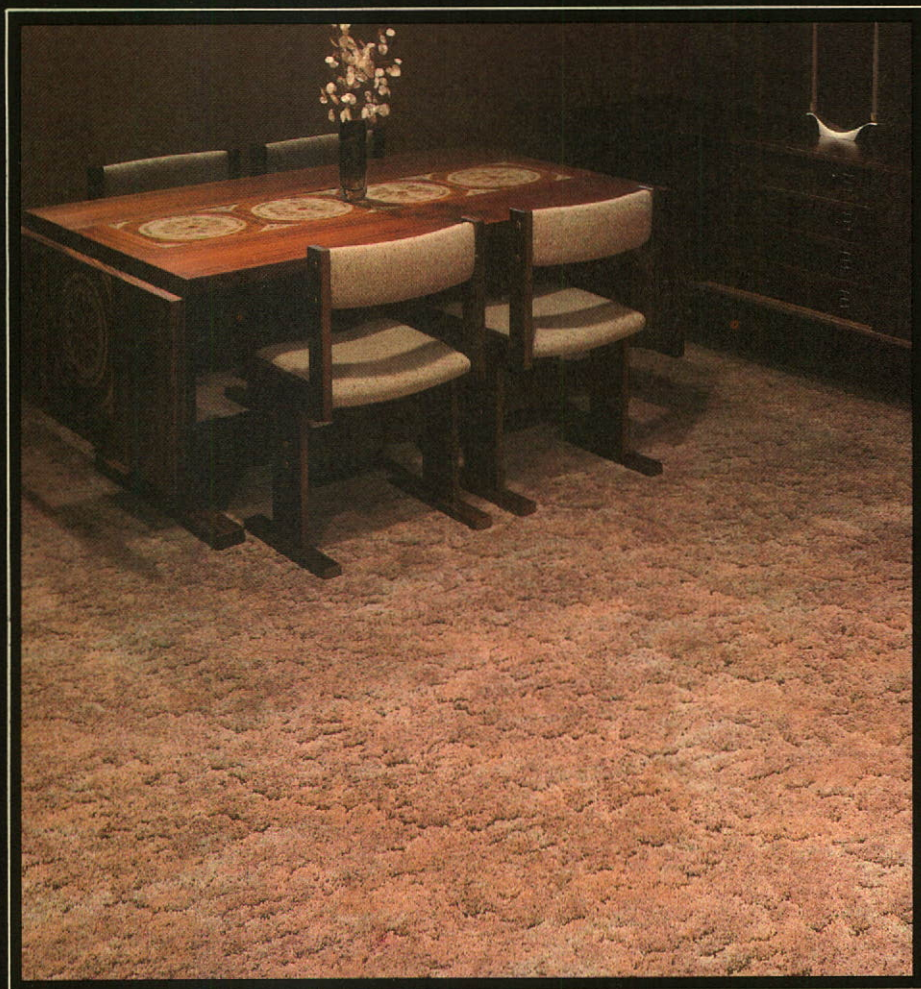
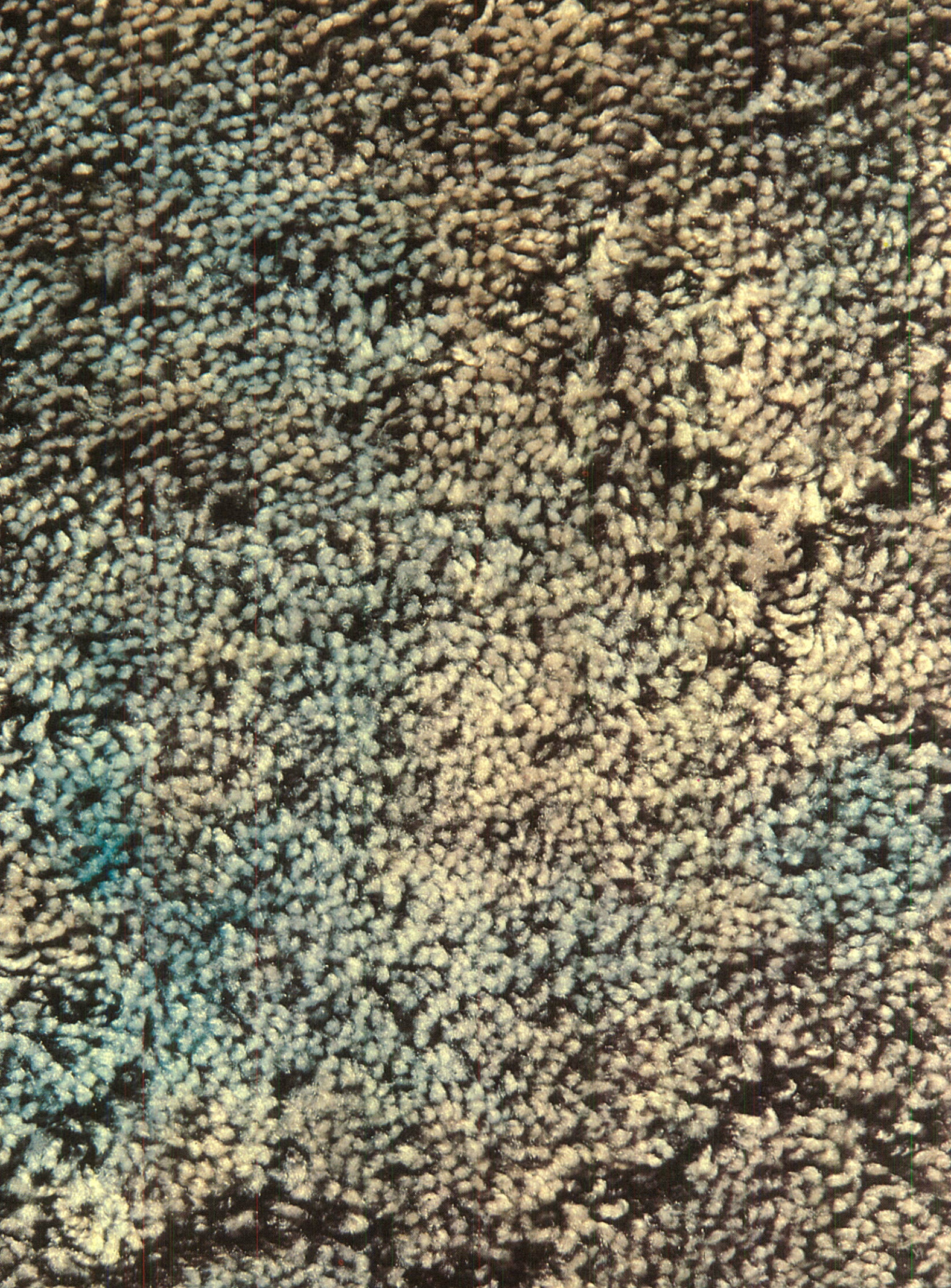

