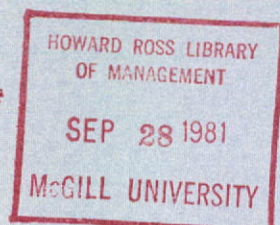


**The Hamilton
Group Limited**



**Annual
Report 1981**

HIGHLIGHTS

	1981	1980
Income before extraordinary item	\$ 88,117.00	\$ 561,864.00
Net income	\$ 1,032,117.00	\$ 561,864.00
Earnings per share		
Income before extraordinary item	\$.04	\$.25
Net income	\$.45	\$.25
Number of Class A and B shares outstanding	2,338,194	2,260,288
Class A and B shares registered in Canada	91.6%	97.0%

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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, Dofasco Inc.
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 drop in interest rates expected during the second half of the fiscal year, which would have resulted in improved profits for The Hamilton Group Limited, did not take place. Instead new interest rate highs were established. Consequently earnings for the year were disappointing, resulting in a little more than a breakeven before accounting for an extraordinary item. Good progress was made in all areas of importance to the company towards a firmer base for future profit growth in the inflationary and high interest rate environment existing today. Highlights of the year were:

- Net income of \$88,117, or 4 cents per share, before the extraordinary item
- Net income of \$1,032,117, or 45 cents per share, after the extraordinary item
- An extraordinary item of income of \$944,000 resulting from the reversal of deferred tax previously provided against profits in the United Kingdom
- A contribution to consolidated income of \$331,449 from investments in International Mercantile Factors and Torham Packaging
- A contribution to consolidated income of \$541,476 from Hamilton Rentals operations in Europe
- A loss of \$372,583 from HGL Software, the rental operation in the U.S.A., in its first year
- The acquisition of HGL Data Systems Limited, a rental operation in Canada
- The sale of assets of the electronic measuring equipment rental business of Labhire in the United Kingdom
- A loss of \$176,820 from Mexican operations

FINANCIAL

Net income, after allowing for minority interests, and after providing for an extraordinary item of \$944,000, was \$1,032,117, or 45 cents per Class A and B share, for the year ended April 30, 1981. This compared with a profit of \$561,864, or 25 cents per Class A and B share, with no extraordinary item, for the previous year.

Legislation now in progress in the United Kingdom, to give relief from taxation of inventory

appreciation due to inflation, means that a substantial part of the deferred tax reflected in the financial statements of prior years is no longer required. Consequently an amount of \$944,000 was returned to income as an extraordinary item.

The rate of the quarterly dividend was maintained at 7 cents throughout the year.

Hamilton Group's 40% share in the profit of Citicorp Leasing Canada Limited (CLCL) was \$207,704 for the year, an unsatisfactory result from a company with over \$360 million in assets and over \$18 million in shareholder equity. Low earnings are continuing in the present fiscal year as high interest rates put pressure on profit margins. However the program to match maturities of debt and leases receivable is making good progress, resulting in month to month profit improvement at current borrowing costs. The earnings of CLCL will be much less sensitive to the level of interest rates in its fiscal year ending December 31, 1982 at which date the profit of CLCL is expected to return to a satisfactory level.

Hamilton Group's wholly owned subsidiary, Charter Credit Corporation, showed a loss of \$97,199 and a decline in its portfolio of mortgages and real estate held for resale from \$11,238,504 to \$8,792,386 during the year as Charter continued its policy of accepting no new business. Non income producing assets, which are real estate held for resale and mortgages in arrears over 90 days, amounted to \$3,280,331 at the year end, a drop of \$1,347,853 from the \$4,628,184 of the previous year.

Hamilton Rentals, whose principal business is the rental, sale and servicing of computer related equipment and its related companies, showed a profit in the United Kingdom of \$666,685; a profit in France of \$108,320; and a loss in Germany of \$233,529. The United Kingdom figure includes \$560,418 net profit from the sale of assets pertaining to the electronic measuring equipment rental operations of Labhire Limited which did not fit into future plans for the company. The contribution of Labhire to the United Kingdom profit figure was considerably less as it showed a loss for the year before the asset sale and this was increased by the severance, legal, and other costs resulting from the termination of this part of its business. The disposal of these assets, and the subsequent reduction in receivables, released almost \$5 million for use elsewhere in the business.

The rental operation in the United States, known as HGL Software Limited, showed a loss of \$372,583 in its first year as the costs of start up and breaking into a highly competitive market, were absorbed. A profitable Canadian rental company, known as HGL Data Systems Limited, was acquired during the year through the exchange of 50,000 common shares of The Hamilton Group Limited. These two companies add to the scope of the Hamilton Rentals operations which are now located in the United States and Canada, as well as in the United Kingdom, France and Germany.

Mexican operations contributed a loss of \$176,820 to the consolidated earnings of Hamilton Group after allowing for future tax recovery and minority interests. Impulsora Mexicana Arrendamiento, S.A. (IMEXA), the new name of IEOSA, the leasing company in Mexico which is 86% owned by Hamilton Group, made a downward adjustment of \$1,236,500 to the renewal and residual values on its balance sheet after computerization and complete review of these accounts during the year.

