



HARDING CARPETS LIMITED  
53rd Annual Report, October 31, 1980



## 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

- 7850 Trans Canada Highway  
St. Laurent, Quebec H4T 1A5

Moncton

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

### Seneca Carpets Distributors

Newfoundland

- Jackman Ryan Limited

Quebec

- Distributeur Couver-Planchers  
Citadelle Inc.

Ontario

- Melmart Distributors Limited

Western Provinces

- Kennedy Floorings Ltd.

### Venture Carpet Distributors

Newfoundland

- Steers Limited  
- Steers, C.B. (1978) Limited

Quebec

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

Ontario

- Laing Carpet Distributors Limited

Prairie Provinces

- Primco (PWL) Ltd.

British Columbia

- Ocean II Distributors Limited

### 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:

*Hallmark*, a very distinctive Saxony plush carpet of 100% Antron III nylon fibre. It represents the ultimate in carpet construction and design, available in 15 luxurious decorator colours.

The Annual and Special General Meeting of shareholders will be held on January 27, 1981, 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.



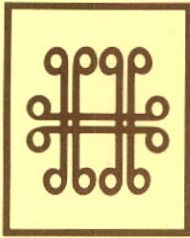
**HARDING  CARPETS**











Harding Carpets Limited  
35 Worcester Road  
Rexdale, Ontario  
M9W 1K9  
(416) 675-3640

## HARDING

### NEWS RELEASE

TORONTO (June 9, 1983 - 4:00 p.m. E.D.T.) C. Malim Harding, Chairman and William T. Bodenhamer, President and Chief Executive Officer of Harding Carpets Limited, jointly announced today that agreement had been reached with a group of Canadian institutional investors to sell to them a total of 3,200,000 unissued Class "C" shares and 1,000 unissued common shares in the capital stock of Harding Carpets Limited for the total consideration of \$3,681,150 cash. The transaction is subject to compliance with applicable securities legislation, approval by The Toronto Stock Exchange and compliance by the Corporation with certain conditions.

The new investors will also acquire an option to subscribe for an additional unissued 3,200,000 Class "C" shares at a price of \$1.15 per share if such option is exercised on or before May 31, 1984, or 95% of the net book value per share if exercised thereafter and prior to May 31, 1988.

Among the conditions is a requirement that Directors and senior management undertake to subscribe and pay for prior to September 30, 1983, not less than 200,000 and not more than 475,000 unissued Class "C" shares at a price of \$1.15 per share. Such Directors and members of senior management would acquire options to purchase an equal number of unissued Class "C" shares at a price of \$1.15 per share if exercised on or before May 31, 1984, or 95% of the net book value per share if exercised thereafter and prior to May 31, 1988.

The initial purchase of 3,200,000 unissued Class "C" shares and 1,000 unissued common shares represents approximately 54.8% of the total number of voting shares of Harding Carpets Limited that will be outstanding following completion of the transaction and thus represents control of the Corporation.

Mr. Bodenhamer stated "Harding Carpets Limited and the entire Canadian carpet manufacturing industry has gone through a difficult period. I believe that the investment of the additional capital is in the best interests of the Corporation, its shareholders, suppliers, customers and employees."

The new investors have requested three seats on the eight person Board of Directors of Harding Carpets Limited and two of the four seats on the Executive Committee of the Board. Mr. Harding as Chairman of the Board, Mr. W.T. Bodenhamer as President and Chief Executive Officer and other members of senior management will continue in their present positions.

Contact: Mr. A.F. Klinkhammer,  
Vice-President & Secretary-Treasurer.  
(416) 675-3640





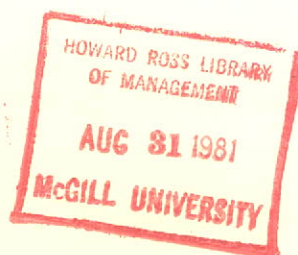


## HIGHLIGHTS

	For the Year ended October 31, 1980	For the Year ended October 31, 1979
<b>Sales</b>	<b>\$87,932,151</b>	<b>\$76,456,438</b>
<b>Income (Loss) before Preference Dividends and Extraordinary Item</b>	<b>(257,077)</b>	<b>(52,368)</b>
<b>Preference Dividends and Extraordinary Item:</b>		
Preference dividends	1,031,016	713,313
Gain (Loss) on sale of property, less related taxes	69,142	(58,226)
<b>Loss for the Year</b>	<b>(1,218,951)</b>	<b>(823,907)</b>
Per Share	\$ (.24)	\$ (.16)
As a percentage of sales	(1.4)%	(1.1)%
As a percentage of capital employed <sup>1</sup>	(1.6)%	(1.7)%
As a percentage of shareholders' equity <sup>2</sup>	(6.3)%	(4.1)%
<b>Capital Expenditures</b>	<b>1,237,738</b>	<b>1,584,975</b>
<b>Working Capital</b>	<b>24,272,749</b>	<b>23,347,453</b>
Ratio of current assets to current liabilities	2.1 to 1	2.5 to 1
<b>Shares Outstanding</b>		
Class A and Class B	3,550,920	3,542,720
Class C and Class D	1,612,472	1,612,472
Number of shareholders, 98% Canadian (1979 - 98%)	2,696	2,905
Salaries, wages and employee benefits	\$22,072,207	\$20,780,250
Number of employees (average)	1,333	1,421

<sup>1</sup> 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.

