D.H. HOWDEN & CO. LIMITED

ANNUAL REPORT 1982

Highlights (in thousands)

	1982	1981
Gross sales	**$89,326**	$90,092
Net (loss) income	**(320)**	1,091
Per common share (loss) income	**$(.68)**	$2.15
Working capital	**13,475**	15,014
Ratio of current assets to current liabilities	**2.18:1**	1.91:1
Shareholders' equity per common share	**$18.96**	$20.13
Return on net worth (12 months)	**(3.00%)**	11.07%
Dividends paid on common shares	**$.50**	$.50

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, Sifton Properties Limited

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

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 19th of May 1983, at the hour of 11:30 a.m.

The Annual Report reflects the impact of the current economic depression on Howden and its dealers.

Corporate sales for 1982 were $89,326,214 compared to $90,092,009 in 1981. Net loss for the year was $320,347 compared to a profit of $1,091,299 in 1981.

The reported loss in 1982 resulted from the following factors:

1. Corporate sales did not increase
2. Operational expenses increased
3. Gross margins dropped substantially
4. Computer Horizons, a wholly-owned subsidiary, experienced a significant loss.

The 1982 economy adversely affected most segments of the retail industry. Any small businessman who was underfinanced was particularly vulnerable. The mounting economic depression forced many dealers out of business mainly from their inability to meet imposed restrictions on bank credit or the sudden calling of bank loans. Howden suffered from the resulting forced liquidations. Our management dedicated marketing and financial personnel to assist our dealers in the resolution of their financial difficulties. We feel that the remaining dealer network is financially sound and well positioned to benefit from even a modest turnaround in the economy. We have, however, increased the provision for doubtful accounts to protect against the unexpected.

Pro Dealer Division

The corporate strategy to expand beyond Ontario continues. We continue to service approximately 300 Pro dealers across Canada. Increased advertising and retail services in 1983 will continue to assist our entire dealer network to maintain their competitive position in the marketplace.

Building Supply Division

This Division sells to building supply stores across Canada and has experienced the same financial problems caused by decreased housing starts and building activity. In spite of such problems, this Division showed growth in 1982 and acquired national account activity that should add substantially to our sales in 1983.

Sporting Goods Division

This Division concentrates on the sale of hunting and related equipment to the specialty dealer. Sales were maintained notwithstanding the adverse marketing conditions through expansion beyond the Ontario market.

Computer Horizons (Canada) Limited

This subsidiary has discontinued the sale of its Parts Handler System – a system designed for small automotive distributors. After initial sales successes in 1981 it became increasingly difficult to sell the product in the face of the prevailing economic climate. The cost of discontinuing this activity was $627,357. This subsidiary should return to profitability in 1983.

Operational and Financial

During the year, the Corporation reduced inventory investments by $3.4 million. Bank borrowings were reduced by approximately the same amount.

The Balance Sheet reflects management's strategy and emphasis on asset turnover and liquidity. The current ratio and debt equity ratio are the strongest the Corporation has had in recent years.

In December the Corporation moved to fix the interest rate on $5.1 million of its long-term financing. This was finalized in January 1983.

Outlook

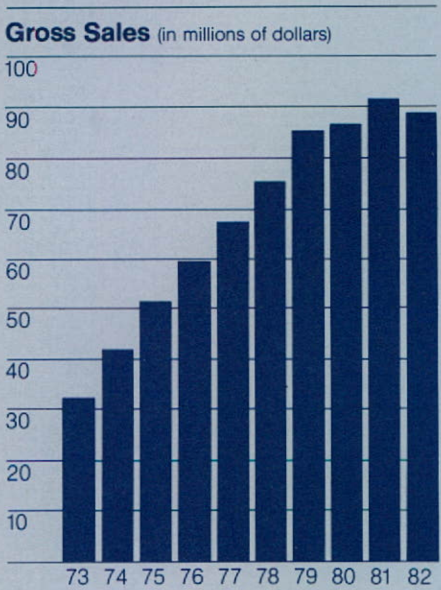
In view of the significant progress in improving the turnover of inventories and receivables, the reduction in cost of borrowing and the continuing improvements to our systems and productivity, the Corporation has positioned itself to return to profitable operations in 1983.

