



THE COMPANY

Harding Carpets Limited is the largest manufacturer of carpet in Canada, supplying retailers and the contract market from its own distribution centres. Products are marketed under three brand names - Harding Carpets, Seneca Carpets and Venture Carpets. Fully integrated, the Company spins, heat-sets and processes a complete range of carpet yarns. Tufting, dyeing and finishing carpet is performed at three manufacturing plants. Harding's capability places it among the largest carpet producers in North America, and its designers and engineers utilize the latest in spinning and colour technology. Their results are seen in domestic and commercial use across Canada and as well in countries to which Harding exports.

COVER:

The colours are so carefully blended in Glowing Shadows that they appear to ebb and flow - ever-changing. This fashionable Saxony has the superb pencil-point tuft definition of Harding's unique DYNA-SET process.

The Annual Meeting of shareholders will be held on January 28, 1980, at the Executive Offices of the Corporation, located at 35 Worcester Road, Rexdale, Ontario at 10:30 a.m.

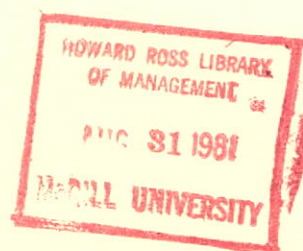
On peut obtenir un exemplaire en français de la lettre que le Président du Conseil et le Président ont adressée aux actionnaires en écrivant au Secrétaire de la Compagnie.

FINANCIAL HIGHLIGHTS

	Year Ended Oct. 31, 1979	Year Ended Oct. 31, 1978
SALES	\$76,456,438	\$73,709,914
LOSS BEFORE PREFERENCE DIVIDENDS AND EXTRAORDINARY ITEMS	(52,368)	(1,420,550)
PREFERENCE DIVIDENDS AND EXTRAORDINARY ITEMS:		
Preference Dividends	713,313	—
Gain (Loss) on sale of properties, less related taxes	(58,226)	505,152
LOSS FOR THE YEAR	(823,907)	(915,398)
Per Share	\$(.16)	\$(.18)
As a percentage of sales	(1.1)%	(1.2)%
As a percentage of capital employed ¹	(1.7)%	(.4)%
As a percentage of shareholders' equity ²	(4.1)%	(4.3)%
DIVIDENDS PAID ON CLASS A, B, C AND D SHARES	\$ —	\$.04
CAPITAL EXPENDITURES	1,584,975	1,693,670
WORKING CAPITAL	23,347,453	12,634,063
Ratio of current assets to current liabilities	2.5 to 1	1.5 to 1
SHARES OUTSTANDING		
Class A and Class B	3,542,720	3,508,550
Class C and Class D	1,612,472	1,612,472
Number of shareholders, 98% Canadian (1978 98%)	2,905	3,127
Salaries, wages and employee benefits	\$20,780,250	\$19,220,444
Number of employees (average)	1,421	1,457

¹ Net income as related to capital employed represents earnings adjusted for the net cost of interest on long-term debt and is calculated on total assets less current liabilities at beginning of year.

² Shareholders' equity at beginning of year.



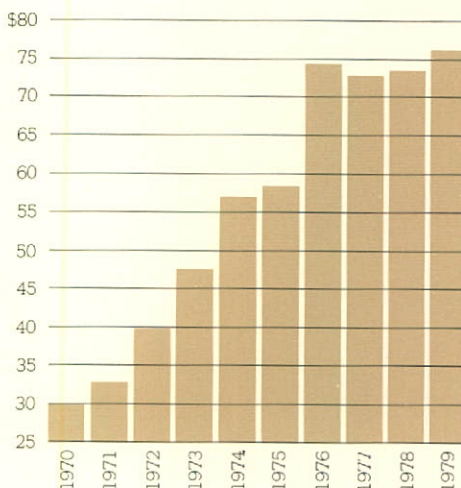
REPORT TO SHAREHOLDERS



Stanley R. Peszat and C. Malim Harding.

NET SALES

(expressed in millions of dollars)



The year 1979 was one of major progress in our plan to restore the Company to a profitable position. While operations for the year resulted in a loss, the operating improvement over 1978 was significant. With the exception of this year's second quarter when results were adversely affected by both a five-week strike at the Drummondville, Quebec plant and some fall-off in consumer demand, each quarter showed improvement over the preceding one.

In previous reports, we stressed the emphasis being placed on strengthening our product line and improving our distribution and marketing organizations. Many of these changes have now been implemented, and dealer reaction to our new carpet styles is most enthusiastic. The impact of these changes takes time. Substantial evidence of progress, however, can be seen in the results for the fourth quarter, when sales were higher than in any quarter in the Company's history and operations were profitable.

The past year saw continuation of many of Canada's economic problems with high interest rates, persistent inflation, high unemployment and some easing of consumer demand. These factors, together with rapidly rising prices for raw materials, many of which are petro-chemical based, presented challenges to the carpet industry. Costs were increased a number of times throughout the year and most were passed on by raising selling prices. Despite these adverse factors the Canadian carpet market exhibited growth in square yardage of about 5% over the previous year, with imports declining slightly. In 1980 we expect the industry to show modest growth in domestic shipments while export sales should continue to improve, given reasonable stability in international markets. These trends should contribute to a better operating level for the industry's manufacturing capacity in general.

Positive results are now being felt from the many changes made to rebuild the product line, reduce expenses, and improve liquidity through better control of inventory, receivables and

capital expenditures. The reorganization of a company inevitably creates difficulties and challenges. The success achieved this year would not have been possible without the positive attitude of our employees, for which we are indeed grateful.

