

The Hamilton
Group Limited



Annual
Report 1984

INTERIM REPORT TO SHAREHOLDERS JULY 31, 1984

To The Shareholders

The results of the first quarter ended July 31, 1984 are enclosed. The net income of \$901,712 was lower than the exceptional results of the same quarter last year of \$1,035,185. The net income for the quarter was \$0.38 per share compared to \$0.44 the previous year.

The computer sales and rental business continues to expand rapidly and the development costs associated with this expansion are largely responsible for the reduction in quarterly earnings this year compared to last. New offices have opened in Vancouver and Dallas which have required additional sales and support staff. Additional offices are planned for 1985 which will provide greater geographic coverage. The outlook remains positive.

The following press release was made on September 10, 1984.

"The Hamilton Group Limited of Burlington, Ontario announced today that it has agreed to sell its 40% share interest in Citibank Leasing Canada Limited ("CLCL") and Citibank Factoring Canada Limited to Citibank Canada for \$15,500,000. Closing, which is dependent on regulatory and other approvals, is scheduled for May 15, 1985.

Hamilton Group also announced that CLCL redeemed from Hamilton Group today \$1,000,000 of CLCL preference shares at their par value.

The sale transaction replaces the previously announced transaction between Hamilton Group and Citibank Canada under which Citibank Canada would have subscribed for non-voting special shares of Hamilton Group and CLCL would have been reorganized so that Hamilton Group's interest in CLCL would have been converted into non-voting preference shares. The parties terminated the earlier arrangements because of difficulties in satisfying certain pre-closing conditions.

Until Closing, Hamilton Group will continue to be entitled to its pro rata shares of CLCL's earnings and for a period of five years after Closing will continue to provide consulting services to CLCL at its current level of remuneration.

Hamilton Group will utilise the sale proceeds to retire bank indebtedness. Further, the sale will relieve Hamilton Group of its responsibility to provide a portion of CLCL's future capital requirements, thereby allowing it to concentrate its resources on development of its computer equipment rental and sales business."

This announcement marks the end of negotiations with Citibank Canada which have taken over a year to complete. As noted above, the first agreement reached whereby Citibank was to purchase \$14,000,000 of special shares of The Hamilton Group Limited could not be completed as it contravened regulations of the Federal Reserve Board applying to investments of United States banks in other countries. This led to the restructuring of the transaction to become a sale to be completed on May 15, 1985. This is a very straightforward transaction but it does accelerate capital gains tax payments.

The proceeds of sale of the special and common shares for \$16,500,000, plus share of earnings and dividends to April 30, 1985 will be used initially to reduce bank indebtedness. After the transaction is completed, The Hamilton Group Limited's debt equity ratio will be less than 1:1 and total shareholders' equity will exceed \$20,000,000. The greatly strengthened financial condition of Hamilton Group will permit development of the rapidly expanding computer rental and sales business in the United States and Canada.

A. B. Young, President

THE HAMILTON GROUP LIMITED
CONSOLIDATED STATEMENT OF INCOME
THREE MONTHS ENDED JULY 31, 1984
(with comparative figures for 1983)

	<u>1984</u>	<u>1983 *</u> (Restated)
Gross income	\$ 9,122,213	\$ 6,613,267
Income before the following Investment income	719,090 <u>1,112,933</u>	1,240,007 <u>863,829</u>
Cost of borrowed money	1,832,023 <u>719,311</u>	2,103,836 <u>623,651</u>
Income before income taxes and extraordinary items	1,112,712	1,480,185
Income taxes	<u>211,000</u>	<u>315,000</u>
Income before extraordinary items	901,712	1,165,185
Extraordinary items	<u>-</u>	<u>130,000</u>
Net income	\$ <u>901,712</u>	\$ <u>1,035,185</u>
Earnings per share:		
Income before extraordinary items	\$ 0.38	\$ 0.49
Net income	\$ <u>0.38</u>	\$ <u>0.44</u>

* For comparative purposes the 1983 consolidated financial statements have been restated to account for the investments in the former European subsidiaries on the equity method.

THE HAMILTON GROUP LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
THREE MONTHS ENDED JULY 31, 1984
(with comparative figures for 1983)

	<u>1984</u>	<u>1983 *</u> (Restated)
Funds provided from operations	\$ 1,272,141	\$ 1,025,642
Funds invested in operating assets		
Purchases of equipment for sale, rental or service	(2,964,687)	(849,539)
Increase in accounts and notes receivable	(1,893,248)	(1,095,812)
Increase in liabilities other than borrowings	1,171,427	264,637
Decrease in collateral cash deposits	-	677,754
Other assets	(132,668)	(67,688)
	<u>(3,819,176)</u>	<u>(1,070,648)</u>
Funds provided from assets in course of realization	98,912	308,722
Other assets and liabilities		
Decrease in investments and advances	1,588,538	183,891
Purchases of equipment and improvements	(46,222)	3,606
Other	14,426	(3,339)
	<u>1,556,742</u>	<u>184,158</u>
Decrease (increase) in short-term debt	\$(891,381)	\$ 447,874
Funds provided from operations per share	\$ <u>0.53</u>	\$ <u>0.43</u>

