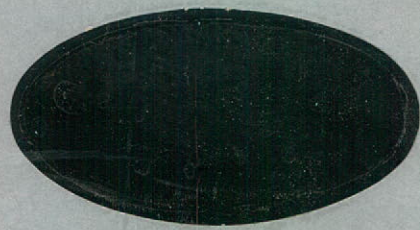


1909~1979

leon's furniture limited



1979

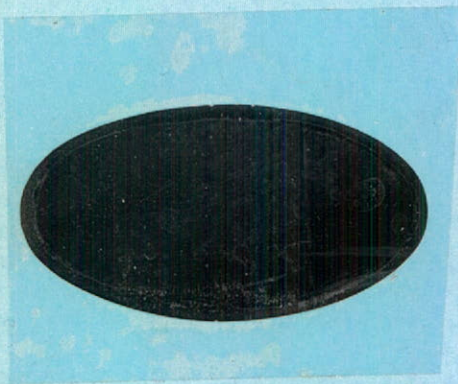
annual report

70TH ANNIVERSARY THEME

The 70th anniversary of the Leon furniture business sets the theme of this year's annual report.

The business now carried on by Leon's Furniture Limited was founded in 1909 in Welland, Ontario. During the past 70 years, the business has been greatly transformed and has grown from that single store in Welland to one of Canada's largest independent retailers of home furnishings.

Leon's are proud of their past and look with confidence to the enormous potential of the future.



70TH
Leon's
SINCE 1909
anniversary

CHAIRMAN'S AND PRESIDENT'S MESSAGE

1979 was a significant year for our company. It encompassed the attaining of a record sales level of \$81.1 million; expansion within Canada (our 230,000 sq. ft. retail warehouse, showroom and distribution centre in Metropolitan Toronto East) and entry into the United States market via openings in Tempe, Arizona and Houston, Texas.

The year was also not without its problems: Furniture sales on a per square foot basis softened in the fourth quarter; the last quarter also absorbed substantial start up costs with respect to the three new locations and the phasing in of the new central distribution centre.

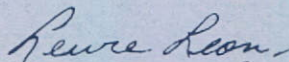
The Canadian operations achieved increases in both sales and profits for the year. The new Metro Toronto East facility is exceeding sales levels projected by Management and the central distribution operation at this location is now running satisfactorily.

Our 126,000 sq. ft. outlet in Tempe, Arizona (which opened November 15, 1979) is meeting our expectations and should prove to be a successful operation. The Houston store (86,000 sq. ft.) is presently operating at a loss; however, Management believes that it will also become a profitable addition to our chain.

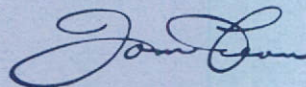
The company is gearing itself for a more difficult retail climate in 1980 and if it should materialize as forecast by numerous economists, the company should be adequately prepared to meet this challenge.

The company at the present time has no scheduled new openings for 1980 but is looking at opportunities in both Canada and the U.S.A. The next five years should see substantial growth for our company.

We again express our appreciation to all our employees for their efforts in the past year.



LEWIE LEON
Chairman of the Board



ANTHONY TOM LEON
President



LEON'S FURNITURE LIMITED
FINANCIAL HIGHLIGHTS

	<u>1979</u>	<u>1978</u>	% Increase (Decrease) from 1978
Sales	<u>\$81,312,000</u>	<u>\$69,620,000</u>	16.8%
Income before income taxes	<u>\$5,347,000</u>	\$6,010,000	(11.0%)
Income taxes	<u>2,896,000</u>	2,733,000	6.0%
	<u><u>\$2,451,000</u></u>	<u><u>\$3,277,000</u></u>	(25.2%)
Number of shares outstanding*	<u>1,196,900</u>	1,193,800	
Net income per share	<u>\$2.05</u>	\$2.75	(25.5%)
Dividends per share	.75	.75	
Shareholders' equity per share	<u>15.49</u>	14.20	9.1%
Share price on Toronto Stock Exchange			
- High	<u>\$18.00</u>	\$16.88	
- Low	<u>13.50</u>	7.38	
- Close	<u>17.00</u>	13.50	
Total assets	<u><u>\$48,406,000</u></u>	<u><u>\$41,673,000</u></u>	16.2%
Number of employees	<u>837</u>	710	

