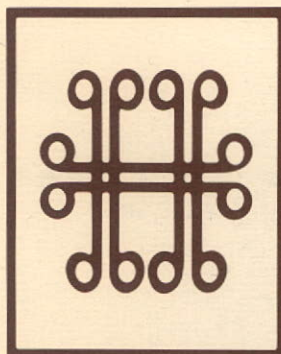


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HARDING CARPETS LIMITED

56th ANNUAL REPORT

OCTOBER 31

1983

The Annual and Special General Meeting of the holders of Class C, Class D and Common shares will be held on Tuesday, February 28, 1984 at the Royal York Hotel, Toronto, Ontario at 4:15 p.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.

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

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

Charles R. Pike
Vice-President
Prairie Region
CP Rail

OFFICERS

C. Malim Harding
Chairman of the Board

William T. Bodenhamer
President and Chief Executive Officer

James H. Laing
Sr. Vice-President

H. Vernon Gordon
Vice-President, Manufacturing

C.M. Victor Harding
Vice-President, Operations

Albert F. Klinkhammer,
Vice-President & Secretary-Treasurer

John C. Muffit
Vice-President, Planning
& Services

Colin K. Thompson
Vice-President,
Human Resources

Geoffrey P. Charnley
Corporate Controller and
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

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

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
Laventhol & Horwath

**HARDING CARPETS
LIMITED**

	1983	1982
Sales	\$96,943,656	\$83,414,462
Income (Loss) before Preference Dividends and Extraordinary Items	373,742	(11,804,464)
Preference Dividends and Extraordinary Items:		
Preference Dividends	—	1,165,301
EXTRAORDINARY ITEMS —		
Gain on sale of fixed assets	1,099,736	—
Deferred income taxes	375,857	—
Net Income (Loss) for the Year	1,849,335	(12,969,765)
Earnings (loss) per share	\$ 0.26	\$ (2.16)
As a percentage of sales	1.9%	(15.5)%
As a percentage of capital employed ¹	13.7%	(26.9)%
As a percentage of shareholders' equity ²	18.4%	(67.1)%
Capital Expenditures	\$ 793,657	\$ 1,565,446
Working Capital	\$11,469,826	\$ 2,761,952
Ratio of current assets to current liabilities	1.3 to 1	1.1 to 1
Shares Outstanding		
Class A and Class B, Non-voting	3,571,370	3,570,870
Class C and Class D, Voting	6,170,615	2,635,615
Common, Voting	1,000	—
Number of shareholders, 98% Canadian (1982— 98%)	2,052	2,316
Number of employees (average)	878	983

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 the finishing of 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 residential and commercial use across Canada as well as in countries to which Harding exports.

THE YEAR IN REVIEW

In July, additional share capital was made available to the Company from a group of Canadian institutional investors. These investors agreed to subscribe for 3,200,000 Class "C" shares for \$3.7 million. As a result of the subscription, the investors acquired approximately 52% of the voting shares of Harding. The investors were also granted an option to acquire, on or before May 31, 1988 an additional 3,200,000 Class "C" shares. The initial subscription was based on market price at the time of the purchase.

During the year, the Company was able to arrange a restructuring of its debt and to improve its financial position with the co-operation of its various lenders. A loan from the Ontario Development Corporation was a key factor in that improvement. It is interest free for the first two years and is repayable over five years, commencing in August 1985. The Rexdale warehouse and office property was sold in the Company's third quarter for

\$3.3 million. The net proceeds were used to pay arrears of principal and interest due as of September 30, 1983 on the outstanding debentures and were, as required under the trust indenture, also applied to some payments on debentures which were not due until the 1984 and 1985 fiscal years. The payments of amounts which were not yet due were necessary in order to make pro rata distributions to holders of all series of debentures, with whom an agreement was reached to apply such payments to principal next maturing rather than last maturing. Principal payments of long term debt maturing in the next two fiscal years have been reduced to \$789,000.

The improvement of operations, the introduction of additional equity and the debt restructuring significantly added to working capital, which increased during the fiscal year by \$8,707,874. Additional expense was incurred by the Company, associated with restructuring efforts in the

The 1983 fiscal year ended October 31st was certainly one of the more eventful periods in the history of the Harding organization.

