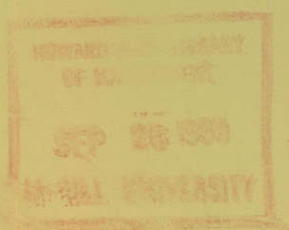


**The Hamilton
Group Limited**

**Annual
Report 1980**



100th Anniversary

100 Years of Progress

The Company commenced business in 1880 as the Hamilton Cotton Company, a manufacturer of textile products, located in Hamilton, Ontario, Canada.

The 1960's saw the beginning of diversification, predominantly in the field of financial services, and in 1970 the Company changed its name to The Hamilton Group Limited reflecting this change in direction.

The Company now has expanding interests in financial services, rental and sales of computer equipment in Canada, the United Kingdom, Mexico, France, Germany and the United States of America, as well as manufacturing interests in Canada, and in 1980 looks ahead to a bright and prosperous future.

HIGHLIGHTS

	1980	1979
Net income	\$ 561,864.00	\$ 1,310,613.00
Earnings per share	\$.25	\$.58
Dividends paid	\$.28	\$.28
Number of Class A and B shares outstanding	2,260,288	2,247,410
Class A and B shares registered in Canada	97.0%	97.6%

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DIRECTORS AND OFFICERS

HEAD OFFICE:

5050 South Service Road, Burlington, Ontario L7L 4Y7

DIRECTORS:

Frederick W. Dakin	President, The G. W. Robinson Co. Limited
Graham R. Dawson	President, Dawson Construction Ltd.
Lincoln S. Magor	President, Mimik Limited
John F. Schunk	Retired, former Vice-President, The Hamilton Group Limited
John G. Sheppard	Executive Vice-President - Financial, Dominion Foundries and Steel Limited
Paul A. Southall	Vice-President, The Hamilton Group Limited
Alan B. Young	Senior Vice-President, The Hamilton Group Limited
David M. Young	Senior Vice-President, The Hamilton Group Limited
William H. Young	President, The Hamilton Group Limited

HONORARY DIRECTOR:

James M. Young

OFFICERS:

William H. Young	President
Alan B. Young	Senior Vice-President
David M. Young	Senior Vice-President
Paul A. Southall	Vice-President
C. Leslie McCarthy	Secretary

REGISTRAR AND TRANSFER AGENT:

Canada Permanent Trust Company, Toronto, Ontario

AUDITORS:

Peat, Marwick, Mitchell & Co.

ANNUAL REPORT OF DIRECTORS

TO THE SHAREHOLDERS

The record cost of money, particularly in the last half of the fiscal year, had a severe effect on the profit of all the companies which contribute to the consolidated earnings of The Hamilton Group. While profit performance was disappointing, the fiscal year saw progress in developing the rental operations in Europe; in implementing the three year plan for Mexico; and in overcoming the difficulties in Charter Credit Corporation. Highlights of the year were:

- Net income of \$561,864, or 25 cents per share
- A break-even for Citicorp Leasing Canada Limited in the twelve months ended April 30, 1980
- A contribution to consolidated income of \$576,238 from rental operations in Europe
- A contribution to consolidated income of \$397,265 from investments in International Mercantile Factors Limited and Torham Packaging Inc. and from Cancord Limited
- A loss of \$256,212 in Charter Credit Corporation
- A loss of \$114,023 from Mexican operations

FINANCIAL

Net income, after allowing for minority interests, was \$561,864, or 25 cents per Class A and B share, for the year ended April 30, 1980, compared to restated net income of \$1,310,613, or 58 cents per Class A and B share for the previous year.

The rate for the quarterly dividend was maintained at seven cents per share throughout the year.

Hamilton Group's 40% share in the profit of Citicorp Leasing Canada Limited (CLCL) was only \$800 for the twelve months ended April 30, 1980 compared to \$796,400 for the same twelve months of the previous year. For the six months ended April 30, CLCL contributed a loss of \$233,200, largely overcoming a profit of \$234,000 which was consolidated in the earnings of Hamilton Group reported to its shareholders for the first half of its fiscal year, as CLCL paid interest at record rates for its borrowed funds.

The business taken by CLCL in 1978 and 1979 at very competitive rates, for reasons commented on in last year's Report to Shareholders, produced losses as the cost of money escalated, particularly in the later months of Hamilton Group's fiscal year. In May 1980 interest rates started a decline which will restore CLCL to its former level of profit. During 1980 it is anticipated that CLCL will have the opportunity of borrowing term money to better match maturities of debt and leases receivable which will reduce future swings in profit caused by changes in interest rates.

Hamilton Group's wholly-owned subsidiary, Charter Credit Corporation, with its cost of borrowing money at an all time high, showed a loss of \$257,212 in the year. Progress continued to be made in reducing the total of non-income producing assets including progress in resolving legal problems that were delaying the repossession of properties securing loans in arrears. Non-income producing assets, which are properties held for resale and loans in arrears over 90 days, amounted to \$4,628,184 at the year end, a reduction of \$295,319 from the previous year end figure. Serious inquiries from potential purchasers give encouragement that the total of these assets may be substantially reduced in the fiscal year ending April 30, 1981.

