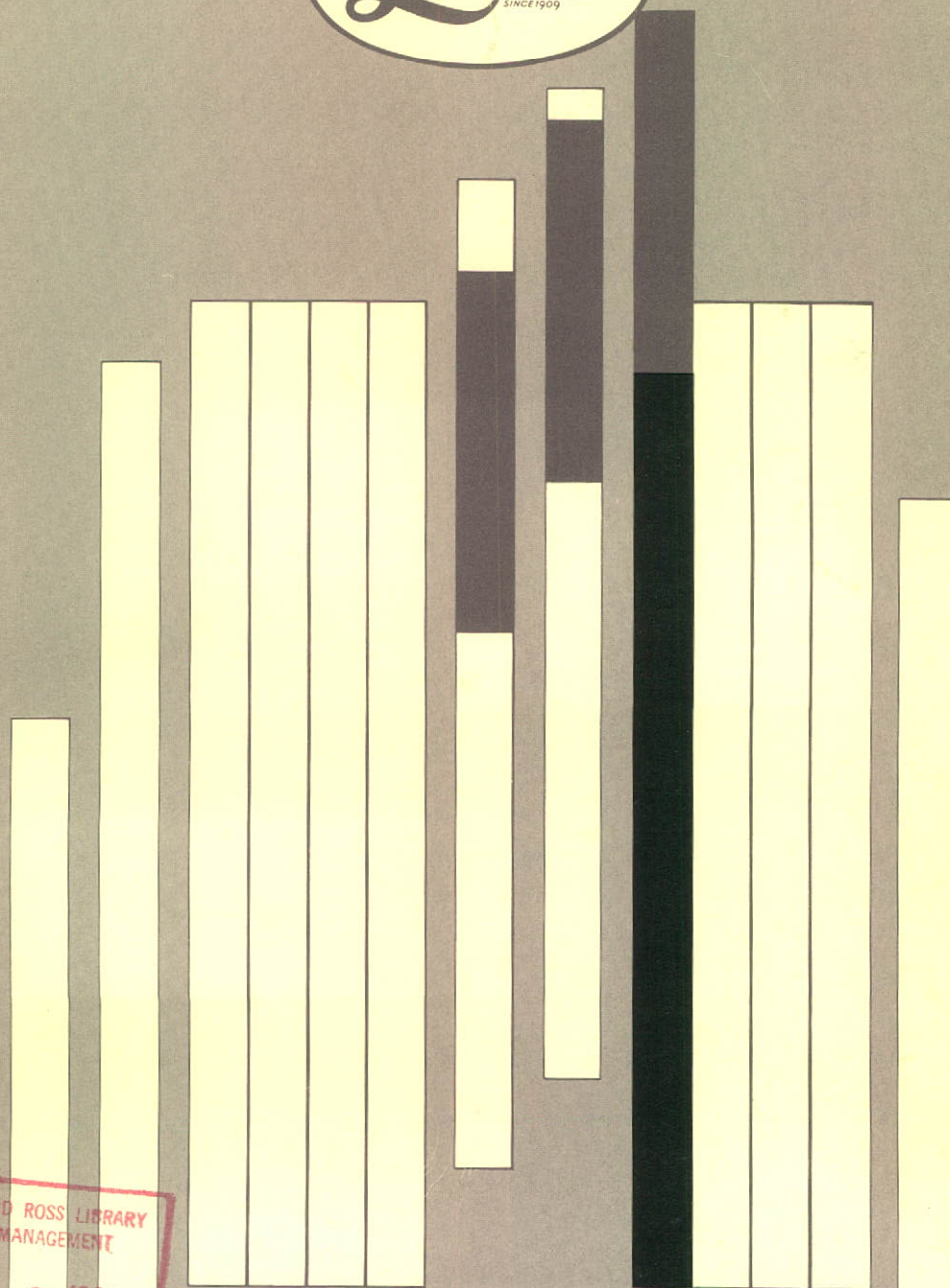


ANNUAL REPORT

Leon's Furniture Limited

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HOWARD ROSS LIBRARY
OF MANAGEMENT
APR 3 1984
MCGILL UNIVERSITY

Corporate Directory

Board of Directors

LEWIE LEON,
Port Colborne

ANTHONY T. LEON,
Thornhill

EDWARD M. LEON,
Thornhill

GEORGE LEON, JR.,
Toronto

JOSEPH M. LEON,
Doctor of Medicine, Welland

PETER B. EBY,
Vice-Chairman and Director,
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