During the year, the Company returned to profitability with a strong performance in the third and fourth quarters. Operating profits for the year were \$373,742, exclusive of extraordinary income amounting to \$1,475,593. Sales increased 16% to \$96,943,656. These results represent a significant improvement over the 1982 fiscal year in which the Company lost \$12,969,765 on sales of \$83,414,462.

The turn around can be attributed to several factors, the most important of which were a resurgent carpet market and a realization of the benefits of the major reorganization and restructuring which took place during 1982. The contribution by employees of the Company, all of whom performed splendidly during 1983, has earned the heartfelt appreciation of the Board.

QUARTERLY REVIEW

(thousands, except per share, quarterly data unaudited)

Quarter	Sales		Net Profit (Loss)		Per Share	
	1983	1982	1983	1982	1983	1982
1	\$19,418	17,211	\$(1,247)	\$(1,443)	\$(.20)	\$(.24)
2	23,449	22,269	(863)	(2,826)	(.14)	(.47)
3	25,510	22,608	1,599	(3,394)	.27	(.57)
4	28,566	21,326	2,360	(5,306)	.33	(.88)
Total	\$96,943	\$83,414	\$1,849	\$(12,969)	\$.26	\$(2.16)

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
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
1982	66,142	94.3	7.92	2.68	10.03	3.62
% Increase (Decrease)						
1973-1982	(16.8)	6.4	(37.5)	(25.6)	(28.3)	(20.3)

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

form of exceptional legal and consulting fees, additional interest and other charges resulting from deferrals and changes in the type of debt, premiums paid over normal debenture redemption prices and other related items, the aggregate of which was approximately \$961,000. Most of these are non-recurring expenses.

The voting shares owned by the Malaysian interest continue to be held in trust by two officers of the Company who hold the voting rights and the option to purchase the shares at the direction of the Board of Directors within the four year period to February 1987.

For purposes of economy and simplicity, the wholly owned subsidiaries Venture Carpets of Canada Ltd., Laing International Products Limited and Richelieu Flooring Distributors (1978) Inc. were consolidated and/or amalgamated with the parent Company during the year and Venture now operates as a manufacturing division of the parent Company.

Following the sale of the Rexdale property, the executive offices of the Company were located in new premises in Mississauga, adjacent to the sales and marketing offices of the Company. The shareholders will be asked to consider a resolution authorizing the change of the registered or head office of the Company from the City of Brantford to the Mississauga location.

Improvements in operations, both in the manufacturing segments and in distribution, progressed well during the year. A great deal was accomplished in the areas of quality control and cost control. However, more remains to be done, and effort in these areas continues at a high level of priority. During the year the breadth and the depth of our manufacturing and styling capabilities were enhanced. The nationwide distribution system has been streamlined and all regional operations are contributing to the success and profitability of the company.

THE OUTLOOK

As this report is written, all indicators point to at least two years of stability and modest expansion in the industry. The first half of 1984 may produce some peculiar patterns as the market adjusts to a great deal of "pipeline filling" which occurred in 1983. Any aberrations should be temporary though and normal market patterns should prevail after the Spring.

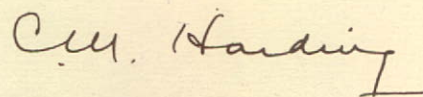
Within the Company, we recognize that continued effort is required in areas such as the further strengthening of our financial position, improving our market position and continuing the development and strengthening of our management team. We continue to modify our Strategic Plans as situations develop which require a response from management. Our attention must continue to be focused on making our operations as efficient, and the styling of our product as attractive, as those of our national and international competitors.

At this point, we are looking forward to a profitable 1984 fiscal year. The Company has a tax sheltered position of approximately \$17 million to apply against future income which will have a very positive effect on our cash flow. Under such circumstances, it is anticipated that we will be able to effect a reduction in the debt load of the Company and make sufficient reinvestment in fixed assets to maintain our leadership position in the Canadian industry.

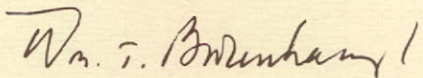
Careful and precise management of our business in the months and years ahead should be reflected in a growth rate better than the overall economy. There will be, as always, ups and downs, but we feel confident in our purpose and in the direction the company is headed.

This year, there is a very special and sincere depth in the appreciation and thanks to be expressed to our customers and shareholders, our employees and managers, our suppliers and lenders, and all others who in their individual ways made a contribution toward, or were responsible for, the improved performance in 1983 and to whom we look for continued support in 1984.