<sup>2</sup> Shareholders' equity at beginning of year.





## REPORT TO SHAREHOLDERS:



C. Malim Harding and  
Stanley R. Peszat

The year 1980 was a challenging one for both the Corporation and for the Canadian carpet industry in general. Total industry production for the 12 months ending December 31, 1980, expressed in square yards, is forecast to be down an unprecedented 12%, considerably below expectations. This reflects unsettled consumer demand both locally and in international markets.

High interest rates, a fall-off in new housing starts, and softer consumer demand, combined with rapidly rising raw material costs, most of which are petro-chemical based, are having a negative impact on the Canadian carpet industry. Some rationalization is taking place within the industry which should have a strengthening influence.

Our performance, although well below planned levels, continued to improve in a number of important areas. Our domestic market share increased consistently continuing a trend established in 1979. The product line continued to be strengthened and we now have a program balanced between residential and commercial styles. Information systems were upgraded and new computer based inventory controls are now being implemented. Accounts receivable and marketing data systems are also being upgraded and better results are being experienced. Progress has been made in improving operating efficiency, but further work remains to be done. A number of key personnel appointments were made during the year.

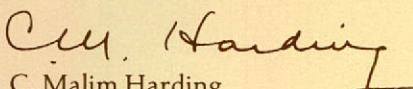
During an inflationary cycle the investment required to support inventories and accounts receivable increases as does the associated carrying cost. Management has full appreciation and concern for this factor and is giving it due attention.

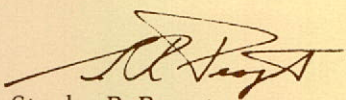
There are uncertainties about the year ahead. Forecasts indicate that demand for carpet will increase only marginally in 1981. Based on this assumption management will emphasize the reduction of operat-

ing costs. We have the necessary manufacturing and management capabilities. Assuming an improvement in the economy and stronger consumer demand, our operating results should be better in 1981.

The Annual Meeting of Shareholders will be held on Tuesday, January 27, 1981, at 10:30 a.m. at our Executive Offices, 35 Worcester Road, Rexdale, Ontario. We welcome this opportunity to meet with you to review the affairs of the Corporation.

On behalf of the Board,

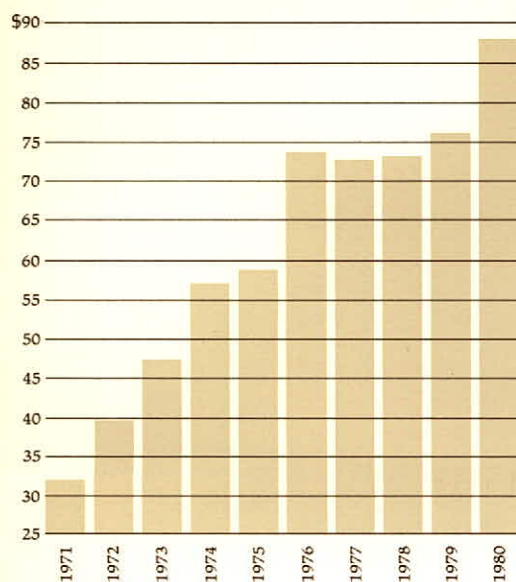
  
C. Malim Harding  
Chairman

  
Stanley R. Peszat  
President and  
Chief Executive Officer



# NET SALES

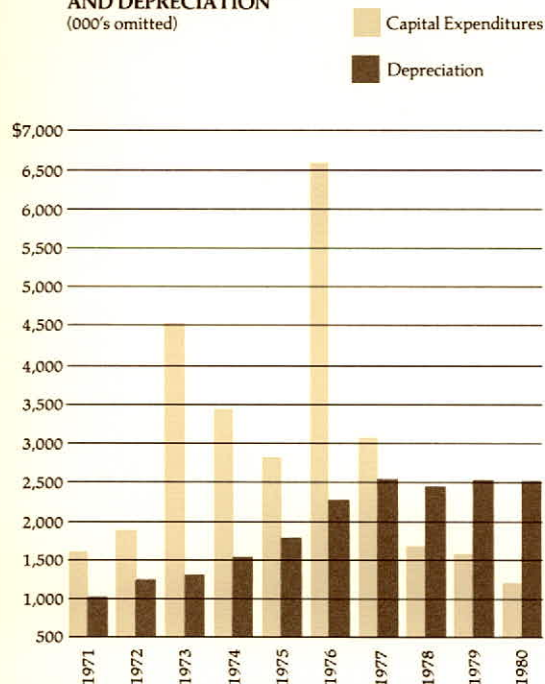
(expressed in millions of dollars)