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 of Shareholders

April 25th, 1984
10:00 a.m.
The Royal York Hotel
York Room
100 Front Street West, Toronto, Ontario

Financial Highlights

	1983	1982	% increase from 1982
Sales	\$115,212,000	\$83,908,000	37.3%
Income before income taxes	9,443,000	2,335,000	304.4%
Income taxes	4,837,000	1,280,000	277.8%
Net income	\$ 4,606,000	\$ 1,055,000	336.6%
Number of shares outstanding (Weighted average)	1,225,850	1,225,700	
Earnings per share:			
Net income per share	\$3.76	\$.86	337.2%
Dividends per share	.75	.35	114.3%
Shareholders' equity per share	22.86	19.68	16.2%
Share Price on The Toronto Stock Exchange			
High	\$ 22.75	\$ 17.50	
Low	17.00	13.00	
Close	21.00	15.75	
Total assets	\$ 61,680,000	\$49,367,000	24.9%
Number of employees	947	773	

The dividend record is as follows:

1974, 1975	20¢ per share
1976, 1977	49¢ per share
1978, 1979, 1980	75¢ per share
1981	90¢ per share
1982	35¢ per share
1983	75¢ per share

EARNINGS PER SHARE FOR EACH QUARTER

	MAR 31	JUNE 30	SEPT 30	DEC 31	TOTAL
From operations:					
1983	(11¢)	71¢	\$1.51	\$1.65	\$3.76
1982	(42¢)	30¢	69¢	29¢	\$.86
1981	46¢	\$1.25	83¢	52¢	\$3.06

On March 7, 1984, the Board of Directors agreed, subject to shareholder approval, to subdivide the issued common shares of the company outstanding on May 8, 1984 on a two for one basis. Share quantities and per share amounts have not been restated in this annual report to reflect the split.

If the split is approved, the Directors intend to go to a semi-annual dividend policy and intend to declare a semi-annual dividend of 45¢ on a pre-split basis (22.5¢ on a split basis).

Chairman's and President's Report

The aggressive marketing and merchandising programme implemented in the second half of 1982 maximized, in dramatic fashion, the opportunities presented in 1983 by an improved economy and a four month retail sales tax holiday in Ontario. We achieved record net profits of \$4.6 million or \$3.76 per share comfortably exceeding our record for earnings of \$3.7 million or \$3.06 per share attained two years ago in 1981. Sales at \$115.2 million were up 37% and net profits increased by 336% over the depressed 1982 levels.

Considering that at the end of the first quarter sales were down 11% from 1982, and we had actually experienced a loss of \$139,000. (11¢ per share) the results for the balance of 1983 were certainly outstanding. These gains were produced by our existing locations as there were no new store openings in 1983. All three product divisions, furniture, appliances and carpeting contributed to our record earnings.

We were also pleased in November 1983 when our Directors declared a dividend of 75¢ per share. While this annual rate did not match 1981's annual rate, it was a substantial increase over the 35¢ dividend declared for 1982.

On March 1, 1984, a family owned retailer in Kingston, Ontario converted its business to a Leon franchise operation giving Leon's a presence in Kingston for the first time. For some years the Company has had a successful furniture franchise in Windsor, Ontario, and Kingston is the first franchise under a new conversion franchise programme initiated in the third quarter of 1983. We are hopeful that the Kingston franchise will serve as a prototype for a number of such franchises to be

undertaken over the next few years. While we intend to continue to open and operate Company owned facilities in major centres, conversion franchising seems to offer an ideal way to serve smaller markets that require the direct attention and the entrepreneurial skills of local owners who can benefit from our strong purchasing power and marketing skills.

During 1984 we will introduce a carpet department to our store in London, Ontario. This department will make use of existing space and require only a minimal capital expenditure. We will then be retailing carpet from five of our locations: two in Toronto, Burlington, Ottawa and London.

In December 1983, we completed renovations to our Tempe, Arizona location in order to utilize the "showcase concept" of merchandise display. This unique concept with its very attractive method of display, greatly facilitates the sale of quality merchandise. The showcase concept was well received and sales in Tempe for January and February 1984 achieved record levels that compare favourably with any of our Canadian locations.