Cancord Limited, Hamilton Group's wholly-owned subsidiary in twine and cordage manufacturing; Torham Packaging Inc. (38.8% owned); and International Mercantile Factors Limited (37.5% owned) all had satisfactory years.

Hamilton Group's subsidiaries in rental operations and the sale of data processing equipment as a distributor for leading manufacturers, expanded rapidly in Europe during the year. Hamilton Rentals and Labhire were profitable in both the United Kingdom and France. Hamilton Rentals commenced operations in Germany and opened an office in New York. The start-up costs of these new locations were absorbed in the overall profit of \$576,238 from the operations of Hamilton Rentals and Labhire which was consolidated in the earnings of The Hamilton Group for the year.

Hamilton Group's net income from Mexican operations includes a loss of \$114,023 for the year after allowing for future tax recovery and minority interests. Although the very strong economy in Mexico, and the shortage of capital,

provided an ample opportunity for expansion IEOSA (the Mexican leasing company that is 85.9% owned by Hamilton Group) confined its growth to the three year plan mentioned in last year's Report to Shareholders, which was to see IEOSA at a break-even in its fiscal year ending April 30, 1981 and showing a substantial profit in the year following.

BANK ACT

Changes continue to be made to the draft legislation which delay the introduction of a new Bank Act in Parliament. To the best of Hamilton Group's knowledge the proposed changes are not detrimental to the Company. However, until the new Act is put before the House, which now appears likely in the late months of 1980, Hamilton Group will not know for certain whether its concerns, which were discussed in the two previous Reports to Shareholders, have been taken care of in the new legislation in its final form although the Company believes that this will be the case.

THE FUTURE

1980 is the Centennial year of The Hamilton Group Limited. As it enters its second century the Company is making good progress in its plan of restructuring around profitable components with high growth potential in assets and income.

In Canada the Company's earnings will be centered on its share of the profit of Citicorp Leasing Canada Limited (CLCL). CLCL is a well managed company, soundly financed, which has excellent prospects for growth. In addition Hamilton Group is participating in the profits of other Canadian subsidiaries and investments. It is the plan to maintain a management input in those showing a good return on the Company's investment and to add to this type of investment as opportunities occur and finances permit.

In Europe the rental of technical equipment through the Labhire companies, and the rental and sale of data processing equipment through the Hamilton Rentals companies will be expanded rapidly. The market for these services is enormous and the limits to profitable growth will be the availability of money and people. The Hamilton Rentals operation will be expanded to the United States where there is a huge and growing market although the competition is more developed than in Europe.

It has always been planned to find a financial partner to take a majority interest in IEOSA, Hamilton Group's 85.9% owned Mexican leasing subsidiary, which would assume the financing responsibility for it. This plan suffered a major set-back following the major devaluation of the Mexican peso in 1976, which caused IEOSA a severe loss and problems which are only now being fully overcome. IEOSA has just completed the first year of a three year plan which will see it profitable and so in a position to be interesting to prospective investors. IEOSA is a well managed company. Mexico has an expanding economy which is very short of capital, a very good situation for a leasing operation. Hence a financial partner should not be difficult to find as soon as IEOSA has demonstrated its profit potential.

When The Hamilton Group is relieved of its guarantee of IEOSA debt the financing of its growth will be much easier. In the meantime it may be necessary to secure financing subordinate to bank borrowing to enable ratios to be maintained in good standing as loans increase to support the growth of profitable operations.

While earnings for the first quarter of the present fiscal year will remain depressed these should improve rapidly if interest rates continue to fall as the year progresses. Prospects for Hamilton Group in Canada and for the profitable growth in Europe and Mexico, give confidence that 1981 will see a return to the growth in earnings that the shareholders have patiently awaited.

CANADA

Citicorp Leasing Canada Limited (CLCL)

The Consolidated Balance Sheet and Statement of Earnings as at fiscal year end December 31, 1979 with comparative figures for 1978 and a Five-year Summary are provided on Pages 7 and 8.

The very high interest rates noted elsewhere in this report also affected CLCL's profit adversely. Earnings after income taxes declined 58% to \$907,000 from \$2,182,000. This is largely due to an increase of \$11,701,000, or 83% in the cost of borrowed funds to a total of \$25,246,000. These earnings are for the calendar year 1979 and do not reflect the record interest rates of the first four months of 1980. For Hamilton Group's financial statements for the year ended April 30, 1980, CLCL operated at an \$800 profit, a virtual break-even.

Apart from the level of interest rates, CLCL had an exceptional year in 1979. New business volume — gross receivables added — was \$253,767,000 which was more than double the previous years record total of \$122,228,000. Lease income increased by 33% and earned income by 39%, whereas operating expenses only increased 13%.

The provision for losses increased 76% to \$2,290,000 from \$1,298,000 which was due to the very large increase in total receivables from \$213,901,000 to \$356,683,000, or 67%. However, actual losses due to bad debts decreased to \$237,000, or only 0.1% of average receivables outstanding. Collection experience was also remarkably good as total balances in arrears in excess of 60 days fell from 1.82% of total receivables outstanding in 1978 to 0.66% in 1979.

The outlook for 1980 is improving at this time. Earnings for the first six months of the calendar year were, of course, adversely affected by the record interest rates that peaked in April. However, with the rapid decline of rates in the second quarter and still lower rates forecast for the second half of the year, CLCL will again have substantial earnings.

