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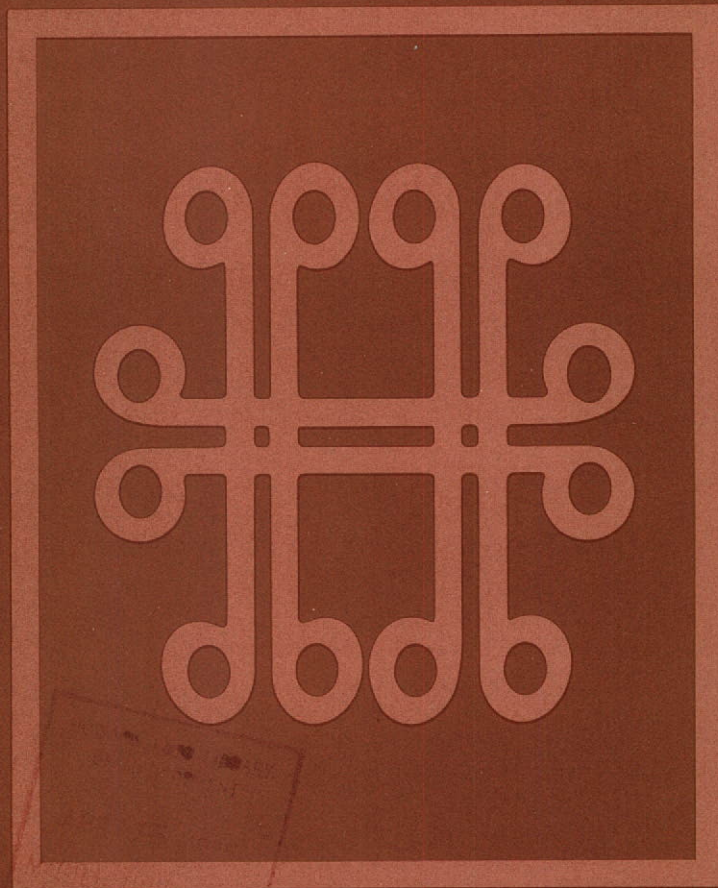
HARDING CARPETS LIMITED