# CAPITAL EXPENDITURES

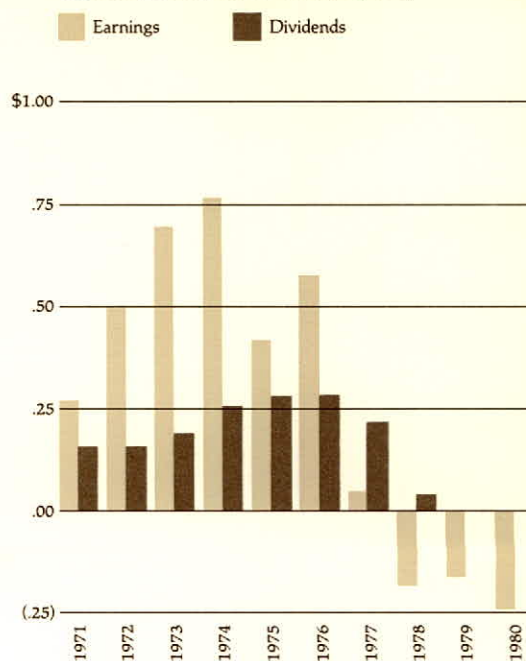
AND DEPRECIATION

(000's omitted)



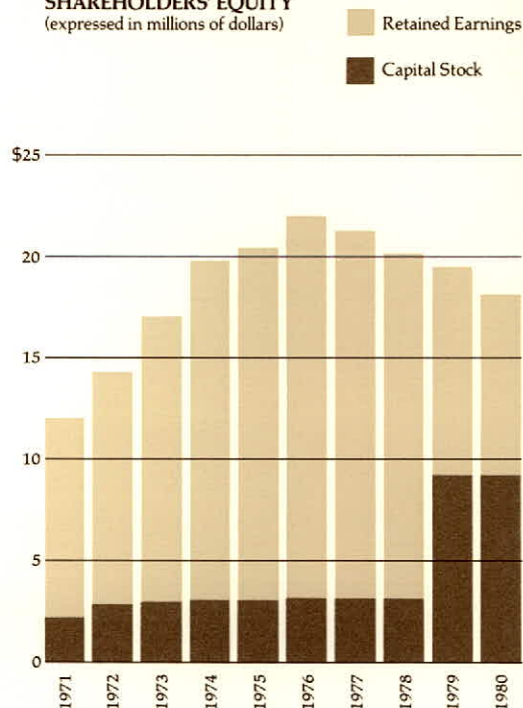
# EARNINGS AND DIVIDENDS

(Per Class A, B, C and D shares adjusted to reflect subdivision of shares February 13, 1973)



# SHAREHOLDERS' EQUITY

(expressed in millions of dollars)



These charts reflect the Corporation's progress over the 10-year period ending October 31, 1980.



## THE YEAR IN REVIEW

### Earnings

The operating loss for the year, after preference dividends and extraordinary items, amounted to \$1,218,951 or 24¢ per share. This compares to a loss of \$823,907 or 16¢ per share respectively for the prior year.

Most of our raw materials are petrochemical based and therefore were subject to frequent and extensive price increases. Selling prices to our customers were increased as raw material costs escalated. Gross margins of 18.4% were only slightly off from the 18.6% experienced in the prior year.

Interest payable on short-term borrowings and dividends payable on floating rate term preference shares were subject to higher rates during the year. The aggregate of these interest charges plus the interest payable on long-term debt, the rate of which remained unchanged, increased by \$638,429 or 22% over the prior year. The issue of floating rate term preference shares in December of 1978 has reduced the effect of increased borrowing costs and also resulted in considerable cash savings. As of the date of this review higher rates of interest are being regularly announced, presenting an ongoing concern to management.

Selling, administration and distribution expenses were higher due mainly to inflationary pressures and start-up costs associated with new carpet styles. As a percentage of sales such costs represented 16.5% in each of the past two years.

### Financial Resources

During the year a warehouse in Montreal, Quebec was sold for \$650,000. This warehouse was too large for our requirements and more appropriate space was leased in that community. A warehouse in Brantford, Ontario, identified in last year's report as surplus to our needs was sold for \$1,750,000. These sales resulted in cost savings and improved both our cash position and working capital.