As noted earlier in this report the revisions to the Bank Act have not been completed and a new Act probably will not be presented to Parliament before the fall and may not become law until

1981. This continues to present uncertainties for CLCL and Hamilton Group in both operations and future planning. However, the last presentation did not include anything critical to the continued growth of CLCL and Hamilton Group's participation therein.

Charter Credit Corporation

The mortgage portfolio, including real estate held for resale, of Hamilton Group's wholly-owned subsidiary, Charter Credit Corporation, declined to \$11,238,504 at April 30, 1980 from \$12,899,016 at the end of the previous fiscal year. The loss for the year was \$257,212.

Real estate held for resale are properties securing mortgages in default that Charter has repossessed and now owns with clear title. These properties, together with loans over 90 days in arrears, were carried at \$4,628,184 at the year end compared to \$4,923,503 at the end of the previous year. Expenditures on these properties to maintain them in good standing are added to their carrying value while income received, mostly from rentals, is deducted from it. The interest cost of the borrowing required to hold this large total of non-profit producing assets is absorbed in Charter Credit's profit and loss account and so has a severe effect on its earnings.

The carrying value of the largest of these non-income producing accounts amounted to \$1,305,600 at the year end compared to \$1,860,000 at the end of the previous year. The reduction of \$554,400 resulted from the sale of three of the four properties securing the loan less expenditures, net of income, made to improve and maintain the fourth property of eighty townhouses near Quebec City. A title dispute to three properties, an apartment block and two shopping centres, was settled in the year which enabled the properties to be sold.

Charter has clear title to the eighty townhouses. Improvements on them have been completed and they are fully rented, producing a positive cash flow. The property is subject to a first mortgage of \$1,227,000. No loss is expected on this account when the townhouses are ultimately sold.

An account totalling approximately \$200,000 was added to the delinquent list during the year. However, this was largely resolved shortly after the year end.

Negotiations are presently taking place with possible purchasers of a sixty unit apartment building in Dartmouth, Nova Scotia. If a sale should result the total of non-income producing assets will be substantially reduced.

During 1981 Charter Credit will show a further reduction in its mortgage portfolio and its earnings will be affected by the level of interest rates during the year. However, it is hoped that there will be a significant reduction in non-income producing assets which will have a beneficial effect on profit.

International Mercantile Factors Limited

International Mercantile Factors Limited, of which Hamilton Group owns 37.5%, had a successful year with good growth in active accounts and in profit. Prospects are excellent for these favourable trends to continue throughout the present year and beyond.

Torham Packaging Inc.

Torham had a good year with sales and pre-tax profits ahead of budget. Dividends paid to Hamilton Group during the year amounted to \$71,520, including a special dividend of \$46,584 on the redemption of preference shares. The equity value of Hamilton Group's 38.8% interest is \$357,634 which represents a 110% increase over its 1978 cost. Although results will be affected by the general level of the Canadian economy, Torham is expecting a satisfactory year to April 30, 1981.

CITICORP LEASING CANADA LIMITED

CONSOLIDATED BALANCE SHEET

December 31, 1979 with comparative figures for 1978

ASSETS

	(Dollar amounts expressed in \$'000's)	
	1979	1978
Leases receivable	\$ 253,565	\$ 186,746
Unearned income	(54,745)	(42,094)
Net leases receivable	198,820	144,652
Loans receivable, net	89,788	27,155
	<u>288,608</u>	<u>171,807</u>
Allowance for losses	(4,825)	(2,909)
Estimated residual values	10,511	9,518
Equipment purchased for lease commitments	7,715	21,477
Income taxes recoverable	217	431
Equipment and improvements	1,017	958
Excess of cost over book value	3,879	3,987
Other assets	1,790	689
	<u>\$ 308,912</u>	<u>\$ 205,958</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Short term unsecured debt	\$ 38,520	\$ 52,125
Due to parent and affiliates	235,813	107,798
Accounts payable and accrued charges	5,596	9,681
Long term unsecured debt		10,000
Subordinated funded debt	6,146	6,532
Deferred income taxes	6,908	6,598
Shareholders' equity:		
Capital stock		
Special shares		2,000
Common shares	15,000	10,000
Retained earnings	929	1,224
Total shareholders' equity	<u>15,929</u>	<u>13,224</u>
	<u>\$ 308,912</u>	<u>\$ 205,958</u>

CITICORP LEASING CANADA LIMITED
CONSOLIDATED STATEMENT OF EARNINGS

Year ended December 31, 1979 with comparative figures for 1978

	(Dollar amounts expressed in \$000's)	
	1979	1978
Earned income	\$ 39,780	\$ 28,641
Cost of borrowed funds	25,846	14,145
Provision for losses	2,290	1,298
Operating expenses	9,926	8,789
	<u>38,062</u>	<u>24,232</u>
Earnings before income taxes	1,718	4,409
Income taxes	811	2,227
	<u>\$ 907</u>	<u>\$ 2,182</u>

CANADIAN LEASING
COMBINED FIVE-YEAR SUMMARY

(Dollar amounts expressed in \$000's)

