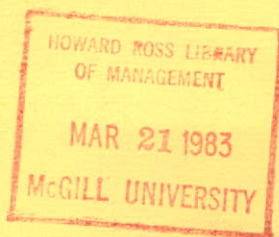


HARDING

HARDING CARPETS LIMITED

55th ANNUAL REPORT

OCTOBER 31, 1982



DIRECTORS

Stephen N. Adams

Partner
Harrison, Elwood

William T. Bodenhamer

President and Chief Executive Officer
Harding Carpets Limited

Anthony F. Griffiths

Business Executive
and Consultant

C. Malim Harding

Chairman of the Board
Harding Carpets Limited

Albert F. Klinkhammer

Vice-President &
Secretary-Treasurer,
Harding Carpets Limited

James H. Laing

Sr. Vice-President
Harding Carpets Limited

J. Donald Mingay

Chairman,
Rous, Mann & Brigden Ltd.

William H. Young

President,
The Hamilton Group

OFFICERS

C. Malim Harding

Chairman of the Board

William T. Bodenhamer

President and Chief Executive Officer

James H. Laing

Sr. Vice-President

Victor R. Stusyk

Sr. Vice-President

C.M. Victor Harding

Vice-President, Operations

Albert F. Klinkhammer,

Vice-President & Secretary-Treasurer

Colin K. Thompson

Vice-President, Human Resources

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

-1008 55th Avenue N.E.

Calgary, Alberta T2E 6Y4

Winnipeg

-1555 Inkster Blvd.

Winnipeg, Manitoba T2G 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

OFFICES

Head Office

85 Morrell Street
Brantford, Ontario N3T 5R3

Executive and Marketing Offices

35 Worcester Road
Rexdale, Ontario M9W 1K9

Venture Carpets of Canada Ltd.

1600 Janelle Street
Drummondville, Quebec J2B 6V6

Laing International Products Limited

1330 Eglinton Ave. East
Mississauga, Ontario L4W 2L4

Australian Agent's Office

P.R. Perrett & Son
Barrenia Street
Slacks Creek 4127
Queensland

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

Laventhol & Horwath

The Annual and Special General Meeting of the holders of Class C and Class D Voting shares will be held on Tuesday, April 26, 1983 at the Executive Offices of the Corporation located at 35 Worcester Road, Rexdale, Ontario at 10:30 a.m. Toronto time.

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.

LES TAPIS HARDING LIMITÉE

Il y a un an, après avoir accusé des pertes pendant trois années consécutives, nous avons été à même de rapporter un modeste revenu net pour l'année financière 1981. Malheureusement, cette année, nous devons apporter à votre connaissance une perte d'exploitation considérable. La société a accusé une perte nette de 12 969 765 \$, comparativement à un revenu net de 204 650 \$ avant les postes extraordinaires l'année précédente.

Au cours de l'année, à compter du 29 janvier, la société L.H.H. & Sons International (Canada) Limited a acquis 38,8 p.-cent des actions avec droit de vote de la société. Simultanément, des changements considérables ont eu lieu au niveau du Conseil d'administration et de la direction de votre société et au même moment, le marché canadien du tapis subissait un effondrement soudain. Les nouveaux actionnaires, considérant la situation extrêmement sérieuse, ont renoncé à souscrire le reste des actions de trésorerie le 3 décembre 1982, tel que convenu lors de l'entente initiale. À la même date, leurs représentants donnèrent leur démission des postes d'administrateurs et de dirigeants de la société. C'est à ce moment là que M.C. Malim Harding assumait à nouveau la fonction de président du Conseil. De nombreux changements dans l'organisation suivirent, desquels nous ferons mention plus loin dans ce rapport à la section "Les perspectives".

Pendant la période de douze mois de l'année financière de la société qui a pris fin le 31 octobre 1982, les ventes de l'industrie canadienne du tapis avaient baissé d'environ 32 p.-cent par rapport à l'année précédente. Malgré que les ventes de votre société n'avaient baissé que de 17 p.-cent, notre chiffre d'affaires total comprenait les résultats de 10 mois d'exploitation de Laing International Products Limited et de Richelieu Flooring Distributors (1978) Inc., ce qui a eu comme effet d'augmenter non seulement le niveau des ventes mais aussi celui des frais de ventes et de gestion.