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# *57th Annual Report*

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OCTOBER 31, 1984





## **Directors**

**William T. Bodenhamer**  
President and Chief Executive Officer  
Harding Carpets Limited

**Michael H. Cochrane**  
Chairman  
Canadian Investors Management Corporation

**Gerard H. Collins**  
President  
Canadian Investors Management Corporation

**J. William Ford**  
President  
Westmills Canada Inc.

**C. Malim Harding**  
Honorary Chairman of the Board  
Harding Carpets Limited

**Albert F. Klinkhammer**  
Vice-President & Secretary-Treasurer  
Harding Carpets Limited

**James H. Laing**  
Chairman of the Board  
Harding Carpets Limited

**Charles R. Pike**  
Vice-President, Prairie region,  
CP Rail

**Gerald D. Sutton**  
President  
Canadian Enterprise Development Corporation  
Limited

## **Officers**

**C. Malim Harding**  
Honorary Chairman of the Board

**James H. Laing**  
Chairman of the Board

**William T. Bodenhamer**  
President and Chief Executive Officer

**W. Grant Ballantyne**  
Vice-President, Finance and Chief Financial Officer

**William B. Finlayson**  
Vice-President, Sales and Distribution

**H. Vernon Gordon**  
Vice-President, Manufacturing

**C.M. Victor Harding**  
Vice-President, Product Management

**Albert F. Klinkhammer**  
Vice-President and Secretary-Treasurer

**Colin K. Thompson**  
Vice-President, Human Resources

**Geoffrey P. Charnley**  
Assistant Secretary

## **Harding Operated Distribution Centres**

Vancouver  
4616 Canada Way  
North Burnaby, B.C. V5G 1K7

Calgary  
1008 55th Avenue N.E.  
Calgary, Alberta T2E 6Y4

Edmonton  
11414-119th Street N.W.  
Edmonton, Alberta T5G 2X6

Winnipeg  
1555 Inkster Blvd.  
Winnipeg, Manitoba T2G 1R2

Toronto  
1330 Eglinton Avenue  
Mississauga, Ontario L4W 2L4

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

Quebec  
2950 Watt Street,  
Ste Foy, Quebec G1P 3T6

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

## **Offices**

Head Office and Executive Offices  
1331 Crestlawn Drive  
Mississauga, Ontario L4W 2P9

Marketing and Sales Offices  
1330 Eglinton Ave. East  
Mississauga, Ontario L4W 2L4

Venture Division  
1600 Janelle Street  
Drummondville, Quebec J2B 6V6

## **Manufacturing Locations**

Brantford  
85 Morrell Street  
Brantford, Ontario N3T 5R3

Collingwood  
20 High Street  
Collingwood, Ontario L9Y 3J6

Drummondville  
1600 Janelle Street  
Drummondville, Quebec J2B 6V6

## **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**

Clarkson Gordon



## Highlights

Year ended October 31, 1984  
(with comparative figures  
at October 31, 1983)

	1984	1983
	(Thousands except for information on shares, shareholders and employees.)	
<b>Sales</b>	\$ 96,287	\$ 95,635
<b>Income before Extraordinary Items</b>	460	374
EXTRAORDINARY ITEMS —		
Gain on sale of fixed assets		1,100
Reduction in deferred income taxes		375
Recovery of income taxes	80	
<b>Net Income for the Year</b>	540	1,849
Income per share	\$ 0.05	\$ 0.26
As a percentage of sales	0.6%	1.9%
As a percentage of capital employed <sup>1</sup>	7.5%	13.7%
As a percentage of shareholders' equity <sup>2</sup>	3.4%	18.4%
<b>Capital Expenditures</b>	\$ 1,281	\$ 794
<b>Working Capital</b>	\$ 22,922	\$ 11,470
Ratio of current assets to current liabilities	1.9 to 1	1.3 to 1
<b>Shares Outstanding</b>		
Class A and Class B, Non-voting	3,810,870	3,571,370
Class C and Class D, Voting	9,722,615	6,170,615
Common, Voting	1,000	1,000
Number of shareholders, 97% Canadian (1983 — 98%)	1,961	2,052
Number of employees (average)	880	878

<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.

## The Company

Harding Carpets Limited, one of Canada's largest and most experienced carpet manufacturers, produces quality carpeting for the Canadian and Export markets and has done so continuously since 1927. Its products are marketed under the Harding brand name to retailers and commercial carpet contractors through company owned distribution centres strategically located across the country. Private brand name carpets are also manufactured for independent distributors.

The Company produces a full range of carpet yarns for its own consumption and for sale to others. Its state of the art tufting, dyeing and colouring equipment enable it to produce high quality, fashionably styled carpets for both residential and commercial use.

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.



## Report to Shareholders

### The Year in Review

Your Company maintained its recent record of profitability during fiscal year 1984 in spite of a serious deterioration in the domestic carpet industry.

Sales for the year ended October 31, 1984, were \$96,287,000 and net operating income was \$530,000; compared with sales of \$95,635,000 (as restated) a year earlier, and net operating income of \$374,000 before extraordinary items of \$1,475,000.

During our fiscal year, sales to the domestic market by Canadian carpet manufacturers fell 12% on a unit basis compared to the prior 12 month period. We had expected a better market place, but the recovery of 1983 was not sustained, and it now appears that 1984 will see the second lowest level of carpet shipments in Canada in the last 12 years. This points out once more the cyclical nature of the carpet and homefurnishing markets. Consumers have opted to first satisfy other deferred wants and needs, such as new automobiles, computers, VCR's and foreign vacations.

