

# Hardware and Lumber 1998

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## Statement from The Chairman & The Managing Director

The Hardware and Lumber Group recorded significant improvement in its performance for 1998, a year in which, despite measurable successes in maintaining exchange rate and price stability as well as the achievement of single digit inflation, economic output declined for the third consecutive year in the context of continued tight monetary policies and an international economy increasingly unfavourable to emerging markets.

In the prevailing business environment in which traditional approaches have proved inadequate in many sectors, our Group's operations during the year under review reflected a deliberate strategy to lay the foundation for future growth and profitability through substantial expansion of retail operations which had long played a secondary role to the Company's highly established wholesale supply to the construction industry.

Other divisions within the Group closely allied with the building and agricultural sectors reflected the vagaries of these markets as well as the challenges of fierce competition, high levels of accounts receivable and continued downward trend in expenditure levels in the economy as a whole. Nonetheless, with few exceptions, profitability in the respective divisions was maintained with targeted growth areas showing encouraging results in conditions of general economic malaise.

The Group achieved commendable pretax profits before extraordinary items of \$23.5 million when compared to \$9.6 million in 1997. This represents an increase of some 145%. Turnover increased to \$1,000 million, an increase of 2.8% compared to \$973 million for 1997.

Earnings per share increased to \$0.31 after extraordinary items, a 94% increase over earnings of \$0.16 in 1997. The net asset value of the Company's Ordinary Shares at December 1998 was \$7.36 compared to \$7.05 for 1997. Working capital decreased to \$122.9 million from \$138.8 million in the previous year, this being partly attributable to an increase in trade payables consequent on the opening of its H&L True Value Lane Plaza retail store.

The Group has embarked on substantial expansion of its retail operations as an important part of its five-year strategy for development and increased profitability. Total expenditure of \$75 million is slated for implementation of initial plans. As a consequence, and in consideration of continued high levels of accounts receivable, the Directors have recommended that no dividend be paid for the year 1998.

#### H&L TRUE VALUE LIMITED

Hardware and Lumber's visibility and capacity to improve its market share in the important retail sector were greatly facilitated by an aggressive programme of expansion and supporting marketing efforts under the highly regarded True Value label.

The division now comprises five outlets in Kingston and Ocho Rios all of which have reflected considerable efforts during 1998 to improve range, variety, consistency and optimum pricing of products. In addition, emphasis was placed on creating a strong image for the division, fully backed by staff training and customer service.

The largest and most modern of the retail stores located in the Lane Plaza, Constant Spring Road, opened with considerable public support in December 1998. With the completion of the second phase of construction of this store in the second quarter 1999, a total of 24,000 square feet will have been created, effectively doubling the Company's retail operations.

During the period under review, H&L True Value's turnover increased 14% above the previous year. The division's net profit was considerably better than in 1997 and augurs well for efforts to position these operations as a spearhead for future development of the Hardware & Lumber Group.

#### HARDWARE & LUMBER LIMITED

The wholesale division maintained profitability during a period of severe fallout in the hardware distribution sector and continuing dramatic decline in the construction sector. The division was able to achieve sales only marginally lower (5%) than in 1997.

The division benefited from the staff and other costs rationalization exercises implemented during 1997. However, the necessity to provide for doubtful debts had a negative impact on the profits of the division.

A determined effort was made to reduce inventories and receivables so as to provide the Group with cash to fund the retail expansion. As a result, inventory and accounts receivable were reduced by 32% and 27% respectively during 1998 with an attendant increase in cash and bank deposits from \$5 million to \$16.7 million over the period.

The challenges for the division are ongoing given fierce competition in a shrinking market with

slowing contractor business, particularly in respect to medium and large projects in the construction industry. Nonetheless, the wholesale business continues to provide the opportunity for reasonable profit on the basis of strong credit and inventory policies as well as stringent accounts receivable management.

#### H&L AGR AND MARINE COMPANY LIMITED

H&L Agri and Marine Company Limited achieved satisfactory results for 1998 with an 18% increase in sales over 1997.

The agricultural sector, however, continues to face uncertainties particularly in the sugar and banana industries as changing international regimes threaten traditional markets. The influx of agricultural produce has also had a negative effect in the small farming communities and by extension, usage of chemicals and other supplies to the sector.

The Company represents an impressive and growing list of products from highly reputable suppliers with emphasis on providing technological solutions to the sector. H&L Agri and Marine Company continues to enjoy the support of major user groups in the agricultural sector and will pursue opportunities to enhance the relationship with our suppliers, the farming community and relevant agencies, further boosting our product development programme.

#### OFFICE SERVICES LIMITED

The Partitioning Department of Office Services Limited, which has long served the interior construction needs of the commercial market, suffered a decline in sales in recent years consequent on the low levels of activity in the construction sector as a whole. With the continuing adverse conditions in the Department's aligned markets and consequent negative contribution to profits, a decision was taken to close the partition operations in May 1998.

The losses sustained by this Department, coupled with redundancy and other closure costs, resulted in a net loss for the company for 1998. Administrative overheads were, however, substantially reduced resulting in the remaining Departments, namely Office Maintenance and Scaffolding, being well positioned to provide a positive contribution to the Group's profitability.

#### GENERAL

The Jamaican economy continues in a state of stagnation notwithstanding the maintenance of a stable macroeconomic environment and specific measures by the Government to support growth.

The Hardware & Lumber Group, in common with players in the business sector generally, has had to come to terms with long-term economic changes attendant on continuing trade liberalization, a changing competitive environment and unprecedented declines in our primary market. The critical business activities

in retail and wholesale merchandising, agricultural supplies and office services will continue to be aggressively managed to provide optimal returns despite their various sectoral difficulties.

The Group also recognizes, however, that there are areas of opportunity within the economy and these will be fully exploited where they are in congruence with our strategic objectives. The targeted growth areas in retail operations will require substantial capital in order to achieve future quantum improvements in profitability for the Group. Initiatives to this end will be pursued vigorously based on the degree of success recorded to date in the execution of development plans for the company.

#### ACKNOWLEDGMENTS

During the period under review, Mr. Donald Phillipps retired as Managing Director of Office Services Limited after over thirty-five years of service to the company and its precursor companies within the Pan-Jamaican Group of which Hardware and Lumber is a subsidiary. We should like to acknowledge the substantial contribution of Mr. Phillipps to the development of the group over the years.

The Board wishes to express its gratitude to the Management and staff for the respective contributions to the performance of the companies during the review period and to our valued customers and shareholders for their continued support.

Richard O. Byles, M.Sc.  
Chairman

A. Anthony Holness, F.C.A, F.C.C.A.

Managing Director

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