HARDING CARPETS LIMITED

51ST ANNUAL REPORT, OCTOBER 31, 1978





HIGHLIGHTS

	Year Ended October 31, 1978	Year Ended October 31, 1977
SALES	\$73,709,914	\$73,034,073
INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	(1,420,550)	260,130
EXTRAORDINARY ITEM:		
—Gain on sale of property, less related taxes	505,152	—
NET INCOME (LOSS) FOR THE YEAR	(915,398)	260,130
—Per Share	(.18)	.05
—As a percentage of sales	(1.2)%	.4%
—As a percentage of capital employed ¹	(.4)%	2.7%
—As a percentage of shareholders' equity ²	(4.5)%	1.2%
DIVIDENDS PAID TO SHAREHOLDERS	\$.04	\$.22
CAPITAL EXPENDITURES	1,693,670	3,091,523
WORKING CAPITAL	12,634,063	14,933,497
—Ratio of current assets to current liabilities	1.5 to 1	1.7 to 1
SHARES OUTSTANDING		
—Class A and Class B	3,508,550	3,497,350
—Class C and Class D	1,612,472	1,612,472
—Number of shareholders, 98% Canadian (1977 98%)	3,127	3,298
—Salaries, wages and employee benefits	\$19,220,444	\$18,871,970
—Number of employees (average)	1,457	1,542

¹Net 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.

²Shareholders' equity at beginning of year.

REPORT TO SHAREHOLDERS

Challenges faced the Company on a wide front as it entered its 51st year of operations. The lack of consumer confidence noted in 1977 persisted, while unemployment remained high. Inflation continued at a high rate and the resultant impact on discretionary income contributed to a reduced demand for carpet.

With no sign of any reversal in the weak carpet market, Harding intensified in fiscal 1978 the program of strict inventory control launched in late 1977. Manufacturing and distribution changes begun earlier were expanded and revisions to product lines were accelerated.

In a year with some major changes already underway, additional plans were implemented. Probably the most important were moves to restructure the organization, in order to strengthen both marketing effectiveness and administrative and financial controls.

At the close of the year these significant changes and improvements continued at a steady pace, building on the Company's traditional strengths - its people, equipment and reputation with customers and the financial community. An indication of progress was evident in the Fourth Quarter when operations were at slightly better than a break-even level.

INCOME AND DIVIDENDS

The Company's operations for 1978 resulted in a loss, after tax recovery, of \$1,420,550 compared with a net profit of \$260,130 in 1977. An extraordinary gain of \$505,152 arising from the sale of property reduced the net loss for the year to \$915,398. The loss per share from operations was 28¢ compared with a profit of 5¢ in the previous year and, after the extraordinary gain, the net loss in 1978 came to 18¢ per share.

The market was characterized by static demand and vigorous price competition. Selling prices were depressed during the year and it was difficult to raise prices



Senior management of Harding Carpets Limited from left, seated: D.F. Rowe, C.K. Thompson, S.R. Peszat, W.D.L. Sherren, C.M. Harding,

N.J. Bell, A.F. Klinkhammer; from left, standing: P.L. Guit, W.C. McAllister, J.G. Urquhart. Absent: R.L. Germain.

sufficiently to cover cost increases. As a consequence, gross margins were reduced significantly. Generally depressed conditions in the industry led to abnormal credit losses and the business failure of three major accounts imposed additional unforeseen expense.

Substantial costs were incurred due to the introduction of a wide range of new products, and the consequent need to clear out obsolete lines. The effect of the new products and a generally more aggressive marketing thrust was evident in the sales improvement in the Fourth Quarter.

Sales for the Fourth Quarter were \$21,580,562, up 8% over the same period in 1977 and 23.3% over the third quarter in 1978. The Company earned a modest profit of 2/10ths of a cent per share in the final quarter of 1978 compared to a loss of 10.1¢ in the previous quarter and a profit of 9.8¢ per share in the fourth quarter of 1977.

The extraordinary gain referred to earlier arose from the sale of the Vancouver distribution facility, which the Company now leases.

Dividends of 4¢ per share were paid in 1978, compared to 22¢ in 1977.

SALES

At \$73,709,914, sales showed a modest gain over 1977. Yardage

sold improved slightly in spite of what appears to be a relatively static Canadian market.

The Company enjoyed improved export sales, thanks in part to the reduced value of the Canadian dollar. The Harding name is becoming well known in foreign markets as far afield as Australia and the Middle East.

The Seneca Division experienced a difficult year, commencing with the bankruptcy of a major distributor as reported earlier. Major changes were effected with the appointment of new distributors for both Ontario and Quebec, and from this renewed base Seneca should in 1979 perform well above its 1978 levels.

To a major degree, Venture experienced in 1978 problems similar to those of Harding, which resulted in sales and earnings falling below the record levels of 1976 and 1977. As at Harding, changes were made in the organization in order to strengthen manufacturing as well as marketing effectiveness. New styling techniques were introduced which enhanced the product line, and new systems initiated to improve product planning. Now that the benefits of these changes are being felt, we anticipate continuing improved performance.

CARPET MARKET

Present indications are that the market for 1978 will be down about 3% from 1977. Although domestic shipments are unchanged from 1977, imports have declined by 33% for the first eight months, a trend which is expected to continue throughout 1978. Revised figures for 1976 show the Canadian carpet market increased by approximately 4% over 1975 and 1977 showed a further gain of 2%. Carpet continued its favourable price performance, with the price index at 126 by mid-year (1971 = 100) compared to household furniture at 184 and all manufacturing at 190. Following several years of little or no growth, we expect gradual improvement in the domestic market which, coupled with gains in Canadian export shipments, should result in better utilization of the industry's manufacturing capacity.