Au début de l'année financière en revue, votre société avait des stocks qui s'élevaient à un total de 25 036 000 \$. À la suite de l'acquisition des filiales Laing International Products Limited et Richelieu Flooring Distributors (1978) Inc., les stocks ont augmenté d'environ 4 500 000 \$ et ont atteint leur point culminant d'environ 30 000 000 \$ le 31 janvier 1982. Les frais d'intérêts élevés et un marché faible rendaient impérieuse la réduction de nos stocks. À la fin de l'exercice, ils avaient été réduits à 21 800 000 \$ grâce à de nouvelles méthodes que nous avons adoptées pour leur administration et leur contrôle, méthodes qui nous permettaient cependant de maintenir un service à la clientèle approprié. Ces réductions, en plus du marché faible, ont entraîné une baisse de notre production d'environ 38 p.-cent, c'est-à-dire de 12 700 000 verges carrées à 7 900 000 verges carrées. Ce niveau d'exploitation n'était pas suffisant pour absorber les frais de fabrication et autres coûts fixes.

Au cours de l'année financière, de nouvelles techniques de gestion furent implantées et le programme de réduction des coûts mis sur pied quelques mois plus tôt fut accéléré. Deux des principales opérations de ce programme étaient la rationalisation de nos usines de l'Ontario et la fermeture de notre entrepôt de Rexdale. Ces changements, dont le coût a été absorbé pendant l'année, ont considérablement diminué les frais généraux de la société et ont réduit le personnel requis jusqu'au point où le nombre d'employés n'était, en moyenne, que de 832 pendant l'année financière qui a pris fin le 31 octobre, comparativement à une moyenne de 1249 pendant l'année précédente. Le nombre d'employés a encore diminué depuis et s'élève maintenant à environ 797, alors que le niveau de production et de distribution est comparable à celui des années précédentes.

Nos programmes de réduction des coûts se poursuivent pendant notre nouvelle année financière et en janvier 1983, nous avons rationalisé notre distribution du Québec. Nos expéditions se font maintenant à partir d'un seul entrepôt, ce qui devrait réduire nos coûts et améliorer le service à la clientèle ainsi que le contrôle des stocks. Un des principes qui a gouverné la décision de mettre en oeuvre tous nos programmes de rationalisation et de réduction des coûts était de préserver et de mettre en valeur la position prééminente que votre société s'est acquise dans l'industrie du tapis au Canada. Au cours de l'année qui vient de se terminer, les techniques de teinture Colourflo, d'application de fond de tapis en uréthane Kangabac et de teinture à la mousse de nuances solides sont venues s'ajouter aux procédés que nous utilisons.

Le 16 septembre 1982, nos banquiers ont exigé le remboursement des actions privilégiées à terme qui normalement était dû le 30 septembre 1984. Nos banquiers étaient disposés à autoriser les crédits qui permettraient ce remboursement mais une telle transaction signifiait que le montant de 12 000 000 \$ serait prêté au taux d'escompte des grandes banques au lieu d'un taux de dividende privilégié de 50 p.-cent du taux d'escompte plus 1 3/8 p.-cent.

Les nombreux événements décrits plus haut qui se sont déroulés pendant l'année, ainsi que ceux dont ce rapport ne fait pas mention, ont entraîné une perte substantielle pendant l'année financière. La direction fait donc face à l'énorme défi de rendre notre exploitation à nouveau rentable. Ce défi a toutefois été relevé: les frais généraux ont été réduits, tel qu'exposé plus haut, et les prévisions pour l'avenir, établies sur une base conservatrice mais réaliste, indiquent que l'année financière 1983 connaîtra une amélioration marquée. La section qui suit donne plus de détails à ce sujet.

La nouvelle année financière présente certains signes d'amélioration. Les taux d'intérêt retournent progressivement à un niveau plus abordable. Le roulement de l'inventaire, non seulement au sein de la société mais aussi au niveau des réseaux de distribution et de la vente au détail, s'effectue à un rythme beaucoup plus satisfaisant. La demande de tapis existe toujours et les agences indépendantes confirment le fait que les consommateurs achètent davantage. La statistiques disponibles sont encourageantes et indiquent une hausse dans les domaines de la construction de maisons, de la rénovation intérieure des foyers et des ventes de tapis sur les marchés commercial et à contrat.

Tel que mentionné précédemment, la société poursuit son programme de réduction des coûts et, postérieurement à la fin de l'année financière, la fusion des usines Harding et Richelieu à Montréal a permis de réaliser d'importantes économies. Au point de vue commercialisation de notre produit, la société est bien positionnée pour bénéficier de la reprise économique car elle détient une part élevée du marché, elle offre de nouveaux produits et elle possède un système de distribution qui a été grandement renforcé.

