D.H. HOWDEN & CO. LIMITED

ANNUAL REPORT 1981

Highlights (in thousands)

	1981	1980
Gross sales	**$91,191**	$86,787
Net income	**1,091**	1,334
Per common share	**$2.15**	$2.50
Working capital	**15,014**	13,745
Ratio of current assets to current liabilities	**1.91:1**	2.44:1
Shareholders' equity per common share	**$20.13**	$17.54
Return on net worth (12 months)	**11.07%**	14.28%
Dividends paid on common shares	**$.50**	$.475

Directors

JOHN W. ADAMS, F.C.A.
President and Chief Executive Officer, Emco Limited

T. BRAYL COPP
President, Copp Builders' Supply Company Limited

JOHN B. CRONYN
Company Director, John Labatt Limited

DONALD R. HUGHES
Retired; Formerly President, Spancan Inc.

PETER R. LOCKYER
Partner, Harrison, Elwood, Barristers and Solicitors

KEITH A. MITCHELL
Retired; Formerly Senior Vice President, Beaver Lumber Company Limited

W. MOWBRAY SIFTON
Chairman of the Board and President, Sifton Properties Ltd.

DAVID H.M. STEWART
Chairman of the Board & President, D.H. Howden & Co. Limited

M.C. TUCKER
Executive Vice President, D.H. Howden & Co. Limited
President, Pro Hardware (Canada) Limited

Head Office
635 Southdale Road,
London, Ontario N6A 4G8

Auditors
Touche Ross & Co.

Officers

D.H.M. STEWART
Chairman of the Board and President

M.C. TUCKER
Executive Vice President

S.R. MILLAR
Vice President Corporate Planning and Secretary

K.G. ALLASTER, C.A.
Vice President Finance and Treasurer

F.P. FORAN
Vice President of Marketing – Building Supply Division

M.C. HUMPHREY
Vice President – Distribution

R.C. McKERLIE
Vice President – Merchandising

Listing of Common Stock
Toronto Stock Exchange

General Counsel
Harrison, Elwood, Barristers and Solicitors

Transfer Agents & Registrars
The Canada Trust Company
Toronto, Montreal, London, Winnipeg, Calgary, Vancouver

Annual Meeting
The Annual Meeting of the Shareholders of the Corporation will be held in the Victoria Room, Holiday Inn London – City Centre Tower, 300 King Street, London, Ontario, on Thursday, the 20th of May 1982, at the hour of 11:30 a.m.

Report to Shareholders

Corporate sales for 1981 were $91.1 million, an increase of 5.1% over 1980. Net earnings for the year were $1,091,299 compared to $1,333,939 in 1980. Net profit return on shareholders' equity measured 11.1% compared to 14.3% in 1980 or earnings per share of $2.15 compared to $2.50 in 1980.

In general it can be said that the Corporation's results and sales reflect the economic conditions in the country. High interest rates impacted adversely the earnings of both our dealers and the Corporation alike. Declining dealer purchases in many areas led to Corporate inventory buildups and excess levels of interest cost. Unfortunately it takes time to bring inventories back into better relationship with sales. During 1981 there was a slowing down of payments from dealers reflecting again tight credit policy within the banking system. Our Credit Department now spends a great deal of time arranging the refinancing of a number of good accounts to the joint benefit of the dealer and the Corporation.

During the year we lost a number of what were formerly good accounts through unexpected bankruptcies causing a higher level of write-offs against earnings than in previous years. High interest rates are largely a result of government policy of restricting credit with the small businessman bearing much of the brunt.

The following are comments on divisional operations.

Hardware Dealer Division

During 1981 seventeen new stores were added to our Pro franchise program. Unfortunately a number of planned new stores were postponed as a result of prevailing high interest rates as were a number of store expansions and renovations.

The Pro store consumer advertising program proved successful in 1981 and played a major role in maintaining the dealers' competitive position.