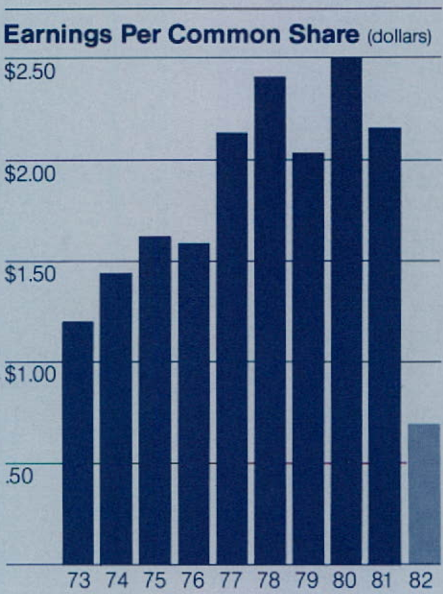
We express thanks to our staff for their continuing support in the face of trying and adverse economic conditions. Also, we express appreciation to our dealers, suppliers and to you our shareholders for your continuing support.

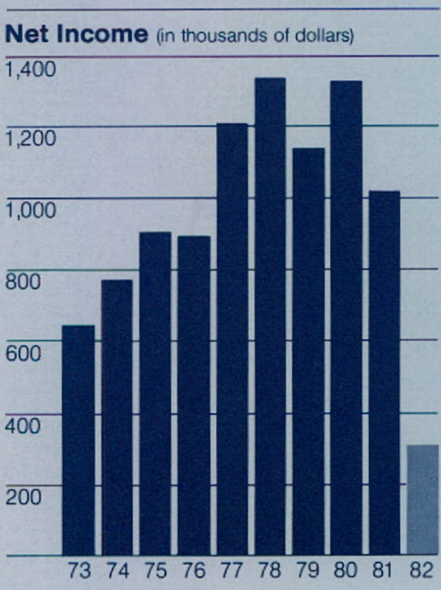
D.H.M. Stewart, Chairman of the Board and President

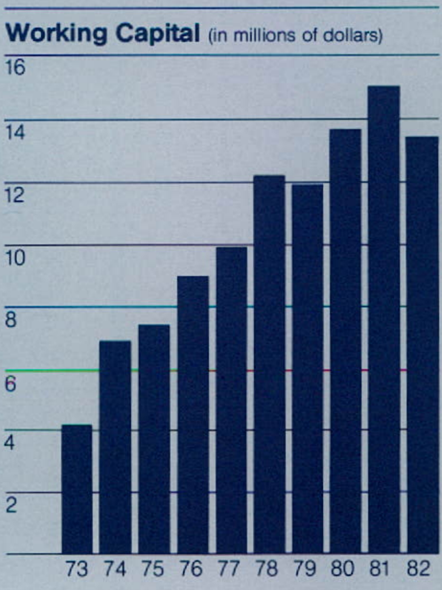
M.C. Tucker, Executive Vice President

Financial Review









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

Consolidated Balance Sheet as at December 31, 1982

Assets	**1982**	1981
Current		
Cash	**$ 64,564**	$ 157,328
Accounts receivable	**13,609,462**	17,025,447
Inventories	**10,344,373**	13,801,297
Prepaid expenses	**248,119**	266,887
Income taxes recoverable	**655,353**	313,080
	24,921,871	31,564,039
Property, plant and equipment (Note 2)	**5,439,425**	5,484,937
Other		
Deferred development costs	**41,741**	226,385
Goodwill	**123,627**	164,836
	165,368	391,221
	$30,526,664	$37,440,197

On behalf of the Board

Director D.H.M. STEWART

Director M.C. TUCKER

See accompanying notes to consolidated financial statements.