The company's head office building in Burlington, and approximately 8 acres of land on which it is located, were appraised at \$3,500,000 during the year. The building and land were sold to Citicorp Leasing Canada Limited, the main user of the building, for the appraised value in cash effective May 1, 1981, the day following the fiscal year end. The land and building in Aberdeen, Scotland owned by Hamilton Rentals were appraised at \$220,114 over its book value. In order to reflect the true value of these assets in the financial statements of the company at its fiscal year end, their appraised value over their cost, after providing for the tax which would result on the sale of the Burlington property, has been included in shareholders' equity on the balance sheet.

VEHICLE LEASING

Citicorp Leasing Canada Limited (CLCL) has made considerable progress in organizing a division to specialize in the leasing of vehicles, particularly car fleets owned by large corporations. This activity is denied to CLCL under the terms of the Bank Act when Citicorp Canada Limited, as the 60% owner of CLCL, is designated a Schedule B bank. Hamilton Group plans to purchase this organization and form a new company to take over the vehicle leasing business of CLCL. Citicorp Canada Limited will

be a 10% owner in the new company, which is permitted under the Bank Act, and will be a participant in its funding.

THE FUTURE

Today, The Hamilton Group Limited is a Canadian company, listed on the Toronto Stock Exchange, but with most of its assets employed outside the country. The company is a mixture of subsidiaries which it manages, and investments in which it provides management input. Company interests cover financial services; the rental, sale and servicing of computer related equipment; and manufacturing. It is complex with diverse funding and management needs. The profit performance of the company has been unsatisfactory as it absorbed the costs of starting new ventures while earnings from established sources were under pressure from the upward movement in interest rates.

The poor profit of the company in recent years tends to mask the real progress that has been made towards a firm base for substantial growth in future profit. The Hamilton Rental operations are now firmly established in Europe, Canada, and the U.S.A., in a business with high growth potential. Citicorp Leasing Canada Limited (CLCL) is becoming much less sensitive to the level of interest rates and its profit will reflect the size and quality of its lease portfolio rather than the cost of its borrowing. The business of Charter Credit Corporation is being phased out and its losses will terminate. IMEXA, in Mexico, is becoming much less vulnerable to a drop in the value of the peso and is showing increasing profits. As a result of these improvements the future course of Hamilton Group is in clearer focus. It has many growth opportunities but it will require more funds and a more manageable corporate structure if full advantage is to be taken of them.

Separation of the present Hamilton Group into two companies is being considered. One company will be a foreign company holding all the shares of the companies involved in the rental, sale and servicing of computer related equipment. It will have subsidiaries in Canada, the U.S.A., the United Kingdom, France and Germany; each with exciting growth potential in its own market, and with other countries open for future development.

This foreign holding company must raise equity capital if it is to have the borrowing base to

permit it to develop its own potential and repay money that Hamilton Group now has tied up in it. One possible way for this to be done is for the company to "go public" on a suitable foreign stock exchange. It will become an independent company with Hamilton Group as a large shareholder.

The other company will be The Hamilton Group Limited with its main interests in Canada. It will receive funds now tied up in the subsidiaries of the foreign holding company and it may sell some of its shareholding in that company to increase the funds available for developing opportunities in Canada. Eventually Hamilton Group may hold less than a 50% interest in the foreign holding company and its relationship will be similar to the present relationship with Citicorp Leasing Canada Limited. When a partner is found to take a majority interest in IMEXA, the Mexican leasing company, credit now tied up there will be released for more profitable use elsewhere.

Thus, under present plans, The Hamilton Group

Limited will be a Canadian holding company with large equity interests in a publicly listed foreign company, in a Mexican leasing company, in a vehicle leasing company, in Citicorp Leasing Canada Limited, in International Mercantile Factors Limited, in Torham Packaging Inc., and in other smaller companies. It will have funds and credit to develop these interests and to add to them as opportunities arise.

Implementation of these plans will take place over a period of time, probably commencing in the fiscal year ending April 30, 1983.

Earnings for The Hamilton Group Limited will continue to be unsatisfactory in the current fiscal year ending April 30, 1982 as long as the present high level of interest rates prevails. Profit should improve as the year progresses as the cost of money is expected to decline and the earnings of the rental companies and Citicorp Leasing Canada Limited, major sources of profit, should be better in the second half of the year. A considerable improvement in profit is forecast for the year as a whole.

CANADA

CITICORP LEASING CANADA LIMITED

The Consolidated Balance Sheet and Statement of Earnings as at fiscal year end December 31, 1980 with comparative figures for 1979 and a Five Year Summary are provided on Pages 8 and 9.

The net profit for the year ended December 31, 1980 was disappointing and less than expected. The profit of \$479,000 after provision for income taxes was approximately 1/5th of the record of fiscal 1977 and was the lowest annual earnings since 1969. The result was caused by the high and constantly fluctuating interest rates. The cost of borrowed funds increased 56% during the year to \$40,364,000 compared to only a 30% increase in total rental and other income.

The high interest rates also affected adversely the total market for new equipment leasing. This was particularly noticeable in the very rate sensitive market for bigger "ticket" leases in excess of \$250,000 equipment value. Thus gross receivables added decreased from the 1979 record year of \$254 million by 12.2% to \$223 million.