FINANCIAL RESOURCES

Capital expenditures of \$1,693,670 were primarily for yarn twisting equipment, needed in new product styling. Not only was this spending substantially lower than in the previous year, but it was well below original estimates due to stringent spending controls. Depreciation charges and proceeds from disposals were about \$3,600,000, substantially in excess of the current year's expenditures. Capital expenditures in 1979 are expected to be \$1,800,000 and will be confined to equipment necessary to maintain leadership in product styling. Expansion of the Rexdale offices is contemplated for 1979 in order to permit consolidation of executive and administrative functions now conducted at a number of locations. This will involve an additional capital outlay of about \$500,000 and will be contingent upon satisfactory earnings.

Inventories were reduced in 1978 by \$3,104,096, a drop of 16.5% from 1977, due in part to more effective inventory manage-

ment through improved production planning systems and reorganization.

Following the decision last year to close the Guelph spinning plant, the property was sold in December 1978 and the proceeds of approximately \$900,000 from buildings and equipment will be used to reduce long-term debt, as required under the terms of the trust indenture. No further property disposals are anticipated now that the Vancouver and Guelph sales are completed.

Subsequent to the end of the fiscal year, shareholders approved creation of 1,000,000 preference shares with a par value of \$25 per share. The Company consequently issued 480,000 Floating Rate Term Preference Shares for a total consideration of \$12,000,000, at a rate which management considers favourable. The proceeds were used to reduce current bank advances, effecting an improvement in the Company's working capital position and a substantial reduction in interest costs.

While working capital declined by \$2,299,434 in 1978, the steps taken to minimize investment in fixed assets and reduce current debt through the preferred share issue will prove beneficial. Improved liquidity is a key objective in 1979 and, to this end, strict controls are being maintained over inventory and receivables, while capital expenditures continue to be carefully evaluated.

PERSONNEL

The number of employees at year end was 1427 compared to 1543 the previous year. Significant economies were effected by reductions primarily in the number of salaried positions. Two union contracts were negotiated during the year. Two contracts expire in fiscal 1979 covering employees at Collingwood and Drummondville.

In a year of vigorous and sometimes uncomfortable transition,

employees have responded with enthusiasm to management, which in turn has taken special efforts to communicate an understanding of the reasons for the changes. The positive response and support of all employees, customers and suppliers is greatly appreciated.

At the end of January, 1978, Albert Davidson retired as President. During 28 years with the Company, Mr. Davidson made an outstanding contribution, including establishing the Company's own distribution system. C. Malim Harding served both as Chairman and President on an interim basis until the appointment in June of Stanley R. Peszat as President. Mr. Peszat brings the benefit of top management experience in the industry in Canada and the United States. The Directors have since elected him President and Chief Executive Officer. Mr. Harding continues as Chairman.


OUTLOOK

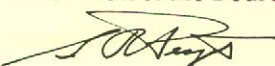
We view 1978 as having been a year to reorganize and revitalize your Company. Many changes involving every aspect of the business have been made. The program of planned improvements continues to be implemented, and has already had a positive impact. We now look forward to gradual improvement in market share and earnings throughout 1979.

ANNUAL MEETING

The Annual Meeting of Shareholders will be held on Friday, March 2, 1979, at 10:30 a.m. at the Corporation's office, 35 Worcester Road, Rexdale, Ontario. We welcome this opportunity to meet with shareholders and discuss the affairs of the Company.

On behalf of the Board,


Chairman of the Board



President and Chief Executive Officer
December 12, 1978

DESIGN FOR STYLE

Harding Carpets has traditionally prided itself on its ability to produce carpet of the highest quality, rich in colour and luxurious in texture.

Working with the newest concepts in carpet-making technology, Harding's design team is embarking on new directions in styling leadership.

Effects are now being achieved that add subtlety – effects that can be both lustrous and muted at the same time, elegant yet expressing all the warmth of natural colours and earth tones.

As an example of colour trends, the basic oranges and browns of previous years have given way to a whole spectrum of natural tones that represent a skilful blending of a number of different colourings.

The design or pattern, at one time a predominant feature in finished carpet, now functions to back up the colour distribution and to enhance the overall look in interior decor.

The combination of all these factors has resulted in exciting, high fashion carpets which are setting new style trends and are satisfying a wide range of home fashion tastes.

Commercial carpet also continues to play an important role in the Company's product leadership and new Harding styles can be found in contemporary office buildings and institutions across Canada.

SOFTER, MORE ELEGANT AND MUTED COLOURS



Harding's Dyna-Colour program is directed by William D.L. Sherren, left, Vice-President, Styling and

Product Development, discussing new designs with Dave Jarvie, Head Stylist.



Multi-colour effects are obtained by the unique Solar Dye process at Venture Carpets. Barry Husk is Product Manager.



The quiet pattern of Brookside by Seneca Carpets makes it suitable for use in many areas of the home. A range of six up-to-date colourations is available.

Silhouette is a Harding tracery saxony of 100% Dyna-Set acrylic fibre and is available in 12 colourations.



MARKETING STYLE

Buying carpet means a major decision that often sets the fashion for an entire home.

To help customers with their decision-making, Harding dealers use a variety of means to demonstrate the Company's products. One is the sample book which allows the customer to handle samples conveniently and compare different colour tones. Another is a high quality litho-print showing the actual carpet in a room setting. Special labelling, too, is important in conveying the outstanding features of each line.

To launch its 1978 program, Harding introduced The Harding Touch, expressing a philosophy of excellence and design leadership as much as conveying the feel of the newest trendsetters.

Two trade marks also introduced to Harding customers during the year were Dyna-Color, representing an exciting new approach to multi-colour application, in a full range of effects from subtle to bold, and Dyna-Set, highlighting superbly tailored surfaces in both solid tones and subtle multi-colours.

For 1978 Venture Carpets introduced the Solar Dye trade mark to distinguish products made with an entirely new yarn dyeing process. New silky-pile products were launched in the Seneca Division under the label Luminescence.

The excitement of new product introductions is conveyed to dealers and fine specialty stores in person by sales representatives thoroughly briefed on all technical aspects and selling features.

News note: Leading Harding's introductions for 1979 are the prestigious products of the Cameo Collection, a superior range of high style carpets.

COMMUNICATIONS WITH CUSTOMERS



President Stan Peszat discusses carpet qualities and consumer preferences with sales representatives in

the field. The Company has strengthened its market effectiveness.