Expenditures on fixed assets were subject to careful evaluation and control and amounted to \$1,237,738 down from \$1,584,975 in 1979. This was the lowest expenditure on fixed assets in the last 12 years, but was sufficient to maintain manufacturing efficiency. In 1981 these are not expected to exceed an estimated \$900,000. Working capital at the end of the year stood at \$24,272,749 an increase of \$925,296 over the prior year.

In December one of the plants operated by Venture Carpets of Canada Ltd. in Drummondville, Quebec, will be sold. Of the proceeds, \$760,000 will be applied to reduce long-term debt. The cost savings from the consolidation of facilities into one plant will have a positive effect on manufacturing costs of this subsidiary in the coming year.

The number of units in inventory remained little changed from the prior year. The dollar value of \$20,823,138, an increase of 12%, reflects the effects of inflation and the change in mix.

## QUARTERLY REVIEW

(thousands, except per share, quarterly data unaudited)

Quarter	Sales		Net Profit (Loss)		Per Share	
	1980	1979	1980	1979	1980	1979
1	\$19,440	\$16,708	\$ (392)	\$ (555)	\$ (.08)	\$ (.11)
2	19,640	16,648	(722)	(737)	(.14)	(.14)
3	21,469	18,656	(550)	(283)	(.11)	(.06)
4	27,383	24,444	445	751	.09	.15
<b>Total</b>	<b>\$87,932</b>	<b>\$76,456</b>	<b>\$ (1,219)</b>	<b>\$ (824)</b>	<b>\$ (.24)</b>	<b>\$ (.16)</b>





*Hampton Place*, a carpet designed specially for high traffic commercial use and for high-rise building corridors, superb resiliency with a fine velvet-like finish.



Accounts receivable increased 24% to \$23,708,675 from \$19,166,200 equally due to strong October sales and inflation. The provision for bad debts continues at an appropriate level.

The modernization and upgrading of management information systems and the new computer mentioned in last year's report are in place and operative. The computer and related software were leased over a six year period. These long-term leases were capitalized and the lease obligations were appropriately recorded on the balance sheet.

### Sales and Marketing

Industry shipments for the fiscal year were down significantly from the previous year whereas our shipments were down only slightly. We experienced a consistent increase in market share. The 15% increase in consolidated sales largely reflects the impact of inflation.

Significant improvement occurred in the Harding Division, our major selling division which sells to customers throughout Canada through six Corporation operated distribution centres. A stronger sales organization together with creative merchandising programs and better products contributed to the improvement. Harding carpets are featured in leading carpet specialty stores and major department stores.

A program continues to further strengthen the sales organization of Seneca Carpets and Venture Carpets, both of which sell primarily to independent distributors. New appointments were made in both divisions at the senior marketing level. The product range of both is also being strengthened. These divisions have well established distribution channels throughout Canada.

Sales to export markets met with competitive pressures primarily from United States manufacturers. Significant tariff increases occurred in Australia, our largest market, and resulted in loss of sales and noticeable market disruption as customers repositioned their buying programs. Sales to the United Kingdom increased and sales development continues in Europe, Japan and South East Asia.

### Product Development and Manufacturing

The product rebuilding program started earlier continued in 1980. This resulted in a much improved and balanced product line which has received excellent reception from customers. The product development organization was further strengthened during the year. New styling and finishing techniques were developed which have permitted the Corporation to maintain its leadership position in this important area.

Manufacturing is vertically integrated to a large degree with yarn spinning equipment, heat setting equipment, and some of the most sophisticated colour application equipment available.

Our plants are among the most up-to-date in Canada and have the capability of producing higher volumes without major equipment additions. Capital expenditures were mainly for equipment needed to maintain manufacturing efficiency and to allow introduction of new styling techniques.

Considerable effort was directed at quality improvement and to increasing manufacturing efficiency. Start-up costs associated with the large number of new introductions were, however, higher than anticipated. Progress has been made in this area and additional improvement is expected.