While much more remains to be done, real progress was made in 1979. Performance has improved and we expect this trend to continue. Our Company is now in a much stronger position to meet the economic uncertainties that lie ahead. The first quarter of 1980 will be relatively weak, as is the usual pattern in the industry, although results should be better than last year. For the balance of 1980 we expect the Company will increase its market share and improve its earnings.

The Annual Meeting of Shareholders will be held on Monday, January 28, 1980, at 10:30 a.m. at the Corporation's Executive Offices, 35 Worcester Road, Rexdale, Ontario. We welcome this opportunity to meet with shareholders and review the affairs of the Corporation.

On behalf of the Board.

C.M. Harding

Chairman
December 14, 1979

[Signature]

President and
Chief Executive Officer

EARNINGS AND DIVIDENDS

(Per Class A, B, C and D)

Shares adjusted to reflect

Subdivision of shares February 13, 1973)

■ Earnings

■ Dividends

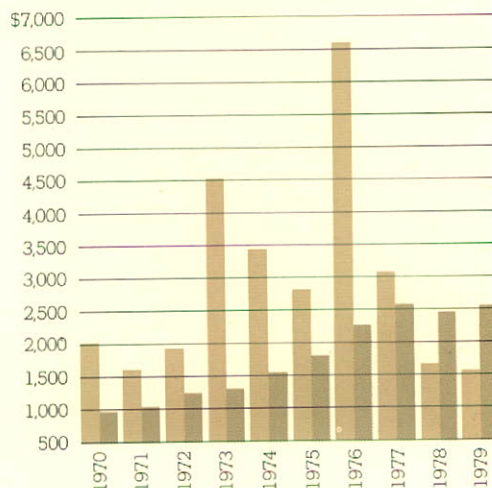


CAPITAL EXPENDITURES AND DEPRECIATION

(000's omitted)

■ Capital Expenditures

■ Depreciation

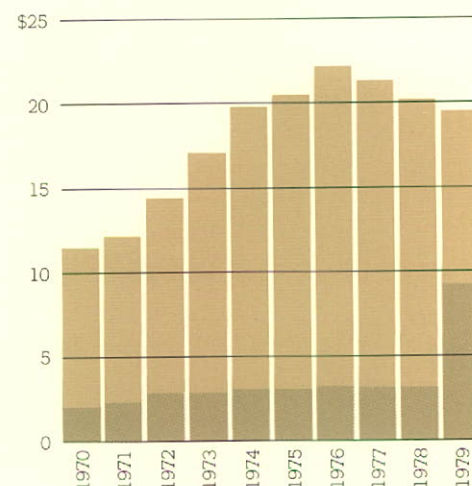


SHAREHOLDERS' EQUITY

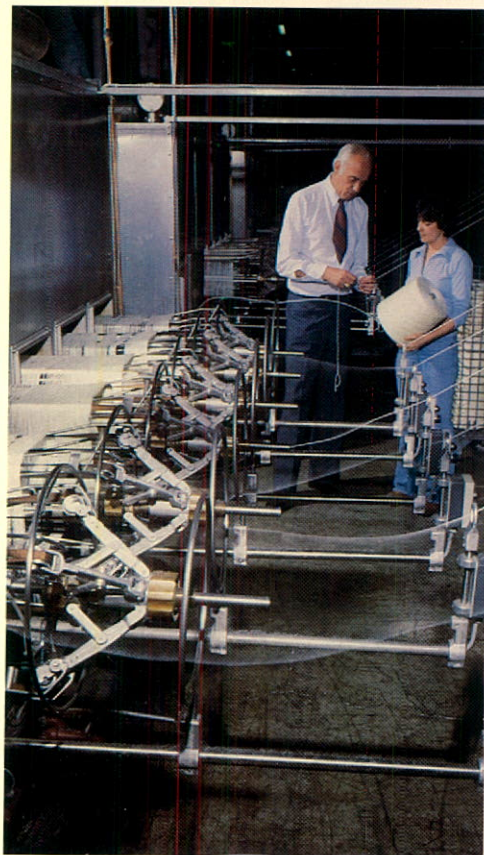
(expressed in millions of dollars)

■ Retained Earnings

■ Capital Stock



These charts reflect the Company's progress over the 10-year period ending October 31, 1979.



The dramatic styling of Vanessa (above top) with its blending of multi tones allows for a wide degree of decorating freedom and creativity. In many contemporary colourations, it has an attached high density rubber cushion which allows for ease of installation.

Philip L. Guit, Vice-President, Manufacturing (above), and operator Bonnie Twigger at Collingwood plant examine some of DYNASET yarn from Harding's new automatic yarn heat setting equipment.



Signet (right), produced in Harding's Design-Dyed print program, is suitable for the heaviest traffic areas of the home. The distinctive pattern and softly-shaded tones of colour provide a stylish base for decorating. The attached high density rubber cushion complements this versatile performer.

THE YEAR IN REVIEW

EARNINGS

For 1979 the loss from operations, after preference dividends of \$713,313, was \$765,681, compared with a loss in 1978 of \$1,420,550. The Company incurred an extraordinary loss in 1979 of \$58,226 from the sale of its Guelph property and this brought the final loss to \$823,907. In 1978 an extraordinary gain of \$505,152, arising from the sale of the Vancouver warehouse, reduced the loss for the year to \$915,398. The 1979 loss per share after preference dividends but before extraordinary items was 15¢, a noticeable improvement over the 28¢ loss in 1978. After extraordinary items the 1979 loss was 16¢ per share compared with 18¢ last year.