Des prévisions détaillées ont été établies pour la société et minutieusement examinées. La direction est d'avis que l'exploitation sera fortement améliorée pendant la nouvelle année financière, au point où les pertes seront beaucoup moins élevées que celles encourues en 1982. Les résultats du premier trimestre, lorsqu'ils seront disponibles, sauront appuyer cette perspective.

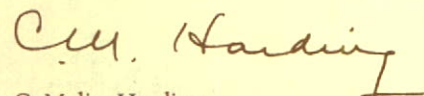
La société a engagé des négociations avec ses prêteurs et ses porteurs d'obligations et si un accord est conclu, la dette de la société pourra être restructurée. Même si les négociations vont bon train, elles n'ont pas suffisamment progressé pour qu'on puisse anticiper leur résultat final.

La réorganisation des cadres supérieurs de la société a été achevée et l'équipe de direction possède maintenant l'expérience et la cohésion nécessaires pour affronter les problèmes de la société. Tel que mentionné auparavant, M. C. Malim Harding a assumé à nouveau la présidence du Conseil, M. W.T. Bodenhamer, le président, est maintenant chef de la direction, M. J.H. Laing, vice-président principal, a accepté de nouvelles responsabilités dans le domaine administration et finances, M. Victor R. Stusyk s'est joint à la société et occupe le poste de vice-président principal, et M. A.F. Klinkhamer a été élu président du comité de direction.

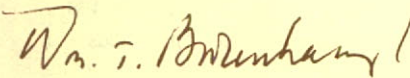
Le Conseil d'administration tient à remercier sincèrement, au nom des actionnaires, tous les employés qui, grâce à leur patience, leur compréhension et leur collaboration, ont permis à la société d'amorcer un revirement qui semble maintenant être évident. Nous aimerions tout spécialement remercier les membres du personnel qui ont été soumis à un blocage des salaires de neuf mois ainsi que les membres de la direction qui ont accepté délibérément des réductions de salaire allant de 12 à 20 p.-cent pour une période de six mois.

L'assemblée annuelle des actionnaires aura lieu mardi, le 26 avril 1983, à 10h00, au siège social de la société, 35 Worcester Road, Rexdale, Ontario. Nous serons heureux de vous y rencontrer et de vous renseigner davantage sur les activités de la société.

Au nom du Conseil d'administration,



C. Malim Harding
Président du Conseil



W.T. Bodenhamer
Président et chef de la direction

Le 4 mars 1983

HARDING CARPETS LIMITED

HIGHLIGHTS Year ended October 31

	1982	1981
Sales	\$83,414,462	\$100,877,579
Income (Loss) before Preference Dividends and Extraordinary Item	(11,804,464)	1,458,299
Preference Dividends and Extraordinary Item:		
Preference Dividends	1,165,301	1,253,649
Gain on sale of property, less related taxes	—	845,449
Net Income (Loss) for the Year	(12,969,765)	1,050,099
Per Share	\$ (2.16)	\$.20
As a percentage of sales	(15.5)%	1.0%
As a percentage of capital employed ¹	(26.9)%	4.4%
As a percentage of shareholders' equity ²	(67.1)%	5.8%
Capital Expenditures	1,565,446	990,174
Working Capital	2,761,952	26,112,140
Ratio of current assets to current liabilities	1.1 to 1	2.1 to 1
Shares Outstanding		
Class A and Class B	3,570,870	3,570,870
Class C and Class D	2,635,615	1,612,472
Number of shareholders, 98% Canadian (1981- 98%)	2,316	2,455
Number of employees (average)	832	1,249

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.

THE COMPANY

Harding Carpets Limited is one of the largest manufacturers of carpets in Canada, supplying retailers and the contract market from its own distribution centres and also through independent distributors. Products are marketed under two brand names - Harding 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.

HARDING CARPETS LIMITED

For the twelve month period of the Company's fiscal year which ended October 31, 1982, shipments by Canadian Carpet mills were down approximately 32% from the prior year. Although your Company's sales were down only 17%, our final sales figures included 10 months of operations of Laing International Products Limited and Richelieu Flooring Distributors (1978) Inc. which had the effect of raising both sales levels and sales and administration costs.

At the beginning of the fiscal year under review, your Company had inventories aggregating \$25,036,000. Following the acquisition of the subsidiaries Laing International Products Limited and Richelieu Flooring Distributors (1978) Inc. inventories were increased further by approximately \$4,500,000 and peaked at approximately \$30,000,000 at January 31, 1982. High carrying costs and a weak market dictated this simply had to be reduced. These inventories were reduced

to \$21,800,000 by fiscal year end through new measures adopted for inventory management and control while maintaining proper customer service levels. These reductions plus the weak market caused the production in our mills to drop approximately 38% from 12,700,000 square yards to 7,900,000 square yards. This level of operations was not adequate to absorb fixed manufacturing overhead and other fixed costs.