### CANADIAN MARKET Estimated

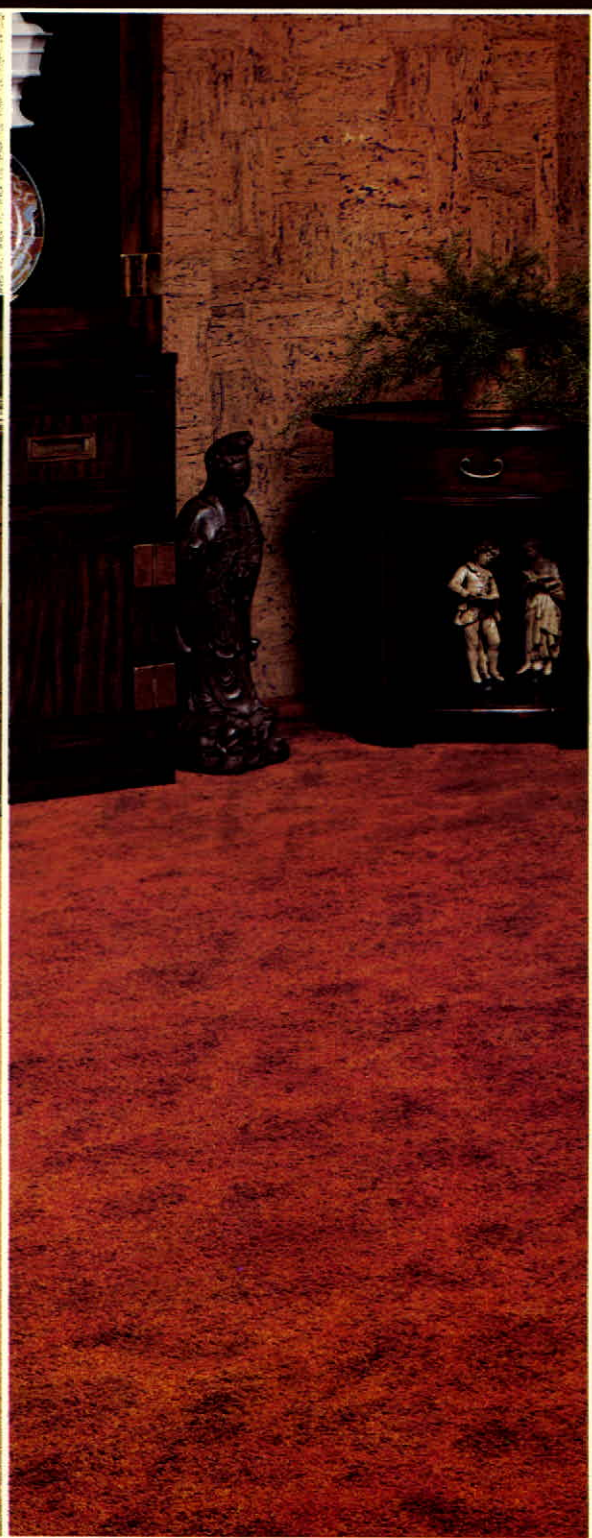
	Total Square Yds. Canadian Market (000's)	Percentage of Total Supplied by Canadian Mills	Consumption in Square Yards			
			Canada		U.S.A.	
			Per Household	Per Capita	Per Household	Per Capita
1970	38,766	90.0	6.87	1.82	10.21	3.13
1971	47,720	90.1	8.26	2.21	10.89	3.41
1972	65,358	89.2	10.70	3.00	13.31	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	91,631	86.2	13.25	3.99	11.89	4.03
1977	93,892	90.3	13.19	4.04	12.80	4.38
1978	93,362	93.4	12.75	3.98	13.30	4.58
1979	96,355	94.6	12.75	4.06	14.44	5.02
% Increase 1970-1979	148.6	5.1	85.6	123.1	41.4	60.4

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





*Special Event*, a rich pencil-point Saxony of 100% nylon in 13 fashion colours.



*Soft Lights*, a beautiful decorated Saxony made of 100% nylon which is continuously heat-set on the most modern equipment available providing lasting appearance retention.

**CONSOLIDATED  
STATEMENT OF INCOME AND  
RETAINED EARNINGS**

	For the Year ended October 31, 1980	For the Year ended October 31, 1979
<b>Sales</b>	<b>\$87,932,151</b>	<b>\$76,456,438</b>
<b>Cost of Sales</b>	<b>71,759,111</b>	<b>62,204,959</b>
<b>Gross Profit from Operations</b>	<b>16,173,040</b>	<b>14,251,479</b>
<b>Deduct the following items:</b>		
Selling, administrative and distribution expense	14,560,614	12,663,547
Interest on long-term debt	1,340,533	1,453,498
Other interest	1,068,493	634,802
	<b>16,969,640</b>	<b>14,751,847</b>
<b>Loss before Taxes and other items</b>	<b>(796,600)</b>	<b>(500,368)</b>
<b>Income Taxes (Note 10)</b>		
Current	180,622	162,720
Deferred	(720,145)	(610,720)
	<b>(539,523)</b>	<b>(448,000)</b>
<b>Loss before Preference Dividends and Extraordinary Items</b>	<b>(257,077)</b>	<b>(52,368)</b>
Preference dividends	1,031,016	713,313
	<b>(1,288,093)</b>	<b>(765,681)</b>
<b>Extraordinary Items:</b>		
Gain (loss) on sale of properties		
less related taxes of \$31,928 1979 - \$(167,000)	69,142	(58,226)
<b>Net Loss for the year applicable to Class A, B, C and D shares</b>	<b>(1,218,951)</b>	<b>(823,907)</b>
<b>Retained Earnings at beginning of year</b>	<b>10,156,470</b>	<b>16,972,382</b>
	<b>8,937,519</b>	<b>16,148,475</b>
<b>Less:</b>		
Capitalization of retained earnings	—	5,992,005
<b>Retained Earnings at end of year</b>	<b>\$ 8,937,519</b>	<b>\$10,156,470</b>
<b>Loss per Share:</b>		
Before extraordinary items	\$ (.25)	\$ (.15)
After extraordinary items	\$ (.24)	\$ (.16)