Gross profit margins, while still not satisfactory, showed some improvement over 1978. The Company was able to pass on the majority of the many raw material cost increases but there is little doubt that escalating costs depressed margins somewhat.

With stringent controls, selling, administrative and distribution expenses were below that of the previous year. Part of the improvement was due to a significant reduction in bad debts and administration has improved substantially in this area, a problem during 1978. The condition of accounts receivable in terms of days' sales outstanding and liquidity showed a marked improvement over the previous year.

Interest on long term debt decreased at a rate greater than usual as the proceeds from the sale of our Guelph property were used to reduce long term debt. The reduction in other interest costs is mainly due to the issue in December 1978 of \$12,000,000 of Floating Rate Term Preference Shares, which reduced current bank advances. This issue improved working capital and generated cash savings.

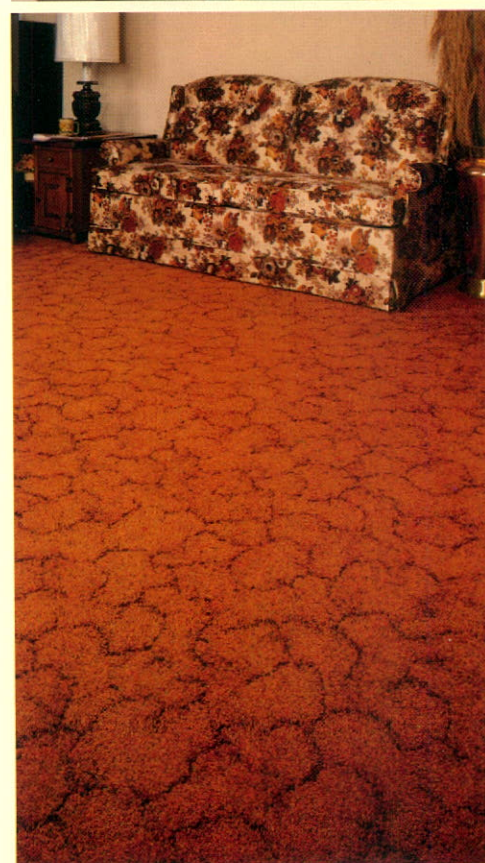
FINANCIAL RESOURCES

Inventories rose to \$18,595,413 compared with \$15,237,163 in 1978 and, while there was some increase in physical inventory, a large portion of the increase was due to rapidly rising raw material prices. Improved product management together with more effective inventory control and production planning resulted in improvement in inventory turns and a reduction in product obsolescence.

Working capital increased by \$10,713,390 primarily due to issue of the Term Preference Shares. Long term debt was reduced by \$1,810,000.

Fixed asset additions were held to an absolute minimum with the exception of equipment needed for new product styling and manufacturing efficiency. These amounted to \$1,584,975 for the year, the lowest level since 1970.

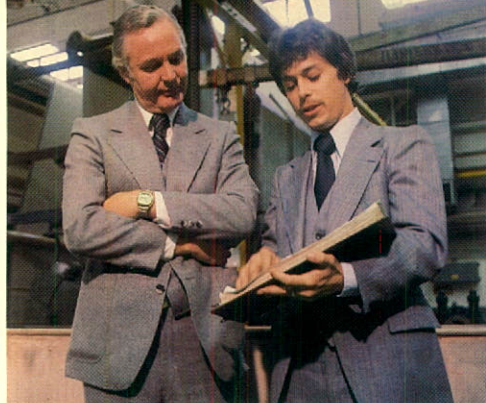
In addition to improving both our product line and marketing and distribution organizations, a major goal for 1979 was to improve working capital and strengthen the liquidity of our receivables and inventory. Improved inventory control and distribution management resulted in the identification of warehouse facilities surplus to our needs and our warehouse in the Braneida Industrial Park, Brantford, Ontario, has been offered for sale, as advised in the third quarter report. Subsequent to October 31, 1979 the Company entered into an agreement to sell its warehouse in Montreal which was larger than required for the foreseeable future, and has leased a new warehouse more suited to its needs. Proceeds as realized from the sale of these two properties will improve working capital and reduce overhead costs.



Sample print of a new design is produced by laboratory technician Michele Guz, watched by William D.L. Sherren, Vice-President, Styling and Product Development (above top).

Sun Isle (above centre) is available in eight contemporary colours. The 100% Nylon pile is continuous heat set to ensure excellent appearance retention - today's styling at a popular price point.

With background of product for Atlantic Provinces dealers, Norman J. Bell, Vice-President, Finance and Administration (above), examines order printout with Bill Yeomans, District Sales Manager - Atlantic Region.



Colin K. Thompson, Vice-President, Personnel and Industrial Relations (above top), checks loading charts for the Mitter rotary printer with Chris Mills, management trainee, who is a Harding-sponsored textile technology graduate of Mohawk College.

William C. McAllister, Vice-President, Marketing, Seneca Carpet Mills Division (above), reviews new design with designer Shelley Lippert.

Initiative (above right) is produced in Venture Carpets' new Solar Dye process which accents the unique flowing pattern. With 100% Nylon pile, it is available in twelve sunny colourations.

Endearment (near right), from Seneca Carpets, is a high quality solid colour Saxony plush in a range of 14 colours. It is continuous heat set to give it a pencil-point tuft definition which offers excellent appearance retention.

Fashion Flaire (far right) is a Seneca product with exciting cut and loop styling, continuous heat set yarn. A high density rubber-attached cushion makes it appealing to both the professional installer and the growing do-it-yourself market.