The Corporation has begun the process of establishing Pro franchised stores in Western Canada and we look for this process to continue hopefully at an accelerated rate.

Building Supply Division

This division sells to building supply dealers across Canada as well as to Pro franchised hardware stores outside Ontario. Current economic conditions have also impacted the building supply dealer excessively. High interest rates and the resulting decline in building activity has led to a number of unexpected bankruptcies of some formerly successful dealers. As a result, sales growth in a number of areas has been curtailed. To our benefit, high interest rates have caused more dealers to realize the need to improve their asset turnover, which our programs support, causing a greater reliance on our corporate services. We are observing that dealers who have expanded into consumer merchandise, lessening their reliance on building materials, seem to have gained greater market stability.

Sporting Goods Division

This division concentrates on the sales of hunting and shooting equipment to the specialty dealer. The division enjoyed improved results as sales increased substantially for the year.

For 1982 we have been appointed a distributor of Ruger products largely in recognition of our leading position as a firearms distributor. Demand for our services is now spreading beyond Ontario, and with our national trucking service in place, we will be able to exploit this opportunity.

Computer Horizons (Canada) Limited

In July the Corporation purchased the common shares held by the First National City Bank of New York. This resulted from the Foreign Investment Review Agency (FIRA) not approving the transfer of these shares to Informatics, Inc., the new owner of Management Horizons Data Systems in the U.S.A. As a result of this purchase the Company becomes a wholly-owned subsidiary and now sells the U.S. system under a licensing agreement with Informatics, Inc.

During 1981, Computer Horizons (Canada) Limited continued to make progress both in large and small computer installations as well as in management consulting activities. The Company is well equipped to advise distribution firms on reorganizing computer systems and on their installation.

Operational and Financial

We have continued to develop retail programs and systems which provide our retail customers superior opportunities for profit. These programs are very "flexible" to meet hardware store or building centre needs, be they city or rural stores and to accomplish this in areas of pricing, assortment planning and inventory control.

The Corporation is unique in that it maintains its own trucking fleet which delivers orders across Canada. Because of this the Corporation is able to sell to selected dealers across Canada at Ontario prices and at a lower freight cost to them. This brings merchandise to dealers both East and West at lower cost than formerly and as a result provides an added strength to the Corporation as well as a basis for future growth.

During 1981 the Corporation installed a new 4330-2 IBM computer and a data base system. As a result, we will be able to offer dealers and ourselves improved management systems.

The Corporation increased its long term debt by $2 million to improve the working capital position.

During 1981 the Corporation paid an annual dividend of $.50 per common share.

Outlook

We have positioned our services and Corporation to respond to the changing times – both good and bad. We have now in place a national sales organization, flexible dealer program, national trucking system, and a team of dedicated and trained individuals and have done this in a year that taxed our resources and abilities. Through the control of expenses, improving the productivity of people and assets, we confidently look to the future for new opportunities and growth.

In reporting the results of 1981 we express thanks to our staff for their continuing support in achieving these results in the face of trying and adverse economic conditions. Distribution to them under our Employee Profit Sharing Plan approximates $75,000.

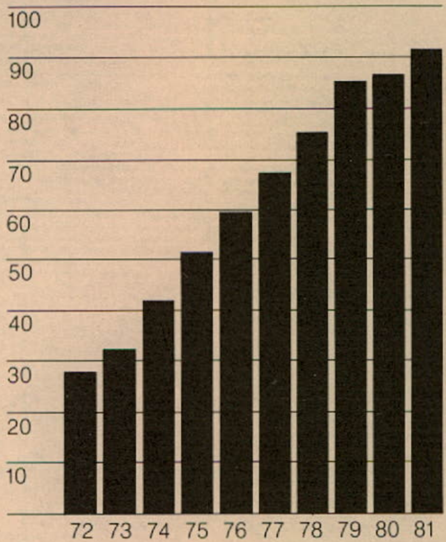
On behalf of the Board, we express appreciation not only to the staff but to our dealers, suppliers and to you our shareholders for your continuing support.