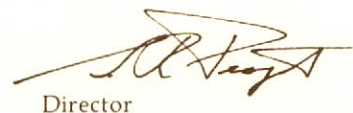


**CONSOLIDATED  
BALANCE SHEET**

	October 31, 1980	October 31, 1979
<b>ASSETS</b>		
<b>Current:</b>		
Accounts receivable, less allowance for doubtful accounts	\$23,708,675	\$19,166,200
Inventories (Note 2)	20,823,138	18,595,413
Prepaid expenses	1,183,228	738,557
<b>Total Current Assets</b>	<b>45,715,041</b>	<b>38,500,170</b>
<b>Fixed (Note 3)</b>		
Land, buildings and equipment	41,423,174	42,482,442
Less: Accumulated depreciation	20,073,794	18,093,996
	21,349,380	24,388,446
	<b>\$67,064,421</b>	<b>\$62,888,616</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current:</b>		
Bank advances	\$ 8,950,461	\$ 4,872,887
Accounts payable and accrued liabilities	11,488,680	9,308,655
Income taxes payable	113,151	81,175
Instalments on long-term debt due within one year	890,000	890,000
<b>Total Current Liabilities</b>	<b>21,442,292</b>	<b>15,152,171</b>
<b>Long-Term Debt (Note 5)</b>	<b>12,825,000</b>	<b>13,715,000</b>
<b>Obligations under Capitalized Leases (Note 4)</b>	<b>664,375</b>	<b>—</b>
<b>Deferred Income Taxes</b>	<b>1,893,560</b>	<b>2,581,777</b>
<b>Term Preference Shares (Note 6)</b>	<b>12,000,000</b>	<b>12,000,000</b>
<b>Shareholders' Equity:</b>		
Capital stock (Notes 7 and 8)	9,301,675	9,282,652
Retained earnings	8,937,519	10,156,470
	18,239,194	19,439,122
	<b>\$67,064,421</b>	<b>\$62,888,616</b>

Approved by the Board,

  
Director

  
Director

**CONSOLIDATED  
STATEMENT OF CHANGES  
IN FINANCIAL POSITION**

	<b>For the Year ended October 31, 1980</b>	<b>For the Year ended October 31, 1979</b>
<b>Financial Resources were provided by:</b>		
Operations –		
Loss for the year before preference dividends and extraordinary items	\$ (257,077)	\$ (52,368)
Charges (credits) not involving current funds –		
Depreciation	2,522,672	2,560,080
Deferred income taxes	(720,145)	(610,720)
	<b>1,545,450</b>	<b>1,896,992</b>
Issue of preference shares	—	12,000,000
Issue of Class A shares (Note 8)	19,023	84,410
Fixed asset disposals	2,542,017	1,065,502
Gain (loss) on sale of properties	101,070	(225,226)
Obligations under long-term leases	664,375	—
	<b>4,871,935</b>	<b>14,821,678</b>
<b>Financial Resources were used for:</b>		
Expenditures on fixed assets	1,237,738	1,584,975
Preference dividends	1,031,016	713,313
Reduction in long-term debt	890,000	1,810,000
Capitalized long-term leases	787,885	—
	<b>3,946,639</b>	<b>4,108,288</b>
Increase in working capital	925,296	10,713,390
Working capital at beginning of year	23,347,453	12,634,063
Working capital at end of year	<b>\$24,272,749</b>	<b>\$23,347,453</b>



## NOTES TO FINANCIAL STATEMENTS

Year ended October 31, 1980

### 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 average cost and replacement cost and inventories of finished goods at the lower of average 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.

(d) Equipment under Capitalized Leases – Leases of Computer equipment are classified as Capitalized Leases from inception. An asset and an obligation have been recorded for an amount equal to the fair value of the equipment at the beginning of such leases which are amortized over a six year period.

(e) 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.