*Weighted average



REVIEW OF OPERATIONS

FINANCIAL RESULTS

Sales increased 16.8% during the year from \$69.6 million to \$81.3 million. This increase resulted primarily from sales produced by the three new stores opened in 1979 and increases generated by the Appliance Division. There were no new store openings in 1978.

Furniture sales from outlets opened prior to 1979 increased moderately as did gross margins on these sales.

Net profits declined significantly from the previous year (\$2.45 million compared to \$3.28 million in 1978), due primarily to start up costs for the new U.S. operations, for which no tax credit was taken in 1979 and to some extent the costs associated with the new Toronto location.

Working capital was reduced from \$8.1 million in 1978 to \$4.8 million in 1979, primarily to finance the construction of the new Toronto location (which has not been mortgaged yet) and for the increased inventory and warehouse equipment required for the locations in Houston, Tempe and Toronto.

Long-term debt was increased by \$2.3 million (Canadian) to finance the cost of land and buildings in the U.S. The mortgages were at favourable interest rates – 9.625% for Tempe and 9.25% for Houston. The company has a strong balance sheet, has not utilized its existing lines of bank credit and believes it can mortgage its new Toronto facility or other unencumbered lands and buildings when capital is required for expansion.

Assets increased from \$41.7 million to \$48.4 million. Return on average shareholders' equity was 13.8% compared to 20.8% in 1978. Shareholders equity increased from \$14.20 per share to \$15.49 per share.

EXPANSION

CANADA

On October 18, 1979 the company opened a 230,000 sq. ft. retail warehouse and showroom for furniture, appliances and carpeting on its 32 acre site in Toronto (Borough of Scarborough). This facility also serves as a central distribution centre for existing retail outlets.

Concomitant with this opening, the company closed its 31,000 sq. ft. leased premises in Scarborough and cancelled the lease. The company also phased out its former central warehouse operations in Toronto, and the space vacated is being leased to third parties.

Some difficulties were experienced in closing out the existing central warehouse operation and starting up the central distribution centre in the new facility. Management believes that the distribution problems that occurred may have hindered sales of some of its other stores in the fourth quarter. These distribution problems have now been essentially resolved.



UNITED STATES

HOUSTON, TEXAS

In May, 1979 the company acquired an existing 86,000 sq. ft. facility (60,000 sq. ft. main level and 26,000 sq. ft. mezzanine area) in Houston, Texas. This store did not operate profitably during the year because of higher than expected start up costs associated with opening in a new country and market and because sales did not and have not yet reached projected levels. Management believes that this operation will be profitable within a reasonable time period.

TEMPE, ARIZONA

On November 15, 1979 a 126,000 sq. ft. retail furniture warehouse and showroom was opened in Tempe, Arizona. This operation, built to the company's specifications, is meeting management's projections and should prove to be a profitable outlet.

APPLIANCE DIVISION

During the year, the company introduced major home appliances to its Montreal and Edmonton locations. The company now sells appliances in 12 out of its 14 Canadian outlets and is pleased with the results of its Appliance Division.

CARPET DIVISION

The company has carpet centres in both Metro Toronto Warehouse and Showroom locations. The Carpet Division made a profit in 1979 and the company expects it will now introduce carpets to its other Canadian locations, beginning with Ottawa in 1980.