During the fiscal year new management philosophies were introduced, coupled with an accelerated cost reduction program which had been introduced in an embryonic stage a few months earlier. Key parts of the cost reduction program involved the rationalization of our Ontario manufacturing facilities and the closing of our Rexdale distribution warehouse. These efforts, the cost of which was expensed during the year, produced a reduction in fixed overhead of considerable proportions and reduced personnel requirements to a

In the report to shareholders one year ago, it was reported that after three years of operating losses the fiscal year 1981 did show a modest net income for the period. Unfortunately, this year we report an operating loss of considerable proportions. The company has sustained a net loss of \$12,969,765 compared to a net income of \$204,650 the previous year before extraordinary items.

During the year, as of January 29th, L.H.H. & Sons International (Canada) Limited became the holders of 38.8% of the voting shares of the company. Simultaneous with the acquisition, a substantial change in the Board of Directors and the management of your company came into effect. Coincident with these changes was a collapse of the Canadian carpet market. The new investors found the situation so serious that they could not see their way clear to subscribe for the balance of the treasury shares as originally intended on December 3rd, 1982 and the investors' nominees resigned as Directors and Officers of your company as of that date. At this point C. Malim Harding resumed the office of Chairman of the Board and many other organizational changes followed which will be referred to later in this report in the section relating to "The Outlook".

QUARTERLY REVIEW

(thousands, except per share, quarterly data unaudited)

Quarter	Sales		Net Profit (Loss)		Per Share	
	1982	1981	1982	1981	1982	1981
1	\$ 17,211	\$22,131	\$ (1,443)	\$ 305	\$ (.24)	\$.06
2	22,269	25,195	(2,826)	85	(.47)	.01
3	22,608	25,460	(3,394)	92	(.57)	.02
4	21,326	28,091	(5,306)	568	(.88)	.11
Total	\$83,414	\$100,877	\$(12,969)	\$1,050	\$(2.16)	\$.20

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
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	97,337	94.5	12.88	4.11	14.29	5.02
1980	86,112	95.1	11.03	3.60	12.87	4.44
1981	94,483	94.7	11.77	3.88	11.89	4.11
% Increase						
1972-1981	198.0	5.1	142.5	175.6	109.2	120.5

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

THE OUTLOOK

point where the average number of employees for the fiscal year ended October 31st was reduced to 832 compared to an average of 1249 in the prior fiscal year. A further reduction has taken place and employment at the present time stands at approximately 797 persons, while production and distribution capacities have been maintained at prior years' levels.

Our cost reduction programs continue into our new fiscal year. In January, 1983 we rationalized our Quebec distribution by consolidating operations into one warehousing point which should both lower costs and improve service and inventory controls. One guiding principle in all of our cost reduction and rationalization programs was to preserve and enhance your company's position as the most versatile and skillful carpet maker in Canada. During the year just ended, we added Colourflo dyeing, Kangabac attached urethane backing, and solid shade foam dyeing to our list of capabilities.

On September 16, 1982 our bankers required the redemption of the Term Preference Shares otherwise due September 30, 1984. While the bankers were willing to authorize lines of credit to a sufficient degree to permit the redemption, it meant that the \$12,000,000 attracted interest at the bank's prime rate rather than a preference dividend rate of 50% of the prime rate plus 1 3/8%.

It followed then that the many events of the year described above and others not mentioned here contributed to the substantial loss during the fiscal year. The challenge to management to direct a return to profitable operations is tremendous. However, that challenge has been accepted, overhead reduction has been accomplished as stated above and forecasts prepared on a conservative but realistic basis indicate that there will be a substantial improvement in the 1983 fiscal year which is dealt with in the following section of this report.

The new fiscal year has a measured degree of improvement and promise. Interest rates are returning to more normal values. Inventory levels, not only within the company but throughout distribution, dealer and retail channels now turn at a much more satisfactory rate. The demand for carpet is there to be satisfied and outside agencies confirm improvement in consumer buying habits. Statistics available on housing starts show encouraging increases as do requirements for household replacement, commercial and contract markets.

As previously stated, the company's cost reduction program is continuing, and subsequent to the fiscal year end, the Harding and Richelieu facilities in Montreal were amalgamated, producing further substantial savings. On the marketing side of the business, the Company is well-positioned for economic recovery with a high market share, several new and innovative products, and a greatly strengthened distribution system.