Net credit losses were only \$472,000 or 0.12% of average receivables outstanding. The balance of leases in arrears more than 60 days was only 0.56% of total receivables. Despite the uncertain economic climate and the high interest rates, these credit and collection results were most gratifying.

During the year the number of employees increased by 6 to 277 and total operating costs increased by 8% to \$10,905,000. With the exception of the rising cost of borrowed funds, fiscal 1980 was a successful year.

Hamilton Group's share of after tax earnings for its 12 months period from May 1, 1980 until April 30, 1981 was \$207,704 compared to \$800 in 1979.

During the year the revised Bank Act became law. Hamilton Group had stated misgivings about this legislation in the past but fortunately these misgivings largely proved to be without foundation. The only adverse effect was the requirement that Citicorp Leasing Canada Limited divorce itself of its vehicle leasing operations. Fortunately this was a new and minor part of CLCL's business. Hamilton Group intends to purchase the vehicle leasing portfolio from CLCL and thus re-enter the vehicle leasing business.

The outlook for CLCL for 1981 is still mixed. Steps that have been taken to match lease and

borrowing terms, together with increases in lease rates, should improve results as the year progresses. In the meantime high interest rates hurt earnings. Overall a loss in the first half of the 1981 calendar year will, at best, be matched by a profit in the second half, resulting in a break-even for the year.

CHARTER CREDIT CORPORATION

The original business of Charter was granting first and second mortgages on single family dwellings in non-urban areas. Over the last five years this business has largely been taken over by other lenders, especially with insured mortgages, at greater volumes and lower yields than were attractive to Charter. Consequently, Charter has not accepted new business since January 1980. The decision has now been made to wind up the mortgage business as the mortgages become due over the next five years. Major cutbacks in staff and premises have been arranged and will be implemented over the current fiscal year.

As at April 30, 1981 the total mortgage portfolio and property held for sale equalled \$8.80 million compared to \$11.20 million at the previous year end. The portfolio was divided into current mortgages \$5.50 million (1980, \$7.20 million); mortgages more than 90 days in arrears \$0.57 million (1980, \$0.62 million); real estate held for sale \$1.13 million (1980, \$4.01 million); and investment properties \$1.58 million (zero in 1980). Considerable progress was made during the year in reducing the delinquent loans and properties held for sale.

The investment properties are income producing properties that appear to have greater potential as rents and/or occupancy increase. These properties plus other real estate owned by Hamilton Group in the Hamilton, Ontario area should either provide excellent development potential for Charter or substantial future capital gains.

The actual loss for Charter for the year ended April 30, 1981 was \$97,199 compared to \$261,656 in 1980. Further losses are anticipated as Charter's mortgages are liquidated but every effort will be made to minimize these losses. Also the funds generated from Charter will be used to expand the rental and leasing interests of Hamilton Group.

INTERNATIONAL MERCANTILE FACTORS LIMITED

Hamilton Group owns 37.5% of International Mercantile Factors Limited. IMF had another excellent year for the year ended December 31, 1980. Although net income was down from the previous record year, total assets almost doubled. Hamilton Group's return on its combined investment of debt and equity of \$1,128,000 was 23%.

The results of the first five months of this calendar year are substantially ahead of the previous year. The outlook is very encouraging.

TORHAM PACKAGING INC.

Torham Packaging Inc., 38.8% owned by The Hamilton Group Limited, had an excellent year with net income for the year up 136% over the previous year. During the year preference shares were redeemed that had the effect of reducing Hamilton Group's investment by \$42,000 to \$128,000. Also during the year Torham paid a common share dividend as well as a preferred share dividend. The equity value of the 38.8% interest is \$493,000 up 38% from last year.

The outlook for fiscal 1982 is for another good year but Torham will be hard pressed to equal 1981's results.

CITICORP LEASING CANADA LIMITED
CONSOLIDATED BALANCE SHEET

December 31, 1980 with comparative figures for 1979

ASSETS

	(Dollar amounts expressed in \$000's)	
	1980	1979
Leases receivable.....	\$ 312,182	\$ 253,565
Unearned income	(69,305)	(54,745)
Net leases receivable.....	242,877	198,820
Loans receivable, net.....	98,922	90,052
	<u>341,799</u>	<u>288,872</u>
Allowance for losses	(5,545)	(4,825)
Estimated residual values.....	11,393	10,511
Equipment purchased for lease commitments	7,015	7,715
Income taxes recoverable	459	217
Equipment and improvements	1,255	1,017
Excess of cost over book value	3,770	3,879
Other assets	970	1,526
	<u>\$ 361,116</u>	<u>\$ 308,912</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Short-term unsecured debt	\$ 40,296	\$ 38,520
Due to parent and affiliates	286,603	235,813
Accounts payable and accrued charges.....	3,123	5,596
Subordinated funded debt.....	4,779	6,146
Deferred income taxes.....	7,423	6,908
Shareholders' equity:		
Capital stock.....	17,500	15,000
Retained earnings	1,392	929
Total shareholders' equity.....	<u>18,892</u>	<u>15,929</u>
	<u>\$ 361,116</u>	<u>\$ 308,912</u>