Liabilities

	1982	1981
Current		
Bank indebtedness (Note 5)	**$ 2,250,000**	$ 4,710,000
Accounts payable and accrued liabilities	**7,773,085**	10,335,657
Current portion of long-term debt (Note 6)	**1,319,485**	1,336,315
Current portion of obligation under capital leases (Note 3)	**87,862**	75,626
Deferred income taxes	**16,800**	92,700
	11,447,232	16,550,298
Long-term debt (Note 6)	**8,753,375**	9,870,947
Obligation under capital leases (Note 3)	**255,838**	343,721
Contingent liabilities (Note 8)		

Shareholders' Equity

Capital stock		
Preference shares (Note 7)		
Authorized – 948,250 (1981 - 1,036,750) 3% non-cumulative, redeemable, second preference shares of $1 par value		
Issued – 592,500 (1981 - 609,000) shares	**592,500**	609,000
Common shares		
Authorized – 950,000 shares without par value		
Issued – 500,000 shares	**564,546**	564,546
Retained earnings	**8,913,173**	9,501,685
	10,070,219	10,675,231
	$30,526,664	$37,440,197

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, 1982 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, 1982 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 2, 1983.

TOUCHE ROSS & CO.
Chartered Accountants.

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

Consolidated Statement of Income

For The Year Ended December 31, 1982

	1982	1981
Gross sales	**$89,326,214**	$90,092,009
Less sales tax	**3,461,313**	3,662,454
	85,864,901	86,429,555
Cost of sales and operating expenses other than items noted below	**82,690,641**	81,147,615
Interest – long-term debt	**1,649,046**	1,777,347
– bank indebtedness	**949,701**	1,217,566
Depreciation and amortization	**477,357**	432,690
	85,766,745	84,575,218
Income from continuing operations	**98,156**	1,854,337
Loss from discontinued operations (Note 4)	**(627,357)**	(26,638)
Net (loss) income before taxes	**(529,201)**	1,827,699
Income taxes (recovery)	**(208,854)**	736,400
Net (loss) income for the year	**$ (320,347)**	$ 1,091,299
Basic (loss) earnings per common share	**($.68)**	$2.15

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

Consolidated Statement of Retained Earnings

For The Year Ended December 31, 1982

	1982	1981
Retained earnings, beginning of year	**$ 9,501,685**	$ 8,678,491
Net (loss) income for the year	**(320,347)**	1,091,299
	9,181,338	9,769,790
Dividends		
Preference shares	**18,165**	18,105
Common shares	**250,000**	250,000
	268,165	268,105
Retained earnings, end of year	**$ 8,913,173**	$ 9,501,685

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, 1982

	1982	1981
Source of working capital		
Funds provided from operations		
Net (loss) income for the year	$ (320,347)	$ 1,091,299
Items not involving an outlay of working capital		
Depreciation and amortization	477,357	432,690
Amortization of goodwill	41,209	20,605
Amortization of deferred development costs	132,030	113,509
Write off deferred development costs	52,614	—
Gain on disposal of property, plant and equipment	(459)	—
Equity in loss of corporate joint venture	—	24,520
	382,404	1,682,623
Proceeds from disposal of property, plant and equipment	23,513	109,299
Proceeds from issue of long-term debt	—	2,000,000
Issue of second preference shares	72,000	58,000
Obligation arising from capitalization of leases	—	145,077
Other	—	70,234
	477,917	4,065,233
Application of working capital		
Purchase of property, plant and equipment	454,899	577,319
Increase in deferred development costs	—	189,192
Acquisition of subsidiary	—	295,000
Decrease in working capital on acquisition of subsidiary	—	63,103
Reduction in obligation arising from capitalization of leases	87,883	—
Reduction in long-term debt	1,117,572	1,343,788
Redemption of second preference shares	88,500	60,000
Dividends	268,165	268,105
	2,017,019	2,796,507
(Decrease) increase in working capital	(1,539,102)	1,268,726
Working capital, beginning of year	15,013,741	13,745,015
Working capital, end of year	$13,474,639	$15,013,741

See accompanying notes to consolidated financial statements.