Detailed corporate forecasts have been prepared and have been subjected to intense scrutiny. It is management's opinion that operations for the upcoming fiscal year will be substantially improved to a point where losses will be greatly below last year's, and early quarterly results, when available, will give substance to this outlook.

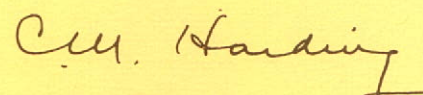
The company is engaged in negotiations with its lenders and bondholders which, if successful, would lead to a restructuring of the company's debt. While promising, the negotiations have not progressed to a point where any conclusions may be drawn about them at this time.

The management structure of the company has been re-aligned at the senior levels, and now has a wealth of experience and a high degree of cohesion with which to address the company's problems. As noted earlier, C. Malim Harding has resumed the office of Chairman of the Board, President W.T. Bodenhamer is now Chief Executive Officer, Senior Vice-President J.H. Laing has assumed new responsibilities for Administration and Finance, Senior Vice-President Victor R. Stusyk has joined the company and A.F. Klinkhammer has been elected Chairman of the Executive Committee of the Board.

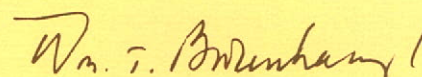
The Board wishes to express in a very sincere way, on behalf of its shareholders, its appreciation for the patience, understanding and cooperation of a very dedicated group of employees without whom the turnaround which now appears to be evident, would have been otherwise impossible. Special thanks go to the staff employees who have been subject to a nine month salary freeze and the management who have voluntarily accepted salary reductions ranging from 12% to 20% for a period of six months.

The Annual Meeting of Shareholders will be held on Tuesday, April 26, 1983 at 10:00 a.m. at the Executive Offices of the Company located at 35 Worcester Road, Rexdale, Ontario. Your presence would be most welcome and provide an opportunity for a further update on the affairs of the company.

On behalf of the Board,



C. Malim Harding,
Chairman of the Board



W.T. Bodenhamer,
President and Chief Executive Officer

March 4, 1983

**HARDING CARPETS
LIMITED**

**CONSOLIDATED STATEMENT OF INCOME AND
RETAINED EARNINGS** Year ended October 31, 1982

	1982	1981
Sales	\$83,414,462	\$100,877,579
Cost of sales	74,571,593	79,508,025
Gross profit from operations	8,842,869	21,369,554
Deduct the following items:		
Selling, administrative and distribution expenses	19,480,023	16,086,851
Interest on long-term debt	1,109,000	1,256,066
Other interest	2,244,644	2,124,104
	22,833,667	19,467,021
Income (loss) before income taxes and other items	(13,990,798)	1,902,533
Income taxes (Note 11):		
Current (recovery)	(496,311)	385,121
Deferred (reduction)	(1,690,023)	59,113
	(2,186,334)	444,234
Income (loss) before preference dividends and extraordinary item	(11,804,464)	1,458,299
Preference dividends	1,165,301	1,253,649
Income (loss) before extraordinary item	(12,969,765)	204,650
Extraordinary item:		
Gain on sale of properties less related income taxes	—	845,449
Net income (loss) for the year applicable to Class A, B, C and D shares	(12,969,765)	1,050,099
Retained earnings at beginning of year	9,987,618	8,937,519
Retained earnings (deficit) at end of year	(\$ 2,982,147)	\$ 9,987,618
Earnings (loss) per share:		
Before extraordinary item	(\$2.16)	\$.04
After extraordinary item	(\$2.16)	\$.20

See accompanying notes.

HARDING CARPETS LIMITED

CONSOLIDATED BALANCE SHEET October 31, 1982

ASSETS	1982	1981
Current assets:		
Accounts receivable, less allowance for doubtful accounts	\$19,336,213	\$23,657,083
Amount due from affiliated company	760,205	—
Inventories (Note 3)	21,737,154	25,036,423
Prepaid expenses and sundry assets	519,269	1,165,256
Income taxes recoverable	377,395	—
	42,730,236	49,858,762
Fixed assets (Note 4):		
Land, buildings and equipment	42,907,443	41,391,572
Less accumulated depreciation	24,732,018	22,219,801
	18,175,425	19,171,771
Other assets:		
Investment in affiliated company	94,096	—
Sundry assets	154,382	—
	248,478	—
	\$61,154,139	\$69,030,533
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank advances (Note 6)	\$26,069,051	\$11,591,490
Accounts payable and accrued liabilities	13,029,233	11,013,292
Income taxes payable	—	271,840
Instalments on long-term debt due within one year	870,000	870,000
	39,968,284	23,746,622
Long-term debt (Note 7)	10,345,000	11,215,000
Obligations under capitalized leases (Note 5)	434,064	556,220
Deferred income taxes	375,857	2,182,723
Term preference shares (Note 6)	—	12,000,000
Continuing operations (Note 14)		
Shareholder's equity:		
Capital stock (Notes 8 and 9)	13,013,081	9,342,350
Retained earnings (deficit)	(2,982,147)	9,987,618
	10,030,934	19,329,968
	\$61,154,139	\$69,030,533

Approved by the Board:

See accompanying notes.