Shoppers examine carpet samples with attractive new labelling. Consumers will benefit in 1979 from Harding participation in a Canadian Carpet Institute labelling information program.



The eye-catching Harding Touch sign is a persuasive invitation to "add The Harding Touch to your home." (Next page, top) The Luminescence label on these samples of Caressable carpeting by Seneca identifies the high lustre and silky touch of the pile. (Next page, bottom) Venture Carpets' Enchanté is an entirely new line of cut and loop carpet for the home.

EXPORT MARKET



These container loads from Harding represent the largest single shipment to Australia of North American manufactured carpet. Export sales during the year were up in all markets.

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
1968	31,193	87.4	5.78	1.51	8.60	2.59
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	94,308	90.4	13.43	4.05	12.80	4.38
% Increase (Decrease) 1968-1977	202.3	3.4	132.4	168.2	48.8	69.1

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

TECHNOLOGY FOR STYLE

Many different advanced processes are made to work together to produce, in finely-controlled conditions, the luxurious, rich-toned appearance sought by style-conscious consumers.

The technology that Harding Carpets is applying in the creation of new, market-leading carpet fashions is evident in two important manufacturing operations – processing of yarns and controlled application of colour.

New yarn processing systems have enabled the Company to bring to market carpets with tailored surfaces that in turn enhance colour and the general appearance of the finished product. These products are marketed as the Dyna-Set series.

The latest technology for colour blending allows Harding to achieve a variety of multi-colour effects by subtle blending and layering, producing a new iridescent, frosty look. Carpet manufactured in this way is labelled Dyna-Colour.

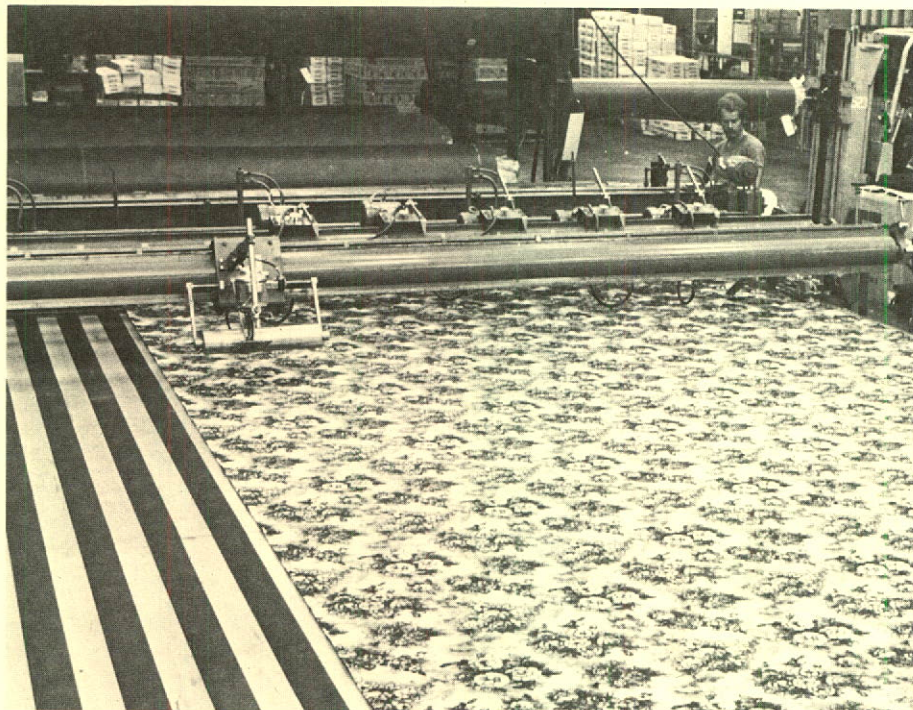
Complexities of the colouring process demand meticulous research, testing and quality control. All three functions are performed by skilled staff with a thoroughness that is traditional at Harding Carpets.

EMPHASIS ON DISTRIBUTION



The Company's distribution centre at Rexdale, Ontario serves both

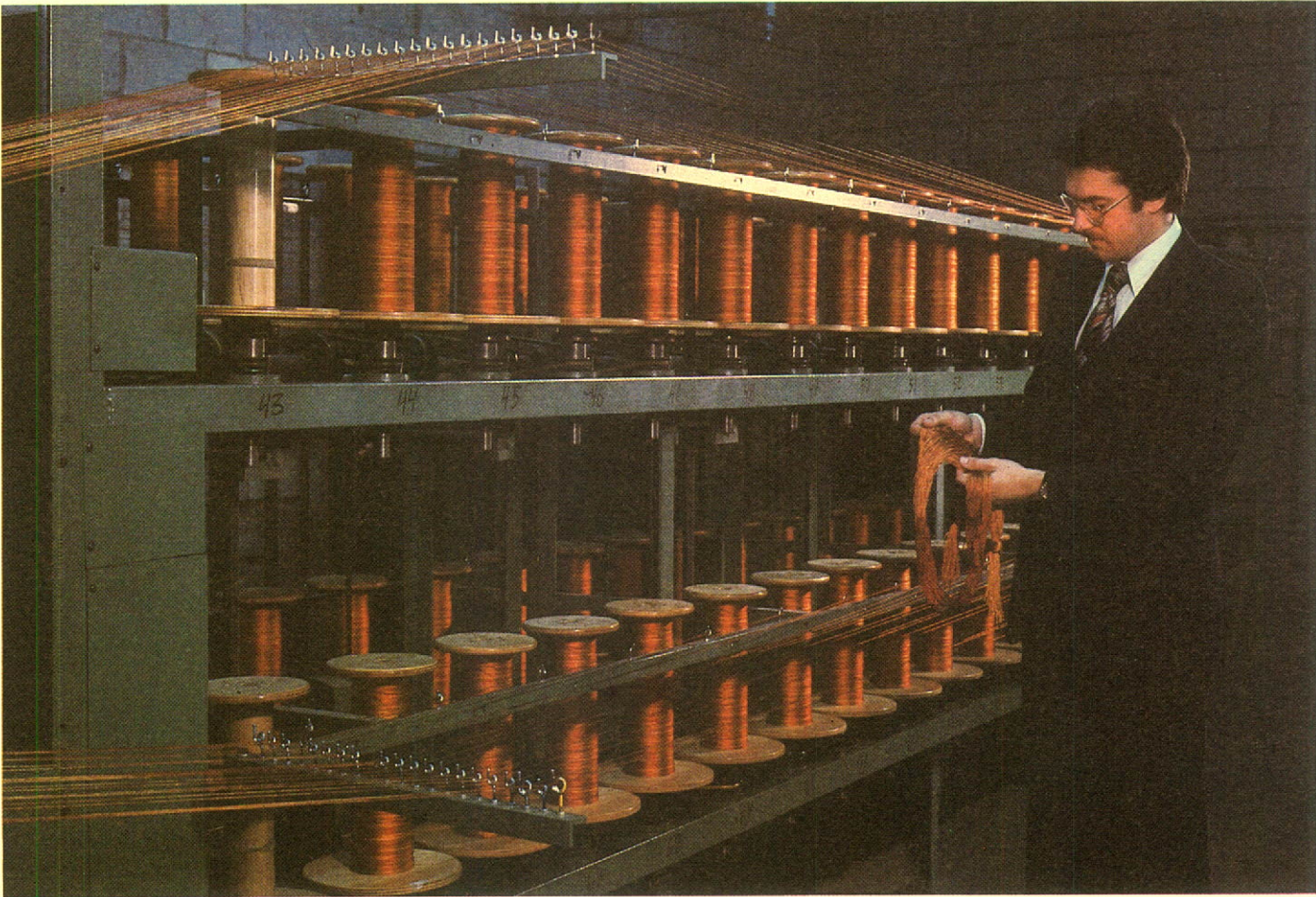
Ontario and Quebec markets.