On behalf of the Board,



C. Malim Harding
Chairman



W.T. Bodenhamer
President and
Chief Executive
Officer

January 24, 1984.

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

Year ended October 31, 1983

HARDING CARPETS LIMITED

	1983	1982
Sales	\$96,943,656	\$83,414,462
Cost of sales	75,281,685	74,571,593
Gross profit from operations	21,661,971	8,842,869
Deduct the following items:		
Selling, administrative and distribution expenses	17,181,968	19,480,023
Interest on long-term debt	1,053,372	1,109,000
Other interest	3,052,889	2,244,644
	21,288,229	22,833,667
Income (loss) before income taxes and other items	373,742	(13,990,798)
Income taxes (Note 10):		
Current (recovery)	—	(496,311)
Deferred (reduction)	—	(1,690,023)
	—	(2,186,334)
Income (loss) before preference dividends and extraordinary items	373,742	(11,804,464)
Preference dividends	—	1,165,301
Income (loss) before extraordinary items	373,742	(12,969,765)
Extraordinary items (Note 11)	1,475,593	—
Net income (loss) for the year	1,849,335	(12,969,765)
Retained earnings(deficit) at beginning of year	(2,982,147)	9,987,618
Deficit at end of year	\$ (1,132,812)	\$ (2,982,147)
Earnings (loss) per share:		
Before extraordinary items	\$0.05	\$(2.16)
After extraordinary items	\$0.26	\$(2.16)

See accompanying notes.

FEB 3 1984

LES TAPIS HARDING LIMITÉE

RAPPORT AUX ACTIONNAIRES

UNE REVUE DE L'ANNÉE

L'année financière 1983, qui a pris fin le 31 octobre, a certainement été une des périodes les plus mémorables de l'histoire de l'entreprise Harding.

Pendant l'année, la société est redevenue rentable, les troisième et quatrième trimestres ayant eu des résultats fort positifs. Pour l'année, le bénéfice d'exploitation a été de 373 742 \$, à l'exclusion d'un revenu extraordinaire de 1 475 593 \$. Les ventes ont augmenté de 16 p.-cent et ont atteint 96 943 656 \$. Ces résultats représentent une amélioration sensible par rapport à l'année financière 1982, au cours de laquelle la société a subi une perte de 12 969 765 \$, alors que les ventes ont été de 83 414 462 \$.

Ce revirement peut être attribué à plusieurs facteurs, parmi lesquels les plus significatifs ont été un rétablissement du marché du tapis et les effets bénéfiques de la réorganisation majeure et de la restructuration de la société en 1982. Le Conseil d'administration apprécie grandement l'apport de tous les employés, car leur performance à tous a été exceptionnelle en 1983.

En juillet, un groupe d'investisseurs institutionnels canadiens a mis du capital-actions additionnel à la disposition de la société. Ces investisseurs ont consenti à souscrire 3 200 000 actions de classe "C" pour la somme de 3.7 millions de dollars. À la suite de cette souscription, les investisseurs ont acquis environ 52 p.-cent des actions Harding avec droit de vote. Les investisseurs ont aussi reçu une option d'acheter, le ou avant le 31 mai 1988, 3 200 000 actions de classe "C" additionnelles. La souscription initiale était basée sur le cours du marché au moment de l'achat.

Pendant l'année, grâce à la coopération de ses différents prêteurs, la société a pu restructurer sa dette et améliorer ainsi sa situation financière. Un prêt de la Société de développement de l'Ontario a joué un rôle essentiel dans cette amélioration. Ce prêt est exempt d'intérêts pendant les deux premières années et remboursable au cours d'une période de cinq ans à compter du mois d'août 1985. Les locaux de l'entrepôt et des bureaux de Rexdale ont été vendus pendant le troisième trimestre de l'année financière de la société pour la somme de 3.3 millions de dollars. Le produit net a été utilisé pour payer des arriérés de capital et d'intérêts, exigibles le 30 septembre 1983, sur les obligations impayées. De même, tel que requis par l'acte de fiducie, une partie fut aussi affectée au paiement de certaines obligations qui n'arrivaient pas à échéance avant les années financières 1984 et 1985. Le paiement de certains montants qui n'étaient pas encore dûs était nécessaire pour pouvoir effectuer une

distribution au prorata aux détenteurs de toutes les séries d'obligations, avec lesquels une entente avait été conclue permettant d'imputer de tels montants à la portion de capital arrivant immédiatement à échéance plutôt qu'à celle arrivant en dernier à échéance. Les paiements à porter en diminution du capital de la dette à long terme arrivant à échéance pendant les deux prochaines années financières ont été réduits à 789 000 \$.