C. H. Harding

Director

Wm. T. Buchanan

Director

HARDING CARPETS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN

FINANCIAL POSITION Year ended October 31, 1982

	1982	1981
Financial resources were provided by:		
Working capital arising on purchase of subsidiary companies	\$ 2,022,688	\$ —
Issue of Class A shares	—	40,675
Issue of Class D shares to purchase subsidiary company	2,170,731	—
Issue of Class D shares	1,500,00	—
Proceeds on disposal of fixed assets	22,674	1,699,117
	\$ 5,716,093	\$ 1,739,792
Financial Resources were used for:		
Operations —		
Loss of (Income) for the period before dividends and extraordinary item	11,804,464	(1,458,299)
Credits (Charges) not involving current funds:		
Depreciation and amortization	(2,677,335)	(2,544,165)
Deferred income taxes	1,690,023	(59,113)
	10,817,152	(4,061,577)
Acquisition of subsidiary company	2,170,731	—
Expenditures on fixed assets	1,565,446	990,174
Dividend requirements on preference shares	1,165,301	1,253,649
Reduction in long term debt	870,000	1,610,000
Reduction of obligations under capitalized leases	122,156	108,155
Redemption of term preference shares	12,000,000	—
Other	355,495	—
	\$29,066,281	\$ (99,599)
Increase (decrease) in working capital	(23,350,188)	1,839,391
Working capital at beginning of year	26,112,140	24,272,749
Working capital at end of year	\$ 2,761,952	\$26,112,140

See accompanying notes.

AUDITORS' REPORT

To the Shareholders of Harding Carpets Limited

We have examined the consolidated balance sheet of Harding Carpets Limited as at October 31, 1982 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, 1982 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.

The comparative figures as at October 31, 1981 and for the year then ended are based upon financial statements which were reported on by other auditors who expressed an unqualified opinion in their report dated December 12, 1981.

Laurent & Howarth

January 7, 1983. Chartered Accountants

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. All significant intercompany balances and transactions have been eliminated.

(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 annual rates of 2½% for buildings and 9% for machinery and equipment.

(d) Equipment under capitalized leases — Leases of computer equipment have been 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) Investment in affiliated company – The corporation's investment in its affiliated company is accounted for in the accompanying financial statements by the cost method. This investment is carried at cost and the net earnings of the affiliated company is reflected in the determination of the net earnings of the corporation only to the extent of dividends received.

(f) Income taxes – The corporation follows the tax allocation method of accounting. Under this method, timing differences between the amount of income reported for tax purposes and the amount of accounting income (which arise principally as a result of claiming depreciation at amounts differing from those recorded in the accounts) result in provisions for deferred income taxes. Federal investment tax credits are recognized as a reduction of income taxes when earned.

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

2. Acquisition of subsidiary:

By an agreement dated December 12, 1981 and effective as of January 1, 1982, the corporation acquired from L.H.H. and Sons International (Canada) Limited (L.H.H.) all of the shares of Laing International Products Limited, distributors of carpet, vinyl and ceramic tile, at their net book value as of December 31, 1981.

The following net assets were acquired at book value in the transaction which was accounted for as a purchase:

Assets:	
Accounts receivable	\$3,814,583
Inventories	4,462,338
Fixed and sundry assets	240,220
	8,517,141
Liabilities:	
Bank indebtedness	1,993,766
Notes payable	729,454
Accounts payable and accrued liabilities	3,623,190
	6,346,410
Net assets acquired	\$2,170,731

The purchase price of \$2,170,731 was satisfied by the issuance from treasury of 605,408 Class D shares of the corporation.

The results of operations since the effective date of purchase, January 1, 1982, have been included in the statement of earnings.

The purchase agreement also provided for the purchase by L.H.H. of 836,190 additional Class D shares of the corporation for \$3,000,000 in cash. The corporation received \$1,500,000 for the issue of 418,095 shares on closing. The balance of the shares was to be issued and paid for on or before December 3, 1982.