Notwithstanding our many accomplishments during 1983, we must acknowledge some disappointments. A 15,000 square foot store in St. Catharines, Ontario which was substantially renovated during 1983 and changed to a "Carriage House Fine Furniture" store has yet to reach our sales objectives. Also, Houston, Texas and Tempe, Arizona stores again lost money in the year - \$648,000 Cdn. compared to \$678,000 Cdn. in 1982. In the second half of 1983 we employed different management and radically changed marketing

strategy giving significant improvement in sales, but gross margins suffered. We are definitely one of the leading retailers in the Phoenix trading area but we continue to be an "also ran" in Houston. Further improvements and adjustments will be necessary in 1984.

To highlight some of the financial information in the accompanying statements we direct your attention to the following:

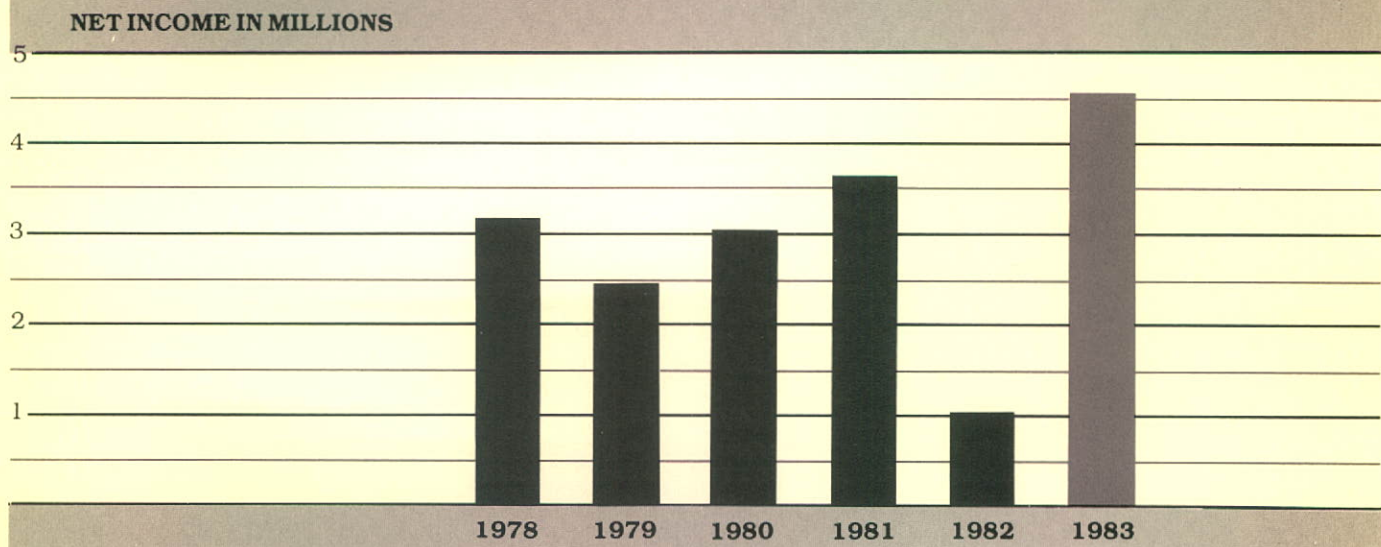
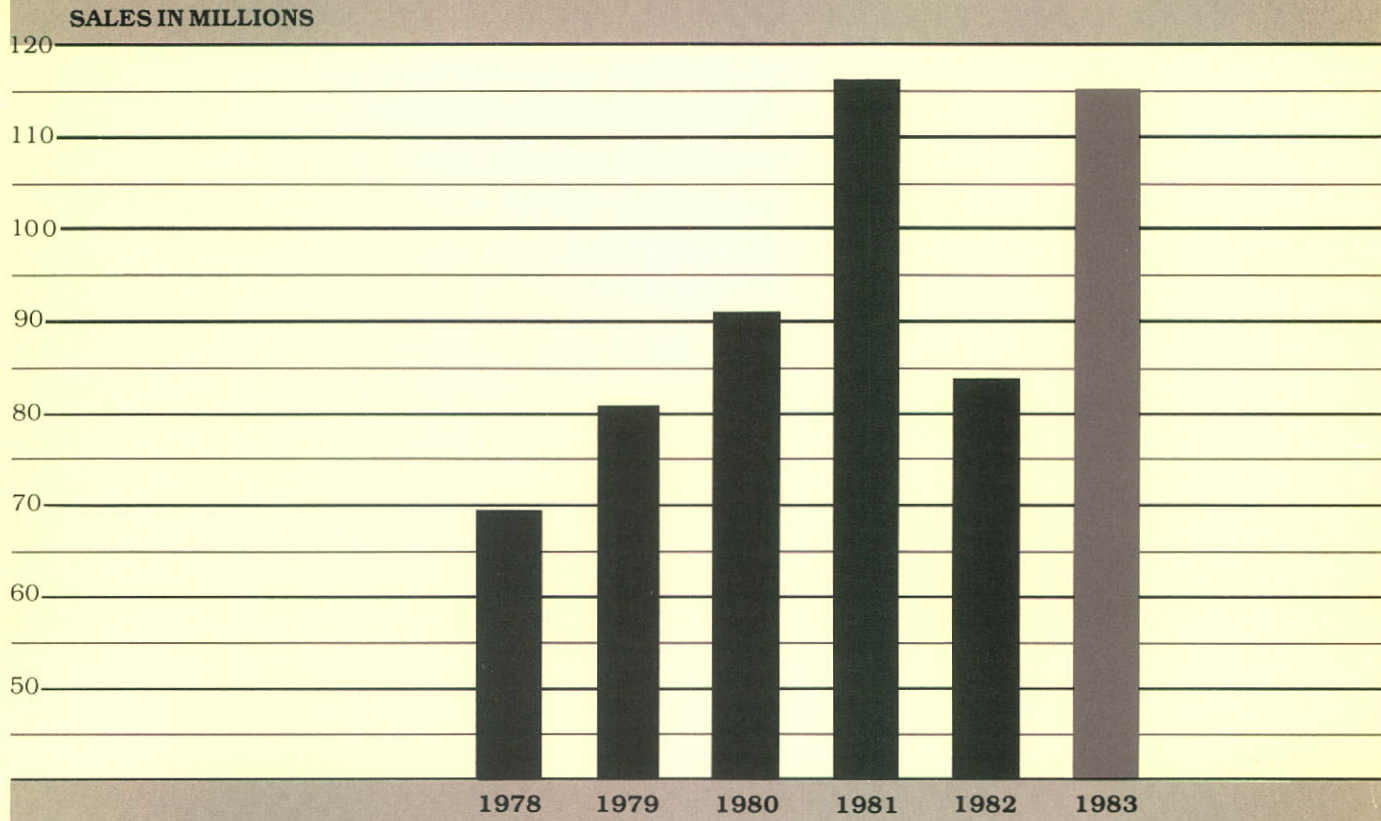
- Our net income as a percentage of sales increased to 4.0%, the highest it has been since 1978.
- Our working capital increased from \$9.7 million in 1982 to \$13.7 million in 1983.
- The current ratio remains a healthy 1.6:1.
- Shareholders' equity per share increased from \$19.68 per share to \$22.86 per share and our return on average shareholders' equity achieved a respectable 18%.

