had a significant impact on the Group's profits during the period under review. Tight macroeconomic policies, high interest costs and intense competition in the trade are the continuing challenges facing the Group in the months ahead.

The company has responded with on-going restructuring of both its wholesale and retail operations and re-examination of credit policies. These and other initiatives are designed to allow continued provision of high levels of service to our major markets while addressing the reality of a dampening of demand in an inflationary climate.

There have been two new appointees to the Group in recent months. We welcome Mr. Oscar Kerr who, in February 1996, assumed the post of General Manager with

specific responsibilities for retail operations and Mr. Alexander Powell who assumed duties as Sales and Marketing Director (Wholesale Operations) in April of this year.

The Board wishes to express its gratitude to all members of the Management Team and staff for their respective contributions during the year. We should also like to thank our customers and shareholders for their continued support as we chart the course for enhanced profitability for the Group.

Richard O. Byles
Chairman

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Gene M. Douglas, A.C.I.S.

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Citibank N.A.
CIBC Jamaica Limited
Citizens Bank Limited

Auditors:

Price Waterhouse

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Clinton Hart & Company