Les améliorations apportées à l'exploitation, l'addition de nouveaux capitaux et la restructuration de la dette ont sensiblement accru le fonds de roulement, de sorte que son augmentation nette au cours de l'année financière a atteint 8 707 874 \$. À la suite de sa réorganisation, la société a encouru des dépenses supplémentaires imprévues, sous forme d'honoraires d'avocats et de conseillers, d'intérêts et autres charges à la suite d'ajournements et de changements de la dette, de primes payées en sus des prix normaux de remboursement des obligations, ainsi que d'autres frais connexes. Le total de ces dépenses s'est élevé à environ 961 000 \$, mais la plupart d'entre elles ne se répéteront pas.

Les actions avec droit de vote qui sont la propriété de la participation malaise continuent à être administrées en fidéicommiss par deux dirigeants de la société qui ont les droits de vote et l'option d'acheter les actions, conformément aux instructions du Conseil d'administration, pendant une période de quatre ans prenant fin en février 1987.

Pour des raisons d'économie et de simplification, les filiales en propriété exclusive Les tapis Venture du Canada Ltée, Laing International Products Limited et Les Distributeurs en Couvre Planchers Richelieu (1978) Inc. ont été soit intégrées dans la société mère, soit fusionnées avec celle-ci au cours de l'année et Venture fonctionne maintenant comme une division de fabrication de la société mère.

À la suite de la vente de la propriété de Rexdale, les bureaux de la direction de la société sont maintenant situés dans un nouvel édifice à Mississauga et sont attenants aux bureaux de ventes et de commercialisation. On demandera aux actionnaires de prendre en considération une résolution autorisant le déménagement du siège social de la société de Brantford à Mississauga.

Les améliorations au sein de l'exploitation, autant au point de vue fabrication qu'au point de vue distribution, ont été notables au cours de l'année. Dans le domaine du contrôle de la qualité, ainsi que dans celui du contrôle des coûts, de grands progrès ont été faits. Cependant, il reste encore des changements à effectuer et ils font partie de nos priorités. Au cours de l'année, nos installations de fabrication, et les travaux de création de nouveaux styles de tapis ont pris de l'ampleur. Le système national de distribution a été réorganisé et toutes les opérations régionales contribuent au succès et à la rentabilité de la société.

LES PERSPECTIVES

Pendant la rédaction de ce rapport, tous les facteurs semblent indiquer au moins deux ans de stabilité et de modeste expansion dans l'industrie du tapis. Au cours de la première moitié de 1984, certaines situations singulières pourraient se produire, alors que le marché s'ajuste aux inventaires excessifs qui se sont accumulés en 1983 tout le long de la chaîne d'approvisionnement. Toute anomalie devrait cependant être temporaire et la situation du marché devrait redevenir normale au début de l'été.

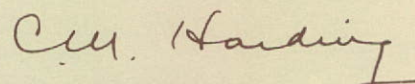
Au sein de la société, nous sommes conscients des efforts que nous devons faire pour solidifier davantage notre situation financière, améliorer notre position sur le marché et continuer à développer et à renforcer nos cadres. Nous continuons à modifier nos stratégies selon les situations qui se présentent et qui exigent des décisions au niveau de la direction. Nous devons continuer nos efforts de rendre notre exploitation aussi efficace que celle de nos compétiteurs nationaux ou étrangers et offrir un produit qui soit tout aussi attrayant que le leur.

En ce moment, nous envisageons une année financière rentable en 1984. La société bénéficie actuellement d'un abri fiscal d'environ 17 millions de dollars, imputable sur les revenus futurs, ce qui aura un effet positif sur nos mouvements de trésorerie. Dans de telles circonstances, nous prévoyons être à même de réduire la dette de la société et de réinvestir suffisamment de fonds en biens immobilisés pour maintenir notre position de leader dans l'industrie canadienne du tapis.

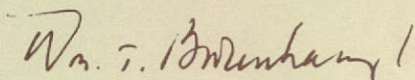
Une gestion soigneuse et prudente de la société dans les mois et les années à venir devrait se traduire par un taux de croissance plus élevé que celui de l'économie en général. Nous aurons, comme de raison, des hauts et des bas, mais nous avons confiance dans les méthodes que nous avons adoptées ainsi que dans l'avenir de la société.