D.H.M. Stewart, Chairman of the Board and President

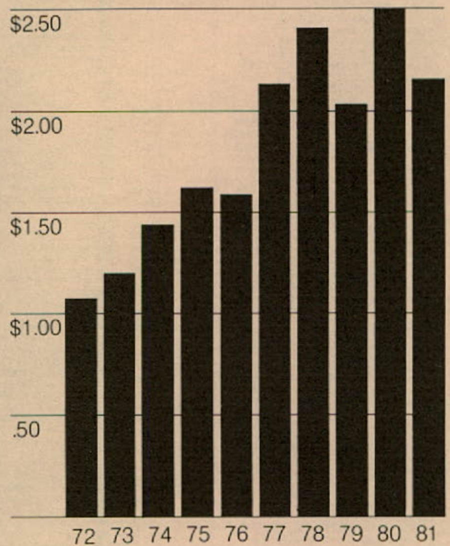
M.C.Tucker, Executive Vice President

Financial Review

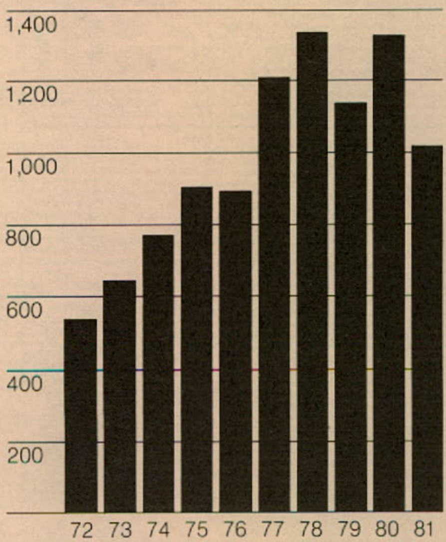
Gross Sales (in millions of dollars)



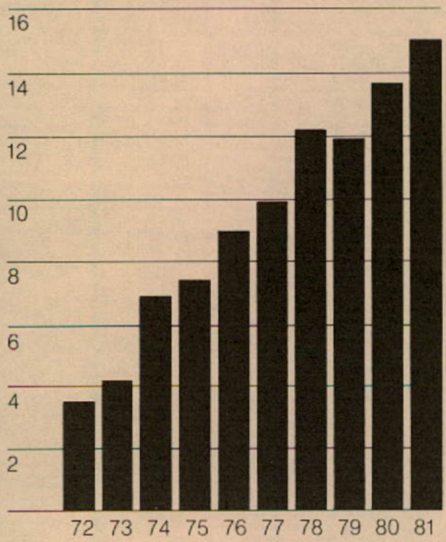
Earnings Per Common Share (dollars)



Net Income (in thousands of dollars)



Working Capital (in millions of dollars)



D.H. Howden & Co. Limited and Subsidiary Companies
(Incorporated under the Business Corporations Act – Ontario)

Consolidated Balance Sheet as at December 31

Assets	**1981**	1980
Current		
Cash	**$ 157,328**	$ 124,785
Accounts receivable	**17,025,447**	12,398,839
Inventories	**13,801,297**	10,587,749
Prepaid expenses	**266,887**	139,045
Income taxes recoverable	**313,080**	—
	31,564,039	23,250,418
Property, plant and equipment (Notes 2 and 3)	**5,484,937**	5,385,136
Other		
Deferred development costs	**226,385**	—
Equity in corporate joint venture	**—**	137,265
	226,385	137,265
Goodwill (Note 4)	**164,836**	—
	$37,440,197	$28,772,819

On behalf of the Board

Director D.H.M. STEWART

Director M.C. TUCKER

See accompanying notes to consolidated financial statements.