Each year presents its own particular set of challenges and one of 1984's will be to exceed the exemplary results of 1983. We are optimistic that we can attain further improvement in both sales and profits given a relatively healthy economy. At the present time we have marketing momentum going in our favour upon which we intend to fully capitalize upon with strong promotion. If we are able to continue to maintain gross margins and control expenses, 1984 should be another rewarding year.

Finally, we would like to thank all of our employees. Without their efforts the results of the past year could not have been attained.

LEWIE LEON

ANTHONY T. LEON



Income Statistics (in thousands)

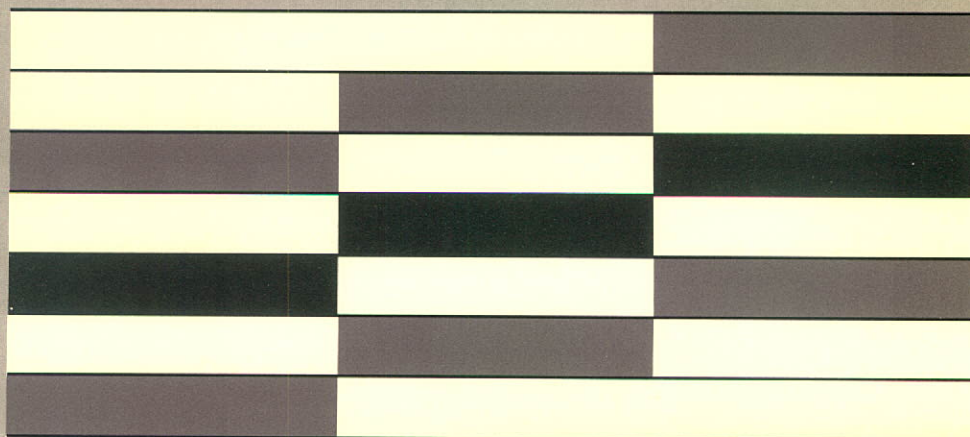
	1978	1979	1980	1981	1982	1983
Sales	\$69,620	\$81,312	\$91,277	\$116,188	\$83,908	\$115,212
Cost of Sales	44,804	52,548	56,940	73,739	52,425	72,279
Gross Profit	24,816	28,764	34,337	42,449	31,483	42,933
Operating expenses (net of interest and sundry income)	15,301	19,417	23,265	30,189	24,760	29,102
Rent and property taxes	1,107	1,199	1,296	1,395	1,621	1,681
Depreciation and amortization	1,241	1,555	1,887	1,823	1,715	1,758
Interest on long-term debt	1,157	1,246	1,610	1,290	1,052	949
	18,806	23,417	28,058	34,697	29,148	33,490
Income before items shown below	6,010	5,347	6,279	7,752	2,335	9,443
Income taxes	2,733	2,896	3,616	4,016	1,280	4,837
Income before extraordinary item	3,277	2,451	2,663	3,736	1,055	4,606
Extraordinary item: Expropriation of land (net of tax)			363			
Net income	\$ 3,277	\$ 2,451	\$ 3,026	\$ 3,736	\$ 1,055	\$ 4,606
Shares outstanding (000's) (weighted average)	1,194	1,197	1,206	1,223	1,226	1,226
Earnings per share						
Income before extraordinary item	\$2.75	\$2.05	\$2.21	\$3.06	\$.86	\$3.76
Net income for the year	\$2.75	\$2.05	\$2.51	\$3.06	\$.86	\$3.76
Percent annual increase in sales	16.9%	16.8%	12.3%	27.3%	(27.8%)	37.3%
Income before extraordinary item as a percentage of sales	4.7%	3.0%	2.9%	3.2%	1.3%	4.0%
Dividends	\$ 898	\$ 898	\$ 906	\$ 1,103	\$ 429	\$ 919

Balance Sheet Statistics (in thousands)

Shareholders' equity	\$16,989	\$18,544	\$20,746	\$23,490	\$24,116	\$28,026
Total assets	41,673	48,406	51,944	50,371	49,367	61,680
Additions to fixed assets	7,009	8,900	599	872	438	1,055
Increase (decrease) in long-term debt-net	(255)	2,344	(3,699)	(368)	(241)	(350)
Working capital	8,057	4,777	4,724	8,058	9,685	13,684
Current ratio	1.6:1	1.3:1	1.2:1	1.5:1	1.6:1	1.6:1
Shareholders' equity per share	\$14.20	\$15.49	\$17.17	\$19.16	\$19.68	\$22.86
Share price range on The Toronto Stock Exchange						
High	\$16.88	\$18.00	\$22.00	\$20.00	\$17.50	\$22.75
Low	7.38	13.50	11.00	17.00	13.00	17.00

Leon's Furniture Limited
Consolidated Statement of Income and Retained Earnings
For the Year Ended December 31, 1983
(with comparative figures for the year ended December 31, 1982)

	<u>1983</u>	<u>1982</u>
Sales	\$115,212,000	\$83,908,000
Cost of sales	72,279,000	52,425,000
Gross profit	42,933,000	31,483,000
Operating expenses (income):		
Salaries and commissions	15,291,000	12,051,000
Employee deferred profit-sharing plan (note 6)	460,000	114,000
Advertising	8,491,000	7,318,000
Rent and property taxes	1,681,000	1,621,000
Depreciation and amortization	1,758,000	1,715,000
Interest on bank indebtedness	328,000	381,000
Interest on long-term debt	949,000	1,052,000
Interest income on deposit receipts	(752,000)	(384,000)
Other operating expenses and income (net)	5,284,000	5,280,000
	33,490,000	29,148,000
Income before income taxes	9,443,000	2,335,000
Income taxes (note 4)	4,837,000	1,280,000
Net income	4,606,000	1,055,000
Retained earnings, beginning of year	20,674,000	20,048,000
Dividends	(919,000)	(429,000)
Retained earnings, end of year	\$24,361,000	\$20,674,000
Shares outstanding (weighted average)	1,225,850	1,225,700
Earnings per share (note 3):		
Net income for the year	\$3.76	\$.86



Leon's Furniture Limited

(Incorporated under the laws of Ontario)

Consolidated Balance Sheet December 31, 1983

(with comparative figures at December 31, 1982)