HIGHLIGHTS

	1984	1983
Income before extraordinary items	\$4,314,341.00	\$1,443,156.00
Net income (loss)	\$3,033,341.00	\$ (708,308.00)
Earnings per share		
Basic earnings per share		
Income before extraordinary items	\$ 1.82	\$.61
Net income (loss)	\$ 1.28	\$ (.30)
Fully diluted earnings per share		
Income before extraordinary items	\$ 1.75	
Net income	\$ 1.24	
Number of Class A and B shares outstanding	2,379,945	2,364,945
Class A and B shares registered in Canada	94.8%	89.7%

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DIRECTORS AND OFFICERS

April 30, 1984

HEAD OFFICE:

5050 South Service Road, Burlington, Ontario L7R 4C8

DIRECTORS:

Frederick W. Dakin*	President, The G. W. Robinson Co. Limited
Graham R. Dawson*	President, Dawson Construction Ltd.
Lincoln S. Magor**†	President, Mimik Inc.
Edward B. Priestner*†	Executive Vice President — Operations, Westinghouse Canada Inc.
John F. Schunk*	Retired, former Vice President, The Hamilton Group Limited
John G. Sheppard††*	Vice Chairman, Dofasco Inc.
Alan B. Young†	* President, The Hamilton Group Limited
David M. Young	Chairman, Hamilton Rentals Limited — U.K.
William H. Young†	Chairman, The Hamilton Group Limited

†† Chairman, Executive Committee of the Corporation

† Member, Executive Committee of the Corporation

** Chairman, Audit Committee of the Corporation

* Member, Audit Committee of the Corporation

HONORARY DIRECTOR:

James M. Young

OFFICERS:

William H. Young	Chairman
Alan B. Young	President
G. Duncan Shearer	Senior Vice President
Robert F. Young	Vice President
William J. Young	Vice President
Gordon Brown	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

1984 was an eventful year for the Company. Earnings were at an all-time high. Substantial progress was made in reducing Company debt and containing its exposure in Mexico. The reorganization of its affairs, the sale of the European subsidiaries in January, and certain significant transactions subsequent to the fiscal year end have all contributed to a strengthening of the Company's financial base, and provided capital to expand future operations. This, in conjunction with the strengthening of the management team will lead to improved profitability.

Financial

Income for the year after tax but before extraordinary items was \$4,314,341, or \$1.82 per share, compared to \$1,443,156, or \$0.61 per share, for the previous year. These earnings were a record for the Company.

Major contributors to the record results were strong before tax profit performances from the North American rental operations of \$2,785,719, and strong earnings contributions of \$3,155,000 from Hamilton Group's 40% interest in the Citibank companies, 39.4% in Torham Packaging Inc. and 37.5% in International Mercantile Factors Ltd. Deduction of head office costs, special legal and consulting fees produced a consolidated income before tax of \$5,118,341 and \$4,314,341 after tax.

Extraordinary items comprise an increase in the provision for loss on the bank loans to the former Mexican subsidiaries of \$2,000,000 (bringing the provision to \$6,000,000 at the year end) less a tax reduction of \$719,000 due to the application of prior years losses. After extraordinary charges, income for the year was \$3,033,341, or \$1.28 per share, compared to a loss of \$708,308, or \$0.30 per share, a year ago.

Europe

Effective January 31, 1984, The Hamilton Group Limited sold its wholly-owned subsidiaries in Europe to a newly incorporated United Kingdom company, Hamilton Rentals Limited. Consideration for the sale, based on book values of the European companies, amounted to 35.17% of the common shares in the new company, \$1,131,999 in cash and \$1,822,940 in 7% preference shares which will be redeemed in five equal

annual amounts commencing July 1, 1985. The sale of the English and German subsidiaries was finalized on April 4, 1984. Closing of the sale of HGL France S.A. is subject to French governmental approval, expected shortly.

As part of the transaction the European investors owning 64.83% of Hamilton Rentals Limited have the right to exchange their common shares into Hamilton Group Class A shares at the rate of 3.25 Hamilton Rental shares for one Hamilton Group Class A share at any time between July 31, 1986 and July 31, 1991. Based on present projections of European earnings, conversion should not cause dilution of Hamilton Group's earnings. Hamilton Group has the option to pay cash for a portion of the Hamilton Rentals shares rather than issue shares from treasury. Full exercise of the options would result in Hamilton Group issuing an additional 598,461 shares which would increase the number of common shares outstanding as at April 30, 1984 from 2,379,945 to 2,978,406.

Hamilton Rentals Limited will be managed by a strong board of European directors, on which Hamilton Group will have representation. It will raise its own debt locally and will thus be in a strong position to take advantage of the profitable growth opportunities in Europe. At the same time the Hamilton Group companies in North America will profit from continuing close contacts with their European counterparts.

The European rental operations contributed a small profit in the current year, compared to a loss in 1983. The outlook for the coming year is for improving earnings.

D. M. Young has taken up permanent residence in the United Kingdom as full-time chairman of Hamilton Rentals Limited, and a new managing director, Mr. Ray West, has been appointed.

Citibank Leasing Canada Limited

The Hamilton Group Limited owns 40% of the common shares of Citibank Leasing Canada Limited (CLCL) and \$1,000,000 of its 9% preferred shares. The Company also owns 40% of the common shares of Citibank Factoring Canada Limited (CFCL). Citibank Canada owns the remaining common shares. There is a shareholders' agreement between The Hamilton Group Limited and Citibank Canada which gives Hamilton Group certain rights and which requires it to provide its share of any capital increase in the two Citibank companies. Hamilton Group's share of the

earnings of CLCL and CFCL was \$2,775,600 for the year ended April 30, 1984, a very satisfactory result. This has not always been the case, particularly in times of high and rising interest rates. With the Citibank companies near the limit of their permitted borrowing ratios it is likely that substantial capital increases will be necessary in future if the two companies are to take full advantage of growth opportunities. If Hamilton Group committed funds to meet its share of such increases it would severely limit its ability to finance the growth of its rental operations in North America. As a consequence, The Hamilton Group Limited and Citibank Canada have agreed to a reorganization involving the two Citibank companies under which Hamilton Group would give up its rights under the shareholders' agreement and eliminate its responsibility to provide a share of their future capital requirements.