	Dec. 31 1979	1978	1977	1976	April 30 1976
BALANCE SHEET					
Total receivables	\$356,683	213,901	174,513	139,173	123,176
Allowance for losses	\$ 4,825	2,909	2,227	1,778	2,016
Allowance for losses to receivables	% 1.4	1.4	1.3	1.3	1.6
Unearned income	\$ 54,745	42,094	38,495	33,888	29,159
Unearned income to leases receivable	% 21.6	22.5	23.6	24.3	23.7
Estimated residual value of equipment	\$ 10,511	9,518	8,575	8,344	5,850
Total assets	\$309,390	205,958	153,209	121,636	106,900
OPERATIONS					
Lease income	\$ 86,288	64,804	57,143	51,693	48,981
Earned income	\$ 39,922	28,641	24,452	22,974	18,967
Provision for losses	\$ 2,153	1,298	1,069	2,468	878
Gross receivables added	\$253,767	122,228	103,464	78,373	49,357
Original principal invested	\$417,490	275,811	240,313	196,280	178,656
Net losses due to bad debts	\$ 237	616	620	2,712	851
Net losses to average total receivables	% 0.08	0.32	0.40	2.10	0.68
Number of employees at end of year	271	268	245	232	253
Number of transactions outstanding	91,962	89,597	89,487	90,085	90,146
Average original principal per transaction	\$ 4.54	3.08	2.69	2.18	1.98

INTERNATIONAL

EUROPE

Total rental operations in Europe contributed \$576,238 to Hamilton Group's consolidated net income in 1979/80, a marginal improvement over the \$546,976 of the year before. Profits in Canadian dollars from the operations discussed in last year's annual report were up somewhat more than this, due to the strength of the pound and the franc against the dollar, but losses in new rental operations in Germany and the U.S.A. reduced over-all profits.

Labhire (UK)

This subsidiary had a difficult year, and profits were down 60%.

Labhire budgeted for a very large increase in sales at the start of the year, and ordered extra equipment to cater for this increased business, and in the event achieved much less than its planned rate of sales growth. Depreciation and interest charges on this extra equipment more than offset the extra sales volume and reduced total profits.

Interest costs to Labhire jumped to 17% in June 1979 and were pushed up again to 19% in November where they have remained until early July 1980. Labhire also uses 25% declining balance depreciation, which means depreciation charges are much higher on new equipment. The combination of a lot of new equipment suffering first year depreciation charges, plus record high interest rates, meant that total financial costs for Labhire in the U.K. increased from 25.9% of sales in 1978/79 to 36.4% of sales in 1979/80.

A final problem for Labhire during the year was its decision to terminate operations of its subsidiary company, Labservice. This business supplied maintenance and repair service for electronic instruments owned by outside firms, and was reasonably profitable. However, it was a very labour intensive business, and very space intensive as all the customers' instruments came to Labhire's own premises for repair. As Labhire's rental operations expanded space was becoming a problem, and Labhire either had to move to much larger and more expensive premises and increase its overhead greatly, or else discontinue servicing other people's equipment. It decided on the latter, but as this outside servicing income declined more quickly than rental income grew there was unabsorbed overhead for a period and a reduction in profits.

Labhire is expecting a sales increase in 1980/81, despite very slow business conditions in the U.K., and from a combination of buying very little new equipment and selling a lot of old it expects to lift its equipment utilization rate back to previous levels. It has reduced staff, and has now just about eliminated the overhead costs formerly being borne by the Labservice operation.

It expects the various actions it has taken will

restore profits to their previous levels this year, and set the groundwork for increases in the future.

Hamilton Rentals (UK)

Hamilton Rentals also had a disappointing year, partly because of the high interest rates mentioned above under Labhire. Total sales for the twelve months of 1979/80 were up 92% from the 11 months included in 1978/79, and profits were £204,879 compared to only a nominal profit the year before. These profits benefited from a change in depreciation policy during the year. Hamilton Rentals now writes off its rental assets straight line over five years, instead of using the 50 months write off period that it had inherited from the days when it was part of Hamilton Leasing.

Last year's annual report referred to the problems Hamilton Rentals was having moving on to its own in-house computer in London, and the heavy costs it was incurring. These problems continued throughout the 1979/80 year, and the costs were much heavier than anticipated at the start of the year. Hamilton Rentals did make the switch to its own computer in April, months behind schedule and is now going through all the trials and tribulations of de-bugging its new system and making all the contracts and reports meaningful. However, it is up and running on its own system, most of the extra costs have now been stopped, and the computerization of the company will improve from now on.

Rental income for the year was only up 40%, and most of the sales increase for the year came from the sale of equipment. Hamilton Rentals is now a distributor for many computer products made by leading manufacturers such as Digital Equipment and Texas Instruments, and it expects sales and profits from distribution of these products to continue to grow faster than income from rental operations alone.

Interests rates in the U.K. remain at close to record highs, and will continue to restrict rental earnings. Business conditions in the U.K. are not good either. However, Hamilton Rentals does expect all its work of the past two years to start paying off this year, and it is anticipating much better profits.

