

Hardware and Lumber Ltd. 1997

Statement from the Chairman & the Managing Director

The Hardware & Lumber Group maintained profitability in 1997 although results were disappointing for the period due to high financing costs, the need to provide for overdue receivables, a deepening of the difficulties within the agricultural sector and reduced margins.

Net pre-tax profit for the year was \$9.6 million compared to \$19.1 million in 1996. This was generated on a turnover of \$973 million which represents an increase of 13.4% compared with \$858.7 million in 1996.

Earnings per share declined from \$0.39 in 1996 to \$0.16 in 1997. The net asset value of the Company's Ordinary Shares at December 1997 was \$7.05 compared to \$6.89 for 1996. Working capital increased to \$138.2 million from \$105.8 million in the previous year.

Dividends

Based on the financial results of the Group, the Directors do not recommend the payment of a dividend for 1997.

Hardware & Lumber Limited

The Hardware & Lumber Wholesale Division recorded an 11% increase in sales in 1997 over those achieved in 1996. Net profits were, however, flat.

This division continues to hold a strong position in the market. However, faced with intense competition and the erosion of margins consequent on the emergence of new local and foreign participants in the business, the Company implemented cost saving measures including reduction of its warehouse staff. While redundancy costs contributed to the depressed profit position in the year under review, it is expected that the benefits of this exercise will be derived in 1998.

Despite some improvement, inventory management has continued to present major challenges in a situation of tight liquidity and high interest rates. Further rationalization of the product range and volumes is being pursued as well as strong controls to deal decisively with the necessity to provide for excessive accounts receivable.

H&L True Value Limited

The Retail Division has responded positively to the new marketing thrust designed to establish the H&L True Value stores as the finest local entities for hardware and home improvement products.

All outlets in Kingston and Ocho Rios showed improvement. Sales for 1997 were 32% above those recorded in 1996 and there was a corresponding increase in net profits. Operational links with True Value International were further enhanced in 1997. This contributed to increased efficiencies in the ordering process and consequently, the range and depth of merchandise.

The process of updating the information technology systems for the division commenced during the period under review with completion set for March 1998. The new systems include sophisticated point-of-sale scanners which complement the enhanced customer service programme. The Management of the division was upgraded and considerable emphasis placed on training programmes for staff.

This division has a major role in the future development of the Group and to this

end, plans are being pursued to establish a major store by late 1998.

H&L Agri & Marine Company Limited

H&L Agri & Marine Company recorded a flat sales performance for 1997 as compared to 1996. This was reflective of such problems affecting the agricultural sector as high finance cost, drought and competition from imported produce.

Notwithstanding, H&L Agri & Marine will maintain its focus on branded products by securing supplier relationships with international leaders in technology relevant to the existing and emerging market opportunities.

Popular training programmes arranged by the Company with farmers and agricultural extension personnel will be further enhanced in order to provide strong technical support for the entire product range.

Office Services Limited

Office Services Limited recorded a 7% decline in sales for 1997 compared to 1996 and net profit similarly declined over the period.

The Partition Department which specialises in partitions, ceilings and floors for commercial interiors, experienced a 19% fall in sales in keeping with the low levels of activity in the construction sector. Substantial improvement in the industry is not expected in 1998.

The Office Maintenance and Scaffolding Departments recorded modest sales increases of 7% and 5% respectively for 1997 over 1996. Operational efficiencies have been increased in these departments and this should result in improvement in their profitability.

By offer letter to the minority shareholders, the Directors of Pan-Jamaican expressed the opinion that Hardware & Lumber required a strategic change in direction involving emphasis on retail sales, involvement of the company in real estate development and cost reductions through combining the Company's administrative functions as far as possible with those of Pan-Jamaican. These changes in direction were considered sufficiently profound and involving such risk as would be better implemented in a company under private ownership.

KPMG Peat Marwick was appointed to act as Financial Advisors to the Company in respect of the offer and sufficient information provided to allow shareholders to make an informed decision.

Consequent on the offer, Pan-Jamaican, already holders of a 58% stake in the Company, acquired an additional 11.4% of Hardware & Lumber shares. This was insufficient to take the Company private and effect the proposed restructuring of its core operations. The Directors of Hardware & Lumber will continue to examine optimum methods of ensuring that the Company continues to provide the quality goods and service which have made H&L a respected household name for over seventy years.

The relative stability in the exchange rate and the attainment of single digit inflation have contributed somewhat to the process of financial planning and market predictability in the short term. While there is clearly a deepening recession in the economy with the resultant difficulty in controlling receivables, we are optimistic that with further reductions in the interest rates to low and sustainable levels, investments can be induced with attendant growth in the economy.

In the months ahead, the H&L Group will be strategically focused on specific business sectors in recognition of shifting business trends and will seek optimum utilization of capital. The programme of increasing internal efficiencies, particularly relating to inventory control, accounts receivable, profit margins and operational costs will be further strengthened to improve the Group's profitability.

The Board wishes to express appreciation to the Management and staff for their contribution, as well as our customers and shareholders for their continued support during a challenging and difficult year.

Richard O. Byles, M.Sc.
Chairman

A. Anthony Holness, F.C.A., F.C.C.A.
Managing Director