However, the desire on the part of the consumer to upgrade the home environment is there to be satisfied; and given a relatively stable economic situation for an extended period of time, we expect carpet consumption will return to historic levels from the recent lows.

The fact that our margins remained relatively stable in a period of rapidly declining demand gives a great degree of credibility to our recent cost control programs. Our competitors' experience appears not to have been as good.

In addition to our cost control efforts, we have done a great deal to upgrade our product styling and colouring, and to improve our service to carpet dealers through our nationwide distribution network. These efforts have been rewarded with a market acceptance which translated into an appreciable gain by your

Company in share of market. Exports were not emphasized that much in 1984, as we worked to build a stable home market base sufficient to ensure profitability. We feel that this has been done, and coupled with our present performance with regard to cost, we think we are ready for more activity in international markets.

In May a group of Canadian institutional investors and senior members of management exercised an option granted them in 1983 and acquired 3,500,000 shares of the Company's Class "C" shares for a cash consideration of \$4,025,000. Also in May, a \$12,000,000 Income Debenture was subscribed for by the Company's bankers. The additional equity and proceeds from the debenture were used to reduce current bank indebtedness. The first instalment of \$2,000,000 on repayment of the Income Debenture was made in October.

As reported, in the third quarter Harding purchased from Canadian Enterprise Development Corporation its equity in Westmills Canada Inc., a Calgary based carpet manufacturer. Harding by its action is addressing the rationalization of production capacity in the carpet industry which will improve the competitive position of both companies in the market place and influence future operating results. Westmills has since announced the closure of its yarn manufacturing facilities in Meaford, Ontario. Westmills is purchasing its requirements for spun yarn and heat set filament yarns from Harding thereby enabling Harding to increase its efficiency and capacity utilization. This will result in lower yarn costs and increased profitability for both Harding and Westmills.

Improvements in manufacturing and distribution continued during the year and cost reduction is an ongoing commitment. Many of the changes made will reflect in future operations and will contribute to continued profitability in 1985.

### Quarterly Review

(thousands, except per share, quarterly data unaudited)

Quarter	Sales		Net Income (Loss)		Per Share	
	1984	1983	1984	1983	1984	1983
1	\$20,879	\$19,091	\$116	\$(1247)	\$.01	\$(.20)
2	24,195	23,122	299	(863)	.03	(.14)
3	24,203	25,183	58	1599	.01	.27
4	27,010	28,239	67	2360		.33
Total	\$96,287	\$95,635*	\$540	\$1849	\$.05	\$.26

\*Sales figures for 1983 have been restated to conform with 1984 statement presentation.



## Outlook

Overcapacity continues to be a problem in the Canadian and international market places. We are beginning to see the first signs of an industry rationalization in Canada. Two small manufacturers ceased operations in the fall of 1984, and others are having problems maintaining profitability. At the same time, the drive for free markets in North America is gaining momentum, and serious import competition in the future is a real possibility. We view the move to free trade as an opportunity for your Company, because:

- (a) we have the strongest and most effective carpet distribution system in Canada, and
- (b) in certain product areas, we have the expertise and cost effectiveness necessary to successfully sell to the total North American market.

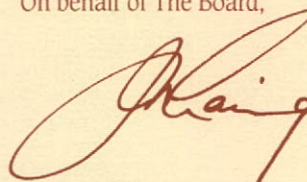
While we look for no great market improvement in 1985, we do expect to extend our market share gains. Also, we expect the long-term demand for carpet to improve.

If interest rates and oil prices remain stable in the immediate future, the benefits we receive from both demand and the reduction of cost components will enhance profit opportunities. Also, replacement of original carpet installed in new residences during the home-building boom of the 70's will be an increasingly significant factor in our market. Commercial building activity is presently on the upswing, domestically and worldwide, and our recent emphasis on this market segment should pay off in the years ahead.