Labhire France

Rental income for electronic instruments alone increased 25% for Labhire France in 1979/80 over the year before, and the entry into rental of microprocessor development systems during the year was particularly successful. Overall rental income was up 70% for the year, and profits were up 33% after charging all the costs of a move to larger premises and the heavy promotional costs of the microprocessor development system rental. Prospects are good for a further increase in both rental income and profits for this year.

INTERNATIONAL

Hamilton Rentals France

1979/80 was Hamilton Rentals France first full year of operations, and the company made very good progress during the year. Operations showed a loss for the year of about \$100,000, considerably less than originally budgeted, and after heavy promotional costs and a move to larger premises just before year end. This rate of progress is expected to continue, and the company is budgeted to make a profit this year.

Subsequent to the year end Labhire France changed its name to HGL France S.A., with two operating divisions, Labhire and Hamilton Rentals, that are staffed and run separately on the sales and operating side but which now share common accounting, financial and executive functions.

Hamilton Rentals Germany

Operations only commenced towards the end of 1979, and resulted in a \$105,000 loss. Prospects seem excellent for the Hamilton Rentals type of operations in Germany, and good progress is expected for 1980/81 though the business is not expected to do more than break even.

HGL Software — New York City

In the U.S.A., Hamilton Group's interests are in a company called HGL Software Limited, with Hamilton Rentals as a registered trading name. For 1979/80 there was an operating loss of \$43,000 absorbed in this year's accounts, largely representing pre-opening expenses, and operations are really only becoming established now. 1980/81 operations are expected to result in a loss too, it will take time for this subsidiary to become established.

The business of rental and distribution of computer products in the U.S.A. is much more competitive than in Europe, and Hamilton Rentals is completely unknown. On the other hand, for most of Hamilton Rentals' suppliers, the approximate breakdown of their markets is 50% U.S.A., 50% rest of the world. The U.S. market is so large that HGL Software only needs a very small part of it to become as large as the present Hamilton Rentals operations in Europe.

However, the main purpose of HGL Software is to supplement the existing and future operations of Hamilton Rentals in Europe. Over 90% of the products Hamilton deals in in Europe are American, and they can be purchased more cheaply in the U.S. In addition new developments start in the U.S., new products come out first there, there are many small suppliers there with interesting products who have no distribution yet in Europe, etc. In short, there are many reasons why a U.S. operation

will strengthen considerably Hamilton's existing business in Europe.

MEXICO

Impulsora de Equipos de Oficina, S.A. (IEOSA)

In last year's report a three year plan was announced to provide IEOSA with new funds to increase leases receivable by 50% by April 1980 and a 30% growth in 1981 and 1982. A loss was predicted for 1980, a break-even the following year and a profit in the year ending April 1982.

Leases receivable added during the year ended April 1980 were 250,016,000 pesos up 90.8% over the previous years total of 131,069,000 pesos. The leases receivable outstanding at year end were 335,657,526 pesos compared to 222,895,188 pesos the previous year, or an increase of 50.6%. Thus the new business targets for the first year of the three year plan were realized.

Progress was also made in dealing with doubtful accounts and in improving administrative procedures. Whereas these were positive developments they were not achieved without additional costs. However, the major unforeseen cost was the extremely high cost of borrowed funds, particularly of Mexican pesos. IEOSA's cost of borrowed funds averaged close to 30% during the last quarter of the last fiscal year and for the full year was 22.5% over budget, and 96.0% over the previous year.

The result was that IEOSA's loss for the year of 20,856,133 pesos was higher than forecast. Included in the loss was a provision of 14,146,000 pesos for future exchange devaluation. This provision is not included in Hamilton Group's consolidated results as it is not an allowable expense under Canadian accounting rules. After translation to Canadian dollars, provision for minority shareholders and adjustments for other accounting differences and the consolidation of other Mexican subsidiaries, Hamilton Group reported a loss of \$114,023 (Canadian) due to its Mexican operations.

At this time, IEOSA is accepting new leases in U.S. dollars only. Although this may provide some difficulty in achieving sales budgets, it will assist in narrowing the deficit between U.S. pay liabilities and U.S. pay assets. There was basically no progress during the last year in correcting the imbalance between foreign pay assets and liabilities.

The original three year forecast called for a break-even in the year ending April 30, 1981. However, if current interest rates prevail for the balance of the year and if nothing new unforeseen occurs, such as a major devaluation of the peso, IEOSA will report a profit for the current fiscal year.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of The Hamilton Group Limited as at April 30, 1980 and the consolidated statements of income, retained earnings, contributed surplus and changes in financial position for the year then ended. Our examination of the financial statements of The Hamilton Group Limited and those subsidiaries of which we are the auditors was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the Mexican subsidiaries. The assets of those subsidiaries represent approximately 26% of the consolidated assets.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at April 30, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

A handwritten signature in dark ink, reading "Peat Marwick Mitchell & Co". The signature is written in a cursive, flowing style.