DIVIDENDS

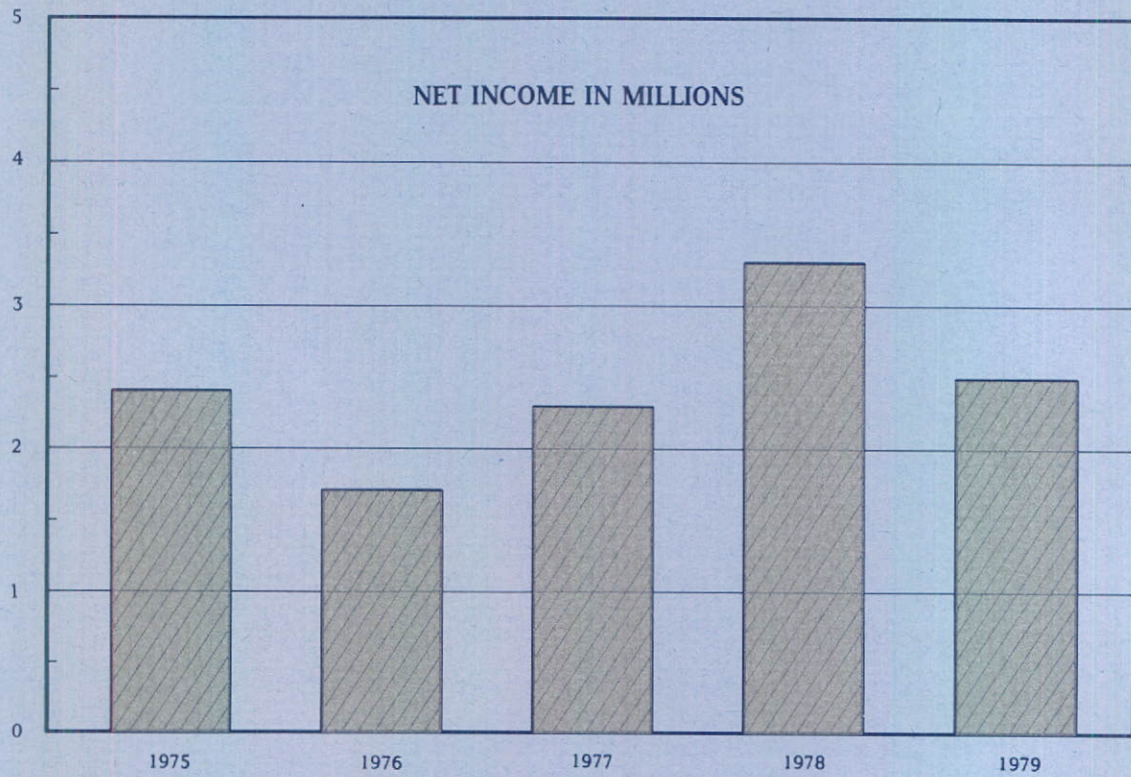
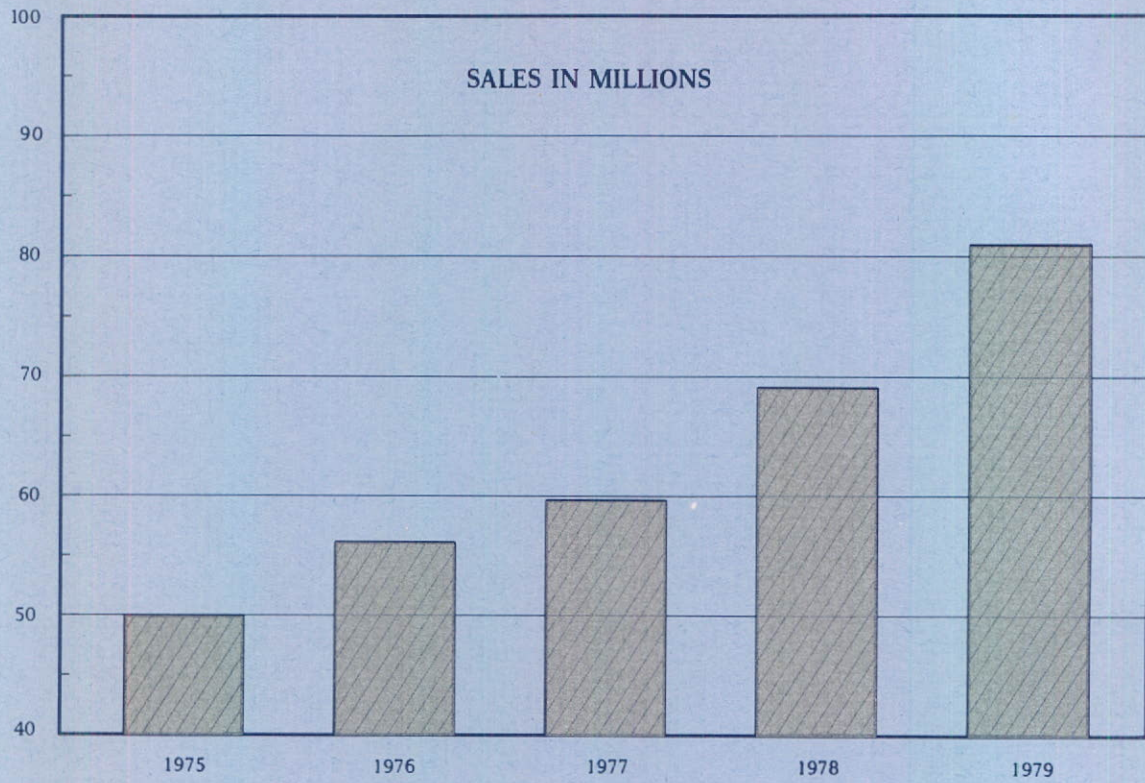
In November 1979 the Directors declared an annual dividend of 75¢ per share payable on January 7, 1980 to shareholders of record on December 14, 1979. This is the sixth year in succession that the company has paid an annual dividend.

