

## Hardware & Lumber Limited

### Stockholders' Report

The year ended December 2012 was characterized by challenging global and domestic economic conditions resulting in slow and low economic growth in Jamaica. The retail sector was negatively impacted by declining consumer confidence and constriction in spending power. Against that context, we are pleased to report a significant improvement in performance for the year under review during which the company realised profits before tax of \$100.5 million.

During the 2012/13 budget presentation, the Government of Jamaica announced a reduction in the corporate income tax rate for unregulated entities, from 33 1/3% to 25%, effective 1 January 2013. The change in the tax rate was signed into law on 28 December 2012 and as such has been applied in determining the amounts for deferred taxation in the financial statements. This change triggered a one-off, non-cash, tax expense of \$39.2 million to reduce the previously recorded deferred tax asset to reflect the new tax rate. Notwithstanding the unusual tax charge, net profit for the year was \$27.2 million, representing a 325% increase in earnings per share to \$0.34 compared to \$0.08 in the previous year. As a result of the improved performance the Board has approved a dividend of 12.5 cents per stock unit for the year ended December 31, 2012, being the first declaration in five years.

Total revenue was \$6,284.1 million representing a 3.8% increase over the previous year. Gross margins improved from 25.8% to 25.9% despite increased cost brought on by the ongoing devaluation of the Jamaican Dollar. This improved performance was delivered through improved product mix, more effective promotions as well as better margin and inventory management. All three reporting segments, Wholesale, Retail and Agriculture recorded improved results. The Retail and Agriculture segments delivered a 142.1% and 28.0% improvement in pre-tax profits respectively, while the losses in the Wholesale segment were reduced by 2.9%. It is significant to note the turnaround of the Retail segment which made an operational profit for the first time in over four years.

At the same time, we reduced total operational expenses by 1.8% to end the year at \$1,503.7 million. We continue to seek opportunities to improve operational efficiencies and processes and this will continue into the new financial year. The health of the company's balance sheet is improving even as we ensure that the assets are fully employed in our trading activities. We have mitigated our exposure to foreign exchange losses by converting all loans to Jamaican dollars. Focus on working capital management during the year has resulted in a reduction in inventory levels by 14.1% to end the year at \$1,107.8 million. Trade receivables and payables have declined by 5.1% and 4.7% to \$427 million and \$693.7 million respectively.

During the year, we restructured the executive leadership and other key teams to improve business decision making and to bring more focus to customer requirements. We also continued to invest in our employees through training and involvement in cross-functional teams to foster a culture of greater accountability and teamwork whilst improving execution. Our customers remain at the heart of all we do, and as such, we continued to invest in our stores to ensure that we provide a pleasurable shopping experience. Towards the end of the year the Rapid>True Value store in Mandeville was renovated, and our customers have responded favourably.

There is still much more to be accomplished as we embark on the year ahead. We will remain focused on achieving operational efficiencies in addition to strengthening our partnership with our suppliers, customers and other stakeholders.

We would like to thank all our team members for their commitment and energy in delivering the improved results. We also thank our customers, suppliers, shareholders and all other stakeholders for their continued support.



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Erwin Burton  
Chairman



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Andrea Coy  
Chief Executive Officer