Under the new agreement, The Hamilton Group Limited will sell its 40% interest in CFCL for \$87,500. CLCL's capital will be restructured which will result in the redemption at par of the \$1,000,000 special preferred shares held by Hamilton Group and the issuance of a new class of special shares in exchange for the common shares held by Hamilton Group. Hamilton Group's participation in the future of CLCL will be limited to dividends paid on the special shares and to management assistance that it will continue to provide for the next five years and for which it will be paid fees.

In addition, Citibank Canada or its nominee will purchase 140,000 non-voting special shares of The Hamilton Group Limited carrying a non-cumulative dividend of 7%, for \$14,000,000. Citibank Canada will also pay \$1,500,000 for an option to purchase Hamilton Group's holding of CLCL special shares. The option may be exercised on July 31, 1994 at a price to be negotiated but which will not be less than \$7,200,000. If the option is exercised, Citibank may tender any part of its holding of Hamilton Group special shares at their face value in lieu of cash.

At the special general meeting of shareholders of Hamilton Group held on July 23, 1984 the creation of the 140,000 non-voting, 7% non-cumulative special shares was approved. However, due to certain regulatory constraints, the proposed closing of the transaction had to be postponed. At the date of this report (July 31, 1984), the regulatory problems had not been overcome and no firm date for closing has been established.

Torham Packaging Inc.

The Hamilton Group Limited agreed to sell its 39.4% interest in Torham Packaging Inc. to a group of Torham shareholders for \$1,015,200 cash. This sale closed on July 11, 1984, and the funds received were used to reduce bank borrowings. Based on equity accounting, Hamilton Group's book value for this investment was \$691,926 at the year end. This has been a successful investment for Hamilton Group which was instrumental in starting Torham in 1978. Over the six years that Hamilton Group held shares in Torham it received \$1,378,141 (including the sale price) on its original investment of \$170,046.

The actual contribution to Hamilton Group's earnings for the year ended April 30, 1984 was \$143,181.

Mexico

The Mexican economy is showing signs of recovery and the balance of payments has been very favourable. The leasing company, Impulsora Mexicana de Arrendamiento, S.A. (IMEXA) is therefore positioning itself to increase business volume and income. The equipment leasing business in Mexico is viable and potentially profitable as long as it is financed in pesos. Thus Hamilton Group has four objectives for its debt and equity interests in Mexico.

First, increase the amount of IMEXA debt qualifying for the "FICORCA" trust arrangement provided by the Mexican Government whereby U.S. dollar debt is converted into peso debt to the maximum amount the Mexican company can service.

Second, reorganize Hamilton Group's total debt and equity investment in Mexico to achieve the greatest possible development of the Mexican leasing business.

Third, make the company an attractive purchase for a third party in Mexico.

Fourth, commit no additional monies to Mexico and take all available steps through "FICORCA" to recover monies invested in Mexico in the past.

The reorganization required will involve the merger of Sercomex, S.A. de C.V. — the parent holding company — and its operating subsidiary — IMEXA; the purchase by Hamilton Group of between US\$6.5 to \$8.0 million worth of equity in the new company followed by an immediate equal repayment of debt to U.S. and Canadian banks; the placement of the balance of the US\$16.0 million Mexican debt in "FICORCA"; and the expansion of the leasing business and its eventual sale.

The reorganized company will qualify as an auxiliary credit institution under Mexican banking regulations and as such qualifies for government regulation and support similar to bank leasing companies in Canada. This advantage, coupled with increasing business volume should make the merged IMEXA saleable.

Hamilton Group will continue to have a major input into the management of IMEXA and will closely monitor cash flows, profit, and performance under "FICORCA" against forecasts. However, based on information available the \$6,000,000 (Canadian) reserve appears adequate at this time.

The steps taken to date by the Mexican Government by providing a mechanism to protect against further devaluation through "FICORCA" and by the proposed reorganization are positive. As a result of this step, and management's decision Hamilton Group's maximum exposure to Mexico has been limited to existing debt and no additional funds will be committed to IMEXA.

OPERATIONS

International Mercantile Factors Ltd.

Hamilton Group retains its investment in International Mercantile Factors Ltd. (IMF). IMF had another excellent year, with Hamilton Group's combined investment of debt and equity returning over 18%.

The founder of IMF and its managing director are both beneficial shareholders in Hamilton Rentals Limited in the United Kingdom. This is a relationship highly valued by Hamilton Group and it is hoped this will be maintained and strengthened over the coming years.

Charter Credit Corporation

The new financial statement presentation includes all Charter assets under the caption "Assets in Course of Realization". During the year \$1.5 million was realized from the continued liquidation of the Charter assets which now total \$3,111,000. At the same time Charter earned approximately \$90,000 before tax. Also included in this caption are the real estate holdings in Burlington and Dundas, Ontario which will be sold as soon as a reasonable market develops.

