D.H. HOWDEN & CO. LIMITED

ANNUAL REPORT 1983

Highlights (in thousands)

	1983	1982
Gross sales	**$100,405**	$85,308
Net income (loss)	**1,430**	(320)
Basic earnings (loss) per common share		
Before extraordinary item	**$2.07**	$(0.68)
Extraordinary item	**.79**	—
Per common share income (loss)	**$2.86**	$(0.68)
Working capital	**15,082**	13,475
(Increase) decrease in operating net assets	**(1,751)**	3,906
Ratio of current assets to current liabilities	**2.02:1**	2.18:1
Shareholders' equity per common share	**$21.31**	$18.96
Return on net worth	**14.20%**	(3.00%)
Dividends paid on common shares	**$.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, D.H. Howden & Co. Limited

MICHAEL C. TUCKER
President, D.H. Howden & Co. Limited and Pro Hardware (Canada) Limited

Head Office
635 Southdale Road,
P.O. Box 2485
London, Ontario N6A 4G8

Auditors
Touche Ross & Co.

Officers

D.H.M. STEWART
Chairman of the Board

M.C. TUCKER
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 – Sales

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 Agent & Registrar
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 17th of May, 1984, at the hour of 11:30 a.m.

Report to Shareholders

The Annual Report reflects the improvement in the economy, the strengthening of the Corporation's dealers and the success of the Corporate marketing plans in 1983.

Corporate sales for 1983 were $100,405,286 compared to $89,326,214 in 1982 for a 17.7% increase. Net profit for the year was $1,429,619 which includes an extraordinary gain of $392,686 on the sale of Computer Horizons (Canada) Limited. The profit return on shareholders net worth is 14.20%. This is compared to a loss of $320,347 in 1982.

In spite of the general improvement in hardware retailing, our experience with bad debt losses continued in 1983. However, they were far below the previous year. This problem should again reduce itself significantly in 1984. The Corporation also suffered losses on Corporate stores. These are stores which we are forced to acquire due to credit reasons and/or lease obligations. These losses result from having to inject capital back into these sites and in general rebuild the stores' sales. To succeed we believe these stores require on-site dealer ownership and the Corporation is steadily selling these stores to new owners. We are hopeful that the four remaining stores will be sold in 1984.

On the plus side, the Corporation has sold Computer Horizons (Canada) Limited. The sale will reduce bank borrowings and operating risk and provide expansion funds for the main business which would be invested at a higher return.

In October the Corporation acquired the inventory and marketing staff of Lacroix (Quebec) Inc., the Pro hardware distributor operating out of Quebec City. It is expected that this will give the Corporation a base for expansion into the Province of Quebec. The cost of this Quebec acquisition is the inventory write-down of the Lacroix inventory plus the cost of moving the merchandise to London. A considerable amount of preparatory work is ahead of us in Quebec and as a result growth will be initially slow.

Pro Hardware Division

During the year we added 31 franchised Pro stores and cancelled 27, mostly for credit reasons. The more than 350 active Pro stores will provide greater sales volume given the size of new stores added. Many of the new stores are outside of Ontario.

Building Supply Division

This Division continues to grow as building material dealers, in increasing numbers, wish to expand into the sale of consumer merchandise. Many are using the Pro franchise system to accelerate this process. Our systems will help them to control their investment and to speed their entry into the consumer market.

Sporting Goods Division

This Division concentrates on the sale of hunting and related equipment to specialty sporting goods dealers across Canada. Sales were profitably maintained during 1983 despite industry problems largely arising from gun control legislation.

Export Division

Recently the Corporation began exploring the possibility of selling merchandise programs beyond Canada and as a result formed an Export Division. Our efforts have been supported by both the Federal and Provincial governments who wish to increase export sales. We are presently concentrating sales efforts offshore to Bermuda and the Caribbean islands, however, we will also be looking at any market where the program is applicable. We are finding our prices are competitive, and when supported by our systems and electronic communications for speedier shipping, we find the Corporation's programs receiving acceptance.
Growth potential appears excellent.

Operational and Financial

During 1983 the Corporation developed a new method of dealer communication based on the new Bell Telephone displayphone. The dealer telephone will now have a screen through which information from Howden's computer in London can be presented in the dealer's store. The system will substantially improve two-way communication between the store and the distribution centre.