Cette année, nous désirons exprimer notre reconnaissance et nos remerciements les plus sincères à nos clients et à nos actionnaires, à nos employés et à nos gérants, à nos fournisseurs et à nos prêteurs, ainsi qu'à toutes les autres personnes qui, à leur manière, ont contribué ou ont été responsables du rendement amélioré de la société en 1983. Nous espérons qu'ils continueront à nous prêter leur appui en 1984.

Au nom du Conseil d'administration,



C. Malim Harding
Président du Conseil



W.T. Bodenhamer
Président et
chef de la
direction

Le 24 janvier 1984

CONSOLIDATED BALANCE SHEET — October 31, 1983

HARDING CARPETS LIMITED

ASSETS	1983	1982
Current assets:		
Accounts receivable, less allowance for doubtful accounts	\$21,650,916	\$19,336,213
Amount due from affiliated company	515,392	760,205
Inventories (Note 2)	27,057,833	21,737,154
Prepaid expenses and sundry assets	631,401	519,269
Income taxes recoverable	70,293	377,395
	49,925,835	42,730,236
Fixed assets (Note 3):		
Land, buildings and equipment	40,209,387	42,907,443
Less accumulated depreciation	25,742,349	24,732,018
	14,467,038	18,175,425
Other assets:		
Investment in affiliated company	94,096	94,096
Sundry assets	116,215	154,382
	210,311	248,478
	\$64,603,184	\$61,154,139
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank advances (Note 5)	\$20,287,668	\$26,069,051
Accounts payable and accrued liabilities	17,675,341	13,029,233
Instalments on long-term debt due within one year	493,000	870,000
	38,456,009	39,968,284
Long-term debt (Note 6)	9,918,000	10,345,000
Obligations under capitalized leases (Note 4)	291,639	434,064
Deferred income taxes	—	375,857
Shareholders' equity:		
Capital stock (Notes 7 and 8)	17,070,348	13,013,081
Deficit	(1,132,812)	(2,982,147)
	15,937,536	10,030,934
	\$64,603,184	\$61,154,139

Approved by the Board:

See accompanying notes.

C. Harding

Director

Wm. T. Buchanan

Director

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended October 31, 1983

HARDING CARPETS LIMITED

	1983	1982
Financial resources were provided by:		
Operations:		
Income before extraordinary items	\$ 373,742	\$ —
Charges not involving current funds:		
Depreciation and amortization	2,562,047	—
	2,935,789	—
Proceeds on disposal of fixed assets	3,081,532	22,674
Working capital acquired on the purchase of subsidiary company	—	2,022,688
Loan from Ontario Development Corporation	1,500,000	—
Issue of shares for cash	4,057,267	1,500,000
Issue of shares to purchase subsidiary company	—	2,170,731
	\$11,574,588	\$ 5,716,093
Financial Resources were used for:		
Operations:		
Loss before preference dividends	\$ —	\$11,804,464
Credits (charges) not involving current funds:		
Depreciation and amortization	—	(2,677,335)
Deferred income taxes	—	1,690,023
	—	10,817,152
Expenditures on fixed assets	793,657	1,565,446
Preference dividends	—	1,165,301
Reduction in long-term debt	1,927,000	870,000
Acquisition of subsidiary company	—	2,170,731
Reduction of obligations under capitalized leases	142,425	122,156
Redemption of term preference shares	—	12,000,000
Other	3,632	355,495
	2,866,714	29,066,281
Increase (decrease) in working capital	8,707,874	(23,350,188)
Working capital at beginning of year	2,761,952	26,112,140
Working capital at end of year	\$11,469,826	\$ 2,761,952

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, 1983 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, 1983 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.

Laurel & Howarth

December 9, 1983. Chartered Accountants.

■1. Accounting policies:

(a) Consolidation and amalgamation: The consolidated financial statements include the accounts of Harding Carpets Limited and its two subsidiaries, both of which were wholly-owned. During the year one of the subsidiaries was wound up and its net assets and operations were transferred to the parent. Effective November 1, 1983 the second subsidiary amalgamated with the parent.

Both the wind-up and the amalgamation are a change of corporate form and not of substance. Accordingly, except for the reduction in deferred income taxes referred to in Note 11, these corporate changes have no effect on the financial statements.