THE YEAR IN REVIEW

SALES AND MARKETING

Consolidated sales for the year were \$76,456,438, up 3.7% over the previous year. Yardage sold declined slightly from 1978. Some loss in volume was due to major changes to the product line and a change in emphasis away from select low margin carpet styles. These adjustments have now been made and were a major factor in the strong sales performance in the fourth quarter.

Our major selling organization, the Harding Division, was reorganized during 1979 into two separate groups, Harding Distribution and Harding National Accounts. Harding Distribution markets carpet to dealers across Canada through six Company distribution centres. During the year Mr. Paul D. Brown was appointed Vice-President, Marketing with primary responsibility for the Harding Distribution organization. The distribution function was further strengthened by the addition of new sales personnel, reorganization of customer service and merchandising departments, and a concentrated program to strengthen our dealer base. Major national retail accounts are now serviced by the Harding National Accounts group.

The Seneca Division, which sells to independent distributors, enjoyed a year of excellent growth. New distributors were appointed for the provinces of Ontario and Quebec and these made major contributions to this division's gain. With distribution channels now well established, and a new expanded product line, continued growth is expected.

Export sales continued to grow but this division has yet to reach its full potential. Australia continues to be our largest market but other areas such as the Middle East, Far East, United Kingdom and the Caribbean exhibited improvement in 1979. The sales organization has been expanded to develop new market areas.

We previously mentioned that, due to changes to strengthen both manufacturing and marketing at Venture Carpets, improved performance was anticipated. This recovery was impeded somewhat by a strike during March and April which resulted in substantial loss of business. Despite this, Venture's performance in the fourth quarter of 1979 improved significantly. Emphasis continues on product and marketing development and should enable Venture to continue the improved trend evident in the fourth quarter.

PRODUCT

Major emphasis was directed at rebuilding the product line and significant progress was made and confirmed by enthusiastic market acceptance of many new products. The product development group was strengthened and is now more aware of marketplace needs. New technology was introduced, particularly in the colour application area and this, together with the addition of new continuous heat setting equipment, has enabled us once again to establish industry leadership.

The Company has a wide variety of modern manufacturing equipment which permits considerable flexibility in developing new products for both the residential and commercial markets.

MANUFACTURING

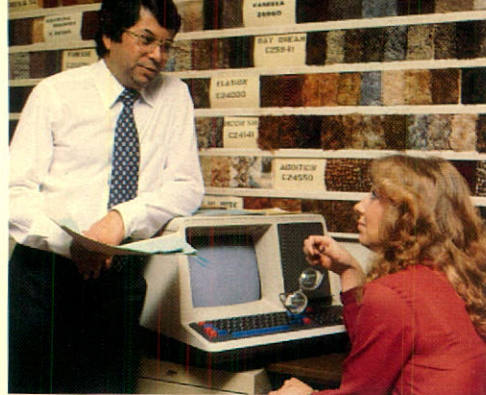
Capital expenditures during 1979 were mainly for equipment needed to maintain manufacturing efficiency and to allow the introduction of many new styling techniques. New continuous heat setting capacity was installed and additional units are on order for delivery early in the new year. Our spinning plant is now operating close to capacity and this is expected to continue into 1980.



René L. Germain, Executive Vice-President and General Manager, Venture Carpets of Canada Ltd. (above top), comments on dealer display materials at Venture showroom in Montreal.

Caribe (above) with its multi-coloured subtle pattern effect is produced with Venture's Space Colour process in nine different colourations. It is suitable for any room in the house.

THE YEAR IN REVIEW



Vice-President, Information Systems, Zafar Khan (above top) gives some pointers to Ditty DeBruyn, customer service clerk at the Rexdale Distribution Centre.

Paul D. Brown, Vice-President, Marketing, (above) checks progress of a major office building contract with Mike Platz, Contract Sales Manager. Custom quality product is styled to enhance open office design.

Throughout the year, emphasis was directed at improving quality control, increasing efficiency, and reducing costs. As a result of the many new processing techniques and carpet styles introduced, start up costs were higher than usual but are now returning to normal. Our manufacturing plants are among the most up to date in North America and have the capability of producing higher volumes without major equipment additions.

ADMINISTRATION

In September 1979, the Company's executive offices located in downtown Toronto were moved to our main distribution centre in Rexdale, Ontario. A number of functions now consolidated at this location have resulted in improved administrative efficiency and expense reduction. A new computer, scheduled for delivery early in 1980, will be located here. This computer will be linked directly to all distribution centres and manufacturing plants and a number of new systems are being developed with emphasis on customer service and inventory control.

PERSONNEL

The average number of employees for 1979 was 1,421 compared to 1,457 the previous year. Two union contracts were negotiated during the year, both for two-year periods covering employees at Collingwood, Ontario and Drummondville, Quebec. The contract covering our manufacturing employees in Brantford, Ontario expires in August of 1980.

CANADIAN MARKET Estimated

	Total Square Yards Canadian Market (000's)	Percentage of Total Supplied by Canadian Mills	Consumption in Square Yards			
			Canada		U.S.A.	
			Per Household	Per Capita	Per Household	Per Capita
1969	38,369	88.2	6.96	1.83	9.68	2.95
1970	38,766	90.0	6.87	1.82	10.21	3.13
1971	47,720	90.1	8.26	2.21	10.89	3.41
1972	65,358	89.2	10.70	3.00	13.31	4.25
1973	79,467	87.9	12.68	3.60	13.98	4.54
1974	87,995	86.6	13.55	3.92	12.51	4.13
1975	88,479	86.1	13.20	3.88	10.53	3.61
1976	92,223	86.3	13.33	4.01	11.89	4.03
1977	94,437	90.4	13.27	4.06	12.80	4.38
1978	92,792	93.4	12.68	3.95	13.30	4.58
% Increase 1969-1978	141.8	5.9	82.2	115.8	37.4	55.3

Exports & Automotive Carpet have been excluded. Adjustments from previous reports have been made in accordance with latest available information.