In past years key dealers of Howden were called shareholder dealers since they owned 2nd preference shares in the Corporation. This proved quite satisfactory as long as the principal market of the Corporation remained in the Province of Ontario. However, when the Corporation began to sell in other provinces of Canada, we found differing legislation with respect to the sale of preference shares, which in order to comply, proved excessively costly to the Corporation. As a result, we have changed the form of dealer investment to a security deposit. Hence the change of terminology on the balance sheet.

Inventory at year end of $13.8 million shows an increase of approximately $5.3 million over 1982. Still, inventory turns increased by .5 turns over 1982, a significant improvement. Inventory turns decreased in the last quarter because of inventory build-up in preparation for Quebec business plus the addition of Lacroix inventory. However, inventories should level out during the first half of 1984 with seasonal and Lacroix inventory reductions taking place.

During 1983 the turnover of receivables improved and accounts over 60 days were reduced by about one half.

Outlook

Management looks with confidence for good results in 1984 as new marketing gains materialize and as we increase the turnover of assets.

Donald R. Hughes, who has been a director of the Corporation since 1961, on reaching the age of 70 will be retiring from the Board. Mr. Hughes has made a valuable contribution to the Corporation not only as an employee but as a director. We express our appreciation and thanks to him for this contribution.

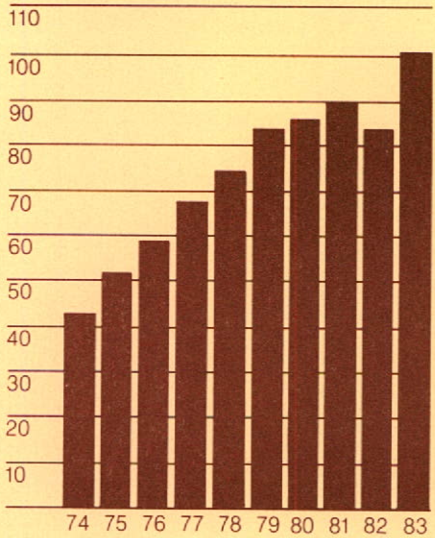
We also express thanks to our staff for their support and to our dealers, suppliers, and to you our shareholders, for your continuing support.

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

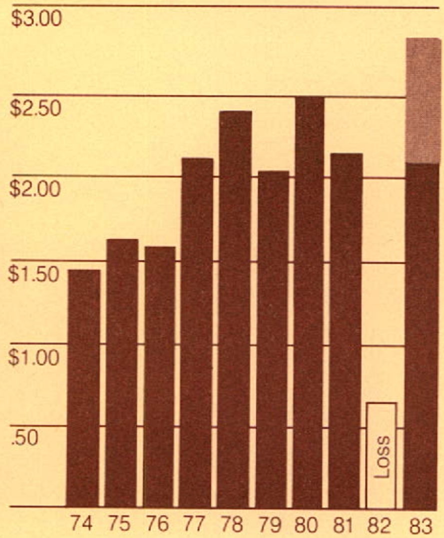
M.C. Tucker, President

Financial Review

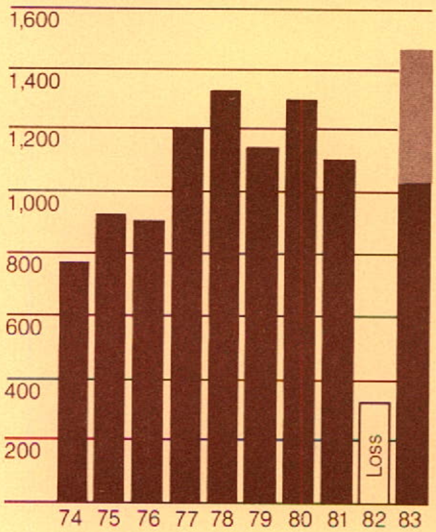
Gross Sales (in millions of dollars)



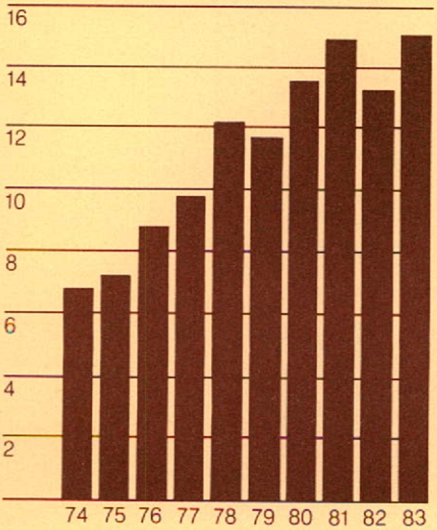
Earnings Per Common Share (dollars)