Hamilton, Canada
July 4, 1980

Chartered Accountants

CONSOLIDATED FINANCIAL STATEMENTS

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

April 30, 1980

with comparative figures for 1979

ASSETS		(note 12)
	1980	1979
Cash and short-term deposits	\$ 936,513	\$ 1,274,371
Leases receivable, less allowance for losses, \$769,595 (1979, \$709,157) (note 2)	17,187,095	10,457,892
Mortgages receivable, less allowance for losses, \$160,612 (1979, \$184,120)	7,070,040	9,526,701
Unearned income	(4,935,543)	(2,941,701)
Estimated residual value of property and equipment	985,065	1,113,246
Equipment purchased for lease commitments, at cost	472,402	182,884
Equipment and supplies purchased for sale, rental or service (note 3)	24,560,769	11,784,520
Accounts and notes receivable (note 4)	8,103,057	5,864,417
Real estate held for sale (note 5)	4,438,850	3,607,038
Investments and advances (note 6)	7,841,757	6,884,892
Property, plant, equipment and improvements (note 7)	4,708,036	3,723,945
Deferred income taxes	2,068,021	2,202,971
Excess of cost over net book value of subsidiaries at dates of acquisition less amounts written off	972,567	1,059,859
Other assets	2,181,589	2,399,322
	<u>\$ 76,590,218</u>	<u>\$ 57,140,357</u>

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

April 30, 1980

with comparative figures for 1979

LIABILITIES AND SHAREHOLDERS' EQUITY		(note 12)
	1980	1979
Short-term secured debt (note 8)	\$ 46,771,118	\$ 34,548,200
Notes and accounts payable and accrued charges	12,762,294	5,228,901
Other taxes payable	12,418	109,935
Long-term secured debt (note 9)	601,000	726,000
Mortgage payable (note 10)	1,407,690	1,425,323
Minority interests in subsidiary companies including interest in preferred shares of \$343,150 (1979, \$343,150)	292,244	344,339
Shareholders' equity:		
Stated capital (note 11)	9,045,190	8,990,639
Retained earnings	5,452,316	5,521,072
Contributed surplus	245,948	245,948
Total shareholders' equity	14,743,454	14,757,659
	<u>\$ 76,590,218</u>	<u>\$ 57,140,357</u>

On behalf of the Board:

A. B. YOUNG, Director

W. H. YOUNG, Director

See accompanying notes to consolidated financial statements.

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF RETAINED EARNINGS
Year ended April 30, 1980
with comparative figures for 1979

		(note 12)
	1980	1979
Amount at beginning of year, as restated	\$ 5,521,072	\$ 9,900,200
Net income	561,864	1,310,613
	<u>6,082,936</u>	<u>11,210,813</u>
Deduct:		
Dividends:		
Class A shares	575,951	568,829
Class B shares	54,669	58,849
	<u>630,620</u>	<u>627,678</u>
Reduction in retained earnings	—	5,062,063
	<u>630,620</u>	<u>5,689,741</u>
Amount at end of year	<u><u>\$ 5,452,316</u></u>	<u><u>\$ 5,521,072</u></u>

CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS
Year ended April 30, 1980
with comparative figures for 1979

	1980	1979
Amount at beginning of year	\$ 245,948	\$ 244,286
Discount on redemption of preferred shares of a subsidiary	—	1,662
Amount at end of year	<u><u>\$ 245,948</u></u>	<u><u>\$ 245,948</u></u>

See accompanying notes to consolidated financial statements.

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

Year ended April 30, 1980

with comparative figures for 1979

		(note 12)
	1980	1979
Gross income (note 14)	\$ 36,549,778	\$ 22,899,397
Income before the following	16,147,170	10,465,300
Recovery of cost of leased property	4,066,632	4,248,000
Cost of borrowed money including \$172,260 (1979, \$179,450) on indebtedness initially incurred for a term exceeding one year	6,970,363	4,246,321
Depreciation and amortization	4,642,148	2,870,893
	15,679,143	11,365,214
Operating income (loss)	468,027	(899,914)
Investments:		
Income	288,246	964,263
Gain on dispositions	110,357	700,111
Amortization of excess of cost over net book value of subsidiaries	(87,292)	(88,388)
	311,311	1,575,986
Gain on sale of real estate	28,020	327,241
	339,331	1,903,227
Income before income taxes and minority interests	807,358	1,003,313
Income taxes (note 15)	277,000	(242,000)
Income before minority interests	530,358	1,245,313
Minority interests	31,506	65,300
Net income	\$ 561,864	\$ 1,310,613
Earnings per share	\$.25	\$.58

See accompanying notes to consolidated financial statements.

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
Year ended April 30, 1980
with comparative figures for 1979

(note 12)