HARDING CARPETS LIMITED FINANCIAL REPORTS

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

	For the Year Ended Oct. 31, 1979	For the Year Ended Oct. 31, 1978
SALES	\$76,456,438	\$73,709,914
COST OF SALES	62,204,959	60,780,342
GROSS PROFIT FROM OPERATIONS	14,251,479	12,929,572
DEDUCT the following items:		
Selling, administrative and distribution expense	12,663,547	13,040,854
Interest on long-term debt	1,453,498	1,586,894
Other interest	634,802	1,380,974
	14,751,847	16,008,722
LOSS BEFORE TAXES AND OTHER ITEMS	(500,368)	(3,079,150)
INCOME TAXES (Note 9):		
Current	162,720	125,987
Deferred	(610,720)	(1,784,587)
	(448,000)	(1,658,600)
LOSS BEFORE PREFERENCE DIVIDENDS AND EXTRAORDINARY ITEMS	(52,368)	(1,420,550)
Preference Dividends	713,313	—
	(765,681)	(1,420,550)
EXTRAORDINARY ITEMS:		
Gain (loss) on sale of properties less related taxes of \$(167,000), 1978 - \$99,000	(58,226)	505,152
NET LOSS FOR THE YEAR APPLICABLE TO CLASS A, B, C AND D SHARES	(823,907)	(915,398)
RETAINED EARNINGS AT BEGINNING OF YEAR	16,972,382	18,092,202
	16,148,475	17,176,804
LESS:		
Capitalization of retained earnings (Note 6)	5,992,005	—
Dividends paid and related taxes thereon applicable to Class A, B, C and D shares	—	204,422
RETAINED EARNINGS AT END OF YEAR	\$10,156,470	\$16,972,382
LOSS PER SHARE:		
Before extraordinary items	\$(.15)	\$(.28)
After extraordinary items	\$(.16)	\$(.18)

CONSOLIDATED BALANCE SHEET

ASSETS	Oct. 31, 1979	Oct. 31, 1978
CURRENT:		
Accounts receivable, less allowance for doubtful accounts	\$19,166,200	\$19,698,573
Inventories (Notes 1(b) and 2)	18,595,413	15,237,163
Prepaid expenses	738,557	809,139
TOTAL CURRENT ASSETS	38,500,170	35,744,875
FIXED (Notes 1(c) and 3):		
Land, buildings and equipment	42,482,442	43,335,529
Less: Accumulated depreciation	18,093,996	16,906,476
	24,388,446	26,429,053
	\$62,888,616	\$62,173,928
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT:		
Bank advances	\$ 4,872,887	\$14,656,591
Accounts payable and accrued liabilities	9,308,655	7,539,202
Income taxes payable	81,175	—
Instalments on long-term debt due within one year	890,000	915,019
TOTAL CURRENT LIABILITIES	15,152,717	23,110,812
LONG-TERM DEBT (Note 4)	13,715,000	15,525,000
DEFERRED INCOME TAXES (Note 1(d))	2,581,777	3,359,497
TERM PREFERENCE SHARES (Note 5)	12,000,000	—
SHAREHOLDERS' EQUITY:		
Capital stock (Notes 6 and 7)	9,282,652	3,206,237
Retained earnings	10,156,470	16,972,382
	19,439,122	20,178,619
	\$62,888,616	\$62,173,928

Approved by the Board

C. M. Harding
Director

J. D. [Signature]
Director

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	For the Year Ended Oct. 31, 1979	For the Year Ended Oct. 31, 1978
FINANCIAL RESOURCES WERE PROVIDED BY:		
Operations —		
Loss for the year before preference dividends and extraordinary items	\$ (52,368)	\$ (1,420,550)
Charges (credits) not involving current funds —		
Depreciation	2,560,080	2,480,297
Deferred income taxes	(610,720)	(1,784,587)
	1,896,992	(724,840)
Issue of preference shares (Note 5)	12,000,000	—
Issue of Class A shares (Note 7)	84,410	26,320
Fixed asset disposals	1,065,502	608,041
Gain (loss) on sale of properties	(225,226)	604,152
	14,821,678	513,673
FINANCIAL RESOURCES WERE USED FOR:		
Expenditures on fixed assets	1,584,975	1,693,670
Preference dividends	713,313	—
Dividends paid, less related taxes applicable, on Class A, B, C and D shares	—	204,422
Reduction in long-term debt	1,810,000	915,015
	4,108,288	2,813,107
Increase (decrease) in working capital	10,713,390	(2,299,434)
Working capital at beginning of year	12,634,063	14,933,497
Working capital at end of year	\$23,347,453	\$12,634,063

NOTES TO FINANCIAL STATEMENTS

Year Ended Oct. 31, 1979

NOTE 1 - ACCOUNTING POLICIES:

(a) Principles of consolidation - The consolidated financial statements include the accounts of Harding Carpets Limited and its subsidiaries, all of which are wholly-owned.

(b) Inventories - Inventories of raw materials and goods in process are valued at the lower of cost and replacement cost and inventories of finished goods at the lower of cost and net realizable value.

(c) Fixed assets and depreciation - Fixed assets are stated at cost. Depreciation is computed by the straight-line method based on the estimated useful lives of the depreciable assets at rates of 2½% for buildings and 9% for machinery and equipment. Gains and losses on disposal of fixed assets are included in earnings and the costs and accumulated depreciation related to these assets are removed from the accounts.