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, 1983

Assets	**1983**	1982
Current		
Cash	**$ 70,511**	$ 64,564
Accounts receivable	**14,147,229**	13,609,462
Inventories	**15,275,855**	10,344,373
Prepaid expenses	**356,740**	248,119
Income taxes recoverable	—	655,353
	29,850,335	24,921,871
Property, plant and equipment (Note 2)	**5,800,776**	5,439,425
Other		
Deferred development costs	—	41,741
Goodwill	—	123,627
	—	165,368
	$35,651,111	$30,526,664

On behalf of the Board

Director D.H.M. STEWART

Director M.C. TUCKER

See accompanying notes to consolidated financial statements.

Liabilities	1983	1982
Current		
Bank indebtedness (Note 5)	**$ 2,400,000**	$ 2,250,000
Accounts payable and accrued liabilities	**9,966,295**	7,773,085
Current portion of long-term debt (Note 6)	**1,664,286**	1,319,485
Current portion of obligation under capital leases (Note 3)	**213,757**	87,862
Income taxes payable	**523,923**	16,800
	14,768,261	11,447,232
Long-term debt (Note 6)	**8,997,715**	8,753,375
Obligation under capital leases (Note 3)	**639,297**	255,838
Security deposits (Note 8)	**588,500**	—
Contingent liabilities (Note 9)		
Shareholders' Equity		
Capital stock		
Preference shares (Note 7)		
Authorized – 284,250 (1982 - 948,250)		
Second preference shares redeemable at $1 with non-cumulative dividend of 3¢ each		
Issued	—	592,500
Common shares		
Authorized – 950,000 shares		
Issued – 500,000 shares	**564,546**	564,546
Retained earnings	**10,092,792**	8,913,173
	10,657,338	10,070,219
	$35,651,111	$30,526,664

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, 1983 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, 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 on a basis consistent with that of the preceding year.

London, Ontario,
February 29, 1984.

TOUCHE ROSS & CO.
Chartered Accountants.

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

Consolidated Statement of Income

For The Year Ended December 31, 1983

	1983	1982
Gross sales	**$100,405,286**	$85,308,463
Less sales tax	**4,167,813**	3,461,313
	96,237,473	81,847,150
Cost of sales and operating expenses other than items noted below	**92,233,626**	78,833,727
Interest	**1,778,718**	2,522,794
Depreciation and amortization	**556,439**	405,090
	94,568,783	81,761,611
Income from continuing operations	**1,668,690**	85,539
Net income (loss) from discontinued operations (Note 4)	**75,253**	(534,886)
Income (loss) before taxes and extraordinary item	**1,743,943**	(449,347)
Income taxes	**707,000**	(129,000)
Income before extraordinary item	**1,036,943**	(320,347)
Gain on sale of Computer Horizons (Canada) Limited (Note 4)	**392,676**	—
Net income for the year	**$ 1,429,619**	$ (320,347)
Basic earnings (loss) per common share		
Before extraordinary item	**$2.07**	($0.68)
Extraordinary item	**.79**	—
	$2.86	($0.68)

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

Consolidated Statement of Retained Earnings

For The Year Ended December 31, 1983

	1983	1982
Retained earnings, beginning of year	**$ 8,913,173**	$ 9,501,685
Net income (loss) for the year	**1,429,619**	(320,347)
	10,342,792	9,181,338
Dividends		
Common shares	**250,000**	250,000
Preference shares	**—**	18,165
	250,000	268,165
Retained earnings, end of year	**$10,092,792**	$ 8,913,173