The Dividend record is as follows:

Year	Dividend Amount
1974 and 1975	20¢ per share
1976 and 1977	49¢ per share
1978 and 1979	75¢ per share

EARNINGS PER SHARE FOR EACH QUARTER

	Mar 31	June 30	Sept 30	Dec 31	Total
1979	35¢	66¢	98¢	6¢	\$2.05
1978	29¢	60¢	93¢	93¢	\$2.75





LEON'S FURNITURE LIMITED

INCOME STATISTICS

(in thousands)

	<u>1970*</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
Sales	\$18,138	\$50,020	\$56,397	\$59,540	\$69,620	\$81,312
Cost of sales	<u>11,749</u>	<u>31,641</u>	<u>36,977</u>	<u>39,057</u>	<u>44,804</u>	<u>52,548</u>
Gross profit	6,389	18,379	19,420	20,483	24,816	28,764
Operating expenses (net of interest and sundry income)	3,895	11,058	12,998	13,206	15,301	19,417
Rent and property taxes	988	925	1,028	1,106	1,107	1,199
Depreciation and amortization	64	782	1,030	962	1,241	1,555
Interest on long-term debt	7	858	1,171	1,188	1,157	1,246
	<u>4,954</u>	<u>13,623</u>	<u>16,227</u>	<u>16,462</u>	<u>18,806</u>	<u>23,417</u>
Income before income taxes	1,435	4,756	3,193	4,021	6,010	5,347
Income taxes	<u>770</u>	<u>2,405</u>	<u>1,490</u>	<u>1,754</u>	<u>2,733</u>	<u>2,896</u>
Net income	\$ <u>665</u>	\$ <u>2,351</u>	\$ <u>1,703</u>	\$ <u>2,267</u>	\$ <u>3,277</u>	\$ <u>2,451</u>
Shares outstanding (000's) (weighted average)	1,065	1,178	1,178	1,186	1,194	1,197
Net income per share	\$0.50	\$2.00	\$1.45	\$1.91	\$2.75	\$2.05
Percent annual increase in sales	9.9%	16.0%	12.7%	5.6%	16.9%	16.8%
Net income as a percentage of sales	3.7%	4.7%	3.0%	3.8%	4.7%	3.0%
Dividends	<u>nil</u>	\$ <u>236</u>	\$ <u>577</u>	\$ <u>585</u>	\$ <u>898</u>	\$ <u>898</u>