CITICORP LEASING CANADA LIMITED

CONSOLIDATED STATEMENT OF EARNINGS

Year ended December 31, 1980 with comparative figures for 1979

	(Dollar amounts expressed in \$000's)	
	1980	1979
Earned income.....	\$ 53,426	\$ 39,780
Cost of borrowed funds	40,364	25,846
Provision for losses	1,330	2,290
Operating expenses	10,776	9,926
	<u>52,470</u>	<u>38,062</u>
Earnings before income taxes	956	1,718
Income taxes	477	811
	<u>\$ 479</u>	<u>\$ 907</u>

CANADIAN LEASING

COMBINED FIVE-YEAR SUMMARY

(Dollar amounts expressed in \$000's)

BALANCE SHEET

	1980	1979	1978	1977	1976
Total receivables	\$ 424,714	356,683	213,901	174,513	139,173
Allowance for losses	\$ 5,545	4,825	2,909	2,227	1,778
Allowance for losses to receivables	% 1.3	1.4	1.4	1.3	1.3
Unearned income	\$ 69,305	54,745	42,094	38,495	33,888
Unearned income to leases receivable	% 22.2	21.6	22.5	23.6	24.3
Estimated residual value of equipment ..	\$ 11,393	10,511	9,518	8,575	8,344
Total assets.....	\$ 361,126	309,390	205,958	153,209	121,636

OPERATIONS

Lease income	\$ 112,092	86,288	64,804	57,143	51,693
Earned income	\$ 53,525	39,922	28,641	24,452	22,974
Provision for losses	\$ 1,192	2,153	1,298	1,069	2,468
Gross receivables added.....	\$ 222,714	253,767	122,228	103,464	78,373
Original principal invested	\$ 522,814	417,490	275,811	240,313	196,280
Net losses due to bad debts	\$ 472	237	616	620	2,712
Net losses to average total receivables ..	% 0.12	0.08	0.32	0.40	2.10
Number of employees at end of year	277	271	268	245	232
Number of transactions outstanding	95,611	91,962	89,597	89,487	90,085
Average original principal per transaction	\$ 5.47	4.54	3.08	2.69	2.18

MEXICO

During the year Hamilton Group's major investment in Mexico, the 85.9% owned leasing company, Impulsora de Equipos de Oficina, S.A., changed its name to Impulsora Mexicana de Arrendamiento, S.A. (IMEXA). The new name reflects the "leasing" nature of the company rather than stressing "office" equipment as in the old name.

The operating results of IMEXA for fiscal 1981 were very close to the original three-year forecast and considerably better than the revised 1981 budget. The original three-year forecast estimated an operating profit of \$655,000 pesos whereas the comparable real result was a profit of \$1,044,000 pesos. The 1981 budget had called for an operating loss of \$6,067,000 pesos but lower than forecast borrowing costs resulted in the improvement.

During the year the complete purging of the computer file of lease receivables, renewals and residuals and all other asset accounts was finished. The final result was a write-down of \$24,781,000 pesos (\$1,236,500 Canadian). This non-recurring adjustment was charged to profit for the year and resulted in a final loss for IMEXA after tax of \$10,046,000 pesos (\$501,000 Canadian). However, now IMEXA has "clean" financial statements and improved accounting controls that will provide the basis for well managed future growth.

Due largely to the inability to obtain the new debt in Mexico that was forecast, leases receivable added were \$266 million pesos compared to a budget of \$303 million pesos. The result was a small increase in leases receivable of 6% over last years figure of \$250 million pesos.

Collections for the year ended April 30, 1981 improved over the previous year. Balance of leases in arrears more than 30 days was 10.9% of all leases receivable compared to 13.2% at the previous year end. The net write-offs after

recoveries for bad debts on vendor leasing was 0.16% of average receivables outstanding compared to 0.44% a year ago.

The policy of accepting leases only nominated in U.S. dollars has materially reduced the exposure from devaluation of the peso without restricting the amount of new business available. By April 30, 1982 IMEXA should be close to having its foreign-pay assets and liabilities in balance. In the meantime the Government of Mexico is managing a controlled devaluation of the peso against the U.S. dollar of about 1% per month. This rate of devaluation is being absorbed by IMEXA.

All in all, IMEXA made good progress during the year despite the difficulties of high interest rates and a general inflation rate in the economy of something in excess of 30%.

The other smaller investments in Mexico operated at better than breakeven. The office equipment rental division had a lower percentage utilization of its rental machines than anticipated and basically broke even. The investment holding company showed a small operating profit. The result for Hamilton Group when translated into Canadian funds and after adjustments for minority interests and accounting differences, was a loss of Canadian \$174,000 versus a loss of Canadian \$114,023 in 1980.

The forecast for fiscal 1982 is for Mexico to contribute a profit to Hamilton Group. However, this forecast is based on an average U.S. dollar borrowing cost of some 2% below current rates and a devaluation of the peso not to exceed 12% during the year. A worrisome feature of the Mexican economy is the inflation rate that lies somewhere between 30% and 40%. However, should interest costs, devaluation and inflation rates show improvement, Mexico could contribute substantially to Hamilton Group's 1982 earnings.

HAMILTON RENTALS

Hamilton Group's rental business now includes operating companies in the U.K., France, Germany, U.S.A., and Canada. It thus seems more appropriate to discuss them under the heading of "Hamilton Rentals" rather than under the heading "International" as previously.