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, 1983

	1983	1982
Cash provided by (used in) operations		
Earnings (loss) before extraordinary item	**$ 1,036,943**	$ (320,347)
Items not requiring cash		
Depreciation and amortization	**556,439**	650,596
Write-off of goodwill and deferred development costs	**165,368**	52,614
Other	**—**	(459)
Working capital provided by operations	**1,758,750**	382,404
Extraordinary item	**392,676**	—
(Increase) decrease in operating net assets	**(1,751,488)**	3,906,338
Dividends paid	**(250,000)**	(268,165)
	149,938	4,020,577
Financing		
Increase (decrease) in bank indebtedness	**150,000**	(2,460,000)
Proceeds from long-term debt	**2,848,750**	—
Decrease in long-term debt	**(2,604,410)**	(1,117,572)
Increase (decrease) in obligations arising from capitalization of leases	**383,459**	(87,883)
Proceeds from security deposits	**631,000**	—
Repayment of security deposits	**(42,500)**	—
Issuance of second preference shares	**71,500**	72,000
Redemption of second preference shares	**(664,000)**	(88,500)
	773,799	(3,681,955)
Cash invested		
Expenditures for property, plant and equipment	**1,065,750**	454,899
Disposals of property, plant and equipment	**(147,960)**	(23,513)
	917,790	431,386
Increase (decrease) in cash	**5,947**	(92,764)
Cash at beginning of year	**64,564**	157,328
Cash at end of year	**$ 70,511**	$ 64,564
(Increase) decrease in operating net assets provided by		
(Increase) decrease in		
Accounts receivable	**$ (537,767)**	$ 3,415,985
Inventories	**(4,931,482)**	3,456,924
Other current assets	**546,732**	(323,505)
Increase (decrease) in		
Accounts payable and accrued liabilities	**2,193,210**	(2,562,572)
Other current liabilities	**977,819**	(80,494)
	($1,751,488)	$ 3,906,338

See accompanying notes to consolidated financial statements.

1. Significant Accounting Policies

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis.

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 and Howden-Howland Limited.

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

2. Property, plant and equipment

	1983	1982
Buildings and roadways	**$3,775,525**	$3,775,150
Equipment and leasehold improvements	**2,747,488**	2,661,957
Equipment under capital leases	**1,197,734**	516,636
	7,720,747	6,953,743
Less accumulated depreciation and amortization	**2,724,666**	2,319,013
	4,996,081	4,634,730
Land	**804,695**	804,695
	$5,800,776	$5,439,425

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 1983 and 1982 comparative figures would have been as follows:

Assets

	1983	1982
Buildings at capitalized value	**$1,930,074**	$1,930,074
Equipment, at capitalized value	**223,626**	326,896
	2,153,700	2,256,970
Less accumulated amortization	**848,437**	861,437
	$1,305,263	$1,395,533

Liabilities and Shareholders' Equity

	1983	1982
Current portion of obligation under capital leases	**$ 89,345**	$ 84,111
Obligation under capital leases	**1,563,518**	1,652,862
Deferred income taxes	**(180,056)**	(176,866)
	1,472,807	1,560,107
Retained earnings	**(167,544)**	(164,574)
	$1,305,263	$1,395,533

A prior period adjustment of $156,813 to reduce the opening balance of 1982 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 leases during the transitional period.

	Capital Leases	Operating Leases
Year ending December 31, 1984	$ 315,214	$ 471,000
1985	256,237	450,000
1986	261,834	365,000
1987	176,532	378,000
1988	82,818	310,000
	1,092,635	1,974,000
Less amounts representing interest at various rates ranging from 9.26% to 19%	239,581	—
	853,054	1,974,000
Less portion due within one year	213,757	—
	$ 639,297	$1,974,000

4. Discontinued operations

On December 31, 1983 the Corporation sold its wholly-owned subsidiary Computer Horizons (Canada) Limited. The statement of income segregates the net income from continuing operations from the net income of this discontinued operation. The results of 1982 have been restated to reflect this change.

The gain on sale of Computer Horizons (Canada) Limited is summarized as follows:

Cash proceeds on sale	$150,000
Net deficit of Computer Horizons (Canada) Limited at December 31, 1983	366,303
	516,303
Less write-off of unamortized goodwill arising from purchase of Computer Horizons (Canada) Limited	123,627
	$392,676

5. Bank indebtedness

Bank indebtedness of $2,400,000 (1982 - $2,250,000) is secured by an assignment of accounts receivable.