	1980	1979
Funds provided:		
Income before minority interest	\$ 530,358	\$ 1,245,313
Add (deduct) items not affecting funds:		
Depreciation and amortization	5,152,639	2,976,550
Deferred income taxes	134,950	(230,000)
Other	464,012	111,226
Funds provided from operations	<u>6,281,959</u>	<u>4,103,089</u>
Funds provided from mortgages receivable:		
Decrease in mortgages receivable	2,480,169	1,252,997
Net credit losses	(45,395)	(94,684)
	<u>2,434,774</u>	<u>1,158,313</u>
Dividends received from non-consolidated subsidiaries in excess of earnings	—	413,951
Proceeds on sale of real estate	28,020	738,709
Proceeds on sale of investments	115,549	2,071,871
Increase in short-term debt	12,222,918	6,456,333
Increase in liabilities other than borrowings	7,435,876	2,986,922
Decrease in cash and short-term deposits	337,858	921,605
	<u>\$ 28,856,954</u>	<u>\$ 18,850,793</u>
Funds used:		
Funds invested in leases receivable:		
Increase in leases receivable	\$ 6,789,641	\$ 805,605
(Decrease) increase in residual values	(128,181)	125,747
Net credit losses	393,514	626,517
Increase in unearned income	(1,993,842)	(64,861)
	<u>5,061,132</u>	<u>1,493,008</u>
Increase in accounts and notes receivable	2,238,640	740,681
Increase in purchases of equipment and supplies for sale, rental or service, net	16,918,341	7,834,093
Increase in real estate held for sale	838,526	608,029
Increase (decrease) in investments and advances to other companies, net	947,557	(18,838)
Increase in equipment purchased for lease commitments	289,518	8,861
Acquisition of assets of Hamilton Rentals Division	—	5,025,014
Additions to plant, equipment and improvements, net	1,897,618	1,117,879
Decrease in long-term secured debt	142,633	155,666
Dividends paid	630,620	600,439
Other	(107,631)	1,285,961
	<u>\$ 28,856,954</u>	<u>\$ 18,850,793</u>

See accompanying notes to consolidated financial statements.

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1980

The company, incorporated under the Canada Corporations Act and subsequently continued under the Canada Business Corporations Act carries on leasing, financing and equipment sales and rental operations through its subsidiaries and affiliates in Canada, England, Mexico, Europe and the United States.

1. Summary of significant accounting policies:

(a) Principles of consolidation:

The consolidated financial statements include the accounts of the company and all subsidiaries. All material inter-company balances and transactions have been eliminated. Certain accounts of the previous year have been reclassified to conform with the current year's presentation.

(b) Currency translation:

Assets and liabilities arising in foreign currencies due within one year and leases and notes receivable arising in foreign currencies have been translated at the rates of exchange in effect at the year end. Other foreign currency items have been translated at the rates in effect when the transactions occurred. Gains on translation of foreign subsidiaries' accounts for consolidation purposes are deferred until realized and losses are reflected in income.

(c) Leases receivable and unearned income:

The leasing subsidiary follows the practice of recording gross rentals to be received over the periods of the leases and estimated residual values on leases written (estimated as a percentage of the original equipment cost) as assets when leases are executed. The excess of such amounts over the cost of the related equipment is recorded as unearned income. A portion of the unearned income is credited to current income at the commencement of the lease periods in an amount estimated to offset lease acquisition costs. The balance of unearned income is credited to current income over the terms of the leases in diminishing periodic amounts on the sum of the digits method based on payments deemed to be made in accordance with the lessees' contractual obligations. The balance of the payments deemed to be made is recorded as recovery of cost of leased equipment.

(d) Mortgages receivable and interest income:

The mortgage financing subsidiaries generally follow the practice of recording as an asset the principal portion of the mortgage payments to be received over the term of the mortgage when the funds are advanced.

Interest is taken into income according to standard mortgage amortization tables. Discounts on mortgages and unrealized profits on sales of repossessed properties are taken into income in equal monthly amounts over the remaining life of the mortgages.

(e) Income taxes:

The company follows the tax allocation method of accounting for income taxes which makes full provision for such taxes on all reported income.

(f) Depreciation and amortization:

(i) Generally, depreciation is provided on plant and equipment, and amortization on leasehold improvements on a straight-line basis at annual rates which are designed to write off the assets over their estimated useful life.

During the year, a subsidiary company modified the depreciation rate applicable to computer and ancillary equipment, held for sale or rental, to write off the cost of these assets at 20% annually rather than 24% annually on a straight-line basis. This revision was made in order to more appropriately reflect the economic life of these assets. Had the depreciation rate used in 1979 been used in 1980, depreciation expense would have been greater by approximately \$473,000 and net income would have been reduced by approximately \$230,000.

(ii) Excess of cost over net book value of subsidiaries at dates of acquisition is being amortized over a twenty year period.

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1980

2. Leases receivable:

The lease contracts provide for equal periodic payments to be received over their terms. The amount of lease payments to be received over the next five years is summarized below:
 Within:

One year	\$11,095,842
Two years	4,546,068
Three years	1,925,413
Four years	386,796
Five years	<u>2,571</u>

3. Equipment and supplies for sale, rental or service is as follows:

	1980	1979
Equipment held for rental or sale, at cost	\$26,389,672	\$14,645,968
Less accumulated depreciation	<u>7,542,220</u>	<u>3,400,128</u>
	18,847,452	11,245,840
Equipment purchased for sale or rental, at cost	4,949,367	—
Supplies, at cost	<u>763,950</u>	<u>538,680</u>
	<u>\$24,560,769</u>	<u>\$11,784,520</u>

4. Accounts and notes receivable:

Accounts and notes receivable comprise the following:

	1980	1979
Accounts receivable — trade	\$ 6,889,309	\$ 4,620,656
7½ % Note receivable due May 1, 1983	344,672	443,429
Notes receivable — other	<u>869,076</u>	<u>800,332</u>
	<u>\$ 8,103,057</u>	<u>\$ 5,864,417</u>

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1980

5. Real estate held for sale:

	1980	1979
At cost	\$ 4,318,041	\$ 3,459,500
As valued by the Board of Directors at April 30, 1975	213,905	213,905
	<u>4,531,946</u>	<u>3,673,405</u>
Less accumulated depreciation	93,096	66,367
	<u>\$ 4,438,850</u>	<u>\$ 3,607,038</u>

Included in real estate held for sale are properties, acquired by subsidiary companies as a result of foreclosure proceedings, with a carrying value of \$4,007,852 (1979, \$3,188,195). The carrying value represents the amount of defaulted loans plus disbursements made to protect the companies' positions or to maintain or improve the properties, less revenues, if any, from these properties. The realizable value of certain of these properties, because of their nature, cannot readily be determined.