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. 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 net earnings of the affiliated company are 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, D and common shares are calculated by dividing net income less preference dividends, if any, by the weighted monthly average of the number of shares outstanding during the year.

■2. Inventories:

	1983	1982
Raw materials	\$ 2,228,319	\$ 1,406,629
Goods in process	8,842,201	6,027,411
Finished goods	15,987,313	14,303,114
	\$27,057,833	\$21,737,154

■3. Fixed assets:

	1983		1982	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Land	\$ 166,336	\$ —	\$ 312,025	\$ —
Buildings	10,968,810	3,914,345	13,007,222	4,236,512
Machinery and equipment	28,286,356	21,391,604	28,800,311	20,189,102
Equipment under capitalized leases	787,885	436,400	787,885	306,404
	\$40,209,387	\$25,742,349	\$42,907,443	\$24,732,018

■4. Obligations under capitalized leases:

	1983	1982
Computer and related software	\$532,484	\$732,165
Less amount representing interest	98,420	175,945
	434,064	556,220
Less current portion	142,425	122,156
	\$291,639	\$434,064

The interest rate implicit in the lease is the bank's rate for banker's acceptances plus 1¾%. Principal and interest payments aggregating \$199,681 are payable in each of the years 1984 and 1985 and \$133,122 in 1986.

■5. Bank advances:

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

■6. Long-term debt:

	1983	1982
(a) Loan from Ontario Development Corporation	\$1,500,000	\$ —
Secured by way of a subordinated floating charge and interest free until August 15, 1985. Thereafter, bears interest at 12.5% and repayable in blended monthly principal and interest instalments of \$33,508, with the balance due on August 15, 1990		
(b) Debentures secured by way of a floating charge:		
Series A, 6% due 1984	\$ 472,000	\$ 936,000
Series B, 6-7/8% due 1987	695,000	894,000
Series C, 8-5/8% due 1992	1,422,000	1,820,000
Series D, 10-1/4% due 1994	3,130,000	3,858,000
Series E, 11-3/8% due 1994	3,192,000	3,707,000
	8,911,000	11,215,000
Less instalments due within one year	493,000	870,000
	8,418,000	10,345,000
	\$9,918,000	\$10,345,000

On September 30, 1983 the net proceeds from the sale of the property in Rexdale, Ontario, were used to pay the overdue principal instalment of \$870,000 and related interest and to prepay, on a pro-rata basis, \$1,434,000 of principal due in subsequent years.

The trust indentures underlying the outstanding debentures contain covenants which place limitations on the payment of dividends. There were no consolidated retained earnings free from restriction as of October 31, 1983. Elimination of this restriction will be dependent upon future earnings.

The debentures are repayable as follows:

1984	\$ 493,000
1985	296,000
1986	523,000
1987	1,069,000
1988	595,000
1989 and subsequent	5,935,000
	<u>\$8,911,000</u>

■ 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
	<u>30,000,000</u>

Preference shares issuable in series	520,000
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Issued stated capital:

	1983		1982	
	Shares	Amount	Shares	Amount
Class A and Class B non-voting, interconvertible shares, without par value	3,571,370	\$ 6,345,918	3,570,870	\$ 6,345,041
Class C and Class D voting, interconvertible shares, without par value	6,170,615	10,723,280	2,635,615	6,668,040
Common shares, without par value	1,000	1,150	—	—
	<u>9,742,985</u>	<u>\$17,070,348</u>	<u>6,206,485</u>	<u>\$13,013,081</u>

■ 8. Stock options:

(a) Employees stock options:

Options for 145,000 Class C shares were granted to officers during the year. As at October 31, 1983 there were options outstanding to employees and officers to purchase 110,600 Class A shares and 130,400 Class C shares at prices ranging from \$.86 to \$2.17 per share. All options expire at various dates to 1986.

(b) Stock options pursuant to share subscription agreement:

During the year, pursuant to a share subscription agreement, the controlling shareholder and the directors and senior officers of the corporation were granted options to purchase 3,200,000 and 300,000 Class C shares respectively. The exercise price for the options, all of which were outstanding at the year end is \$1.15 per share to May, 1984. Thereafter, the price is the greater of \$1.15 per share and 95% of the net book value per share to May, 1988.