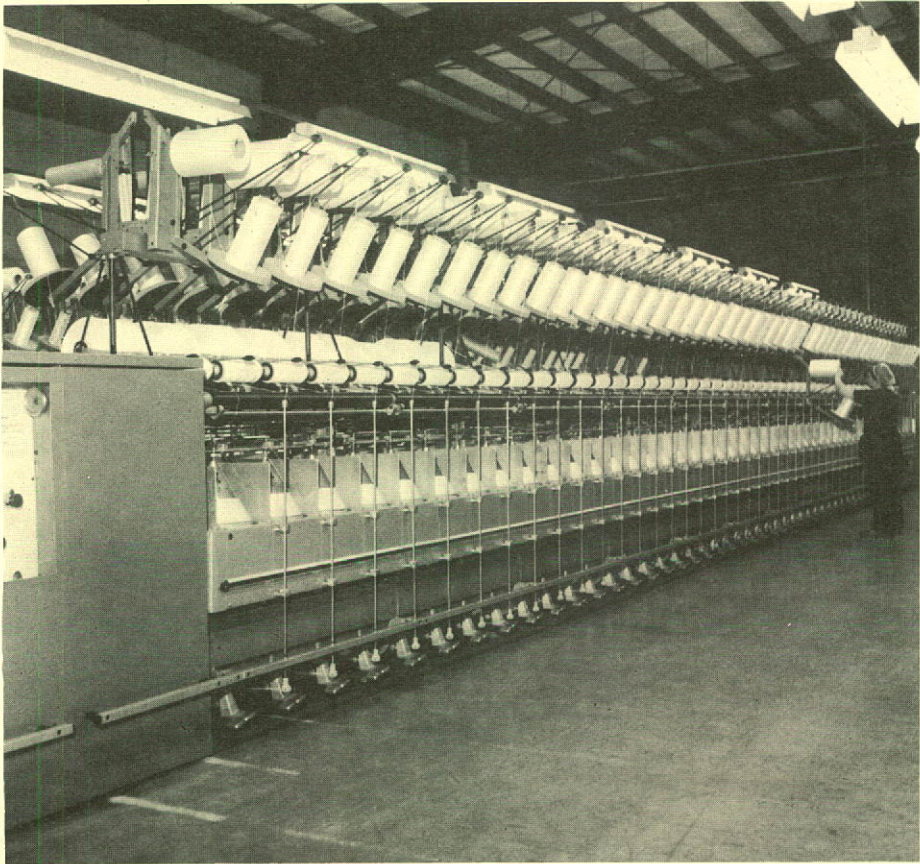
This automatic carpet cutter is in continuous use at the Rexdale centre,

cutting lengths to fill customer orders.

NEW EQUIPMENT



(Above) This new Solar Dye process equipment at the Venture Carpets plant applies colour to a woven continuous fabric of yarn, which is then dyed in a variety of colour combinations and patterns. The multi-coloured yarn is tufted into a range of carpet of distinctive appearance.

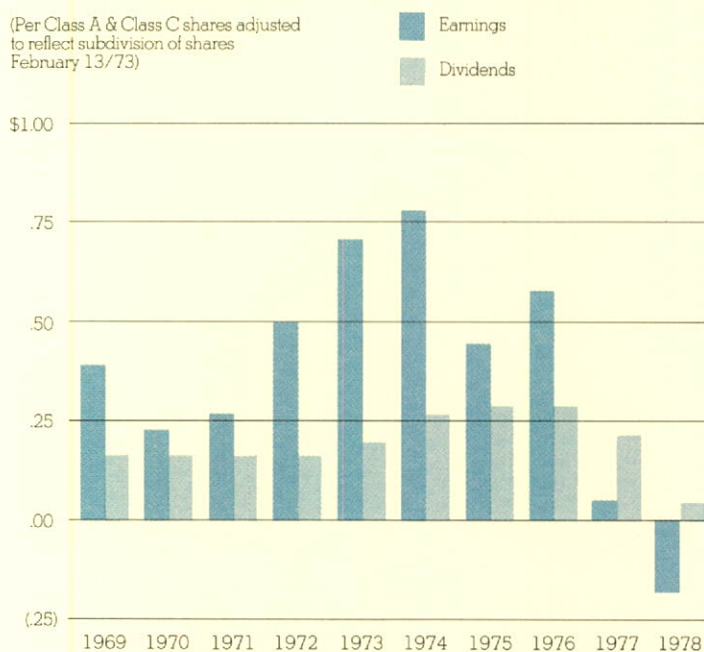


(Left) Newest equipment at the Company's Collingwood plant is this machine which takes single filament yarn, then twists it and plies it ready for tufting.