L.H.H. did not subscribe for the balance of the shares on December 3, 1982 as originally intended. All claims by the corporation against L.H.H. and all claims by L.H.H. against the corporation have been amicably withdrawn. In addition L.H.H. has entered into an irrevocable agreement for a four year period ending February 11, 1987 with C. Malim Harding and Albert F. Klinkhammer, Chairman and Vice-President and Secretary-Treasurer respectively, empowering them to jointly vote, at their sole discretion, any shares of the corporation held by L.H.H.

3. Inventories:

	1982	1981
Raw materials	\$ 1,406,629	\$ 1,779,226
Goods in process	6,027,411	7,228,954
Finished goods	14,303,114	16,028,243
	\$21,737,154	\$25,036,423

4. Fixed assets:

	1982		1981	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Land	\$ 312,025	\$ —	\$ 312,025	\$ —
Buildings	13,007,222	4,236,512	12,791,081	3,858,241
Machinery and equipment	28,800,311	20,189,102	27,500,581	18,186,472
Equipment under capitalized leases	787,885	306,404	787,885	175,088
	\$42,907,443	\$24,732,018	\$41,391,572	\$22,219,801

5. Obligations under capitalized leases:

	1982	1981
Computer and related software	\$732,165	\$931,847
Less amount representing interest	175,945	270,855
	556,220	660,992
Less current portion	122,156	104,772
	\$434,064	\$556,220

The interest rate implicit in the lease is the bank's rate for banker's acceptances plus 1¼%. Principal and interest payments aggregating \$199,681 are payable in each of the years 1983 to 1985 and \$133,122 in 1986.

6. Bank advances and term preference shares:

The term preference shares in the amount of \$12,000,000 that were issued to the corporation's bankers were redeemed on September 16, 1982.

The preference share subscription agreement contained 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. As the corporation was not able to meet certain of the tests under these covenants, the corporation's bankers exercised their rights and

requested the redemption of these preference shares and advanced to the corporation sufficient funds to effect this redemption.

The corporation has assigned its accounts receivable and inventory as security for the bank advances.

7. Long-term debt:

	1982	1981
(a) Secured by way of a floating charge in favour of the debenture holders:		
Series A, 6% due 1984	\$ 936,000	\$ 1,136,000
Series B, 6 7/8% due 1987	894,000	999,000
Series C, 8 5/8% due 1992	1,820,000	1,945,000
Series D, 10 1/4% due 1994	3,858,000	4,088,000
Series E, 11 3/8% due 1994	3,707,000	3,917,000
	11,215,000	12,085,000
Less instalments due within one year	870,000	870,000
	\$10,345,000	\$11,215,000

(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, 1982. Elimination of this restriction will be dependent upon future earnings.

(c) Long-term debt instalments in the aggregate of \$870,000 are payable in fiscal year 1983, \$1,406,000 in fiscal year 1984 and \$670,000 in each of the fiscal years 1985, 1986 and 1987.

8. Capital stock:

Authorized:	Shares
Class A and Class B non-voting, interconvertible shares, without par value	20,000,000
Class C and Class D voting, interconvertible shares, without par value	9,999,000
Common shares, without par value	1,000
	30,000,000

Issued and outstanding:

	1982		1981	
	Shares	Amount	Shares	Amount
Class A and Class B non-voting, inter-convertible shares, without par value	3,570,870	\$ 6,345,041	3,570,870	\$6,345,041
Class C and Class D voting, inter-convertible shares, without par value	2,635,615	6,668,040	1,612,472	2,997,309
	6,206,485	\$13,013,081	5,183,342	\$9,342,350

9. Stock options:

Options for 72,100 Class A shares and 12,000 Class C shares were granted to employees and officers during the year.

As at October 31, 1982 there were options outstanding to employees and officers to purchase 187,275 Class A shares and 107,400 Class C shares at prices ranging from \$1.449 to \$2.745 and expiring up to 1986.

10. 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 Plan	\$4,675,015	\$4,010,790
Canada Pension and Quebec Pension Plans	2,693,366	2,693,366
Deferred Profit Sharing Plan	528,202	—
	\$7,896,583	\$6,704,156

The cost to the corporation of the Pension Plans in 1982 was \$547,664 (1981 — \$536,546). No contributions were made to the Deferred Profit Sharing Plan in either year.

11. Income taxes:

At October 31, 1982 the corporation accumulated losses for tax purposes of approximately \$11.3 million which may be carried forward and used to reduce taxable income in future years. Such losses expire by 1987.

The full amount of these future tax benefits resulting from the income tax losses carry-forward have not been recognized in the accounts because of uncertainty as to their ultimate realization.