Liabilities

	1981	1980
Current		
Bank indebtedness (Note 5)	**$ 4,710,000**	$ 1,500,000
Accounts payable and accrued liabilities	**10,335,657**	6,734,106
Current portion of long-term debt (Note 6)	**1,336,315**	1,172,561
Current portion of obligation under capital leases (Note 3)	**75,626**	32,023
Income taxes payable	**—**	66,713
Deferred income taxes	**92,700**	—
	16,550,298	9,505,403
Long-term debt (Note 6)	**9,870,947**	9,214,735
Obligation under capital leases (Note 3)	**343,721**	198,644
Contingent liabilities (Note 8)		

Shareholders' Equity

Capital stock		
Preference shares (Note 7)		
Authorized – 1,036,750 (1980 - 1,096,750) 3% non-cumulative, redeemable, second preference shares of $1 par value		
Issued – 609,000 (1980 - 611,000) shares	**609,000**	611,000
Common shares		
Authorized – 950,000 shares without par value		
Issued – 500,000 shares	**564,546**	564,546
Retained earnings	**9,501,685**	8,678,491
	10,675,231	9,854,037
	$37,440,197	$28,772,819

Auditors' Report

The Shareholders,
D.H. Howden & Co. Limited.

We have examined the consolidated balance sheet of D.H. Howden & Co. Limited as at December 31, 1981 and the consolidated statements of income, 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 Corporation as at December 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

London, Ontario,
March 1, 1982.

TOUCHE ROSS & CO.
Chartered Accountants.

D.H. Howden & Co. Limited and Subsidiary Companies

Consolidated Statement of Income

For The Year Ended December 31

	1981	1980
Gross sales	**$91,191,339**	$86,787,012
Less sales tax	**3,662,454**	3,616,206
	87,528,885	83,170,806
Cost of sales and operating expenses other than items noted below	**82,172,320**	78,269,345
Interest – long-term debt	**1,777,347**	1,097,150
– bank indebtedness	**1,318,829**	1,015,200
Depreciation and amortization	**432,690**	372,672
	85,701,186	80,754,367
Income before income taxes	**1,827,699**	2,416,439
Income taxes	**736,400**	1,082,500
Net income for the year	**$ 1,091,299**	$ 1,333,939
Basic earnings per common share	**$2.15**	$2.50

D.H. Howden & Co. Limited and Subsidiary Companies

Consolidated Statement of Retained Earnings

For The Year Ended December 31

	1981	1980
Retained earnings, beginning of year	**$ 8,678,491**	$ 8,140,673
Net income for the year	**1,091,299**	1,333,939
	9,769,790	9,474,612
Dividends		
Preference shares	**18,105**	18,000
Common shares	**250,000**	248,750
	268,105	266,750
Cost of acquisition in excess of the assigned value of common shares purchased and cancelled	**—**	529,371
	268,105	796,121
Retained earnings, end of year	**$ 9,501,685**	$ 8,678,491

See accompanying notes to consolidated financial statements.

D.H. Howden & Co. Limited and Subsidiary Companies

Consolidated Statement of Changes in Financial Position

For The Year Ended December 31

	1981	1980
Source of working capital		
Funds provided from operations		
Net income for the year	**$ 1,091,299**	$ 1,333,939
Items not involving an outlay of working capital		
Depreciation and amortization	**432,690**	372,672
Amortization of goodwill (Note 4)	**20,605**	—
Amortization of deferred development costs	**113,509**	—
Loss on disposal of property, plant and equipment	—	11,437
Equity in loss (earnings) of corporate joint venture	**24,520**	(66,460)
	1,682,623	1,651,588
Proceeds from disposal of property, plant and equipment	**109,299**	104,818
Proceeds from issue of long-term debt	**2,000,000**	2,557,875
Issue of second preference shares	**58,000**	77,000
Obligation arising from capitalization of leases (Note 3)	**145,077**	29,400
Other	**70,234**	4,290
	4,065,233	4,424,971
Application of working capital		
Purchase of property, plant and equipment	**577,319**	857,053
Increase in deferred development cost	**189,192**	—
Acquisition of subsidiary (Note 4)	**295,000**	—
Decrease in working capital on acquisition of subsidiary (Note 4)	**63,103**	—
Reduction in long-term debt	**1,343,788**	922,300
Redemption of second preference shares	**60,000**	48,750
Acquisition of common shares for cancellation	—	585,825
Dividends	**268,105**	266,750
	2,796,507	2,680,678
Increase in working capital	**1,268,726**	1,744,293
Working capital, beginning of year	**13,745,015**	12,000,722
Working capital, end of year	**$15,013,741**	$13,745,015