KEY INDICATORS

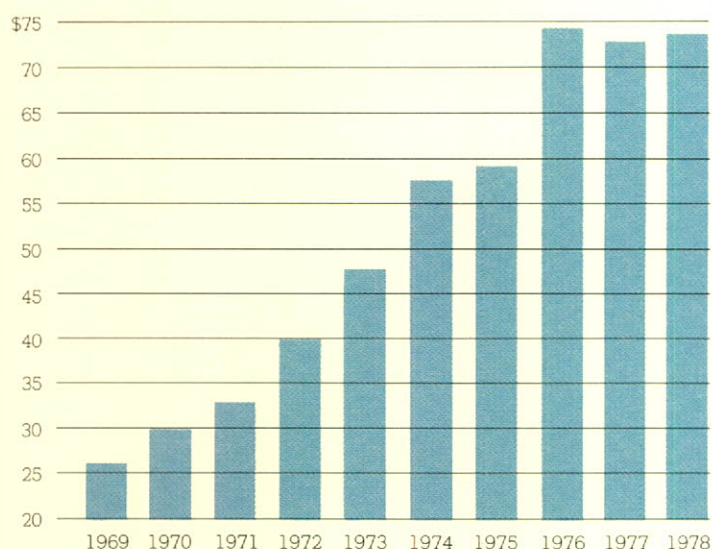
NET INCOME (LOSS) AND DIVIDENDS

(Per Class A & Class C shares adjusted to reflect subdivision of shares February 13/73)



NET SALES

(expressed in millions of dollars)



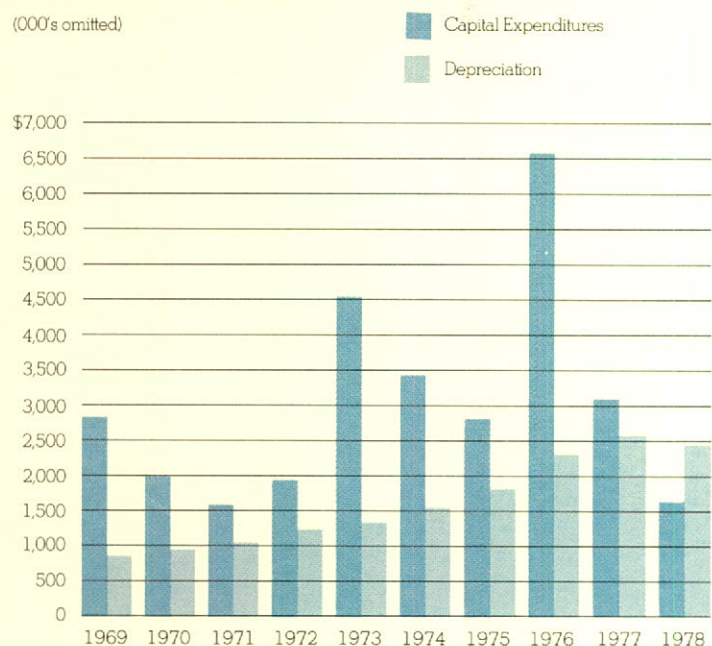
SHAREHOLDERS' EQUITY

(expressed in millions of dollars)



CAPITAL EXPENDITURES AND DEPRECIATION

(000's omitted)



These charts reflect the Company's progress over the 10-year period ending October 31, 1978.

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

	Year Ended October 31, 1978	Year Ended October 31, 1977
SALES	\$73,709,914	\$73,034,073
COST OF SALES	60,780,342	57,654,127
GROSS PROFIT FROM OPERATIONS	12,929,572	15,379,946
DEDUCT the following items:		
— Selling, administrative and distribution expense	13,040,854	12,368,994
— Interest on long-term debt	1,586,894	1,689,006
— Other interest	1,380,974	1,273,816
	16,008,722	15,331,816
INCOME (LOSS) BEFORE TAXES AND EXTRAORDINARY ITEM	(3,079,150)	48,130
RECOVERY OF INCOME TAXES	1,658,600	212,000
INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	(1,420,550)	260,130
EXTRAORDINARY ITEM:		
— Gain on sale of property, less related taxes of \$99,000	505,152	—
NET INCOME (LOSS) FOR THE YEAR	(915,398)	260,130
Retained earnings at beginning of year	18,092,202	18,940,950
	17,176,804	19,201,080
LESS: Dividends paid and related taxes thereon	204,422	1,108,878
RETAINED EARNINGS AT END OF YEAR	\$16,972,382	\$18,092,202
EARNINGS (LOSS) PER SHARE		
— Before Extraordinary Item	\$(.28)	\$.05
— After Extraordinary Item	\$(.18)	\$.05

CONSOLIDATED BALANCE SHEET


ASSETS


	October 31, 1978	October 31, 1977
CURRENT		
— Accounts receivable, less allowance for doubtful accounts	\$19,698,573	\$18,579,698
— Inventories (Notes 1(b) and 2)	15,237,163	18,251,259
— Prepaid expenses	809,139	1,055,332
TOTAL CURRENT ASSETS	\$35,744,875	\$37,886,289
FIXED (Notes 1(c) and 3)		
— Land, buildings and equipment	43,335,529	43,872,206
— Less: Accumulated depreciation	16,906,476	16,048,485
	26,429,053	27,823,721
	\$62,173,928	\$65,710,010

LIABILITIES

CURRENT		
— Bank advances	\$14,656,591	\$13,946,540
— Accounts payable and accrued liabilities	7,539,202	7,841,510
— Income taxes payable	—	174,742
— Instalments on long-term debt due within one year	915,019	990,000
TOTAL CURRENT LIABILITIES	23,110,812	22,952,792
LONG TERM DEBT (Note 4)	15,525,000	16,440,015
DEFERRED INCOME TAXES (Note 1(d))	3,359,497	5,045,084
SHAREHOLDERS' EQUITY		
— Capital Stock (Notes 5, 6 and 10)	3,206,237	3,179,917
— Retained Earnings	16,972,382	18,092,202
	20,178,619	21,272,119
	\$62,173,928	\$65,710,010