(d) Income taxes - Deferred taxes arise as a result of claiming capital cost allowances for tax purposes in excess of depreciation recorded in the accounts. Federal tax credits are recognized as a reduction of income taxes when earned.

(e) Earnings per share - Earnings per Class A, B, C and D shares are calculated by dividing net loss less preference dividends by the weighted monthly average of the number of shares outstanding during the year.

NOTE 2 - CONSOLIDATED INVENTORIES:

	1979	1978
Raw materials	\$ 3,147,406	\$ 2,317,196
Goods in process	4,560,689	4,772,702
Finished goods	10,887,318	8,147,265
	<u>\$18,595,413</u>	<u>\$15,237,163</u>

NOTE 3 - CONSOLIDATED FIXED ASSETS:

	1979		1978	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	\$ 856,129	\$ —	\$ 862,384	\$ —
Buildings	15,096,368	3,491,206	16,048,953	3,573,589
Machinery and equipment	26,529,945	14,602,790	26,424,192	13,332,887
	<u>\$42,482,442</u>	<u>\$18,093,996</u>	<u>\$43,335,529</u>	<u>\$16,906,476</u>

NOTE 4 - LONG-TERM DEBT:

	1979	1978
(a) Secured by a floating charge in favour of the debenture holders.		
Series A, 6% 1984	\$ 1,600,000	\$ 1,900,000
The sinking fund requirements call for payments of \$200,000 per year, leaving a balance of \$800,000 due in 1984.		
Series B, 6-7/8% 1987	1,266,000	1,450,000
The sinking fund requirements call for payments of \$105,000 per year, leaving a balance of \$531,000 due in 1987.		
Series C, 8-5/8% 1992	2,306,000	2,575,000
The sinking fund requirements call for payments of \$125,000 per year through 1986 and \$155,000 per year from 1987 through 1991, leaving a balance of \$656,000 due in 1992.		
Series D, 10-1/4% 1994	4,781,000	5,310,000
The sinking fund requirements call for payments of \$230,000 per year through 1988 and \$290,000 per year from 1989 through 1993, leaving a balance of \$1,261,000 due in 1994.		
Series E, 11-3/8% 1994	4,572,000	5,080,000
The sinking fund requirements call for payments of \$210,000 per year through 1988 and \$265,000 per year from 1989 through 1993, leaving a balance of \$1,357,000 due in 1994.		
	<u>14,525,000</u>	<u>16,315,000</u>
The Trust Indentures underlying the outstanding debentures contain covenants which place limitations on the payment of dividends on Class A, B, C and D shares. There were no consolidated retained earnings free from restriction as of October 31, 1979. Elimination of this restriction will be dependent upon future earnings.		
(b) Long-term debt of subsidiary, Venture Carpets of Canada Ltd., secured by a first mortgage incurred prior to acquisition September 1, 1975, at an interest rate of 8% requires principal payments of \$20,000 in each of the years 1980 to 1983	80,000	125,019
	<u>14,605,000</u>	<u>16,440,019</u>
Less: Instalments due within one year	890,000	915,019
	<u>\$13,715,000</u>	<u>\$15,525,000</u>
(c) Long-term debt instalments in the aggregate of \$890,000 are payable in each of the years 1980 through 1983 and \$1,470,000 in 1984.		

NOTE 5 - TERM PREFERENCE SHARES:

Authorized —	Shares	Value
Preference shares with a par value of \$25.00 each, issuable in series	1,000,000	
Issued and outstanding —		
Series A preference shares	480,000	\$12,000,000

The Articles of Incorporation were restated and/or amended following shareholder approval on November 6, 1978 to provide for an increase in the authorized capital of the Corporation by creation of 1,000,000 preference shares with a par value of \$25.00 each, issuable in series.

During the year, the Corporation sold 480,000 Series A preference shares, with a par value of \$25.00 each, for \$12,000,000 to two Canadian banks. The Series A shares have a cumulative floating rate dividend equal to one-half of the bank's prime rate plus 1-3/8 percent. The shares must be redeemed by the Corporation at their par value plus all accrued and unpaid dividends by September 30, 1984 and may be redeemed by the Corporation on or after September 30, 1980 if certain conditions relating to source of funds are met.

The preference shares are non-voting except at meetings relating to the liquidation, winding up, or other distribution of the assets of the Corporation.

The preference share subscription agreement contains a number of restrictive covenants relating to the payment of dividends, shareholders' equity and working capital levels, working capital ratios and the general financial condition of the Corporation. In the event of default, the Corporation is required to provide security to the banks under Section 88 and an assignment of book debts.

NOTE 6 - CAPITAL STOCK:

Authorized —	Shares
Class A and Class B non-voting interconvertible shares without par value	6,000,000
Class C and Class D voting interconvertible shares without par value	2,999,000
Common shares without par value	1,000
	9,000,000

Issued and outstanding —

	Shares	1979 Value	Shares	1978 Value
Class A and Class B non-voting interconvertible shares without par value	3,542,720	\$6,285,343	3,508,550	\$2,095,520
Class C and Class D voting interconvertible shares without par value	1,612,472	2,997,309	1,612,472	1,110,717
	5,155,192	\$9,282,652	5,121,022	\$3,206,237

The Articles of Incorporation were restated and/or amended following shareholder approval on November 6, 1978 to provide for:

(i) Reclassification of the Class A and Class B shares with a par value of 16-2/3¢ each to shares without par value.