In total the rental companies did less well than in 1979/1980, contributing \$154,000 to Hamilton Group's consolidated profits for the year, compared to \$576,238 last year. Net profits from the more mature operations in the U.K. and France were up slightly, but the start-up losses in Germany and the U.S.A. increased to \$607,000 from \$148,000 the year before.

UNITED KINGDOM

Hamilton Group's annual reports for the past eight years have commented on Labhire, its subsidiary in the U.K. that rented electronic test and measurement instruments.

In April 1981 Labhire sold all its assets of the test and measurement business to a U.K. subsidiary of U.S. Leasing of San Francisco, and transferred its rental business in microprocessor development systems to Hamilton Rentals. Almost all the staff, and all the premises, were transferred to the purchaser, and the microprocessor rental business moved into Hamilton Rentals existing premises.

U.S. Leasing paid Hamilton Group a premium of \$1,040,000 over book value for the assets it purchased. This wiped out the operating loss that Labhire had incurred in the first 11 months of the fiscal year of over \$250,000, it enabled Hamilton Group to write off all the balance of the goodwill of \$225,000 that it had paid when it acquired Labhire in 1972, it also covered some severance costs for those employees who did not transfer to the purchaser, and finally of course the profit was subject to tax. The net effect of all of these was that Labhire's contribution to Hamilton Group's profits in 1980/81 was about the same as in previous years.

The real value of the transaction will show up in 1981/82. Hamilton Rentals should gain significant additional rental business in the microprocessor development systems, with very little additional cost, as these systems are all computer based and are being handled and maintained by Hamilton's present personnel. The equity capital being employed by Labhire was producing no return in 1980/81, and the reduction of interest

costs alone will produce more income for Hamilton Group than the test and measurement rental business seemed likely to produce in 1981/82. In total the residue of the Labhire business remaining is expected to contribute as much profit to the Group as the whole business did in previous years, but will use almost \$5 million less of the Group's credit.

Hamilton Rentals profit performance in 1980/81 was not satisfactory, being half of the previous year's inadequate level. Business faltered as the year went on, reflecting U.K. business conditions generally, and inventories increased dramatically at a time of record high interest rates. By year end this had been substantially corrected, but financial costs for the year, in depreciation and interest, were too high for the volume of sales actually achieved. Rental income was up 10% for the year, the lowest rate of increase yet achieved by Hamilton Rentals, but over all sales were up 33% due to higher outright sales of computer based products, primarily word processors.

Trading conditions are poor in the U.K. at this time, and overall sales growth this year for Hamilton Rentals will be disappointing. However, profits are expected to be much better. Major productivity moves have been made, and Hamilton Rentals is employing fewer people than a year ago. Inventories have been worked down, rental inventory utilization is up, U.K. interest costs are much lower than last year, and thus Hamilton Rentals will incur much lower financial costs this year.

FRANCE

Sales of HGL France S.A., Hamilton Group's wholly owned subsidiary, increased substantially from \$2.9 million to \$7.1 million, the number of employees from 26 to 41, and two different moves of premises were required, one for the office and one for the warehouse. In addition, HGL France computerized its operations using an identical system and programming to the Hamilton Rentals U.K. system, and this was an expensive and time consuming process.

Profits for the year were marginally up from the year before, from \$81,333 to \$108,320, but this was an inadequate level of profit for this volume of sales. It is very difficult to handle expansion at this rate economically, when a high proportion of staff are new and a business is incurring many front end costs for new products, and a lot of

1980/81's costs were really an investment for the future.

HGL France is budgeting for a 50% sales increase in 1981/82, and very much improved profitability. The dramatic change in the political situation in France does not seem to have affected HGL France's business noticeably, though the very high interest rates in France since the change in government have put pressure on profits. Despite this the prospects are good for much improved profits from France this year.

GERMANY

Losses in Germany last year increased from \$105,000 to \$234,000, still very much in the nature of start up losses. The German market is not nearly as rental oriented as the U.K. and France, and thus rental income is building up only slowly. In addition it is a very conservative market, and businesses do not change their ordering patterns quickly. Thus it appears it is going to take more time in Germany to establish a Hamilton Rentals type business than it has elsewhere. Business is improving there all the time, prospects are very encouraging, and Hamilton is budgeting for a much reduced loss this year and to be operating in the black by the end of the fiscal year. Germany is a bigger market for computer products than either the U.K. or France, and the Group has every confidence that Hamilton Rentals GmbH will get a profitable, growing share of that market.

CANADA

In January Hamilton Group purchased a Canadian rental company, also trading as Hamilton Rentals, and already informally associated with Hamilton Group's own overseas rental companies, for 50,000 Hamilton Group

shares. This company, renamed HGL Data Systems, has been expanding very quickly, and had been profitable for the past two years. The market in Canada for computer products is still very buoyant, and HGL Data Systems expects to double its sales and its profits in 1981/82, and to continue to grow rapidly thereafter.

U.S.A.

In 1979/80 HGL Software Limited, the Group's U.S. rental subsidiary, had a small starting up loss of \$43,258, and in 1980/81 this increased to a loss of \$372,583. It is expected that 1981/82 operations will also show losses of this magnitude as it takes time for the business to become established in the very competitive U.S. market.