BALANCE SHEET STATISTICS

(in thousands)

Shareholders' equity	\$ 4,210	\$11,695	\$12,822	\$14,586	\$16,989	\$18,544
Total assets	6,505	31,536	33,178	35,664	41,673	48,406
Additions to fixed assets	85	4,296	263	222	7,009	8,900
Increase in long-term debt - net	(30)	1,890	1,261	(362)	(255)	2,344
Working capital	3,702	6,377	9,623	11,570	8,057	4,777
Current ratio	2.7:1	1.7:1	2.2:1	2.3:1	1.6:1	1.3:1
Shareholders' equity per share	\$3.95	\$9.93	\$10.88	\$12.22	\$14.20	\$15.49

Share price range on Toronto Stock Exchange:

High	\$5.75	\$9.90	\$10.00	\$8.50	\$16.88	\$18.00
Low	3.50	5.50	7.50	6.50	7.38	13.50

*1970 figures provided for historical perspective.



LEON'S FURNITURE LIMITED
(Incorporated under the laws of Ontario)

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1979
(with comparative figures at December 31, 1978)

ASSETS

	<u>1979</u>	<u>1978</u>
Current assets:		
Deposit receipts	\$ 1,000,000	\$ 5,504,000
Accounts receivable and prepaid expenses	846,000	933,000
Inventory	<u>18,605,000</u>	<u>14,560,000</u>
Total current assets	<u>20,451,000</u>	<u>20,997,000</u>
Fixed assets (note 1):		
Buildings and leasehold improvements	20,258,000	13,976,000
Vehicles	1,892,000	1,339,000
Equipment, signs and pavement	<u>4,613,000</u>	<u>2,718,000</u>
	<u>26,763,000</u>	<u>18,033,000</u>
Less accumulated depreciation and amortization	<u>6,800,000</u>	<u>5,285,000</u>
	<u>19,963,000</u>	<u>12,748,000</u>
Land, including \$532,000 (1978 - \$526,000) for future outlets	<u>7,799,000</u>	<u>7,689,000</u>
Net fixed assets	<u>27,762,000</u>	<u>20,437,000</u>
Sundry investments and advances, at cost	<u>193,000</u>	<u>239,000</u>
	<u>\$48,406,000</u>	<u>\$41,673,000</u>

On behalf of the Board:

LEWIE LEON, Director

ANTHONY T. LEON, Director

LIABILITIES AND SHAREHOLDERS' EQUITY

	<u>1979</u>	<u>1978</u>
Current liabilities:		
Accounts payable and accrued liabilities	\$13,823,000	\$ 9,465,000
Customers' deposits	479,000	373,000
Current portion of long-term debt	399,000	1,044,000
Dividend payable	898,000	898,000
Income taxes payable	<u>75,000</u>	<u>1,160,000</u>
Total current liabilities	<u>15,674,000</u>	<u>12,940,000</u>
Long-term debt (note 2)	<u>14,043,000</u>	<u>11,699,000</u>
Deferred taxes	<u>145,000</u>	<u>45,000</u>
Shareholders' equity:		
Capital stock (note 3) –		
Authorized:		
3,000,000 shares without par value		
Issued:		
1,197,000 shares (1,196,700 in 1978)	3,249,000	3,247,000
Retained earnings	<u>15,295,000</u>	<u>13,742,000</u>
Total shareholders' equity	<u>18,544,000</u>	<u>16,989,000</u>
	<u>\$48,406,000</u>	<u>\$41,673,000</u>