ASSETS

	<u>1983</u>	1982
Current assets:		
Deposit receipts	\$ 7,000,000	\$ 6,283,000
Accounts receivable	2,460,000	1,557,000
Income taxes recoverable		520,000
Inventory	28,493,000	16,831,000
Total current assets	37,953,000	25,191,000
Deferred taxes	157,000	
Fixed assets:		
Buildings and leasehold improvements	21,804,000	20,976,000
Vehicles	2,546,000	2,347,000
Equipment, signs and paving	5,045,000	4,940,000
	29,395,000	28,263,000
Less accumulated depreciation and amortization	13,752,000	12,033,000
	15,643,000	16,230,000
Land, including \$527,000 (1982-\$551,000) for future outlets	7,833,000	7,809,000
Net fixed assets	23,476,000	24,039,000
Sundry investments and advances, at cost	94,000	137,000
	\$61,680,000	\$49,367,000

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, 1983 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Toronto, Canada,
February 27, 1984

(Except as to note 8 which is
at March 7, 1984)

LIABILITIES AND SHAREHOLDERS' EQUITY

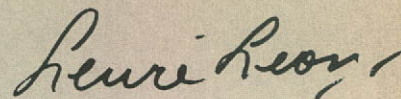
	1983	1982
Current liabilities:		
Bank indebtedness	\$ 1,823,000	\$ 3,107,000
Accounts payable and accrued liabilities	16,820,000	10,909,000
Customers' deposits	896,000	694,000
Current portion of long-term debt	393,000	367,000
Dividend payable	919,000	429,000
Income taxes payable	3,418,000	
Total current liabilities	24,269,000	15,506,000
Long-term debt (note 2)	9,385,000	9,735,000
Deferred taxes		10,000
Shareholders' equity:		
Capital stock (note 3) -		
Authorized:		
3,000,000 shares		
Issued:		
1,225,900 (1982 - 1,225,700) shares	3,444,000	3,442,000
Retained earnings	24,361,000	20,674,000
Foreign currency translation equity adjustment (note 1)	221,000	
Total shareholders' equity	28,026,000	24,116,000
	\$61,680,000	\$49,367,000

(See accompanying notes)

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1983 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, except for the change in the method of translating the accounts of its U.S. subsidiaries as explained in Note 1 to the financial statements, on a basis consistent with that of the preceding year.

Clarkson Gordon
Chartered Accountants

On behalf of the Board:



Director



Director

Leon's Furniture Limited
Consolidated Statement of Changes in Financial Position
For the Year Ended December 31, 1983

(with comparative figures for the year ended December 31, 1982)

	<u>1983</u>	<u>1982</u>
Working capital was provided from:		
Operations -		
Net income	\$ 4,606,000	\$1,055,000
Add (deduct) amounts not requiring an outlay of funds:		
Depreciation and amortization	1,758,000	1,715,000
Deferred taxes	(167,000)	(103,000)
(Gain) loss on sale of fixed assets	(27,000)	4,000
Loss on disposal of sundry investments	28,000	
Funds from operations	6,198,000	2,671,000
Long-term debt	43,000	126,000
Proceeds on sale of fixed assets	80,000	24,000
Reduction in sundry investments and advances	43,000	40,000
Proceeds on stock options exercised	2,000	
Total funds provided	6,366,000	2,861,000
Working capital was applied to:		
Purchase of fixed assets	1,055,000	438,000
Current maturities of long-term debt	393,000	367,000
Dividends	919,000	429,000
Total funds applied	2,367,000	1,234,000
Increase in working capital	3,999,000	1,627,000
Working capital, beginning of year	9,685,000	8,058,000
Working capital, end of year	\$13,684,000	\$9,685,000
Changes in components of working capital:		
Deposit receipts	\$ 717,000	\$5,890,000
Accounts receivable	903,000	636,000
Inventory	11,662,000	(6,705,000)
Bank indebtedness	1,284,000	(3,107,000)
Accounts payable and accrued liabilities	(5,911,000)	3,424,000
Customers' deposits	(202,000)	34,000
Income taxes	(3,938,000)	808,000
Current portion of long-term debt	(26,000)	(27,000)
Dividend payable	(490,000)	674,000
Increase in working capital	\$ 3,999,000	\$1,627,000

Leon's Furniture Limited

Notes to Consolidated Financial Statements

December 31, 1983

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 currency 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 accounts of the U.S. subsidiaries are maintained in United States dollars and their statements are translated using the current rate method, under which assets and liabilities are translated at exchange rates prevailing at the end of the year, and income and expenses at average rates of exchange during the year. Foreign exchange gains and losses are shown as a separate component of shareholders' equity. In prior years the company translated fixed assets and depreciation at historical rates of exchange and included foreign exchange gains and losses in income. If this policy had been applied in 1983, net income would have been reduced by \$30,000.