(ii) The capitalization of 1971 capital surplus on hand by a transfer of \$5,992,005 from retained earnings to paid-up capital relating to the issued and outstanding Class A, B, C and D shares. The provision relative to payment of dividends out of tax-paid undistributed surplus on hand and 1971 capital surplus on hand was deleted from the Articles of the Corporation and replaced by a provision to permit payment of stock dividends on Class B and Class D shares.

For income tax purposes the transfer of \$5,992,005 from retained earnings to paid-up capital was regarded as a deemed dividend of \$1.17 per share out of the 1971 capital surplus account.

The Valuation Day price for the Class A and Class B shares is \$4.83 and for Class C and Class D shares is \$4.96.

NOTE 7 - EMPLOYEES' STOCK OPTIONS:

Options for 34,170 Class A shares were exercised during the year ended October 31, 1979 for a cash consideration of \$84,410.

Options for 86,300 Class A shares and 12,000 Class C shares were granted to staff members during the year. Options outstanding as at October 31, 1979 were as follows:

Expiration date of options	Class A		Class C	
	Number of Shares	Option Price Per Share	Number of Shares	Option Price Per Share
November 3, 1980	67,230	\$2.35	2,600	\$2.50
June 2, 1981	17,000	3.15	—	—
June 2, 1982	17,000	3.15	—	—
June 2, 1983	16,000	3.15	—	—
November 3, 1981	71,350	2.745	12,000	2.385
	188,580		14,600	

Options outstanding as at October 31, 1979 do not vary significantly the diluted share earnings from reported share earnings.

NOTE 8 - PENSIONS:

In 1948, the Corporation introduced its Employees' Pension Plan. This Plan was integrated with the Canada Pension Plan and the Quebec Pension Plan in 1966. The Plan is contributory and the liability for past service is fully funded.

The Deferred Profit Sharing Plan was introduced in 1960. It is a trustee plan which is paid for completely by the Corporation and has to date been invested mainly in the shares of Harding Carpets Limited.

Since 1948, net pension and profit sharing contributions have been as follows:

	Company net contributions	Employee net contributions
Employees' Pension Plans	\$3,850,411	\$3,378,444
Canada Pension and Quebec Pension Plan	1,919,148	1,919,148
Deferred Profit Sharing Plan	527,402	—
	\$6,296,961	\$5,297,592

The cost to the Corporation of the Pension Plans in 1979 was \$636,974 (1978 - \$574,672 restated for comparative purposes). No contributions were made to the Deferred Profit Sharing Plan in either year.

NOTE 9 - INCOME TAXES:

Taxes for the year include a credit for the 3% Federal inventory allowance amounting to approximately \$205,000.

NOTE 10 - EVENTS SUBSEQUENT TO BALANCE SHEET DATE:

The Corporation has entered into an agreement to sell its warehouse facilities in Montreal for approximately \$650,000. The sale is to be executed on/or before March 31, 1980. The Corporation intends to lease more appropriate space elsewhere in Montreal.

AUDITORS' REPORT

TO THE SHAREHOLDERS OF HARDING CARPETS LIMITED:

We have examined the consolidated balance sheet of Harding Carpets Limited as at October 31, 1979 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at October 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.
Chartered Accountants

Toronto,
November 30, 1979

TEN YEAR FINANCIAL SUMMARY

(000's omitted)

Year Ended Oct. 31

	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970
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OPERATING RESULTS

SALES	\$76,456	\$73,710	\$73,034	\$74,573	\$58,748	\$57,339	\$47,683	\$40,076	\$32,967	\$30,035
Depreciation	2,560	2,480	2,583	2,284	1,816	1,566	1,311	1,253	1,053	957
Interest	2,088	2,968	2,963	2,674	1,580	1,422	876	761	836	888
Income before taxes	(501)	(3,079)	48	4,810	3,681	6,832	6,313	4,706	2,539	2,013
Income taxes	(448)	(1,659)	(212)	1,846	1,552	2,907	2,774	2,195	1,240	960
Preference Dividends	(713)	—	—	—	—	—	—	—	—	—
Extraordinary Income	(58)	505	—	—	—	—	—	—	—	—
NET INCOME ¹	\$ (824)	\$ (915)	\$ 260	\$ 2,964	\$ 2,129	\$ 3,925	\$ 3,539	\$ 2,511	\$ 1,299	\$ 1,053
Per share ²	\$ (.16)	\$ (.18)	\$.05	\$.58	\$.42	\$.77	\$.70	\$.50	\$.27	\$.22
As a percentage of sales	(1.1)%	(1.2)%	.4%	4.0%	3.6%	6.8%	7.4%	6.3%	3.9%	3.5%
As a percentage of capital employed	(1.7)%	(.4)%	2.7%	9.9%	7.5%	15.7%	15.2%	13.4%	7.4%	6.3%
As a percentage of shareholders' equity	(4.1)%	(4.3)%	1.2%	14.4%	10.8%	22.9%	24.5%	20.7%	11.4%	9.6%
DIVIDENDS PAID ON CLASS A, B, C AND D SHARES	\$ —	\$ 204	\$ 1,109	\$ 1,446	\$ 1,420	\$ 1,329	\$ 960	\$ 796	\$ 776	\$ 770
Per share ²	\$ —	\$.04	\$.22	\$.28	\$.28	\$.26	\$.19	\$.16	\$.16	\$.16