■ 9. Pensions:

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

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

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

	Company net contributions	Employee net contributions
Employees' Pension Plan	\$4,863,452	\$4,226,610
Canada Pension and Quebec Pension Plans	2,942,044	2,942,044
Deferred Profit Sharing Plan	528,202	—
	<u>\$8,333,698</u>	<u>\$7,168,654</u>

The cost to the corporation of the Pension Plans in 1983 was \$437,115 (1982 — \$547,664). No contributions were made to the Deferred Profit Sharing Plan in either year.

■ 10. Income taxes:

Income taxes otherwise payable for the year have been eliminated by the 3% inventory allowance.

At October 31, 1983 the corporation accumulated losses for tax purposes of approximately \$16.6 million which may be carried forward and used to reduce taxable income in future years. Such losses expire by 1990.

The future tax benefits resulting from approximately \$7.2 million of the income tax losses carry-forward have not been recognized in the accounts because of uncertainty as to their ultimate realization.

At October 31, 1983 the corporation has approximately \$270,000 of unrecorded investment tax credits available to reduce future income taxes payable. Such credits expire in the years 1984 to 1988.

■ 11. Extraordinary items:

(a) Gain on sale of property, Rexdale, Ontario (i)	\$1,099,736
(b) Reduction in deferred income taxes on wind-up of subsidiary during the year	375,857
	<u>\$1,475,593</u>

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

■ 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.

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

	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974
Operating Results										
Sales	\$96,944	\$83,414	\$100,878	\$87,932	\$76,456	\$73,710	\$73,034	\$74,573	\$58,748	\$57,339
Depreciation	2,562	2,094	2,544	2,523	2,560	2,480	2,583	2,284	1,816	1,566
Interest	4,106	3,354	3,380	2,409	2,088	2,968	2,963	2,674	1,580	1,422
Income before taxes	374	(13,991)	1,903	(797)	(501)	(3,079)	48	4,810	3,681	6,832
Income taxes	—	(2,186)	444	(540)	(448)	(1,659)	(212)	1,846	1,552	2,907
Preference Dividends	—	(1,165)	(1,254)	(1,031)	(713)	—	—	—	—	—
Extraordinary Income	1,475	—	845	69	(58)	505	—	—	—	—
Net Income (Loss)	\$ 1,849	\$(12,970)	\$ 1,050	\$(1,219)	\$ (824)	\$ (915)	\$ 260	\$2,964	\$ 2,129	\$ 3,925
Per share	\$0.26	\$ (2.16)	\$.20	\$ (.24)	\$ (.16)	\$ (.18)	\$.05	\$.58	\$.42	\$.77
As a percentage of sales	1.9%	(15.5)%	1.0%	(1.4)%	(1.1)%	(1.2)%	.4 %	4.0%	3.6%	6.8%
As a percentage of capital employed	13.7%	(26.9)%	4.4%	(1.6)%	(1.7)%	(.4)%	2.7%	9.9%	7.5%	15.7%
As a percentage of shareholders' equity	18.4%	(67.1)%	5.8%	(6.3)%	(4.1)%	(4.3)%	1.2%	14.4%	10.8%	22.9%
Dividends Paid on										
Class A, B, C and D Shares	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 204	\$ 1,109	\$ 1,446	\$ 1,420	\$ 1,329
Per share	\$ —	\$ —	\$ —	\$ —	\$ —	\$.04	\$.22	\$.28	\$.28	\$.26
Other Financial Data										
Capital expenditures	\$ 794	\$ 1,565	\$ 990	\$ 1,238	\$ 1,585	\$ 1,694	\$ 3,092	\$ 6,616	\$ 2,822	\$ 3,447
Working capital	11,470	2,762	26,112	24,273	23,347	12,634	14,933	18,165	15,525	19,227
Ratio of current assets to current liabilities	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	2.7 to 1
Inventories	\$27,058	\$ 21,737	\$25,036	\$20,823	\$18,595	\$15,237	\$18,251	\$22,126	\$16,433	\$16,617
Fixed assets (net)	14,467	18,175	19,172	21,349	24,388	26,429	27,824	27,504	23,452	17,933
Long-term debt	9,918	10,345	11,215	12,825	13,715	15,525	16,440	17,430	13,134	13,215
Shareholders' Equity	\$15,938	\$10,031	\$19,330	\$18,239	\$19,439	\$20,179	\$21,272	\$22,106	\$20,538	\$19,766
Shareholders' equity per share	1.64	1.62	3.73	3.53	3.78	3.94	4.16	4.33	4.03	3.89