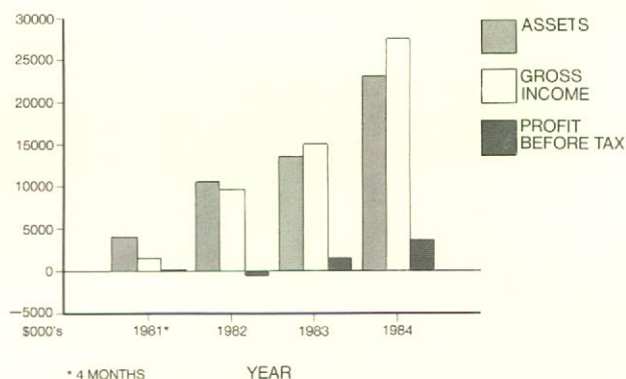
HAMILTON Computer Sales and Rentals

In 1981 Hamilton Group first became involved in the computer rental and sales business in Canada and this was followed in 1982 in the United States. The business originally evolved in the United Kingdom from equipment leasing business as it was found that off-lease office equipment could often be rented with better commercial results than an outright sale. From this start the sale and rental of office equipment developed into a separate viable business that in turn soon concentrated on computer equipment of major manufacturers.

Hamilton Group now operates as HAMILTON Computer Sales and Rentals in Canada and HGL Software Limited in the United States. It has the capability not only to sell and rent computer hardware, but it can supply advanced software, provide personnel training, and perform the equipment and software installation and maintenance to ensure that a totally functioning system is provided to the customer.

The results over the four years have shown impressive growth. The following graphs show that sales, assets, and profits before tax have had an average annual growth of 70% for sales, 50% for assets, and 170% for profits before tax from 1981 (4 months) to 1984. It is the intention to maintain this rapid growth within the confines of good management and available resources.

COMPUTER RENTALS & SALES - NORTH AMERICA



As noted, the intended purchase by Citibank of the \$14,000,000 of special shares of The Hamilton Group Limited would provide the funding required to achieve the potential available.

To capitalize on this opportunity will provide a real and exciting challenge for Hamilton Group. It includes management of equipment in an area of changing technology, expansion into new locations to better service Canada and the United States, and the maintenance or increasing share of an expanding market.

Cancord

Cancord is the remaining link to Hamilton Group's textile history. It employs 20 persons in a factory in Hamilton and continues to contribute a modest profit before tax.

Outlook

The first priority of the present year is the completion of the European and Citibank deals and the reorganization and the renegotiation of Hamilton Group's lines of credit. The computer rental and sales operations are in the process of installing a new, more sophisticated and complete "on line" computer reporting system that will develop into a complete accounting and operations control system. The completion of these steps will be time consuming and no doubt will cause unforeseen problems. However, their completion is essential to the creation of the administrative and resource base necessary to achieve the profitable growth available in the computer industry.

The second priority for management is to ensure that the operations take advantage of the rapidly expanding computer market. This opportunity is truly exciting and challenging. Barring some unforeseen major recession, the computer operations will continue their rapid expansion.

However, the coming year is one of transition. If the Citibank agreement is consummated, the share of earnings from Citibank Leasing and Citibank Factoring Canada Limited will terminate in the coming year and will be replaced by a fixed dividend, the share of earnings from European rental operations will be limited to the 35.1% investment and the income from

Torham Packaging Inc. ceased during July. On the positive side, borrowings are reduced and computer related income is increasing.

General economic factors and rising interest rates provide an increasing cost factor and a dampener on new investment. Thus the overall outlook for the present year is difficult to forecast and it will be a challenge to repeat the record earnings of the year ended April 30, 1984. The longer term outlook as a well positioned company in the computer industry is indeed bright.

Banking

The April 30, 1984 year end figures for The Hamilton Group Limited, if adjusted on a pro-forma basis for the completion of the Hamilton Rentals sale in Europe, the sale of Torham investment, and the completion of the Citibank agreement, show a debt to equity ratio of 0.8/1 for the Company including the Company share of Mexican debt. This compares with the debt equity ratio of 3.8/1 at April 30, 1984.

The Company is entering negotiations with its bankers to reach agreement on a banking accommodation which will reflect the improved credit of the Company and its need to finance the growth of its operations in Canada and the United States. At the same time it is the aim of the Board to resume the payment of dividends on the Company's common shares as soon as prudently possible.

FINANCIAL STATEMENT PRESENTATION

The format of the Balance Sheet has been changed to provide more meaningful information to the shareholders, investors and lenders and to more closely reflect the dominant role of the company's business of renting and selling computer equipment and systems.

The Company's largest asset is its equipment for sale or rental. This asset comprises computer hardware and software from leading manufacturers. Essentially the Company's business is sale or short-term operating leases where the benefits and risks of ownership are not transferred to the lessee. Rental terms are predominantly for periods of less than 12 months, and practically all equipment is replaced within three years of date of purchase. This is an

operating asset, particularly in the rental business, and management is of the opinion that the term operating assets is fair, and properly reflects the Company's activities.

Assets which no longer have a place in Company plans, such as the mortgage holdings of Charter Credit Corporation, are listed under "Assets in the Course of Realization". These assets will be realized over a period of time as mortgages mature or as selling opportunities occur. In total the amounts forecast to be received are expected to exceed the aggregate carrying values shown.

The remaining groupings are self-explanatory, and are designed to assist investors and shareholders to more clearly understand the Company's operations and financial statements.