6. Long-term debt

	1983	1982
11% mortgage, payable $305 monthly including interest and maturing July 1, 1984	**$ 27,481**	$ 28,140
10¾% mortgage, payable $24,091 monthly including interest and maturing July 1, 1989	**2,558,479**	2,577,547
Second mortgage, payable $4,715 principal monthly plus interest, maturing June 1, 1988 and bearing an interest rate of bank prime plus ½%. The rate at December 31, 1983 was 11½%	**815,745**	861,875
Term bank loan, payable $750,000 principal semi-annually plus interest with a final principal payment of $350,000 and maturing November 1, 1988 with interest varying from time to time related to the lender's cost of borrowing. The rate at December 31, 1983 was $5,100,000 at 13¼% and $2,000,000 at 11.03%	**7,100,000**	6,300,000
6% secured sinking fund debentures maturing May 1, 1989	**73,048**	97,538
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, 1983 was 12½%	**54,268**	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%	**—**	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, 1983 was 12%	**32,980**	38,800
	10,662,001	10,072,860
Less portion due within one year	**1,664,286**	1,319,485
	$8,997,715	$8,753,375

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 $2,400,000 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 inclusive of extraordinary items. The provision for 1983 is $73,048 (1982 - $24,490).

7. Preference shares

The second preference shares were redeemed in full as at October 25, 1983. During the period January 1, 1983 to October 25, 1983, $71,500 (1982 - $72,000) second preference shares were issued for cash and $664,000 (1982 - $85,500) shares were redeemed.

8. Security deposits

Security deposits represent funds deposited by certain dealers in accordance with their franchise agreements. These deposits are refundable upon termination of the franchise agreement.

The security deposits are included in equity for purposes of calculating financial compliance ratios.

During the year 1983 the Corporation issued $631,000 and redeemed $42,500 of security deposits.

9. Contingent liabilities

The Corporation was contingently liable at December 31 for guarantees of franchise store leases in the amount of $1,501,000 (1982 - $1,716,000).

D.H. Howden & Co. Limited

10 Year Highlights

(in thousands)

	1983	1982 (Restated)	1981 (Restated)	1980
Operating Results				
Gross sales	**$100,405**	$85,308	$90,092	$86,787
Income before income taxes and extraordinary items	**1,744**	(529)	1,828	2,416
Income taxes	**707**	(209)	737	1,082
Income before extraordinary item	**1,037**	(320)	1,091	1,334
Extraordinary item	**393**	—	—	—
Net income	**1,430**	(320)	1,091	1,334
Retained earnings	**10,093**	8,913	9,502	8,678
Financial Position				
Accounts receivable	**14,147**	13,609	17,025	12,399
Inventories	**15,276**	10,344	13,801	10,588
Total current liabilities	**14,768**	11,447	16,550	9,505
Working capital	**15,082**	13,475	15,014	13,745
Property, plant and equipment	**5,801**	5,439	5,485	5,385
Total long-term liabilities	**10,226**	9,009	10,215	9,413
Shareholders' equity	**10,657**	10,070	10,675	9,854
Return on net worth (January 1)	**14.20%**	(3.00%)	11.07%	14.28%
Per Common Share				
Earnings before extraordinary item	**$2.07**	$ (.68)	$ 2.15	$ 2.50
Net earnings	**2.86**	(.68)	2.15	2.50
Shareholders' equity	**21.31**	18.96	20.13	17.54
Dividend paid	**.50**	.50	.50	.475

1979	1978	1977	1976	1975	1974
			(Restated)		
$85,108	$75,011	$67,874	$59,806	$51,029	$42,766
1,943	2,390	2,057	1,583	1,743	1,644
792	1,053	851	680	824	862
1,151	1,337	1,206	903	919	782
—	—	—	—	—	—
1,151	1,337	1,206	903	919	782
8,141	7,241	6,126	5,126	4,416	3,662
12,933	10,823	9,120	7,242	7,790	6,291
11,250	11,219	8,326	7,919	6,165	5,949
12,979	10,228	7,794	6,583	6,876	5,520
11,975	12,120	9,980	8,957	7,378	6,959
5,017	873	766	614	466	355
7,748	4,650	3,692	3,407	2,493	2,785
9,344	8,395	7,220	6,339	5,582	4,819
13.71%	18.51%	19.02%	16.13%	19.07%	20.51%
$ 2.06	$ 2.40	$ 2.14	$ 1.59	$ 1.62	$ 1.44
2.06	2.40	2.14	1.59	1.62	1.44
15.93	14.29	12.27	10.45	9.16	7.79
.425	.375	.325	.30	.25	.20

HOWDEN