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1981

1. Significant accounting policies

a) Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries, D.H. Howden Stores (Central) Limited, Cowan Hardware (1968) Limited, Howden-Howland Limited and Computer Horizons (Canada) Limited.

The equity of D.H. Howden & Co. Limited in unconsolidated subsidiaries consists of the Corporation's investment in Pro Hardware (Canada) Limited and Unigro Corporation. Although these companies are technically subsidiaries of D.H. Howden & Co. Limited through ownership of voting control, in substance they represent a corporate joint venture on the part of a number of non-competing wholesalers who participate in an integrated merchandising and volume purchasing programme. It was considered inappropriate to consolidate the assets and liabilities of these companies since they consist primarily of amounts due from unrelated companies of those subsidiaries on their behalf. All the expenses of these companies and volume discounts derived from their operations are apportioned to participating member companies. The share of D.H. Howden & Co. Limited in the expenses and volume discounts is reflected in the accompanying consolidated financial statements.

b) Inventories

Inventories consist of finished goods and are valued at the lower of cost on a first-in, first-out basis and net realizable value.

c) Property, plant and equipment

Property, plant and equipment are recorded at cost. When an asset is sold, or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts and any gain or loss on disposition is recognized in earnings. Commencing in 1979 equipment leased under contracts is capitalized and the related lease obligations are reflected as liabilities. Depreciation and amortization are provided on the various classes of assets using the following methods at the following rates:

Buildings	5% straight-line
Roadways	4% - 8% declining balance
Equipment	20% - 30% declining balance
Leasehold improvements	Straight-line over term of lease
Equipment under capital leases	Straight-line over the economic life of the asset

d) Deferred development costs

Costs incurred with respect to the development of a new process or product are capitalized and charged to expense on a systematic basis by reference to the sale or use of the new product or process. The maximum period of amortization is three years.

2. Property, plant and equipment

	1981	1980
Buildings and roadways	**$3,775,150**	$3,784,945
Equipment and leasehold improvements	**2,201,226**	1,837,732
Equipment under capital leases	**516,683**	262,787
	6,493,059	5,885,464
Less accumulated depreciation and amortization	**1,812,817**	1,290,993
	4,680,242	4,594,471
Land	**804,695**	790,665
	$5,484,937	$5,385,136

3. Leases

For all leases entered into after January 1, 1979, the Corporation has adopted the recommendations for accounting for leases issued by the Canadian Institute of Chartered Accountants. The recommendations have not been adopted on a retroactive basis.

a) Capital leases – commencing after January 1, 1979

The capitalized value and amortization of such leases is contained in Note 2 to these consolidated financial statements.

b) Capital leases – commencing prior to January 1, 1979

The following is an analysis of equipment and building leases currently defined as capital leases for which the current recommendations have not been adopted. These are included in the consolidated financial statements as operating leases during the transitional period. Had such leases been accounted for as capital leases, the effect on the balance sheet for 1981 and 1980 comparative figures would have been as follows:

Assets

	1981	1980
Buildings, at capitalized value	**$1,930,074**	$1,930,074
Equipment, at capitalized value	**483,370**	483,370
	2,413,444	2,413,444
Less accumulated amortization	**888,732**	767,597
	$1,524,712	$1,645,847