Employees

On May 1, 1984 A. B. Young was appointed President of the Company, W. H. Young became Chairman of the Board of Directors, and J. G. Sheppard Chairman of the Executive Committee. G. D. Shearer was appointed Senior Vice-President and Chief Financial Officer.

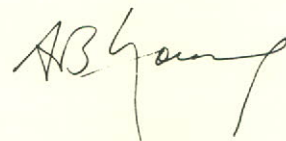
G. Brown, and W. J. Young were appointed Vice Presidents to join R. F. Young who was appointed last year. They are young men, capable and qualified, and have responsibility for the operating entities.

The Board wishes to acknowledge with gratitude the dedication, loyalty and effort of individual Board members and employees during this difficult period for the Company from which it is now emerging.

July 31, 1984



W. H. Young, Chairman



A. B. Young, President

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of The Hamilton Group Limited as at April 30, 1984 and the consolidated statements of income, retained earnings (deficit), contributed surplus and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at April 30, 1984 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.

Hamilton, Canada
June 29, 1984

Peat, Marwick, Mitchell & Co.
Chartered Accountants

CONSOLIDATED FINANCIAL STATEMENTS

THE HAMILTON GROUP LIMITED

CONSOLIDATED STATEMENT OF INCOME

Year ended April 30, 1984

with comparative figures for 1983

	1984	1983 (note 1(a))
Gross income (note 12)	\$29,679,345	\$18,126,893
Income before the following	4,162,749	2,695,365
Income from investments	3,411,289	1,172,976
	7,574,038	3,868,341
Cost of borrowed money including \$134,419 (1983; \$152,517) on indebtedness initially incurred for a term exceeding one year	2,310,248	2,820,967
	5,263,790	1,047,374
Special legal and consulting fees	145,449	151,418
Income before income taxes, minority interest and extraordinary items	5,118,341	895,956
Income taxes	(804,000)	564,000
Income before minority interests and extraordinary items	4,314,341	1,459,956
Minority interests	—	(16,800)
Income before extraordinary items	4,314,341	1,443,156
Extraordinary items (note 13)	(1,281,000)	(2,151,464)
Net income (loss)	\$ 3,033,341	\$ (708,308)
Earnings per share (note 10):		
Income before extraordinary items	\$ 1.82	\$ 0.61
Net income (loss)	\$ 1.28	\$ (0.30)

See accompanying notes to consolidated financial statements.

THE HAMILTON GROUP LIMITED
CONSOLIDATED BALANCE SHEET
April 30, 1984
with comparative figures for 1983

	ASSETS	
	1984	1983 (note 1(a))
Operating assets:		
Cash and short-term deposits	\$ 64,000	\$ 77,382
Collateral cash deposits	—	2,108,751
Equipment for sale, rental or service (note 2)	16,574,590	10,172,390
Accounts and notes receivable	5,129,130	2,550,923
Other	1,061,531	858,910
	<u>22,829,251</u>	<u>15,768,356</u>
Assets in course of realization:		
Mortgages receivable less allowance for losses \$125,983 (1983; \$78,207)	889,083	2,412,310
Real estate held for sale (note 3)	1,509,269	1,432,074
Rental property, net (note 4)	1,284,903	1,310,664
	<u>3,683,255</u>	<u>5,155,048</u>
Other assets:		
Investments and advances (note 5)	15,689,664	14,174,662
Equipment and leasehold improvements (note 6)	831,657	702,302
Deferred income taxes	599,705	684,705
Other	425,276	439,236
	<u>17,546,302</u>	<u>16,000,905</u>
	<u><u>\$44,058,808</u></u>	<u><u>\$36,924,309</u></u>

THE HAMILTON GROUP LIMITED

CONSOLIDATED BALANCE SHEET

April 30, 1984

with comparative figures for 1983

LIABILITIES AND SHAREHOLDERS' EQUITY

	1984	1983 (note 1(a))
Operating liabilities:		
Short-term secured debt (note 7)	\$16,506,869	\$17,681,020
Notes and accounts payable and accrued charges	9,242,767	5,631,976
	<u>25,749,636</u>	<u>23,312,996</u>
Other liabilities:		
Long-term secured debt	—	393,000
Minority interest in preferred shares of subsidiaries	177,550	209,410
	<u>177,550</u>	<u>602,410</u>
Provision for loss on guarantees (note 8)	6,000,000	4,000,000
Shareholders' equity:		
Capital stock (note 9)	9,673,707	9,599,457
Retained earnings (deficit)	1,849,838	(1,277,055)
Excess of appraised value of property over cost (note 11)	275,110	368,662
Contributed surplus	332,967	317,839
Total shareholders' equity	<u>12,131,622</u>	<u>9,008,903</u>
	<u>\$44,058,808</u>	<u>\$36,924,309</u>

See accompanying notes to consolidated financial statements

On behalf of the Board:

W. H. YOUNG, Director

A. B. YOUNG, Director

THE HAMILTON GROUP LIMITED
CONSOLIDATED STATEMENT OF RETAINED EARNINGS (DEFICIT)
Year ended April 30, 1984
with comparative figures for 1983

	1984	1983
Deficit at beginning of year	\$ (1,277,055)	\$ (827,399)
Net income (loss)	3,033,341	(708,308)
Realization of excess of appraised value of property over cost	—	165,100
Amortization of excess of appraised value of property over cost (note 11)	93,552	93,552
Retained earnings (deficit) at end of year	<u>\$ 1,849,838</u>	<u>\$ (1,277,055)</u>

CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS
Year ended April 30, 1984
with comparative figures for 1983

	1984	1983
Amount at beginning of year	\$ 317,839	\$ 287,475
Discount on redemption of preferred shares of a subsidiary	15,128	30,364
Amount at end of year	<u>\$ 332,967</u>	<u>\$ 317,839</u>

See accompanying notes to consolidated financial statements.