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, declining balance
Vehicles	– 30% per annum, declining 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.

Revenue Recognition –

Initial franchise fees are recorded as income when the store commences operations as a Leon's franchise. Expenses associated with the commencement of a specific franchise's operations are deferred and charged to expense when the related revenue is recognized. All other expenses associated with franchising are charged to expense when incurred. Continuing fees from franchised stores are recorded in income on an accrual basis.

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 tax purposes in another year) result in deferred or prepaid taxes.

The company's U.S. subsidiaries have incurred losses aggregating U.S. \$3,179,000 which may be carried forward and applied against such taxable income as may be earned by the companies in future years to 1998. The potential tax benefits of carrying forward these costs will not be reflected in earnings until they are actually recovered.

2. Long-term debt

	1983	1982
Mortgages on land and buildings		
– payable in U.S. dollars	\$ 3,498,000	\$ 3,544,000
– payable in Canadian dollars	5,380,000	5,558,000
8% Sinking Fund Debentures, due May 1, 1987		
– payable in Canadian dollars	900,000	1,000,000
	<u>9,778,000</u>	<u>10,102,000</u>
Less current portion of long-term debt	393,000	367,000
	<u>\$ 9,385,000</u>	<u>\$ 9,735,000</u>

The mortgage loans are secured by certain fixed assets, bear interest at rates varying from 9.25% to 11.50% per annum and mature at varying dates to 2009. The 8% Sinking Fund Debentures are secured by a specific charge on all the shares of Leon Holdings (1967) Limited, a subsidiary, and are held by shareholders.

The long-term debt matures as follows:

1985	–	\$ 423,000
1986	–	455,000
1987	–	990,000
1988	–	429,000
1989-1993	–	2,783,000
1994-1998	–	4,166,000
Subsequently	–	139,000
		<u>\$9,385,000</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. No further options may be granted under the plan.

In 1983, options on 200 shares were exercised for \$2,000. During the previous year options on 1,000 shares were forfeited.

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 9,200 shares were outstanding at December 31, 1983:

Year	Price	Number of shares
1978	\$10.13	3,000
1979	13.16	6,200
		9,200

4. Provision for income taxes

The company's income tax provision is made up as follows:

	1983		1982	
Provision for taxes based on combined basic Canadian federal and provincial income tax rate	\$4,800,000	50.8%	\$1,200,000	51.4%
Increase (decrease) in taxes resulting from:				
Inventory allowance	(236,000)	(2.5)	(325,000)	(13.9)
Tax benefit of U.S. losses not reflected in earnings	329,000	3.5	349,000	14.9
Miscellaneous	(56,000)	(.6)	56,000	2.4
Actual provision for income taxes	\$4,837,000	51.2%	\$1,280,000	54.8%

5. Commitments

The company is obligated, under leases expiring at varying dates to the year 2000, to minimum annual rentals for land and buildings from December 31, 1983 as follows:

1984	—	\$ 266,000
1985	—	281,000
1986	—	284,000
1987	—	284,000
1988	—	284,000
1989-1993	—	1,333,000
1994-1998	—	748,000
Subsequent	—	174,000

Annual rental income from leases to others will be approximately \$186,000 in 1984. The company may, at its option, renew most of the leases expiring in the next five years.

6. Employee deferred profit-sharing plan

Under the company's registered employee deferred profit-sharing plan, \$460,000 was set aside in 1983 (1982 - \$114,000). 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.

7. Segmented information

The company sells home furnishings, appliances and carpets through a chain of retail facilities located in Canada and the United States. Operations and identifiable assets by geographic region are presented below.

1983 (thousands of dollars)

	Canada	U.S.	Consolidated
Sales	\$105,707	\$ 9,505	\$115,212
Profit (loss) before income taxes	\$ 10,091	\$ (648)	\$ 9,443
Identifiable assets	\$ 50,860	\$10,820	\$ 61,680

1982 (thousands of dollars)

	Canada	U.S.	Consolidated
Sales	\$74,970	\$8,938	\$83,908
Profit (loss) before income taxes	\$ 3,013	\$ (678)	\$ 2,335
Identifiable assets	\$42,190	\$7,177	\$49,367

Results of U.S. operations are after recording in 1983 a foreign exchange translation gain of \$2,000 and in 1982 a foreign exchange translation loss of \$127,000.