6. Investments and advances:

	1980	1979
Investment in shares:		
Citicorp Leasing Canada Limited	\$ 5,718,063	\$ 4,717,263
Other investments:		
At equity	748,147	689,576
Marketable securities	625,547	598,053
	<u>7,091,757</u>	<u>6,004,892</u>
Advances to affiliated companies	750,000	880,000
	<u>\$ 7,841,757</u>	<u>\$ 6,884,892</u>

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1980

7. Property, plant, equipment and improvements is as follows:

	1980	1979
Buildings	\$ 3,623,440	\$ 2,800,586
Equipment and improvements	1,218,508	741,441
Automobiles	983,716	878,601
	<u>5,825,664</u>	<u>4,420,628</u>
Less accumulated depreciation and amortization	1,183,171	762,226
	<u>4,642,493</u>	<u>3,658,402</u>
Land	65,543	65,543
	<u>\$ 4,708,036</u>	<u>\$ 3,723,945</u>

8. Short-term secured debt:

The company has entered into an agreement with its bankers whereby its shares in its principal investments are pledged as collateral.

9. Long-term secured debt (payable by Charter Credit Corporation):

6¾% senior notes, Series A, maturing April 15, 1984.

The senior notes rank prior to all other indebtedness of the subsidiary company and are secured by a first floating charge on all assets of the subsidiary.

The sinking fund requirements, net of purchases of par value of \$99,000 made in advance of sinking fund requirements, are \$1,000 in 1981, \$100,000 in 1982 and 1983 and \$400,000 in 1984.

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1980

10. Mortgage payable:

First mortgage, due July 1, 1998, with interest at $8\frac{7}{8}\%$, payable in equal monthly instalments of \$11,763 including principal and interest.

11. Stated capital:

- (a) The stated capital is comprised of Class A and Class B shares without par value. The Class A and Class B shares are fully voting and are convertible into each other on a one-for-one basis.
- (b) Under the provisions of the Income Tax Act (Canada), until December 31, 1978, the directors could specify that dividends declared on Class B shares be paid out of tax paid undistributed surplus or out of 1971 capital surplus on hand. Such dividends were not subject to income tax in the Class B shareholders' hands; however, the valuation base for capital gains tax purposes was decreased by the amount received by the shareholder. Subsequent to December 31, 1978 Class B shareholders receive a stock dividend equivalent to Class A cash dividends.

(c) Summary of changes in shares and stated value:

	Class A Shares	Class B Shares	Stated Value
Balance beginning of year	2,061,908	185,502	\$8,990,639
Shares converted during the year	(11,663)	11,663	—
Shares issued as result of stock dividends	—	12,878	54,551
Balance end of year	<u>2,050,245</u>	<u>210,043</u>	<u>\$9,045,190</u>

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1980

12. Prior period adjustment:

The comparative figures for 1979 have been restated to give effect to the correction of an accounting error in a subsidiary company. Net income for 1979 has been reduced by \$154,626 and earnings per share for 1979 have been recalculated at \$.58 per share from \$.65 per share previously reported. The 1980 opening retained earnings balance has been reduced by the same amount from the retained earnings balance previously reported of \$5,675,698. Further, the 1979 balances for accounts and notes receivable, deferred income taxes and minority interest have been restated to reflect this adjustment.

13. Contingent liability:

A foreign country has claimed taxes on certain profits made by the company in prior years. The company has claimed offsetting losses which, in its opinion, more than offset such claim.

14. Gross income arises from:

	1980	1979
Lease, rentals and related income	\$25,784,376	\$17,372,733
Sales	9,224,967	3,879,623
Interest from mortgages and agreements of sale	1,389,472	1,527,599
Interest on advances to affiliated companies	150,963	119,442
	<u>\$36,549,778</u>	<u>\$22,899,397</u>

15. Income taxes:

Income taxes payable by the company and its subsidiaries are reduced as a result of non-taxable items which are included in the determination of income.

Certain of the subsidiaries have losses for tax purposes aggregating approximately \$1,747,200 which are available to reduce taxable income of future years with \$740,000 expiring in 1982, \$636,200 expiring in 1983 and \$371,000 expiring in 1984. The tax effect on \$1,376,200 of this amount has been reflected in deferred income taxes as a future tax benefit.

BANKERS

CANADA

The Bank of Nova Scotia
Canadian Imperial Bank of Commerce
National Bank of Canada

UNITED STATES OF AMERICA

Bank of Virginia International
Chemical Bank
Crocker National Bank
The First National Bank of Chicago
Wells Fargo Bank

