

HARDWARE & LUMBER 1996

CHAIRMAN ' S STATEMENT

The Hardware & Lumber Group performed creditably in 1996 given an economic climate in which tight credit, high interest rates and uncertainty within the financial sector contributed to significantly lowered activity in the construction industry. Notwithstanding the negative effects of generally recessionary conditions on our primary market, the Group benefitted from the revaluation by some 12% and stabilization of the Jamaican dollar in the second half of the year. This, with continuing efforts to achieve optimum efficiencies and aggressive marketing, contributed to all the companies within the Group recording positive results for the period under review.

Pre-tax profits for the Group were \$19 million compared to \$18.3 million in 1995. This was achieved on reduced turnover of \$858 million compared to \$921 million in the previous year. Net profit of \$15.6 million represented an increase of 3.4% over 1995.

Earnings per share for the period increased marginally to 39 cents. The net asset value of the company's ordinary shares at December 1996 was \$6.89 compared to \$5.99 for 1995. Working capital increased to \$105.8 million from \$105.1 million in the previous year.

DIVIDENDS

The Directors recommend that a final dividend of 10% (5 cents per stock unit) be paid on September 19, 1997 to shareholders on record as of September 5, 1997.

HARDWARE/LUMBER DIVISION

The Hardware & Lumber Wholesale Division suffered a reduction of 15% in sales compared to 1995. Once again, this division faced the challenge of intense competition from a growing number of distributors and direct sales by suppliers to some of our traditional customers. At the same time, sales to contractors, many of whom are stymied by debt, declined somewhat even as traders reduced stock in response to tighter credit measures.

Nevertheless, gross profits increased by 10% primarily as a result of improved lumber sales. The performance of the division was also enhanced by a 37% reduction in inventories which facilitated the liquidation of outstanding trade payables. Concurrently, there were careful reviews of product range and sales volumes as well as relatively successful efforts to reduce receivables.

The retail outlet formerly "The Builders' Depot" situated in the Hardware & Lumber complex, was transferred from this division to H&L True Value during 1996.

H&L TRUE VALUE

The alliance between Hardware & Lumber and True Value International which commenced in 1995, was formalized with the incorporation in 1996 of H&L True Value Limited and the re-launch in November that year of three refurbished stores which had previously operated as Hole-in-the-Wall.

True Value International is one of the largest wholesale hardware cooperatives with membership in excess of 10,000 worldwide. Sales on some 60,000 product items totalled US\$2 billion in 1996 with annual sales of \$4.5 billion expected following the company's recent merger with the ServiStar Coast to Coast branded stores.

The H&L True Value alliance has provided the springboard for a major thrust in retail marketing by Hardware & Lumber with plans to achieve substantially

increased market share in the short to medium term.

Development activities for the retail outlets in the Sovereign Centre, Liguanea; Manor Park Plaza, Constant Spring and in Ocho Rios, are well advanced and during the year under review, these stores recorded a net profit for the first time in several years.

There is considerable optimism in respect of future retail operations as the process of strengthening and repositioning this division continues.

H&L AGRI & MARINE

H&L Agri & Marine enjoyed a successful year in which it expanded its niche in the vital agricultural sector. Profits improved 15% over 1995.

The division's emphasis on the introduction of branded products representing demonstrable technological advances, has proved highly effective. On-going programmes targeting the livestock industry, coffee, banana, citrus and vegetable growers have proved popular and effective in reaching both large and small farmers. These activities aimed at promoting optimum agronomic practices, have been further bolstered by a considerable increase in the division's interaction with the Rural Agricultural Development Agency (RADA).

H&L Agri & Marine is further positioning itself to meet the increased competition to small farmers from imported agricultural produce and to ensure a sustainable market in light of increasing globalization of the agricultural sector particularly as this affects the banana, sugar and coffee industries.

OFFICE SERVICES LIMITED

Office Services Limited continued to hold its position in the market for interior construction despite the contraction in the building sector and postponement or stalling of major projects for redesign and refurbishing, particularly of commercial space.

The division continued its cooperative relationship with architects and contractors while seeking to expand its client base and ensure maximum

efficiencies in the execution of projects.

The division's office maintenance and scaffolding operations also produced positive results and steps have been taken to upgrade and strengthen the management teams of these departments in anticipation of an increase in demand for these services in the latter half of 1997.

GENERAL

The performance of the construction and home improvement sector is closely reflective of the overall state of the economy, the outlook for which suggests a continuation of relatively high lending rates, contraction in consumer demand, low investment expenditure and increased pressure on trading activities.

Notwithstanding, the Hardware & Lumber Group will benefit from the relative stability of the Jamaican dollar while the continuing downward trend in interest rates should contribute to the Group's profitability in the coming year. In keeping with the challenges of our current environment, our Group will maintain its efforts to restructure operations while paying strict attention to internal efficiencies.

We continue to enjoy the confidence of the Jamaican consumer whom our Group has served for 70 years. This confidence we are committed to preserving and deepening by vigilant attention to changing needs and expectations. The Board would like to thank the Management team and members of the Hardware & Lumber Group for their efforts to meet this objective during 1996. We look forward to their continuing support and that of our shareholders and customers in the months ahead.

Richard O. Byles
Chairman