THE HAMILTON GROUP LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended April 30, 1984

with comparative figures for 1983

	1984	1983 (note 1(a))
Operations:		
Income before minority interest and extraordinary items	\$ 4,314,341	\$ 1,459,956
Add (deduct) items not affecting funds:		
Depreciation and amortization	2,908,973	1,938,584
Non-cash gain on rental assets sold	(567,734)	(690,118)
Income from investments	(3,411,289)	(1,172,976)
Deferred income taxes	385,000	(703,000)
Other	48,000	96,028
	<u>3,677,291</u>	<u>928,474</u>
Dividends received from investee companies	680,297	1,186,632
Funds provided from operations	<u>4,357,588</u>	<u>2,115,106</u>
Operating assets and liabilities:		
Increase in liabilities other than borrowings	4,029,791	1,787,136
Decrease (increase) in collateral cash deposits	2,108,751	(2,108,751)
Purchases of equipment for sale, rental or service, net	(8,521,402)	(2,805,199)
Increase in accounts and notes receivable	(2,578,207)	(427,334)
Other assets	(202,621)	83,768
Funds invested in operating assets	<u>(5,163,688)</u>	<u>(3,470,380)</u>
Assets in course of realization:		
Repayment of mortgages receivable	1,475,227	1,053,698
Decrease (increase) in real estate held for sale	(77,195)	618,399
Funds realized	<u>1,398,032</u>	<u>1,672,097</u>
Other:		
Decrease in investments and advances, net	1,215,990	1,677,352
Capital stock issued	74,250	—
Purchases of equipment and improvements, net	(289,569)	(230,539)
Repayment of long-term debt	(393,000)	(91,000)
Redemption of preference shares held by minority interests	(16,732)	(88,426)
Purchase of preference shares held by minority interests	—	(210,000)
Other	(22,102)	(335,993)
	<u>568,837</u>	<u>721,394</u>
Decrease in short-term debt, net of change in cash	<u>\$ 1,160,769</u>	<u>\$ 1,038,217</u>
Funds provided from operations, per share (basic)	<u>\$ 1.82</u>	<u>\$ 0.89</u>

See accompanying notes to consolidated financial statements.

THE HAMILTON GROUP LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****April 30, 1984**

The company, incorporated under the Canada Business Corporations Act, carries on the business of computer equipment sales and rental operations through its subsidiaries and associates in Canada, Europe and the United States.

1. Summary of significant accounting policies:

(a) Basis of presentation:

- (i) The consolidated financial statements include the accounts of the company and all subsidiaries. All material inter-company balances and transactions have been eliminated.

The accounts of three former wholly-owned European subsidiaries, Hamilton Rentals Ltd., HGL France S.A. and Hamilton Rentals GmbH, are not consolidated in the accompanying consolidated financial statements. Effective January 31, 1984, the company agreed to sell its investments in these companies to a newly formed European holding company (note 5(b)).

As part of the proceeds on this sale, the company received a 35.17% interest in the common shares of the European holding company, which is being accounted for on the equity method. Accordingly, income from investments includes a 100% equity interest in the results of operations of the European subsidiaries for the nine months ended January 31, 1984 and a 35.17% interest in the consolidated results of the European holding company for the three months ended April 30, 1984. For comparative purposes, the 1983 consolidated financial statements have been restated to account for the investments in the European subsidiaries on the equity method.

The sale of two of the former subsidiaries, Hamilton Rentals Ltd. and Hamilton Rentals GmbH, was finalized on April 4, 1984. Closing of the sale of HGL France S.A. is subject to French governmental approval and a refinancing to allow the release of HGL's guarantee of the debt of HGL France S.A., which at April 30, 1984 amounted to \$3,701,000.

- (ii) The company has changed the format of the Balance Sheet and Statement of Changes in Financial Position to reflect management's decision to concentrate the company's activities in computer equipment sales and rental operations. Assets which do not meet the company's present investment criteria are segregated in the Balance Sheet under the caption 'Assets in Course of Realization.'

Equipment for rental, included in 'Operating assets,' is subject to depreciation and is normally sold within three years of the date of acquisition. Rental terms are mainly for short term periods of less than twelve months and the risks and benefits of ownership are not transferred to the customer.

For comparative purposes, the 1983 consolidated financial statements have been reclassified to conform to the presentation adopted in 1984.

THE HAMILTON GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 1984

(b) Currency translation:

Assets and liabilities arising in foreign currencies due within one year and notes receivable arising in foreign currencies are translated at the rates of exchange in effect at the year-end. Other foreign currency items are translated at the rates in effect when the transactions occurred.

For consolidation purposes, accounts of foreign subsidiaries are translated to Canadian dollars using the current rate method. Unrealized gains or losses on translation of foreign subsidiaries' accounts for consolidation purposes are deferred until realized.

(c) Mortgages receivable and interest income:

The mortgage financing subsidiary records 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 recognized as income according to standard mortgage amortization tables. Discounts on mortgages and unrealized profits on sales of repossessed properties are recognized as income in equal monthly amounts over the remaining life of the mortgages.