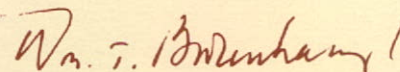
A recent realignment of our marketing responsibilities makes us more responsive to the market place, and will further emphasize the service aspect which we believe is a crucial factor for our success in the years ahead. Our efforts toward productivity improvement will continue unabated and, through judicious use of capital, we will maintain our capabilities at a level second to none in the industry.

Our efforts to deliver innovative, cost competitive and desirable products to the market have been favourably received, and our present offerings are in most cases setting the industry standard. We feel that your Company is well positioned to take advantage of any market cycles in Canada and elsewhere. We look confidently toward the future.

On behalf of The Board,



J.H. Laing,  
Chairman



W.T. Bodenhamer  
President and  
Chief Executive Officer

December 14, 1984

### 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
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
1982	66,142	94.3	7.92	2.68	10.03	3.62
1983	86,646	94.4	10.19	3.47	11.92	4.31
% Increase (Decrease)						
1974-1983	(1.5)	9.0	(24.8)	(11.5)	(4.7)	4.4

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



## Statements of Income and Deficit

Year ended October 31, 1984  
(with comparative figures for  
the year ended October 31,  
1983)

INCOME	1984	1983
	(thousands of dollars)	
Sales	\$96,287	\$95,635
Cost of sales	74,895	74,277
Gross profit from operations	21,392	21,358
Deduct the following items:		
Selling, administrative and distribution expenses	16,346	16,793
Interest on long-term debt	1,413	1,053
Other interest	3,103	3,138
	20,862	20,984
Income before income taxes and the following (notes 4 and 9)	530	374
Income taxes (note 10)	80	
Income before the following	450	374
Share of income in associated company	10	
Extraordinary items (note 11)	80	1,475
Net income for the year	\$ 540	\$ 1,849
Income per share:		
Before extraordinary items	\$0.04	\$0.05
After extraordinary items	\$0.05	\$0.26
DEFICIT	1984	1983
	(thousands of dollars)	
Deficit, beginning of year	\$(1,133)	\$(2,982)
Net income for the year	540	1,849
Deficit, end of year	\$ (593)	\$(1,133)
(See accompanying notes)		

## Auditors' Report

To the Shareholders of Harding Carpets Limited:

We have examined the balance sheet of Harding Carpets Limited as at October 31, 1984 and the statements of income, deficit 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 financial statements present fairly the financial position of the corporation as at October 31, 1984 and the results of its operations and 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 financial statements for the preceding year were examined by other chartered accountants.

*Clarkson Gordon*

Toronto, Canada  
December 13, 1984. Chartered Accountants



**Balance Sheet**

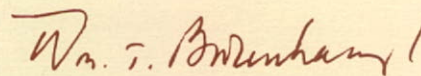
October 31, 1984  
(with comparative figures  
at October 31, 1983)

<b>ASSETS</b>	<b>1984</b>	<b>1983</b>
	(thousands of dollars)	
<b>Current assets:</b>		
Accounts receivable	\$20,691	\$21,651
Amount due from associated companies (note 13)	941	515
Inventories (note 2)	24,361	26,589
Prepaid expenses and sundry assets	2,606	1,101
Income taxes recoverable		70
	<b>48,599</b>	<b>49,926</b>
<b>Fixed assets</b> (notes 3 and 4):		
Land, buildings and equipment	41,009	40,209
Less accumulated depreciation	27,010	25,742
	<b>13,999</b>	<b>14,467</b>
<b>Other assets:</b>		
Investment in associated companies (note 5)	1,720	94
Sundry	110	116
	<b>1,830</b>	<b>210</b>
	<b>\$64,428</b>	<b>\$64,603</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Bank advances (note 6)	\$ 9,753	\$20,288
Accounts payable and accrued liabilities	13,423	17,533
Instalments on long-term debt due within one year	2,501	635
	<b>25,677</b>	<b>38,456</b>
<b>Long-term debt</b> (note 8)	<b>17,708</b>	<b>10,210</b>
<b>Shareholders' equity:</b>		
Capital stock (note 7)	21,636	17,070
Deficit	(593)	(1,133)
	<b>21,043</b>	<b>15,937</b>
	<b>\$64,428</b>	<b>\$64,603</b>