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

### Note 2 – Inventories:

	1980	1979
Raw materials	\$ 2,486,752	\$ 3,147,406
Goods in process	6,180,889	4,560,689
Finished goods	12,155,497	10,887,318
	<b>\$20,823,138</b>	<b>\$18,595,413</b>

### Note 3 – Fixed Assets:

	1980		1979	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	\$ 397,167	\$ —	\$ 856,129	\$ —
Buildings	13,349,302	3,702,564	15,096,368	3,491,206
Machinery and Equipment	26,888,820	16,327,458	26,529,945	14,602,790
Equipment under capitalized leases	787,885	43,772	—	—
	<b>\$41,423,174</b>	<b>\$20,073,794</b>	<b>\$42,482,442</b>	<b>\$18,093,996</b>

### Note 4 – Obligations under Capitalized Leases:

Computer and Related Software	\$1,131,528
Less amount representing interest	380,675
	750,853
Less Current Portion	86,478
	<b>\$ 664,375</b>

The interest rate implicit in the lease is the bank's rate for banker's acceptances plus 1 3/4%. Principal and interest payments aggregating \$199,681 are payable in each of the years 1981 to 1985 and \$133,120 in 1986.

### Note 5 – Long Term Debt:

	1980	1979
(a) Secured by a floating charge in favour of the debenture holders.		
Series A, 6% 1984 The sinking fund requirements call for payments of \$200,000 per year, leaving a balance of \$800,000 due in 1984.	<b>\$1,400,000</b>	<b>\$1,600,000</b>
Series B, 6 7/8% 1987 The sinking fund requirements call for payments of \$105,000 per year leaving a balance of \$531,000 due in 1987.	<b>1,161,000</b>	<b>1,266,000</b>
Series C, 8 5/8% 1992 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.	<b>2,181,000</b>	<b>2,306,000</b>
Series D, 10 1/4% 1994 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.	<b>4,551,000</b>	<b>4,781,000</b>
Series E, 11 3/8% 1994 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.	<b>4,362,000</b>	<b>4,572,000</b>
	<b>13,655,000</b>	<b>14,525,000</b>

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, 1980. Elimination of this restriction will be dependent upon future earnings.

(b) 8% mortgage of a subsidiary payable \$20,000 per annum 1981 to 1983.

	60,000	80,000
	<b>13,715,000</b>	<b>14,605,000</b>
Less Instalments due within one year	890,000	890,000
	<b>\$12,825,000</b>	<b>\$13,715,000</b>

(c) Long-term debt instalments in the aggregate of \$890,000 are payable in each of the years 1981 through 1983, \$1,470,000 in 1984 and \$670,000 in 1985.



**Note 6 – 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 Series A shares held by two Canadian banks 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. While the Corporation is not able to meet certain of the tests under these covenants, such tests have been waived by the banks through January 31, 1981. 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 7 – 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	1980 Amount	Shares	1979 Amount
Class A and Class B non-voting interconvertible shares without par value	3,550,920	\$6,304,365	3,542,720	\$6,285,343
Class C and Class D voting interconvertible shares without par value	1,612,472	2,997,309	1,612,472	2,997,309
	5,163,392	\$9,301,674	5,155,192	\$9,282,652

**Note 8 – Employees' Stock Options:**

Options for 8,200 Class A shares were exercised during the year ended October 31, 1980 for a cash consideration of \$19,023.

Options for 128,950 Class A shares and 12,000 Class C shares were granted to staff members during the year. Options outstanding as at October 31, 1980 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	58,530	\$2.35	2,600	\$2.50
November 3, 1981	54,650	2.745	12,000	2.385
November 2, 1982	79,900	2.178	12,000	2.025
November 2, 1983	17,000	2.178	—	—
November 2, 1984	16,000	2.178	—	—
	226,080		26,600	

**Note 9 – 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	\$4,108,328	\$3,648,376
Canada Pension and Quebec Pension Plan	2,175,843	2,175,843
Deferred Profit Sharing Plan	528,202	—
	\$6,812,373	\$5,824,219

The cost to the Corporation of the Pension Plans in 1980 was \$514,612, (1979 – \$636,974). No contributions were made to the Deferred Profit Sharing Plan in either year.

**Note 10 – Income Taxes:**

At October 31, 1980, the Corporation has approximately \$500,000 of unrecorded investment tax credits available to reduce future income taxes payable. Such credits expire in the years 1981 to 1985.

**Note 11 – Segmented Information:**

The Corporation manufactures carpeting for both domestic and export markets. It sells these products together with related accessories through Corporation owned distribution centres and other distributors.

**Note 12 – Events Subsequent to Balance Sheet Date:**

A subsidiary of the Corporation has entered into an agreement to sell one of the manufacturing plants owned by it in Drummondville for approximately \$775,000. The sale is to be executed on or before December 31, 1980. The subsidiary intends to consolidate its manufacturing facilities in the remaining Drummondville plant. \$760,000 of the proceeds from the sale of the property will be applied to reduce long-term debt, \$700,000 in accordance with the terms of the Trust Indenture and \$60,000 to retire the Mortgage on the property. The Corporation will realize a gain of \$233,000 on the sale.