OTHER FINANCIAL DATA

Capital expenditures	\$ 1,585	\$ 1,694	\$ 3,092	\$ 6,616	\$ 2,822	\$ 3,447	\$ 4,534	\$ 1,923	\$ 1,624	\$ 2,025
Working capital	23,347	12,634	14,933	18,165	15,525	19,227	11,875	12,086	8,311	8,240
Ratio of current assets to current liabilities	2.5 to 1	1.5 to 1	1.7 to 1	1.8 to 1	1.7 to 1	2.7 to 1	1.9 to 1	2.5 to 1	1.7 to 1	1.7 to 1
Inventories	\$18,595	\$15,237	\$18,251	\$22,126	\$16,433	\$16,617	\$13,175	\$10,606	\$11,396	\$11,274
Fixed assets (net)	24,388	26,429	27,824	27,504	23,452	17,933	16,223	13,227	12,626	12,209
Long-term debt	13,715	15,525	16,440	17,430	13,134	13,215	7,645	8,075	5,791	6,312
SHAREHOLDERS' EQUITY	\$19,439	\$20,179	\$21,272	\$22,106	\$20,538	\$19,766	\$17,113	\$14,427	\$12,116	\$11,407
Shareholders' equity per share	3.78	3.94	4.16	4.33	4.03	3.89	3.38	2.86	2.48	2.37

¹ The net income for the years 1965 to 1973 has benefited under designated area legislation. For the years 1965 to 1967 taxation was reduced and from 1967 to 1973 income included grants for the Collingwood plant.

² Adjusted to reflect subdivision of each Class A and Class C share on February 13, 1973.

DIRECTORS

RALPH M. BARFORD
President

Valleydene Corporation Limited

J. DOUGLAS GIBSON, O.B.E.
Chairman of the Board
Consumers' Gas Company Limited

ANTHONY F. GRIFFITHS
President
Exmore Associates Limited

C. MALIM HARDING, O.B.E.
Chairman of the Board
Harding Carpets Limited

JOHN D. HARRISON, Q.C., M.B.E.
Partner
Harrison, Elwood

ALBERT F. KLINKHAMMER
Secretary-Treasurer
Harding Carpets Limited

FRANK D. LACE, D.S.O., O.B.E.
Vice-President and Director
A.E. Ames & Co. Ltd.

J. DONALD MINGAY, D.S.O., M.B.E.
Management Consultant

STANLEY R. PESZAT
President and Chief Executive
Officer
Harding Carpets Limited

WILLIAM H. YOUNG
President
The Hamilton Group Limited

OFFICERS

C. MALIM HARDING
Chairman of the Board

STANLEY R. PESZAT
President and Chief Executive
Officer

NORMAN J. BELL, C.A.
Vice-President, Finance and
Administration

PAUL D. BROWN
Vice-President, Marketing
Harding Division

PHILIP L. GUIT
Vice-President, Manufacturing

ZAFAR KHAN
Vice-President, Information
Systems

WILLIAM C. McALLISTER
Vice-President, Marketing
Seneca Carpet Mills Division

WILLIAM D.L. SHERREN
Vice-President, Styling and Product
Development

COLIN K. THOMPSON
Vice-President, Personnel and
Industrial Relations

ALBERT F. KLINKHAMMER
Secretary-Treasurer

VENTURE CARPETS OF CANADA LTD.
RENÉ L. GERMAIN, C.A.
Executive Vice-President and
General Manager

STOCK EXCHANGE LISTING
The Toronto Stock Exchange

TRANSFER AGENT AND REGISTRAR
Montreal Trust Company
Toronto, Montreal, Regina,
Calgary and Vancouver

BANKERS
The Royal Bank of Canada
The Toronto-Dominion Bank

SHAREHOLDERS' AUDITORS
Price Waterhouse & Co.

OFFICES

HEAD OFFICE
85 Morrell Street, Brantford,
Ontario N3T 5R3

EXECUTIVE AND MARKETING OFFICES
35 Worcester Road, Rexdale,
Ontario M9W 1K9

SENECA CARPET MILLS
35 Worcester Road, Rexdale,
Ontario M9W 1K9

VENTURE CARPETS OF CANADA LTD.
1600 Janelle Street,
Drummondville, Quebec J2B 6V6

AUSTRALIAN REPRESENTATIVE'S OFFICE
169 Miller Street, North Sydney,
N.S.W. 2060

MANUFACTURING AND DISTRIBUTION

MANUFACTURING FACILITIES
Brantford and Collingwood,
Ontario and Drummondville,
Quebec

HARDING OPERATED DISTRIBUTION
CENTRES
Vancouver - 4616 Canada Way,
North Burnaby, B.C. V5G 1K7

Calgary - 3030-9th Street,
S.E. Calgary, Alberta T2G 3B9

Winnipeg - 1555 Inkster Blvd.
Winnipeg, Manitoba R2X 1R2

Toronto - 35 Worcester Road
Rexdale, Ontario M9W 1K9

Montreal - 1475 Montee de Liesse,
St. Laurent, Quebec H4S 1J7

Moncton - 1220 St. George Blvd.,
Moncton, N.B. E1C 8R9

SENECA CARPET DISTRIBUTORS
Ontario - Melmart Distributors
Limited

Quebec - Distributeur Couvre-
Planchers Citadelle Inc.

Western provinces - Kennedy
Floorings Ltd.

VENTURE CARPET DISTRIBUTORS
Newfoundland - Steers Limited
- Steers, C.B.
(1978) Limited

Atlantic provinces - Imbrex-
Cassidy Ltd.

Quebec - Les Distributeurs
En Couvre-Planchers,
Richelieu (1978) Inc.

Ontario - Laing Carpet
Distributors Limited

Prairie provinces - Primco (PWL) Ltd.

British Columbia - Ocean II
Distributors
Limited