On behalf of the Board:



Director



Director

(See accompanying notes)



## Statement of Changes in Financial Position

Year ended October 31, 1984  
(with comparative figures for  
the year ended October 31,  
1983)

	1984	1983
	(thousands of dollars)	
<b>Operations:</b>		
Income before share of profit in associated company and extraordinary items	\$ 450	\$ 374
Charges to income not affecting cash —		
Depreciation and amortization (note 4)	1,560	2,562
Loss on disposal of fixed assets	51	
Income taxes recovered due to loss carryforward	80	
Working capital provided from operations	2,141	2,936
Changes in working capital relating to operations —		
Accounts receivable	960	(2,315)
Amounts due from associated company	(426)	245
Inventories	2,228	(5,404)
Prepaid expenses and sundry assets	(1,505)	(29)
Income taxes recoverable	70	307
Accounts payable and accrued liabilities	(4,110)	4,504
Cash provided from (used for) operations	(642)	244
<b>Financing activities:</b>		
Issue of income debenture	12,000	
Loan from Ontario Development Corporation		1,500
Issue of shares for cash	4,565	4,057
Payments on long-term debt and income debentures	(2,634)	(2,304)
Proceeds from insurance policy redemption	13	
Net cash obtained from financing activities	13,944	3,253
<b>Capital investments:</b>		
Purchase of fixed assets	1,281	794
Proceeds on disposal of fixed assets	(174)	(3,082)
Investment in associated company	1,616	
Other	44	4
Net cash used for (obtained from) capital investments	2,767	(2,284)
<b>Decrease in bank advances</b>	<b>10,535</b>	<b>5,781</b>
<b>Bank advances, beginning of year</b>	<b>20,288</b>	<b>26,069</b>
<b>Bank advances, end of year</b>	<b>\$ 9,753</b>	<b>\$20,288</b>

(See accompanying notes)



# Notes to Financial Statements OCTOBER 31, 1984

## ■ 1. Accounting policies

The financial statements of the corporation have been prepared in accordance with generally accepted accounting principles. The more significant of the corporation's accounting policies are summarized below:

(a) **1983 Consolidation and amalgamation** — The comparative financial statements for 1983 include the consolidated accounts of Harding Carpets Limited and its two wholly-owned subsidiaries. In that year, one of the subsidiaries was wound up and its net assets and operations were transferred to the parent. The second subsidiary amalgamated with the parent effective November 1, 1983. Both the wind-up and the amalgamation had no effect on the financial statements, except for the reduction in deferred income taxes referred to in note 11.

(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 capital leases** — Fixed assets are stated at cost. Leases which transfer substantially all the benefits and risks of ownership of the leased assets are capitalized.

(d) **Depreciation and amortization** — Charges are made against income for depreciation of investment in plant, equipment and capital leases, based on estimated remaining useful lives of the assets using the straight-line method.

(e) **Samples** — The cost of samples is charged against income over the estimated product life, which is 24 months.

(f) **Investment in associated companies** — The corporation's investment in Westmills Canada Inc. (see note 5) is accounted for by the equity method. Under this method the share of earnings (loss) attributable to this investment is included in income from the date of acquisition, July 12, 1984. The excess of cost over the fair value of the net assets is being amortized to income over 30 years.

The corporation's 10 percent investment in Harding Malaysia SDN BHD is carried at cost.

(g) **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.

The corporation has changed its basis of accounting for investment tax credits to conform with a recent recommendation of the Canadian Institute of Chartered Accountants. Such credits are deducted from the expenditures to which they relate when earned where previously they were recognized as a reduction of income tax expense. This change has no effect on these financial statements.