At October 31, 1982 the corporation has approximately \$360,000 of unrecorded investment tax credits available to reduce future income taxes payable. Such credits expire in the years 1983 to 1987.

12. Segmented information:

The corporation operates in one segment by manufacturing carpeting and selling its products together with related accessories through corporation-owned distribution centres and other distributors.

13. Remuneration of directors and senior officers:

Senior officers, as defined by the Ontario Business Corporations Act, include the five highest paid employees of a company. The aggregate direct remuneration paid to the directors and senior officers, as defined above, for the year ended October 31, 1982 amounted to \$422,354.

14. Continuing operations:

The financial statements have been prepared on the basis of a going concern, which contemplates that the corporation will be able to realize assets and discharge liabilities in the normal course of business. However, during the year the corporation experienced significant operating losses caused by the general decrease in demand for carpets. In addition, the term preference shares in the amount of \$12,000,000 held by the corporation's bankers, were redeemed on September 16, 1982 (Note 6).

As a result of these losses and the redemption of the term preference shares, the corporation's financial position has been significantly weakened. Its ability to continue as a going concern is dependent upon a return to a satisfactory level of operations and obtaining sufficient funds to finance operations and make required payments of long-term debt and other liabilities as they become due.

In the event of termination of the business the amounts at which assets are stated may require significant downward adjustments.

TEN YEAR FINANCIAL SUMMARY (000's omitted) Year ended October 31

	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973
Operating Results										
Sales	\$ 83,414	\$100,878	\$87,932	\$76,456	\$73,710	\$73,034	\$74,573	\$58,748	\$57,339	\$47,683
Depreciation	2,094	2,544	2,523	2,560	2,480	2,583	2,284	1,816	1,566	1,311
Interest	3,354	3,380	2,409	2,088	2,968	2,963	2,674	1,580	1,422	876
Income before taxes	(13,991)	1,903	(797)	(501)	(3,079)	48	4,810	3,681	6,832	6,313
Income taxes	(2,186)	444	(540)	(448)	(1,659)	(212)	1,846	1,552	2,907	2,774
Preference Dividends	(1,165)	(1,254)	(1,031)	(713)	—	—	—	—	—	—
Extraordinary Income	—	845	69	(58)	505	—	—	—	—	—
Net Income	\$(12,970)	1,050	\$(1,219)	\$ (824)	\$ (915)	\$ 260	\$2,964	\$ 2,129	\$ 3,925	\$ 3,539
Per share	\$ (2.16)	\$.20	\$ (.24)	\$ (.16)	\$ (.18)	\$.05	\$.58	\$.42	\$.77	\$.70
As a percentage of sales	(15.5)%	1.0%	(1.4)%	(1.1)%	(1.2)%	.4 %	4.0%	3.6%	6.8%	7.4%
As a percentage of capital employed	(26.9)%	4.4%	(1.6)%	(1.7)%	(.4)%	2.7%	9.9%	7.5%	15.7%	15.2%
As a percentage of shareholders' equity	(67.1)%	5.8%	(6.3)%	(4.1)%	(4.3)%	1.2%	14.4%	10.8%	22.9%	24.5%
Dividends Paid on										
Class A, B, C and D Shares	\$ —	\$ —	\$ —	\$ —	\$ 204	\$ 1,109	\$ 1,446	\$ 1,420	\$ 1,329	\$ 960
Per share	\$ —	\$ —	\$ —	\$ —	\$.04	\$.22	\$.28	\$.28	\$.26	\$.19
Other Financial Data										
Capital expenditures	\$ 1,565	\$ 990	\$ 1,238	\$ 1,585	\$ 1,694	\$ 3,092	\$ 6,616	\$ 2,822	\$ 3,447	\$ 4,534
Working capital	2,762	26,112	24,273	23,347	12,634	14,933	18,165	15,525	19,227	11,875
Ratio of current assets to current liabilities	1.1 to 1	2.1 to 1	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
Inventories	\$ 21,737	\$25,036	\$20,823	\$18,595	\$15,237	\$18,251	\$22,126	\$16,433	\$16,617	\$13,175
Fixed assets (net)	18,175	19,172	21,349	24,388	26,429	27,824	27,504	23,452	17,933	16,223
Long-term debt	10,345	11,215	12,825	13,715	15,525	16,440	17,430	13,134	13,215	7,645
Shareholders Equity	\$10,031	\$19,330	\$18,239	\$19,439	\$20,179	\$21,272	\$22,106	\$20,538	\$19,766	\$17,113
Shareholders equity per share	1.62	3.73	3.53	3.78	3.94	4.16	4.33	4.03	3.89	3.38