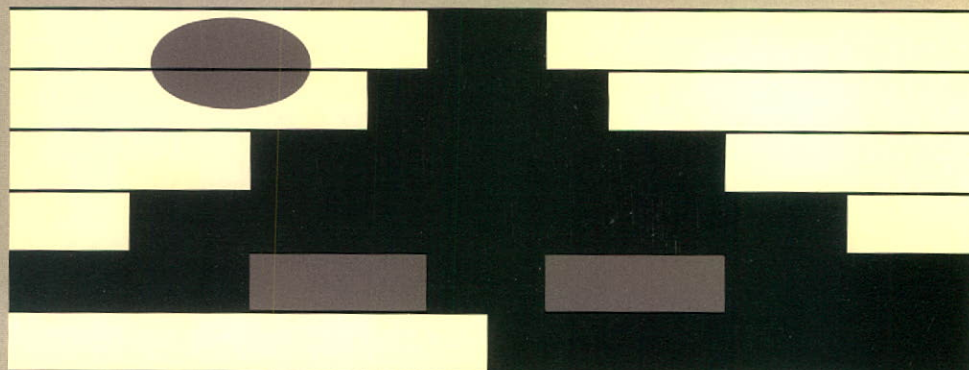
8. Subsequent Event

On March 7, 1984, the Board of Directors agreed, subject to shareholder approval, to subdivide the issued common shares of the company outstanding on May 8, 1984 on a two for one basis. Share quantities and per share amounts have not been restated in these financial statements to reflect the split.

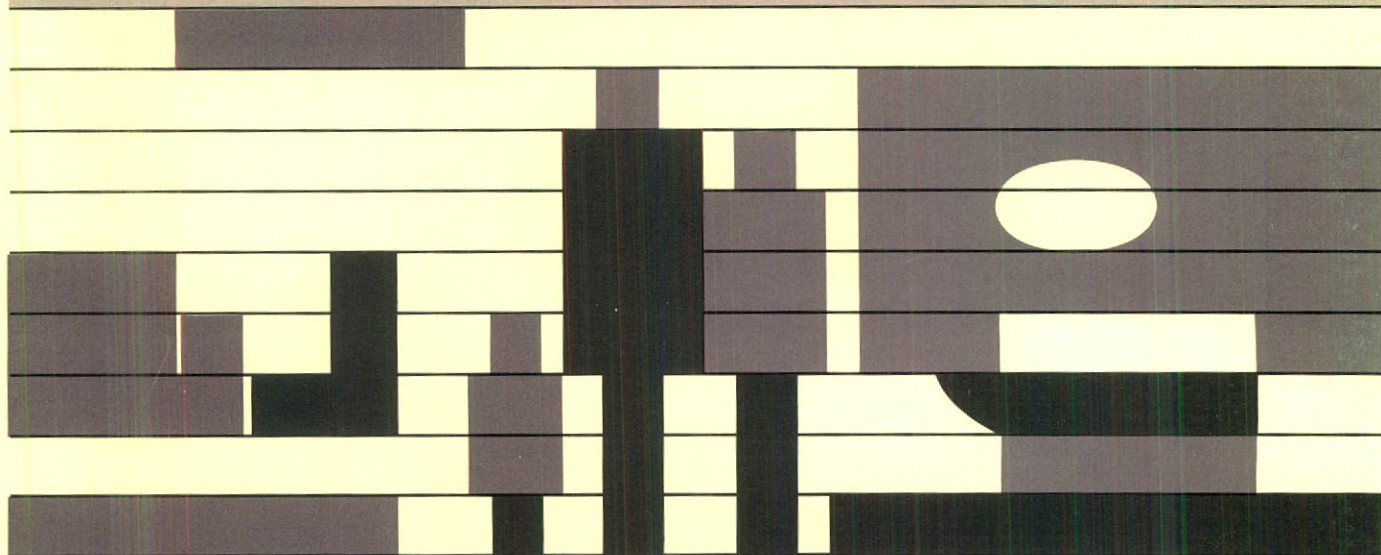
Company Facilities

CANADA		Gross Space
Alberta		(sq. ft.)
Calgary*	Leon's Furniture	60,000
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	Carriage House Fine 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
		1,572,000

*Leased premises; all others are company-owned.



Leon's Furniture Limited, 88 Gordon Mackay Road, P.O. Box 460, Weston, Ontario M9N 3N2



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