(h) **Pensions** — Pension benefit costs are determined by independent actuaries. Any experience surplus or deficit identified as a result of actuarial revaluation is amortized to income over a period of three years.

(i) **Income per share** — Income per share is calculated by dividing net income by the weighted monthly average of the number of Class A, B, C, D and common shares outstanding during the year.

## ■ 2. Inventories

(thousands of dollars)	1984	1983
Raw materials	\$ 1,351	\$ 2,229
Goods in process	8,481	8,842
Finished goods	14,529	15,518
	<b>\$24,361</b>	<b>\$26,589</b>

## ■ 3. Fixed assets

(thousands of dollars)	Rate of depreciation	1984		1983	
		Cost	Accumulated depreciation	Cost	Accumulated depreciation
Land		\$ 166		\$ 166	
Buildings	40 years	11,037	\$ 4,202	10,969	\$ 3,914
Machinery and equipment	7-17 years (note 4)	29,018	22,232	28,286	21,392
Equipment under capital leases	6 years	788	576	788	436
		<b>\$41,009</b>	<b>\$27,010</b>	<b>\$40,209</b>	<b>\$25,742</b>

## ■ 4. Changes in accounting estimates

During 1984 management reassessed the remaining useful lives of all the corporation's machinery and equipment and product sample costs. They have determined that such remaining lives are in the range of 7 to 17 years for machinery and equipment and are 24 months for product samples. Accordingly, 1984 depreciation on machinery and equipment has been taken on a straight-line basis using these revised estimated remaining lives. Product sample costs have been expensed over 24 months. For the year ended October 31, 1984 these changes in estimates have resulted in a reduction in depreciation written on fixed assets and a decrease in product sample costs expensed resulting in an increase in net income for the year of \$1,094,000.

## ■ 5. Investment in Westmills Canada Inc.

On July 12, 1984 the corporation acquired a 31.8% interest in Westmills Canada Inc. consisting of 1,100,000 common shares at \$1.03 per share and 48,310 preferred shares at \$10 per share for a cash consideration of \$1,616,100. Westmills is engaged in the manufacture and distribution of carpets. At the date of acquisition, fair values were assigned to Westmills' assets and liabilities resulting in the following adjustments to Westmills' accounts:

	Increase (decrease) (thousands of dollars)
Current assets	\$ (1,000)
Current liabilities	504
Fixed assets	(498)
Other assets	(1,685)
Shareholders' equity	(3,687)

The difference between the cost of this investment and the corporation's proportionate share of the fair value of Westmills' assets and liabilities is \$1,288,000, which amount is being amortized to income over 30 years.

## ■ 6. Bank advances

As collateral for bank advances, the corporation has provided the bank with an assignment of accounts receivable and inventory.

## ■ 7. Capital stock

	Shares			
Authorized capital:				
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	
Preference shares issuable in series			520,000	
Issued stated capital:				
	1984		1983	
	Shares	Amount	Shares	Amount
	(thousands of dollars)		(thousands of dollars)	
Class A and Class B non-voting shares,	3,810,870	\$ 6,835	3,571,370	\$ 6,346
Class C and Class D voting shares,	9,722,615	14,800	6,170,615	10,723
Common shares,	1,000	1	1,000	1
	<b>13,534,485</b>	<b>\$21,636</b>	<b>9,742,985</b>	<b>\$17,070</b>



## ■ 8. Long-term debt

(thousands of dollars)	1984	1983
Loan from Ontario Development Corporation —	\$ 1,500	\$ 1,500

As collateral, the corporation has provided a subordinated floating charge on fixed assets. This loan is interest free until August 15, 1985 and thereafter, bears interest at 12.5%. It is repayable in blended monthly principal and interest instalments of \$33,508, commencing September 15, 1985 with the balance due on August 15, 1990.