One of the major sources of profit planned for HGL Software was in buying products in the cheaper U.S. market and shipping them to the other rental companies in Europe, and in the early months of 1980/81 this worked well. However, the slow down of business in the U.K., and Hamilton Rentals' need to reduce inventories there, caused a big drop in shipments to the U.K., and then later on the very fast appreciation of the U.S. dollar against all European currencies temporarily disrupted normal price patterns and made it uneconomic to ship products from the U.S.

Prices in Europe are now rising to reflect the strong dollar, and HGL Software is making profits again on sales to its fellow subsidiaries in Europe. This extra income is being invested in expanding operations in the domestic U.S. market, and so no reduction in the 1980/81 level of loss is expected. The managing director of Hamilton Rentals U.K. has moved to the U.S. to head up HGL Software, and the local sales staff is being increased to develop more local business. These are constructive moves that should pay off in the future, but as always the costs come first and the improved sales and profits come sometime later.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of The Hamilton Group Limited as at April 30, 1981 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 and French subsidiaries. The assets of those subsidiaries represent approximately 39% of the consolidated assets.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at April 30, 1981 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 blue ink that reads "Peck Marwick Mitchell & Co". The signature is written in a cursive, flowing style.

Hamilton, Canada
July 3, 1981

Chartered Accountants

CONSOLIDATED FINANCIAL STATEMENTS

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

April 30, 1981

with comparative figures for 1980

	ASSETS	
	1981	1980
Cash and short-term deposits	\$ 1,578,888	\$ 936,513
Leases receivable, less allowance for losses, \$353,741 (1980, \$769,595) (note 3)	17,339,651	17,187,095
Mortgages receivable, less allowance for losses, \$140,385 (1980, \$160,612)	5,940,634	7,070,040
Unearned income	(5,090,389)	(4,935,543)
Estimated residual value of property and equipment	1,027,142	985,065
Equipment purchased for lease commitments, at cost	133,033	472,402
Equipment and supplies for sale, rental or service (note 4)	24,664,753	24,560,769
Accounts and notes receivable	12,547,660	8,103,057
Real estate held for sale (note 5)	3,136,399	4,438,850
Investments and advances (note 6)	8,007,057	7,841,757
Property, plant, equipment and improvements (note 7)	7,099,989	4,708,036
Deferred income taxes	3,198,021	2,068,021
Excess of cost over net book value of subsidiaries at dates of acquisition less amounts written off	825,275	972,567
Other assets	1,920,211	2,181,589
	<u>\$ 82,328,324</u>	<u>\$ 76,590,218</u>

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

April 30, 1981

with comparative figures for 1980

	LIABILITIES AND SHAREHOLDERS' EQUITY	
	1981	1980
Short-term secured debt (note 8)	\$ 50,519,544	\$ 46,771,118
Notes and accounts payable and accrued charges	12,064,402	12,774,712
Long-term secured debt (note 9)	891,250	601,000
Mortgage payable (note 10).	1,390,125	1,407,690
Minority interests in subsidiary companies including interest in preferred shares of \$617,900 (1980, \$343,150)	474,116	292,244
Shareholders' equity:		
Stated capital (note 11)	9,508,763	9,045,190
Retained earnings	5,844,158	5,452,316
Excess of appraised value of fixed assets over cost (note 7)	1,387,524	—
Contributed surplus	248,442	245,948
Total shareholders' equity	16,988,887	14,743,454
	<u>\$ 82,328,324</u>	<u>\$ 76,590,218</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, 1981
with comparative figures for 1980

	1981	1980
Amount at beginning of year	\$ 5,452,316	\$ 5,521,072
Net income	1,032,117	561,864
	<u>6,484,433</u>	<u>6,082,936</u>
Deduct:		
Dividends:		
Class A shares	596,985	575,951
Class B shares	43,290	54,669
	<u>640,275</u>	<u>630,620</u>
Amount at end of year.....	<u>\$ 5,844,158</u>	<u>\$ 5,452,316</u>

CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS
Year ended April 30, 1981
with comparative figures for 1980

	1981	1980
Amount at beginning of year	\$ 245,948	\$ 245,948
Discount on redemption of preferred shares of a subsidiary	2,494	—
Amount at end of year.....	<u>\$ 248,442</u>	<u>\$ 245,948</u>

See accompanying notes to consolidated financial statements.

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

Year ended April 30, 1981

with comparative figures for 1980

	1981	1980
Gross income (note 13)	\$ 51,039,772	\$ 36,549,778
Income before the following	19,956,528	16,175,190
Recovery of cost of leased property	5,599,413	4,066,632
Cost of borrowed money including \$221,447 (1980, \$172,260) on indebtedness initially incurred for a term exceeding one year	9,176,429	6,970,363
Depreciation and amortization	5,905,147	4,642,148
	20,680,989	15,679,143
Operating income (loss)	(724,461)	496,047
Investments:		
Income	583,249	288,246
Gain on dispositions	173,024	110,357
Amortization of excess of cost over net book value of subsidiaries	(62,292)	(87,292)
	693,981	311,311
Gain on sale of assets of a subsidiary (note 14)	560,418	—
Adjustment to lease renewal and residual values in a subsidiary	(1,236,500)	—
	17,899	311,311
Income (loss) before income taxes, minority interests and extraordinary item	(706,562)	807,358
Income taxes, deferred (note 15)	739,000	(277,000)
Income before minority interests and extraordinary item	32,438	530,358
Minority interests	55,679	31,506
Income before extraordinary item	88,117	561,864
Extraordinary item (note 16)	944,000	—
Net income	\$ 1,032,117	\$ 561,864
Earnings per share:		
Income before extraordinary item	\$.04	\$.25
Net income	\$.45	\$.25

See accompanying notes to consolidated financial statements.