(See accompanying notes)



LEON'S FURNITURE LIMITED

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1979

(with comparative figures for the year ended December 31, 1978)

	<u>1979</u>	<u>1978</u>
Sales	\$81,312,000	\$69,620,000
Cost of sales	<u>52,548,000</u>	<u>44,804,000</u>
Gross profit	<u>28,764,000</u>	<u>24,816,000</u>
Operating expenses (income):		
Salaries and commissions	10,295,000	8,785,000
Employee deferred profit-sharing plan (note 5)	281,000	315,000
Advertising	5,474,000	3,908,000
Rent and property taxes	1,199,000	1,107,000
Depreciation and amortization	1,555,000	1,241,000
Interest on long-term debt	1,246,000	1,157,000
Interest income on deposit receipts	(208,000)	(417,000)
Other operating expenses and income (net)	<u>3,575,000</u>	<u>2,710,000</u>
	<u>23,417,000</u>	<u>18,806,000</u>
Income before income taxes	5,347,000	6,010,000
Income taxes	<u>2,896,000</u>	<u>2,733,000</u>
Net income	2,451,000	3,277,000
Retained earnings, beginning of year	13,742,000	11,363,000
Dividend	<u>(898,000)</u>	<u>(898,000)</u>
Retained earnings, end of year	<u>\$15,295,000</u>	<u>\$13,742,000</u>
Shares outstanding (weighted average)	<u>1,196,900</u>	<u>1,193,800</u>
Net income per share (note 3)	<u>\$2.05</u>	<u>\$2.75</u>

(See accompanying notes)



LEON'S FURNITURE LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 1979

(with comparative figures for the year ended December 31, 1978)

	<u>1979</u>	<u>1978</u>
Working capital was provided from:		
Operations -		
Net income	\$ 2,451,000	\$ 3,277,000
Add (deduct) amounts not requiring an outlay of funds:		
Depreciation and amortization	1,555,000	1,241,000
Deferred taxes	100,000	(60,000)
Gain on sale of fixed assets	<u>(4,000)</u>	<u>(15,000)</u>
Funds from operations	4,102,000	4,443,000
Mortgages obtained	2,743,000	789,000
Proceeds on sale of fixed assets	24,000	48,000
Reduction in sundry investments and advances	46,000	134,000
Proceeds on stock options exercised	<u>2,000</u>	<u>24,000</u>
Total funds provided	<u>6,917,000</u>	<u>5,438,000</u>
Working capital was applied to:		
Purchase of fixed assets	8,900,000	7,009,000
Current maturities of long-term debt	399,000	1,044,000
Dividends	<u>898,000</u>	<u>898,000</u>
Total funds applied	<u>10,197,000</u>	<u>8,951,000</u>
Decrease in working capital	(3,280,000)	(3,513,000)
Working capital, beginning of year	<u>8,057,000</u>	<u>11,570,000</u>
Working capital, end of year	<u>\$ 4,777,000</u>	<u>\$ 8,057,000</u>
Changes in components of working capital:		
Deposit receipts	\$(4,504,000)	\$(2,496,000)
Accounts receivable and prepaid expenses	(87,000)	68,000
Inventory	4,045,000	2,836,000
Accounts payable and accrued liabilities	(4,358,000)	(2,190,000)
Customers' deposits	(106,000)	(81,000)
Income taxes	1,085,000	(655,000)
Current portion of long-term debt	645,000	(682,000)
Dividend payable	<u> </u>	<u>(313,000)</u>
Decrease in working capital	<u>\$(3,280,000)</u>	<u>\$(3,513,000)</u>

(See accompanying notes)

LEON'S FURNITURE LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1979

1. Summary of significant accounting policies

Principles of consolidation –

The consolidated financial statements include the accounts of the company and its subsidiaries, all of which are wholly-owned.

Foreign exchange translation –

Merchandise imported from the United States is recorded at its equivalent Canadian dollar value upon receipt; United States dollar accounts payable are translated at the year-end exchange rate.