Debentures secured by way of a floating charge on fixed assets —		
Series A, 6% due 1984		472
Series B, 6⅞% due 1987	684	695
Series C, 8⅝% due 1992	1,422	1,422
Series D, 10¼% due 1994	3,130	3,130
Series E, 11⅜% due 1994	3,182	3,192
	<b>8,418</b>	<b>8,911</b>
Income debenture —	<b>10,000</b>	

On May 31, 1984 the corporation issued \$12 million of income debentures to its principal bankers secured by a general assignment of accounts receivable and inventory. Interest at the rate of one-half of bank prime plus 1¾% is payable from net income before interest on the income debenture. During 1984 interest amounted to \$415,000. Fixed principal repayments of \$2,000,000 are required for five years commencing October 31, 1984. In addition, annual variable repayments are required 90 days after each year end equal to 70% of cash flow after debt repayment and capital expenditures. Any principal balance remaining is due May 31, 1989.

Obligations under capital leases —	291	434
Total long-term debt	<b>20,209</b>	<b>10,845</b>
Less instalments due within one year	<b>2,501</b>	<b>635</b>
	<b>\$17,708</b>	<b>\$10,210</b>

The trust indentures for the outstanding serial debentures contain covenants which place limitation on the payment of dividends. There were no retained earnings free from restriction as of October 31, 1984. Elimination of this restriction will be dependent upon future earnings.

The debentures are repayable as follows (thousands of dollars):

1985	\$ 296
1986	523
1987	1,069
1988	595
1989	710
1990 and subsequent	5,225
	<b>\$8,418</b>

## ■ 9. Pensions

An actuarial valuation of the Employees' Pension Plan as at June 1, 1983 indicated that the plan is fully funded and had a surplus of \$3,147,000. This surplus has been allocated as follows:

	(thousands of dollars)
Improvements to plan benefits	\$ 725
Amounts taken to income in the current year —	
Actuarial gains due to early retirements and terminations	943
Experience surplus	<u>493</u>
Experience surplus to be taken to income during 1985 and 1986	986
	<b>\$3,147</b>

The expense charged to income by the corporation for Pension Plans in 1984 was \$398,000 (1983 — \$437,000).

## ■ 10. Income taxes

The corporation's income tax expense for 1984 differs from that which would be computed using combined federal and provincial statutory tax rates because of non-deductible interest expense of \$415,000 on the income debenture and the federal 3% inventory allowance of \$790,000.

Income taxes otherwise payable in 1983 were eliminated by the federal 3% inventory allowance.

At October 31, 1984 the corporation has accumulated losses for tax purposes of approximately \$15 million which may be carried forward and used to reduce taxable income in future years. These losses expire as follows: 1987 — \$14,663,000; 1990 — \$287,000.

The future tax benefits resulting from approximately \$6,940,000 of the income tax losses carried forward have not been recognized in the accounts because of uncertainty as to their ultimate realization.

## ■ 11. Extraordinary items

(thousands of dollars)	1984	1983
Recovery of income taxes due to loss carryforward	<b>\$80</b>	
Gain on sale of property, Rexdale, Ontario (i)		\$1,100
Reduction in deferred income taxes on wind-up of subsidiary during the year		375
	<b>\$80</b>	<b>\$1,475</b>

(i) No income tax was payable on this gain due to application of prior years' losses.

## ■ 12. Commitments

The corporation has commitments under various operating leases for the rental of buildings, equipment, trucks and automobiles. Such leases range in term from 3 to 13 years. Minimum payments under these leases over the next five years are (thousand of dollars): 1985 — \$1,370; 1986 — \$1,129; 1987 — \$896; 1988 — \$815; 1989 — \$600; 1990 and thereafter — \$1,230.