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
Year ended April 30, 1981
with comparative figures for 1980

Funds provided:	1981	1980
Income before minority interests and extraordinary item	\$ 32,438	\$ 530,358
Add items not affecting funds principally depreciation	3,927,877	5,751,601
Funds provided from operations	<u>3,960,315</u>	<u>6,281,959</u>
Funds provided from leases receivable:		
Decrease (increase) in leases receivable	263,298	(6,789,641)
Decrease (increase) in residual values	(42,077)	128,181
Net credit losses	(429,384)	(393,514)
Increase in unearned income	312,255	1,993,842
Decrease (increase) in equipment purchased for lease commitments	339,369	(289,518)
	<u>443,461</u>	<u>(5,350,650)</u>
Funds provided from mortgages receivable:		
Decrease in mortgages receivable	992,224	2,480,169
Net credit losses	(71,051)	(45,395)
	<u>921,173</u>	<u>2,434,774</u>
Proceeds on sale of business	3,929,840	—
Proceeds on sale of real estate	1,295,737	28,020
Proceeds on sale of investments	466,286	115,549
Increase in short-term debt	2,382,426	12,222,918
Increase (decrease) in long-term secured debt	290,250	(142,633)
Issue of capital stock	108,000	—
Other	347,113	107,631
	<u>\$ 14,144,601</u>	<u>\$ 15,697,568</u>
Funds used:		
Decrease in funds on acquisition of business	\$ 196,865	—
Increase in accounts and notes receivable	4,058,073	2,238,640
Purchases of equipment and supplies for sale, rental or service, net	5,605,776	16,918,341
Increase in real estate held for sale	—	838,526
Increase in investments and advances to other companies, net	—	947,557
Additions to plant, equipment and improvements, net	1,306,399	1,897,618
Decrease (increase) in liabilities other than borrowings	1,737,911	(7,435,876)
Dividends paid	597,202	630,620
Increase (decrease) in cash and short-term deposits	642,375	(337,858)
	<u>\$ 14,144,601</u>	<u>\$ 15,697,568</u>

See accompanying notes to consolidated financial statements.

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 1981

The company, incorporated 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 intercompany 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.

(ii) Excess of cost over net book value of subsidiaries at dates of acquisition is being amortized over periods up to twenty years.

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1981
2. Business acquisition:

Effective December 31, 1980, the company acquired all of the outstanding common shares of HGL Data Systems Limited ("Data Systems"), a company engaged in the sale, rental and servicing of computer related equipment. The results of operations of Data Systems are included in the consolidated financial statements from the date of acquisition. Details of the acquisition which has been accounted for by the purchase method are as follows:

Net assets at values assigned thereto.....	\$ 452,500
Minority interest in preferred shares	<u>(280,000)</u>
Net assets acquired	172,500
Excess of cost over net assets acquired.....	140,000
Total purchase price	<u>\$ 312,500</u>

Consideration given:

Market value of 50,000 common shares at December 12, 1980 issued on closing	<u>\$ 312,500</u>
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The excess of cost over net assets acquired will be amortized over 10 years.

3. 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	\$ 10,546,791
Two years	5,391,373
Three years	1,521,911
Four years.....	181,665
Five years	<u>51,652</u>

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 1981

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

	1981	1980
Equipment and supplies for rental or sale, at cost.	\$ 33,141,623	\$ 32,102,989
Less accumulated depreciation	(8,476,870)	(7,542,220)
	<u>\$ 24,664,753</u>	<u>\$ 24,560,769</u>

5. Real estate held for sale:

Included in real estate held for sale are properties, acquired by subsidiary companies as a result of foreclosure proceedings, with a carrying value of \$2,711,367 (1980, \$4,007,852). 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:

	1981	1980
Investments:		
Citicorp Leasing Canada Limited, at equity	\$ 5,864,863	\$ 5,718,063
Affiliated companies, at equity	1,028,259	748,147
Other securities	363,935	625,547
	<u>7,257,057</u>	<u>7,091,757</u>
Advances to affiliated companies	750,000	750,000
	<u>\$ 8,007,057</u>	<u>\$ 7,841,757</u>

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1981

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

	1981	1980
Buildings	\$ 5,307,965	\$ 3,623,440
Equipment and improvements	1,545,794	1,218,508
Automobiles.....	676,698	983,716
	<u>7,530,457</u>	<u>5,825,664</u>
Less accumulated depreciation and amortization	1,230,468	1,183,171
	<u>6,299,989</u>	<u>4,642,493</u>
Land	800,000	65,543
	<u>\$ 7,099,989</u>	<u>\$ 4,708,036</u>

During the year the value of certain land and buildings was increased in the aggregate amount of \$1,910,524 to reflect appraised values.