The company's U.S. subsidiaries maintain their accounts in United States dollars and their statements are translated into Canadian dollars as follows: fixed assets at historical rates of exchange, all other assets and liabilities at exchange rates prevailing at the end of the year, depreciation at historical rates of exchange and income and all other expenses at average rates for the year.

Inventory –

Inventory is valued at the lower of cost on a first-in, first-out basis and net realizable value less normal profit margin.

Fixed assets –

Property and equipment are initially recorded at cost and normal maintenance and repair expenditures are charged to expense as incurred. Depreciation is provided over estimated service lives:

Buildings	–	5% per annum, straight line
Parking lots	–	4% per annum, straight line
Equipment and signs	–	20% - 30% per annum, reducing balance
Vehicles	–	30% per annum, reducing balance
Leasehold improvements	–	Over the terms of the leases to a maximum of 15 years

Store pre-opening costs –

Store pre-opening costs are charged to expense as incurred.

Income taxes –

The company follows the tax allocation method of providing for income taxes. Under this method, timing differences between reported and taxable incomes (which occur when revenues and

expenses recognized in the accounts in one year are taxed or claimed for income tax purposes in another year) result in deferred or prepaid taxes.

The company's U.S. subsidiaries have charged to expense in 1979 net start-up costs amounting to U.S. \$963,000 which may be carried forward and applied against such taxable income as may be earned by the companies in future years to 1986. The potential tax benefit of carrying forward these costs will not be reflected in earnings until they are actually recovered.

2. Long-term debt

	<u>1979</u>	<u>1978</u>
Mortgages on land and buildings, less current maturity (including in 1979 \$3,435,000 payable as U.S. \$2,936,000)	\$12,843,000	\$10,399,000
8% Sinking Fund Debentures, due May 1, 1987, less current maturity	<u>1,200,000</u>	<u>1,300,000</u>
	<u>\$14,043,000</u>	<u>\$11,699,000</u>

The mortgage loans are secured by certain fixed assets and bear interest at rates varying from 9.25% to 10.75% per annum. The 8% Sinking Fund Debentures are secured by a specific charge on all the shares of Leon Holdings (1967) Limited, a subsidiary.

The long-term debt has a maturity in 1980 of \$399,000. The balance matures as follows:

1981	-	\$3,859,000
1982	-	338,000
1983	-	362,000
1984 - 1988	-	388,000
Subsequently	-	<u>9,096,000</u>
		<u>\$14,043,000</u>

3. Stock options

The company has an incentive stock option plan pursuant to which non-assignable options to purchase shares in the capital of the company have been granted to officers and key employees.

In 1979, options on 300 shares for \$2,000 were exercised, and options on an additional 8,500 shares at \$13.16 were granted. No further options may be granted under the plan.

Options outstanding under the plan are exercisable on a cumulative basis as to 20% thereof during each twelve-month period following the first anniversary of the date granted. Options on 29,800 shares were outstanding at December 31, 1979:

<u>Year</u>	<u>Price</u>	<u>Number of shares</u>
1974	\$ 7.65	800
1975	6.08	17,000
1978	10.13	3,500
1979	13.16	8,500

In addition the company has granted an option providing for the purchase of 10,000 shares of the company at \$7.20 per share exercisable in total or in part any time up to June 23, 1980.

If the options outstanding at December 31, 1979 for 39,800 shares had been exercised as of January 1, 1979, the net income for 1979 would have been \$2.00 per share.

4. Commitments

The company is obligated, under leases expiring at varying dates to the year 2004, to minimum annual rentals for land and buildings from December 31, 1979 as follows:

1980	—	\$ 337,000
1981	—	337,000
1982	—	337,000
1983	—	267,000
1984	—	274,000
1985 - 1989	—	1,415,000
1990 - 1994	—	1,269,000
Subsequent	—	703,000

Annual rental income from leases to others will be approximately \$91,000 in 1980. The company may, at its option, renew most of the leases expiring in the next five years.