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.

e) Goodwill

Goodwill relates to the acquisition of Computer Horizons (Canada) Limited and is being amortized on a straight-line basis over 54 months.

2. Property, plant and equipment

	1982	1981
Buildings and roadways	**$3,775,150**	$3,775,150
Equipment and leasehold improvements	**2,661,957**	2,201,226
Equipment under capital leases	**516,636**	516,683
	6,953,743	6,493,059
Less accumulated depreciation and amortization	**2,319,013**	1,812,817
	4,634,730	4,680,242
Land	**804,695**	804,695
	$5,439,425	$5,484,937

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 1982 and 1981 comparative figures would have been as follows:

Assets

	1982	1981
Buildings, at capitalized value	**$1,930,074**	$1,930,074
Equipment, at capitalized value	**326,896**	483,370
	2,256,970	2,413,444
Less accumulated amortization	**861,437**	888,732
	$1,395,533	$1,524,712

Liabilities and Shareholders' Equity

	1982	1981
Current portion of obligation under capital leases	**$ 84,111**	$ 89,303
Obligation under capital leases	**1,652,862**	1,736,973
Deferred income taxes	**(176,866)**	(144,751)
	1,560,107	1,681,525
Retained earnings	**(164,574)**	(156,813)
	$1,395,533	$1,524,712

A prior period adjustment of $156,802 to reduce the opening balance of 1981 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, 1983	$ 131,254	$ 635,000
1984	138,681	610,000
1985	79,705	602,000
1986	85,302	519,000
1987	—	546,000
	434,942	2,912,000
Less amounts representing interest at various rates ranging from 9.26% to 19%	91,242	—
	343,700	2,912,000
Less portion due within one year	87,862	—
	$ 255,838	$2,912,000

4. Discontinued operations

During the year, the Corporation undertook a review of its business operations to determine the continuing value of operations where the return on invested capital has been inadequate or where operations are inconsistent with future plans.

Following completion of that review, a decision was made to discontinue certain of the Corporation's operations effective November 6, 1982. The operating results of the discontinued operations to November 6, 1982 were as follows and are included in the consolidated statement of income on a net basis:

	1982	1981
Income	**$156,438**	$1,099,330
Costs and expenses exclusive of items listed below	**543,942**	983,284
Amortization of deferred development costs	**86,574**	41,421
Write off of deferred development costs	**52,614**	—
Interest	**100,665**	101,263
	783,795	1,125,968
Loss from discontinued operations	**($627,357)**	$ (26,638)

5. Bank indebtedness

Bank indebtedness of $2,250,000 (1981 - $4,710,000) is secured by an assignment of accounts receivable.

6. Long-term debt

	1982	1981
11% mortgage, payable $305 monthly including interest and maturing July 1, 1984	**$ 28,140**	$ 28,733
10¾% mortgage, payable $24,091 monthly including interest and maturing July 1, 1989	**2,577,547**	2,594,516
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, 1982 was 13½%	**861,875**	914,375
Term bank loan, payable $600,000 principal semi-annually plus interest with a final principal payment of $2,100,000 and maturing November 1, 1986 with interest varying from time to time related to the lender's cost of borrowing. The rate at December 31, 1982 was 12¾%	**6,300,000**	7,500,000
6% secured sinking fund debentures maturing May 1, 1989	**97,538**	169,638
Term loan, payable $591 principal monthly plus interest, maturing August 20, 1991 and bearing interest at a rate of bank prime plus 1½%. The rate at December 31, 1982 was 14%	**61,360**	—
Small Business Development Bond, payable $10,000 principal annually plus interest with a final principal payment of $57,600 and maturing May 25, 1987 with interest varying from time to time at the rate of one half the bank prime plus 3%. The rate at December 31, 1982 was 9¼%	**107,600**	—
Small business loan, payable $485 principal monthly plus interest, maturing July 10, 1984 and bearing interest at the rate of bank prime plus 1%. The rate at December 31, 1982 was 13½%	**38,800**	—
	10,072,860	11,207,262
Less portion due within one year	**1,319,485**	1,336,315
	$ 8,753,375	$ 9,870,947

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 $2,250,000 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 1982 is $24,490 (1981 - $72,096).