# TEN YEAR FINANCIAL SUMMARY (000's omitted)

Year ended October 31

	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971
<b>Operating Results</b>										
<b>Sales</b>	<b>\$87,932</b>	<b>\$76,456</b>	<b>\$73,710</b>	<b>\$73,034</b>	<b>\$74,573</b>	<b>\$58,748</b>	<b>\$57,339</b>	<b>\$47,683</b>	<b>\$40,076</b>	<b>\$32,967</b>
Depreciation	2,523	2,560	2,480	2,583	2,284	1,816	1,566	1,311	1,253	1,053
Interest	2,409	2,088	2,968	2,963	2,674	1,580	1,422	876	761	836
Income before taxes	(797)	(501)	(3,079)	48	4,810	3,681	6,832	6,313	4,706	2,539
Income taxes	(540)	(448)	(1,659)	(212)	1,846	1,552	2,907	2,774	2,195	1,240
Preference Dividends	(1,031)	(713)	—	—	—	—	—	—	—	—
Extraordinary Income	69	(58)	505	—	—	—	—	—	—	—
<b>Net Income</b>	<b>\$ (1,219)</b>	<b>\$ (824)</b>	<b>\$ (915)</b>	<b>\$ 260</b>	<b>\$ 2,964</b>	<b>\$ 2,129</b>	<b>\$ 3,925</b>	<b>\$ 3,539</b>	<b>\$ 2,511</b>	<b>\$ 1,299</b>
Per share	\$ (.24)	\$ (.16)	\$ (.18)	\$ .05	\$ .58	\$ .42	\$ .77	\$ .70	\$ .50	\$ .27
As a percentage of sales	(1.4)%	(1.1)%	(1.2)%	.4%	4.0%	3.6%	6.8%	7.4%	6.3%	3.9%
As a percentage of capital employed	(1.6)%	(1.7)%	(.4)%	2.7%	9.9%	7.5%	15.7%	15.2%	13.4%	7.4%
As a percentage of shareholders' equity	(6.3)%	(4.1)%	(4.3)%	1.2%	14.4%	10.8%	22.9%	24.5%	20.7%	11.4%
<b>Dividends Paid on Class A, B, C and D Shares</b>										
	\$ —	\$ —	\$ 204	\$ 1,109	\$ 1,446	\$ 1,420	\$ 1,329	\$ 960	\$ 796	\$ 776
Per share	\$ —	\$ —	\$ .04	\$ .22	\$ .28	\$ .28	\$ .26	\$ .19	\$ .16	\$ .16
<b>Other Financial Data</b>										
Capital expenditures	\$ 1,238	\$ 1,585	\$ 1,694	\$ 3,092	\$ 6,616	\$ 2,822	\$ 3,447	\$ 4,534	\$ 1,923	\$ 1,624
Working capital	24,273	23,347	12,634	14,933	18,165	15,525	19,227	11,875	12,086	8,311
Ratio of current assets to current liabilities	2.1 to 1	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
Inventories	\$20,823	\$18,595	\$15,237	\$18,251	\$22,126	\$16,433	\$16,617	\$13,175	\$10,606	\$11,396
Fixed assets (net)	21,349	24,388	26,429	27,824	27,504	23,452	17,933	16,223	13,227	12,626
Long-term debt	12,825	13,715	15,525	16,440	17,430	13,134	13,215	7,645	8,075	5,791
<b>Shareholders Equity</b>										
	\$18,239	\$19,439	\$20,179	\$21,272	\$22,106	\$20,538	\$19,766	\$17,113	\$14,427	\$12,116
Shareholders equity per share	\$ 3.53	\$ 3.78	\$ 3.94	\$ 4.16	\$ 4.33	\$ 4.03	\$ 3.89	\$ 3.38	\$ 2.86	\$ 2.48

## AUDITORS' REPORT

### To the Shareholders of Harding Carpets Limited:

We have examined the consolidated balance sheet of Harding Carpets Limited as at October 31, 1980 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, 1980 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, Ontario  
December 8, 1980





#### **DIRECTORS**

**Ralph M. Barford**  
President  
Valleydene Corporation Limited

**J. Douglas Gibson, O.B.E.**  
Corporate Director and  
Financial Consultant

**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

**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.**  
President  
Macgay Holdings Ltd.  
and 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

**Paul D. Brown**  
Vice-President, Marketing  
Harding Division

**Philip L. Guit**  
Vice-President, Manufacturing

**Zafar Khan**  
Vice-President, Information Systems

**James G. Mitchell**  
Vice-President,  
Finance and Administration

**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 Limited**  
**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**

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North Sydney, N.S.W. 2060