Approved by the Board,


Director


Director

Harding Carpets Limited

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year Ended October 31, 1978	Year Ended October 31, 1977
FINANCIAL RESOURCES WERE PROVIDED BY		
Operations –		
— Net income (loss) for the year before extraordinary item	\$ (1,420,550)	\$ 260,130
— Charges (credits) not involving current funds:		
— Depreciation	2,480,297	2,582,729
— Deferred income taxes	(1,685,587)	(1,087,762)
	(625,840)	1,755,097
Issue of capital stock (Note 6)	26,320	15,050
Fixed asset disposals	608,041	188,905
Gain on sale of property, less related taxes	505,152	—
	513,673	1,959,052
FINANCIAL RESOURCES WERE USED FOR		
Expenditures on fixed assets	1,693,670	3,091,523
Dividends paid and related taxes thereon	204,422	1,108,878
Reduction in long-term debt	915,015	989,996
	2,813,107	5,190,397
Decrease in working capital	2,299,434	3,231,345
Working capital at beginning of year	14,933,497	18,164,842
Working capital at end of year	\$12,634,063	\$14,933,497

NOTES TO FINANCIAL STATEMENTS

Year Ended October 31, 1978

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, all consistent with prior years.
- (c) Fixed Assets and Depreciation - Fixed assets are stated at cost. Cost includes freight and installation charges where applicable. Depreciation charged on the books is based on straight-line 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 for income tax purposes capital cost allowances which have been 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 share are calculated based on the weighted monthly average of the number of shares outstanding during the year or the lesser period under review in the case of quarterly reporting.
- (f) Other Significant Policies - Research and development costs, development of new products, advertising, sales promotion and systems development expenses are charged against income as incurred.

NOTE 2 - CONSOLIDATED INVENTORIES

	1978	1977
Raw Materials	\$2,317,196	\$2,655,424
Goods in Process	4,772,702	5,131,490
Finished Goods	8,147,265	10,464,345
	<u>\$15,237,163</u>	<u>\$18,251,259</u>

NOTE 3 - CONSOLIDATED FIXED ASSETS

	1978		1977	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	\$ 862,384	\$ -	\$ 943,384	\$ -
Buildings	16,048,953	3,573,589	16,363,646	3,235,137
Machinery and Equipment	26,424,192	13,332,887	26,565,176	12,813,348
	<u>\$43,335,529</u>	<u>\$16,906,476</u>	<u>\$43,872,206</u>	<u>\$16,048,485</u>

NOTE 4 - LONG TERM DEBT

- (a) Secured by a floating charge in favour of the debenture holders.

Series A, 6% 1984	\$1,900,000
The sinking fund requirements call for payments of \$200,000 per year, leaving a balance of \$900,000 due in 1984.	
Series B, 6-7/8% 1987	1,450,000
The sinking fund requirements call for payments of \$105,000 per year, leaving a balance of \$610,000 due in 1987.	
Series C, 8-5/8% 1992	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 \$800,000 due in 1992.	
Series D, 10-1/4% 1994	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 \$1,560,000 due in 1994.	
Series E, 11-3/8% 1994	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 \$1,655,000 due in 1994.	
	<u>\$16,315,000</u>

The Trust Indentures underlying the outstanding debentures contains covenants which place limitations on the payment of dividends. There were no consolidated retained earnings free from restriction as of October 31, 1978. Elimination of this restriction will be dependent upon future earnings.

- (b) Long term debt of subsidiary, Venture Carpets of Canada Ltd., secured by fixed and/or floating charges on its fixed assets, incurred prior to acquisition. September 1, 1975, at interest rates varying from 8 to 11-3/4% requires principal payments of \$45,019 in 1979 and \$20,000 in each of the years 1980 to 1983.
- | | |
|--------------------------------------|---------------------|
| | \$. 125,019 |
| | \$16,440,019 |
| Less instalments due within one year | 915,019 |
| | <u>\$15,525,000</u> |

- (c) Long term debt instalments in the aggregate of \$915,019 are payable in 1979 and \$890,000 in each of the years 1980 to 1983.

NOTE 5 - CAPITAL STOCK

	<u>Authorized</u>	<u>Issued and Outstanding</u>
Class A and Class B non-voting, interconvertible shares with a par value of 16-2/3¢	6,000,000	3,508,550
Class C and Class D voting, interconvertible shares without par value	2,999,000	1,612,472
Common Shares without par value	1,000	-
	<u>9,000,000</u>	<u>5,121,022</u>

Subsequent to the balance sheet date, revisions were made to the authorized capital (see Note 10).

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 6 - EMPLOYEES' STOCK OPTIONS

Options for 11,200 Class A shares were exercised during the year ended October 31, 1978 for a cash consideration of \$26,320.

Options for 159,400 Class A shares and 2,600 Class C shares were granted to staff members during the year. Options outstanding as at October 31, 1978 were as follows:

	Class A		Class C	
Expiration Date of Options	Number of Shares	Option Price Per Share	Number of Shares	Option Price Per Share
Nov. 3/80	95,100	\$2.35	2,600	\$2.50
June 2/81	17,000	3.15	-	-
June 2/82	17,000	3.15	-	-
June 2/83	16,000	3.15	-	-
Nov. 5/84	71,300	5.125	2,200	4.60
	<u>216,400</u>		<u>4,800</u>	

Options outstanding as at October 31, 1978 do not vary significantly the diluted share earnings from reported share earnings.

NOTE 7 - DIRECTORS' AND SENIOR OFFICERS' REMUNERATION

Remuneration to directors and senior officers totalled \$579,000 for 17 persons during the year ended October 31, 1978 (17 persons - \$624,000 in 1977).

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 trusteed 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:

	<u>Company Net Contributions</u>	<u>Employee Net Contributions</u>
Employees' Pension Plan	\$3,351,174	\$3,129,894
Canada Pension and Quebec Pension Plan	1,673,411	1,673,411
Deferred Profit Sharing Plan*	527,402	-
	<u>\$5,551,987</u>	<u>\$4,803,305</u>

*The market value of the Deferred Profit Sharing Plan fund at October 31, 1978 was \$351,638.

The cost to the Corporation of the Pension Plans in 1978 was \$466,672 (1977 - \$320,884). No contributions were made to the Deferred Profit Sharing Plan in either year.

NOTE 9 - ANTI-INFLATION PROGRAM

The Corporation and its subsidiaries were subject to controls imposed under the Anti-Inflation Act on prices, profits, dividends and compensation for the three year period ended October 14, 1978. The Corporation believes it has complied with the guidelines since their inception.