Liabilities and Shareholders' Equity

	1981	1980
Current portion of obligation under capital leases	**$ 89,303**	$ 121,113
Obligation under capital leases	**1,736,973**	1,826,277
Deferred income taxes	**(144,751)**	(144,741)
	1,681,525	1,802,649
Retained earnings	**(156,813)**	(156,802)
	$1,524,712	$1,645,847

A prior period adjustment of $143,005 to reduce the opening balance of 1980 retained earnings would have been required to reflect the capitalization of leases on a retroactive basis.

c) Lease payments

The following is a schedule of future minimum lease payments for capital leases and operating leases, including those capital leases treated as operating during the transitional period.

	Capital Leases	Operating Leases
Year ending December 31, 1982	$ 131,254	$ 453,000
1983	131,254	421,000
1984	138,681	392,000
1985	79,705	381,000
1986	85,302	289,000
	566,196	1,936,000
Less amounts representing interest at various rates ranging from 9.26% to 19%	146,849	—
	419,347	1,936,000
Less portion due within one year	75,626	—
	$ 343,721	$1,936,000

4. Redemption of shares by corporate joint venture

a) On June 30, 1981, shares held by the Corporation's joint venture partner in Computer Horizons (Canada) Limited were redeemed for $295,000 cash consideration. Prior to this the Corporation's investment was recorded on the equity basis. With the Corporation becoming the sole shareholder, the assets, liabilities and goodwill now being included in the Corporation's financial statements are as follows:

Book value of assets	$2,316,333
Book value of liabilities	2,097,214
Net book value of assets	219,119
Equity previously included	109,560
	109,559
Goodwill on acquisition	185,441
Total cost of investment	$ 295,000

b) Goodwill relating to the acquisition of Computer Horizons (Canada) Limited is being amortized on a straight-line basis over 54 months. The amortization of goodwill amounted to $20,605 in 1981.

5. Bank indebtedness

Bank indebtedness of $4,710,000 (1980 - 1,500,000) is secured by an assignment of accounts receivable.

6. Long-term debt

	1981	1980
11% mortgage, payable $305 monthly including interest and maturing July 1, 1984	**$ 28,733**	$ 28,698
10¾% mortgage, payable $24,091 monthly including interest and maturing July 1, 1989	**2,594,516**	2,610,015
Second mortgage, payable $4,375 principal monthly plus interest, maturing June 1, 1999 and bearing an interest rate of bank prime plus 1%. The rate at December 31, 1981 was 18.25%	**914,375**	966,875
Term bank loan, payable $600,000 principal semi-annually plus interest with a final principal payment of $2,100,000, maturing November 1, 1986 with interest varying from time to time related to the lender's cost of borrowing. The rate at December 31, 1981 was 5,500,000 @ 18.50% 2,000,000 @ 17.05%	**7,500,000**	6,500,000
6% secured sinking fund debentures maturing May 1, 1989	**169,638**	281,708
	11,207,262	10,387,296
Less portion due within one year	**1,336,315**	1,172,561
	$ 9,870,947	$ 9,214,735

The mortgages are secured by first and second charges respectively against land and buildings.

The term bank loan is secured by a fixed and floating charge debenture on all Corporation assets. Such security is subordinate to that provided for the mortgages and the $4,710,000 bank indebtedness described in Note 5.

The security provided for the 6% sinking fund debentures is a floating charge on all Corporation assets but such security is subordinate to that provided for the term bank loan, bank indebtedness and the mortgages. The annual sinking fund provision is comprised of 10% of the Corporation's unconsolidated net income exclusive of extraordinary items. The provision for 1981 is $72,096 (1980 - $109,145).

7. Preference shares

During 1981, 58,000 (1980 - 77,000) second preference shares were issued for cash and 60,000 (1980 - 48,750) shares were redeemed at par value.