## ■ 13. Related Party transactions

At October 31, 1984, amounts receivable from related parties totalled \$941,000. These amounts arose through sales of carpet products in the normal course of business to Harding Malaysia SDN BHD and Westmills Canada Inc. The total value of sales to each company was \$1,075,000 and \$483,000 respectively. Purchases from Westmills Canada Inc. amounted to \$146,000.

## ■ 14. Reclassification of comparative figures

Certain amounts for 1983 have been reclassified to conform with the financial statement presentation adopted for 1984.



## Ten Year Financial Summary (thousands omitted) Year ended October 31

	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975
<b>Operating Results</b>										
<b>Sales</b>	<b>\$96,287</b>	<b>\$95,635</b>	<b>\$83,414</b>	<b>\$100,878</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>
Depreciation	1,560	2,562	2,094	2,544	2,523	2,560	2,480	2,583	2,284	1,816
Interest	4,516	4,191	3,354	3,380	2,409	2,088	2,968	2,963	2,674	1,580
Income before taxes	540	374	(13,991)	1,903	(797)	(501)	(3,079)	48	4,810	3,681
Income taxes	80	—	(2,186)	444	(540)	(448)	(1,659)	(212)	1,846	1,552
Preference Dividends	—	—	(1,165)	(1,254)	(1,031)	(713)	—	—	—	—
Extraordinary Income	80	1,475	—	845	69	(58)	505	—	—	—
<b>Net Income (Loss)</b>	<b>\$ 540</b>	<b>\$ 1,849</b>	<b>\$(12,970)</b>	<b>\$ 1,050</b>	<b>\$(1,219)</b>	<b>\$ (824)</b>	<b>\$ (915)</b>	<b>\$ 260</b>	<b>\$ 2,964</b>	<b>\$ 2,129</b>
Per share	\$ 0.05	\$ 0.26	\$ (2.16)	\$ .20	\$ (.24)	\$ (.16)	\$ (.18)	\$ .05	\$ .58	\$ .42
As a percentage of sales	0.6%	1.9%	(15.5)%	1.0%	(1.4)%	(1.1)%	(1.2)%	.4%	4.0%	3.6%
As a percentage of capital employed	7.5%	13.7%	(26.9)%	4.4%	(1.6)%	(1.7)%	(.4)%	2.7%	9.9%	7.5%
As a percentage of shareholders' equity	3.4%	18.4%	(67.1)%	5.8%	(6.3)%	(4.1)%	(4.3)%	1.2%	14.4%	10.8%
<b>Dividends Paid on</b>										
Class A, B, C and D Shares	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 204	\$ 1,109	\$ 1,446	\$ 1,420
Per share	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ .04	\$ .22	\$ .28	\$ .28
<b>Other Financial Data</b>										
Capital expenditures	\$ 1,281	\$ 794	\$ 1,565	\$ 990	\$ 1,238	\$ 1,585	\$ 1,694	\$ 3,092	\$ 6,616	\$ 2,822
Working capital	22,922	11,470	2,762	26,112	24,273	23,347	12,634	14,933	18,165	15,525
Ratio of current assets to current liabilities	1.9 to 1	1.3 to 1	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
Inventories	\$24,361	\$26,589	\$21,737	\$25,036	\$20,823	\$18,595	\$15,237	\$18,251	\$22,126	\$16,433
Fixed assets (net)	13,999	14,467	18,175	19,172	21,349	24,388	26,429	27,824	27,504	23,452
Long-term debt	17,708	10,210	10,345	11,215	12,825	13,715	15,525	16,440	17,430	13,134
<b>Shareholders' Equity</b>	<b>\$21,043</b>	<b>\$15,937</b>	<b>\$10,031</b>	<b>\$19,330</b>	<b>\$18,239</b>	<b>\$19,439</b>	<b>\$20,179</b>	<b>\$21,272</b>	<b>\$22,106</b>	<b>\$20,538</b>
Shareholders' equity per share	1.55	1.64	1.62	3.73	3.53	3.78	3.94	4.16	4.33	4.03