7. Preference shares

During 1982, 72,000 (1981 - 58,000) second preference shares were issued for cash and 88,500 (1981 - 60,000) shares were redeemed at par value.

8. Contingent liabilities

The Corporation was contingently liable at December 31 as follows:

	1982	1981
Guarantee of franchise store leases	**$1,716,000**	$2,772,000
Other guarantees	**224,000**	397,000
	$1,940,000	$3,169,000

9. Remuneration of directors and senior officers

The aggregate direct remuneration of the directors and senior officers for 1982 amounted to $338,900 (1981 - $365,166) which was paid by the Corporation and its consolidated subsidiaries.

10. Related party transactions

During the year, the Corporation sold approximately $3,324,000 (1981 - $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	$81,973,428	$4,174,189	$86,147,617
Inter-segment sales	—	126,278	126,278
Total	$81,973,428	$4,047,911	$86,021,339
Earnings (loss) before income taxes	$ 85,539	$ (614,740)	$ (529,201)
Income taxes (recovery)	(129,000)	(79,854)	(208,854)
Earnings (loss) after income taxes	$ 214,539	$ (534,886)	$ (320,347)
Total assets	$28,856,533	$1,670,131	$30,526,664
Depreciation and amortization	491,755	158,841	650,596
Capital expenditures	423,579	31,320	454,899

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

10 Year Highlights

(in thousands)

	1982	1981 (Restated)	1980	1979
Operating Results				
Gross sales	**$89,326**	$90,092	$86,787	$85,108
Income before income taxes and extraordinary items	**(529)**	1,828	2,416	1,943
Income taxes	**(209)**	737	1,082	792
Income before extraordinary item	**(320)**	1,091	1,334	1,151
Extraordinary item	**—**	—	—	—
Net income	**(320)**	1,091	1,334	1,151
Retained earnings	**8,913**	9,502	8,678	8,141
Financial Position				
Accounts receivable	**13,609**	17,025	12,399	12,933
Inventories	**10,344**	13,801	10,588	11,250
Total current liabilities	**11,447**	16,550	9,505	12,979
Working capital	**13,475**	15,014	13,745	11,975
Property, plant and equipment	**5,439**	5,485	5,385	5,017
Total long-term liabilities	**9,009**	10,215	9,413	7,748
Shareholders' equity	**10,070**	10,675	9,854	9,344
Return on net worth (January 1)	**(3.00%)**	11.07%	14.28%	13.71%
Per Common Share				
Earnings before extraordinary item	**$ (.68)**	$ 2.15	$ 2.50	$ 2.06
Net earnings	**(.68)**	2.15	2.50	2.06
Shareholders' equity	**18.96**	20.13	17.54	15.93
Dividend paid	**.50**	.50	.475	.425

1978	1977	1976	1975	1974	1973
		(Restated)			
$75,011	$67,874	$59,806	$51,029	$42,766	$32,477
2,390	2,057	1,583	1,743	1,644	1,297
1,053	851	680	824	862	670
1,337	1,206	903	919	782	627
—	—	—	—	—	10
1,337	1,026	903	919	782	637
7,241	6,126	5,126	4,416	3,662	3,014
10,823	9,120	7,242	7,790	6,291	5,182
11,219	8,326	7,919	6,165	5,949	3,780
10,228	7,794	6,583	6,876	5,520	4,996
12,120	9,980	8,957	7,378	6,959	4,142
873	766	614	466	355	209
4,650	3,692	3,407	2,493	2,785	875
8,395	7,220	6,339	5,582	4,819	3,813
18.51%	19.02%	16.13%	19.07%	20.51%	19.89%
$ 2.40	$ 2.14	$ 1.59	$ 1.62	$ 1.44	$ 1.21
2.40	2.14	1.59	1.62	1.44	1.23
14.29	12.27	10.45	9.16	7.79	6.61
.375	.325	.30	.25	.20	—

HOWDEN