8. Contingent liabilities

The Corporation was contingently liable at December 31 as follows:

	1981	1980
Guarantee of franchise store leases	**$2,772,000**	$2,306,000
Other guarantees	**397,000**	732,000
	$3,169,000	$3,038,000

9. Remuneration of directors and senior officers

The aggregate direct remuneration of the directors and senior officers for 1981 amounted to $365,166 (1980 - $326,469) which was paid by the Corporation and its consolidated subsidiaries.

10. Related party transactions

During the year, the Corporation sold approximately $5,800,000 in goods to a company in which a director of the Corporation held an interest. These transactions took place in the normal course of business and are subject to the usual collection terms of the Corporation.

11. Schedule of segmented information

	Merchandising	Computer Services	Total
Revenues			
Sales to customers	$82,724,930	$3,864,391	$87,589,321
Inter-segment sales	—	60,436	60,436
Total	$82,724,930	$3,803,955	$87,528,885
Earnings before income taxes	$ 1,616,382	$ 211,317	$ 1,827,699
Income taxes	693,600	42,800	736,400
Earnings after taxes	$ 922,782	$ 168,517	$ 1,091,299
Total assets	$34,177,193	$3,263,004	$37,440,197
Depreciation and amortization	443,750	123,054	566,804
Capital expenditures	518,054	59,265	577,319

Description of Business

The Merchandising Group distributes Hardware, Building Supplies and Sporting Goods consumer products. The Computer Services Division provides data processing information systems and consulting services to the distribution and retail industries.

D.H. Howden & Co. Limited and Subsidiary Companies

10 Year Highlights

(in thousands)

	1981	1980	1979	1978
Operating Results				
Gross sales	**$91,191**	$86,787	$85,108	$75,011
Income before income taxes and extraordinary items	**1,828**	2,416	1,943	2,390
Income taxes	**737**	1,082	792	1,053
Income before extraordinary item	**1,091**	1,334	1,151	1,337
Extraordinary item	**—**	—	—	—
Net income	**1,091**	1,334	1,151	1,337
Retained earnings	**9,502**	8,678	8,141	7,241
Financial Position				
Accounts receivable	**17,025**	12,399	12,933	10,823
Inventories	**13,801**	10,588	11,250	11,219
Total current liabilities	**16,550**	9,505	12,979	10,228
Working capital	**15,014**	13,745	11,975	12,120
Property, plant and equipment	**5,485**	5,385	5,017	873
Total long-term liabilities	**10,215**	9,413	7,748	4,650
Shareholders' equity	**10,675**	9,854	9,344	8,395
Return on net worth (January 1)	**11.07%**	14.28%	13.71%	18.51%
Per Common Share				
Earnings before extraordinary item	**$ 2.15**	$ 2.50	$ 2.06	$ 2.40
Net earnings	**2.15**	2.50	2.06	2.40
Shareholders' equity	**20.13**	17.54	15.93	14.29
Dividend paid	**.50**	.475	.425	.375

1977	1976	1975	1974	1973	1972
	(Restated)				
$67,874	$59,806	$51,029	$42,766	$32,477	$27,795
2,057	1,583	1,743	1,644	1,297	875
851	680	824	862	670	444
1,206	903	919	782	627	431
—	—	—	—	10	135
1,206	903	919	782	637	566
6,126	5,126	4,416	3,662	3,014	2,397
9,120	7,242	7,790	6,291	5,182	4,940
8,326	7,919	6,165	5,949	3,780	3,332
7,794	6,583	6,876	5,520	4,996	4,662
9,980	8,957	7,378	6,959	4,142	3,738
766	614	466	355	209	206
3,692	3,407	2,493	2,785	875	991
7,220	6,339	5,582	4,819	3,813	3,205
19.02%	16.13%	19.07%	20.51%	19.89%	16.22%
$ 2.14	$ 1.59	$ 1.62	$ 1.44	$ 1.21	$ .82
2.14	1.59	1.62	1.44	1.23	1.09
12.27	10.45	9.16	7.79	6.61	5.38
.325	.30	.25	.20		

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