(d) Depreciation and amortization:

Depreciation is provided on plant and equipment and rental property, and amortization on leasehold improvements, generally on a straight-line basis, at annual rates which are designed to write off the assets over their estimated useful life.

Depreciation is provided on equipment for rental at annual rates ranging from 16-2/3% to 25%.

2. Equipment for sale, rental or service:

	1984	1983
Equipment for rental, at cost.....	\$17,113,189	\$11,315,757
Less accumulated depreciation.....	4,749,408	2,630,206
	<hr/>	<hr/>
	12,363,781	8,685,551
Equipment for sale and service, at cost	4,210,809	1,486,839
	<hr/>	<hr/>
	\$16,574,590	\$10,172,390
	<hr/>	<hr/>

THE HAMILTON GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1984
3. 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 \$937,229 (1983; \$975,898). 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 be readily determined.

4. Rental property:

	1984	1983
Rental property, at cost.....	\$ 2,565,031	\$ 2,565,031
Less:		
Mortgage payable.....	1,136,635	1,158,705
Accumulated depreciation.....	143,493	95,662
	<u>\$ 1,284,903</u>	<u>\$ 1,310,664</u>

The first mortgage, due in 2002, with interest at 9.5%, is payable in equal monthly instalments of \$10,795, including principal and interest, and is secured by the rental property.

5. Investments and advances:

	1984	1983
Investments and advances, at equity:		
Citibank Leasing Canada Limited and Citibank Factoring Canada Limited.....	\$ 8,603,263	\$ 6,317,663
European rental companies.....	4,464,201	5,210,683
Other.....	2,622,200	2,286,973
	<u>15,689,664</u>	<u>13,815,319</u>
Investments at market value.....	<u>—</u>	<u>359,343</u>
	<u>\$15,689,664</u>	<u>\$14,174,662</u>

THE HAMILTON GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 1984

- (a) Subsequent to the year-end, the company entered into an agreement that will restructure its investment in Citibank Leasing Canada Limited (CLCL), dispose of its investment in Citibank Factoring Canada Limited (CFCL) and reorganize the share capital of The Hamilton Group Limited (HGL). The agreement is to be effective on July 27, 1984, and the details are as follows:

- (i) HGL will exchange its present holding of common shares in CLCL for new special CLCL shares that will be non-voting, non-redeemable, entitled to a cumulative dividend of \$250,000 per year and to a preferential return of \$14,000,000 in the event of dissolution of CLCL.

As part of the reorganization, CLCL will redeem HGL's holding of Series A special shares for \$1,000,000.

- (ii) HGL will sell its holding of common shares in CFCL for a cash consideration of \$87,500.
- (iii) HGL will create a new class of special shares that will be non-voting, non-redeemable, non-cumulative and entitled to a preferential return in the event of dissolution. Citibank Canada will acquire 140,000 of these special shares at \$100 per share, such price having been approved by the directors of HGL.
- (iv) HGL will grant an option for \$1,500,000 in favour of Citibank Canada in respect of the new CLCL special shares. The exercise price will be negotiated at the exercise date of July 31, 1994, but will not be less than \$7,200,000. The exercise price may be paid by Citibank Canada in cash or, at its election, by tendering to HGL a proportionate amount of its holdings in the special shares of HGL.

There will be no effect on 1985 net income as a direct result of these transactions.

The agreement is subject to governmental, regulatory and shareholder approvals being obtained.

- (b) Consideration for the sale of the former wholly-owned European subsidiaries to the European holding company (note 1(a)), which amounts to the net asset values of the former subsidiaries, is as follows:
- (i) cash of \$1,131,999
- (ii) 1,055,000 common shares in the newly formed European holding company, having a par value of \$1,928,540 and representing a 35.17% equity interest
- (iii) 7% redeemable, cumulative preference shares of the European holding company having a par value of \$1,822,940. These shares are redeemable in five equal annual instalments commencing July 31, 1985.

THE HAMILTON GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1984
6. Equipment and improvements:

	1984	1983
Equipment	\$ 995,672	\$ 831,272
Leasehold improvements	332,909	271,610
	<u>1,328,581</u>	<u>1,102,882</u>
Less accumulated depreciation and amortization	496,924	400,580
	<u>\$ 831,657</u>	<u>\$ 702,302</u>

7. Short-term secured debt:

As security for short-term debt, the company has pledged its shares of its subsidiaries and other investments and has given a demand debenture as collateral for a floating charge on all of the assets and undertakings of the company and its subsidiaries as well as a fixed charge on its real property in Canada. The company has also provided a general assignment of accounts receivable and a general security agreement of the company and its subsidiaries in Canada and the United States.

At April 30, 1984, short-term bank lines-of-credit available to the company and its subsidiaries amount to \$17,125,000.

8. Provision for loss on guarantees:

In March, 1983, the company sold its investment in the former Mexican holding subsidiary to a company controlled by certain shareholders of The Hamilton Group Limited. The company remains contingently liable as guarantor of the bank loans of the former subsidiaries, which at April 30, 1984 amounted to \$16,000,000 U.S. Approval of the 1983 sale has not yet been received from the Mexican regulatory authorities.

During fiscal 1984, the Bank of Mexico commenced a program (Ficorca) to allow payment of private sector foreign currency debts outside Mexico. Under the program, the Mexican companies exchanged notes with the Bank of Mexico such that the Bank will provide U.S. funds in equal quarterly instalments from 1988 to 1991 to allow the companies to discharge their foreign debts in return for payment from the companies to the Bank, of the peso equivalent established in 1983 exchange rates. During the term of the program, the Mexican companies will incur interest expense on notes payable to the Bank at peso borrowing rates, while earning interest on the U.S. dollar notes receivable, at Libor. The Mexican companies have entered the program for \$8,000,000 U.S. at April 30, 1984.