NOTE 10 - EVENTS SUBSEQUENT TO BALANCE SHEET DATE

- (a) On November 6, 1978, a Special General Meeting of shareholders was held approving:

- 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. The Corporation subsequently issued 480,000 Floating Rate Term Preference Shares which were purchased by the Corporation's bankers. The proceeds of the issue were used to reduce current bank advances.
- Reclassification of the Class A and Class B shares with a par value of 16-2/3¢ each to shares without par value.
- The authorized capital of the Corporation was increased to permit the capitalization of \$6,000,000 of 1971 capital surplus on hand. 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.

Class A shares remain interconvertible with the Class B shares and Class C shares remain interconvertible with the Class D shares.

- (b) The Corporation has entered into an agreement to sell its spinning plant in Guelph, which was closed in December, 1977. The proceeds from the sale of the property and equipment, totalling approximately \$900,000 will be applied to reduce long-term debt, in accordance with the terms of the Trust Indenture.

TEN YEAR FINANCIAL SUMMARY

(000's omitted)

Year Ended October 31

	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969
OPERATING RESULTS										
SALES	\$73,710	\$73,034	\$74,573	\$58,748	\$57,339	\$47,683	\$40,076	\$32,967	\$30,035	\$26,842
—Depreciation	2,480	2,583	2,284	1,816	1,566	1,311	1,253	1,053	957	889
—Interest	2,968	2,963	2,674	1,580	1,422	876	761	836	888	514
—Income before taxes	(3,079)	48	4,810	3,681	6,832	6,313	4,706	2,539	2,013	3,651
—Income taxes	(1,659)	(212)	1,846	1,552	2,907	2,774	2,195	1,240	960	1,814
—Extraordinary income	505	—	—	—	—	—	—	—	—	—
NET INCOME ¹	\$ (915)	\$ 260	\$ 2,964	\$ 2,129	\$ 3,925	\$ 3,539	\$ 2,511	\$ 1,299	\$ 1,053	\$ 1,837
—Per share ²	(.18)	.05	.58	.42	.77	.70	.50	.27	.22	.38
—As a percentage of sales	(1.2)%	.4%	4.0%	3.6%	6.8%	7.4%	6.3%	3.9%	3.5%	6.8%
—As a percentage of capital employed	(.4)%	2.7%	9.9%	7.5%	15.7%	15.2%	13.4%	7.4%	6.3%	10.6%
—As a percentage of shareholders' equity	(4.5)%	1.2%	14.4%	10.8%	22.9%	24.5%	20.7%	11.4%	9.6%	18.3%
DIVIDENDS PAID	\$ 204	\$ 1,109	\$ 1,446	\$ 1,420	\$ 1,329	\$ 960	\$ 796	\$ 776	\$ 770	\$ 765
—Per share ²	.04	.22	.28	.28	.26	.19	.16	.16	.16	.16
RETAINED EARNINGS FOR YEAR	\$(1,120)	\$(849)	\$ 1,518	\$ 709	\$ 2,596	\$ 2,579	\$ 1,715	\$ 523	\$ 283	\$ 710
OTHER FINANCIAL DATA										
—Capital expenditures	\$ 1,694	\$ 3,092	\$ 6,616	\$ 2,822	\$ 3,447	\$ 4,534	\$ 1,923	\$ 1,624	\$ 2,025	\$ 2,887
—Working capital	12,634	14,933	18,165	15,525	19,227	11,875	12,086	8,311	8,240	8,972
—Ratio of current assets to current liabilities	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	1.9 to 1
—Inventories	\$15,237	\$18,251	\$22,126	\$16,433	\$16,617	\$13,175	\$10,606	\$11,396	\$11,274	\$11,324
—Fixed assets (net)	26,429	27,824	27,504	23,452	17,933	16,223	13,227	12,626	12,209	11,212
—Long-term debt	15,525	16,440	17,430	13,134	13,215	7,645	8,075	5,791	6,312	6,824
SHAREHOLDERS' EQUITY	\$20,179	\$21,272	\$22,106	\$20,538	\$19,766	\$17,113	\$14,427	\$12,116	\$11,407	\$10,961
—Shareholders' equity per share	3.94	4.16	4.33	4.03	3.89	3.38	2.86	2.48	2.37	2.29

¹The 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. Net income in 1969 is shown before extraordinary item less applicable income taxes representing national distribution start-up costs.

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

AUDITORS' REPORT

TO THE SHAREHOLDERS OF HARDING CARPETS LIMITED

We have examined the consolidated balance sheet of Harding Carpets Limited as at October 31, 1978 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 company as at October 31, 1978 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, December 1, 1978

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

Chairman and Chief Executive

Officer

Canadian Cablesystems 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.

Partner

A.E. Ames & Co.

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

PHILIP L. GUIT

Vice-President,

Manufacturing

WILLIAM C. McALLISTER

Vice-President and General Manager

Seneca Carpet Mills Division

WILLIAM D.L. SHERREN

Vice-President

Styling and Product Development

COLIN K. THOMPSON

Vice-President, Personnel

and Industrial Relations

JOHN G. URQUHART

Vice-President and General Manager

Harding Carpets Division

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 OFFICE

60 Yonge Street, Toronto, Ontario

M5E 1H5

SENECA CARPET MILLS

60 Yonge Street, Toronto, Ontario

M5E 1H5

VENTURE CARPETS OF CANADA LTD.

1600 Janelle Street, Drummondville,

Quebec J2B 6V6

AUSTRALIAN OFFICE

169 Miller Street, North Sydney,

N.S.W. 2060

MANUFACTURING AND DISTRIBUTION

MANUFACTURING FACILITIES

Brantford, Collingwood and Drummondville

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 Montée 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 - Tapis Beaver Ltée.

Western - Triple "C" Floorings Limited

VENTURE CARPET DISTRIBUTORS

Newfoundland - Steers Limited

Atlantic - Alliance Distributors Limited

Quebec - Richelieu Flooring Distributors Inc.

Ontario - Laing Carpet Distributors Limited

Prairies - Primco (Western) Limited

British Columbia - Ocean II

Distributors Limited

COVER AND INSIDE FRONT COVER:

Day Dream is a new Harding style leader with the Dyna-Colour trademark to convey the excitement of products with frosted looks and the effect of changing, overlapping and shimmering colour tones.

The Annual Meeting of shareholders will be held on March 2, 1979, at the Corporation's offices 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.