5. Employee deferred profit-sharing plan

Under the company's registered employee deferred profit-sharing plan, \$281,000 was set aside in 1979 (1978 - \$315,000). The plan provides that the directors are to determine annually the amount of the contribution, and that it may be a maximum of 10% and a minimum of 1% of the income before income taxes, excluding any unusual items, plus the deferred profit-sharing plan contribution.

6. Directors' and senior officers' remuneration

The remuneration paid or payable by the company and its subsidiaries to its directors as such was \$1,300 in 1979. The aggregate remuneration paid or payable by the company and its subsidiaries to the senior officers of the company (as defined in The Business Corporations Act) was \$512,000 for 1979.

AUDITORS' REPORT

To the Shareholders of Leon's Furniture Limited:

We have examined the consolidated balance sheet of Leon's Furniture Limited as at December 31, 1979 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979 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.

Toronto, Canada,
February 27, 1980

Clarkson Gordon
Chartered Accountants

COMPANY FACILITIES

		Gross Space (sq. ft.)
CANADA		
ALBERTA		
Calgary*	Leon's Furniture	65,000
Edmonton	Leon's Furniture Warehouse and Showroom	150,000
ONTARIO		
Burlington	Leon's Furniture Warehouse and Showroom	150,000
Kitchener	Leon's Furniture	50,000
London	Leon's Furniture	50,000
Ottawa	Leon's Furniture	75,000
St. Catharines	Leon's Furniture	15,000
Toronto	Leon's Furniture/Carpet/Appliance Warehouse and Showroom	226,000
Toronto*	New Era Furniture and Appliances	55,000
Toronto*	New Era Furniture and Appliances	26,000
Toronto*	Carriage House Fine Furniture	50,000
Toronto	Head Offices	25,000
Toronto	Leon's Furniture/Carpet/Appliance Warehouse, Showroom and Distribution Centre	230,000
Welland	Leon's Furniture	48,000
QUEBEC		
Montreal	Leon's Furniture Warehouse and Showroom	150,000
U.S.A.		
TEXAS		
Houston	Leon's Furniture Warehouse and Showroom	86,000
ARIZONA		
Tempe	Leon's Furniture Warehouse and Showroom	126,000
		<u>1,577,000</u>

*Leased premises; all others are company-owned.



CORPORATE DIRECTORY

Board of Directors

LEWIE LEON, Chairman of the Board	Toronto
ANTHONY T. LEON,	Thornhill
EDWARD M. LEON,	Thornhill
GEORGE LEON, Retired	Welland
JOSEPH M. LEON, Doctor of Medicine	Welland
PETER B. EBY, Director of Corporate and Government Services Burns Fry Limited	Toronto
RICHARD E. SHIBLEY, Barrister Partner in Shibley, Righton & McCutcheon	Toronto

Officers

LEWIE LEON,	Chairman of the Board
ANTHONY T. LEON,	President
EDWARD M. LEON,	Vice-President
MARJORIE LEON,	Secretary-Treasurer

Corporate Offices

88 Gordon Mackay Road
P.O. Box 460
Weston, Ontario M9N 3N2

Solicitors

SHIBLEY, RIGHTON & McCUTCHEON
Toronto

Auditors

CLARKSON GORDON
Chartered Accountants – Toronto

Registrar & Transfer Agent

NATIONAL TRUST COMPANY, LIMITED
Toronto

Listing

Leon's shares are listed on
The Toronto Stock Exchange
Ticker Symbol is LNF

Annual Meeting

Royal York Hotel – Toronto
Tuesday, April 29, 1980 – 10:00 A.M.
Prince Edward Island Room

LEON'S FURNITURE LIMITED, 88 Gordon Mackay Road, P.O. Box 460, Weston, Ontario M9N 3N2

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