THE HAMILTON GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 1984

The objectives of The Hamilton Group Limited are to arrange for the sale of the Mexican operations to third parties and to be relieved of the guarantee as part of the terms of sale. The ultimate loss on the company's guarantee will not be established until the Mexican operations are resold or, if not resold, until several years have passed. However, based on information now available, management has increased the provision for loss on guarantees by \$2,000,000 to \$6,000,000 at April 30, 1984, which is considered adequate based on projections of future operations to support the new Ficorca program.

9. Capital stock:

(a) The capital stock 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. Class B shareholders receive a stock dividend equivalent to Class A cash dividends.

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

	Class A Shares	Class B Shares	Stated Value
Balance beginning of year	2,214,641	150,304	\$9,599,457
Shares converted during the year	53,725	(53,725)	—
Issued under stock purchase plan.....	15,000	—	74,250
Balance end of year	<u>2,283,366</u>	<u>96,579</u>	<u>\$9,673,707</u>

An amount of \$155,186 is receivable from employees for shares issued under the company's Stock Purchase Plan.

10. Fully diluted earnings per share:

Under a share exchange agreement between the company and the other shareholders of the newly formed European holding company (notes 1(a) and 5(b)), the other shareholders have the right, commencing July 31, 1986 through July 31, 1991, to exchange their shares for Class A shares of the company. The rate of exchange is 3.25 European shares for one Class A share of the company or for cash, at the company's option. Full exercise of these options would result in the issuance by the company of 598,461 additional Class A shares.

Fully diluted earnings per share, calculated assuming full conversion of the European shares as at January 31, 1984, are as follows:

Income before extraordinary items	<u>\$ 1.75</u>
Net income	<u>\$ 1.24</u>

THE HAMILTON GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1984
11. Excess of appraised value of property over cost:

The excess of appraised value of fixed assets over cost relates to land and a building in Burlington, Ontario which were sold in 1981 to Citibank Leasing Canada Limited, in which the company has a 40% equity interest. 40% of the gain on the sale, representing that portion attributable to the company's proportionate equity interest in the purchasing company, remains in Shareholders' Equity, net of deferred income tax, and is being amortized to retained earnings over a period of five years.

12. Segmented information:

The directors have determined that the company is an investment holding company with the operations of its subsidiaries classified into one business segment of computer equipment sales and rental.

A summary of the geographic segments of the company is as follows:

1984	Canada	United States	Eliminations	Consolidated
Gross income, third parties.....	\$18,489,191	\$11,190,154		\$29,679,345
Transfers between geographic segments.....	116,039	153,846	\$ (269,885)	—
Gross income.....	<u>\$18,605,230</u>	<u>\$11,344,000</u>	<u>\$ (269,885)</u>	<u>\$29,679,345</u>
Segment income.....	\$ 3,381,774	\$ 1,238,000		\$ 4,619,774
Less net corporate expenses not allocated to segments				\$ (457,025)
Income before the following, per Consolidated Statement of Income				<u>\$ 4,162,749</u>
Identifiable assets	<u>\$38,260,733</u>	<u>\$ 7,867,000</u>	<u>\$ (2,068,925)</u>	<u>\$44,058,808</u>
1983				
Gross income, third parties.....	\$12,544,637	\$ 5,582,256		\$18,126,893
Transfers between geographic segments.....	52,573	354,344	(406,917)	—
Gross income.....	<u>\$12,597,210</u>	<u>\$ 5,936,600</u>	<u>\$ (406,917)</u>	<u>\$18,126,893</u>
Segment income.....	<u>\$ 2,114,350</u>	<u>\$ 499,000</u>		\$ 2,613,350
Add net corporate expenses allocated to segments.....				\$ 82,015
Income before the following, per Consolidated Statement of Income				<u>\$ 2,695,365</u>
Identifiable assets	<u>\$33,447,562</u>	<u>\$ 4,159,231</u>	<u>\$ (682,484)</u>	<u>\$36,924,309</u>

THE HAMILTON GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 1984

13. Extraordinary items:

	1984	1983
Provision for loss on guarantee of bank loans of former Mexican subsidiaries (note 8)	\$ 2,000,000	\$ 2,290,464
Reduction of income taxes due to application of prior years' losses	(719,000)	(139,000)
	<u>\$ 1,281,000</u>	<u>\$ 2,151,464</u>

14. Income taxes:

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

A subsidiary has losses for tax purposes aggregating approximately \$190,000 which are available to reduce taxable income of future years. The potential future benefit of these losses has not been reflected in these consolidated financial statements.

15. Transactions with related parties:

	1984	1983
Balance due to shareholders (included in notes and accounts payable and accrued charges)	\$ —	\$ 310,000

The company entered into transactions with related parties in the normal course of business as follows:

Management fees charged to associated companies	\$ 402,000	\$ 459,000
Interest charged to associated companies	\$ 198,000	\$ 347,500

THE HAMILTON GROUP LIMITED**BANKERS****CANADA**

The Bank of Nova Scotia
Canadian Imperial Bank of Commerce
The First National Bank of Chicago (Canada)
National Bank of Canada

UNITED STATES OF AMERICA

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