Land and building, in Burlington, Ontario, was increased by \$1,690,410 based on an independent appraisal dated June 10, 1980 carried out by Keith Hobcraft & Associates Ltd., Accredited Appraisers. Land and building owned by a United Kingdom subsidiary was increased by \$220,114 based on an independent appraisal at April 30, 1980 by Cluttons, Chartered Surveyors.

The excess of appraised value over cost has been included in Shareholders' Equity after providing for deferred income tax in the amount of \$523,000.

Subsequent to the end of the year, effective May 1, 1981 the company sold the building and a portion of the land in Burlington, Ontario to Citicorp Leasing Canada Limited, a related party, for an aggregate cash consideration of \$3,500,000. The sale price was negotiated based on the aforementioned independent appraisal.

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.

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 1981

9. Long-term secured debt (payable by subsidiaries):

	1981	1980
6-3/4% senior notes, Series A, maturing April 15, 1984 (a)	\$ 592,000	\$ 601,000
26.47% notes due March 1, 1983 (\$250,000 U.S.) (b)	299,250	—
	<u>\$ 891,250</u>	<u>\$ 601,000</u>

(a) The senior notes rank prior to all other indebtedness of Charter Credit Corporation and are secured by a first floating charge on its assets.

The sinking fund requirements, net of purchases of par value of \$8,000 made in advance of sinking fund requirements, are \$92,000 in 1982, \$100,000 in 1983 and \$400,000 in 1984.

(b) The 26.47% notes are secured by an assignment of certain leases receivable.

10. Mortgage payable:

First mortgage, due October 1, 1998, with interest at 8-7/8%, 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) 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	2,050,245	210,043	\$ 9,045,190
Shares converted during the year	87,650	(87,650)	—
Shares issued as result of stock dividends	—	7,906	43,073
Shares issued as consideration on the acquisition of HGL Data Systems Limited ...	50,000	—	312,500
Shares issued under the company's Stock Purchase Plan	20,000	—	108,000
Balance end of year	<u>2,207,895</u>	<u>130,299</u>	<u>\$ 9,508,763</u>

An amount of \$105,368 is receivable from employees for shares issued under the company's Stock Purchase Plan.

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1981
12. 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.

13. Segmented information:

The Directors have determined that the company is an investment holding company with the operations of its subsidiary companies classified into two business segments: Financial Services, including leasing and financing; Equipment sales and rental.

The following is a summary of the business and geographic segments of the company:

Business segments:

	Financial Services	Equipment Sales and Rental	Elimina- tions	Consoli- dated
Gross income.....	<u>\$ 15,278,491</u>	<u>\$ 35,761,281</u>		<u>\$ 51,039,772</u>
Operating income (loss)	<u>\$ (651,548)</u>	<u>\$ (72,913)</u>		<u>\$ (724,461)</u>
Identifiable assets	<u>\$ 64,541,885</u>	<u>\$ 34,932,572</u>	<u>\$ (17,146,133)</u>	<u>\$ 82,328,324</u>
Geographic segments:				
	North America	Europe	Elimina- tions	Consoli- dated
Gross income, Third party	\$ 17,234,397	\$ 33,805,375		\$ 51,039,772
Transfers between geographic segments	\$ 2,274,669		\$ (2,274,669)	
Gross income.....	<u>\$ 19,509,066</u>	<u>\$ 33,805,375</u>	<u>\$ (2,274,669)</u>	<u>\$ 51,039,772</u>
Operating income (loss)	<u>\$ (1,020,519)</u>	<u>\$ 296,058</u>		<u>\$ (724,461)</u>
Identifiable assets	<u>\$ 70,266,932</u>	<u>\$ 29,207,525</u>	<u>\$ (17,146,133)</u>	<u>\$ 82,328,324</u>

14. Sale of business:

During the year a United Kingdom subsidiary company sold its inventory and certain other assets pertaining to its instrument rental business for proceeds of \$3,930,000.

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 1981

15. Income taxes:

The consolidated income tax provision is affected by non-taxable items which are included in the determination of income.

Certain of the subsidiaries have losses for tax purposes aggregating approximately \$3,509,500 which are available to reduce taxable income of future years and expire as follows:

1983	\$ 709,000
1984	1,449,500
1985	700,000
1986	278,000
1988	<u>373,000</u>

The tax effect on \$2,423,000 of the total amount has been reflected in deferred income taxes as a future tax benefit.

16. Extraordinary item:

During 1980, the Inland Revenue in the United Kingdom proposed changes in the legislation on relief from taxation for inventory appreciation which, it is anticipated, will become law during 1981 as part of the Finance Act 1981 and will be applied retroactively.

One of the main changes proposed is the write-off of past inventory appreciation relief, the tax effect of which has been reflected in the consolidated financial statements in prior years as deferred income taxes. Accordingly, the effect of this proposal has been reflected in the consolidated financial statements as an extraordinary item by crediting income in the amount of \$944,000 to eliminate the accumulated deferred income tax relating to inventory relief.

BANKERS

CANADA

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

UNITED STATES OF AMERICA

Bank of Virginia International
Crocker National Bank
The First National Bank of Chicago

