

ELECTROHOME

ANNUAL REPORT

1980

Highlights

1

| | 1980 | 1979 |
|--|----------------------|---------------|
| Sales | \$183,985,000 | \$128,695,000 |
| Income for the year before extraordinary items | 9,546,000 | 3,369,000 |
| Net income | 15,793,000 | 4,928,000 |
| Per common share | | |
| Income before extraordinary items | | |
| —before dilution | 3.07 | 1.09 |
| —after dilution | 2.66 | .95 |
| Net income | | |
| —before dilution | 5.09 | 1.61 |
| —after dilution | 4.40 | 1.42 |
| Expenditures for fixed assets | 3,341,000 | 1,317,000 |
| Return on average total assets | 13.9% | 5.6% |
| AT YEAR-END | | |
| Working capital | 23,974,000 | 23,934,000 |
| Fixed assets (net) | 14,763,000 | 13,251,000 |
| Debt (long and short term) | 21,235,000 | 30,994,000 |
| Shareholders' equity | 28,628,000 | 12,864,000 |

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Board of Directors

J. A. Pollock, *Chairman*

W. A. Bean*

J. M. Bridgman*

James Holmes

Stewart Maclellan

D. W. Morison*

Barbara L. Steele

D. S. Sykes

*Members of Audit Committee

Executive Committee

J. A. Pollock, *Chairman*

W. A. Bean

J. M. Bridgman

Stewart Maclellan

D. W. Morison

D. S. Sykes

Officers

Stewart Maclellan, *President
and Chief Executive Officer*

J. A. Pollock, *Chairman and
Vice-President Operations*

D. S. Sykes, *Executive Vice-President*

D. O. Douey, *Vice-President, Finance*

H. H. LaPier, *Vice-President, Electrohome and
General Manager, Electronics Division*

W. D. McGregor, *Vice-President Electrohome and
President, CAP Communications Limited*

H. I. Eby, *Secretary/Treasurer*

Division Managers

R. A. Flanagan, *General Manager, Industrial
Products Division*

W. M. Harrold, *General Manager, Service
Electrohome Division*

C. A. Howard, *General Manager, Consumer
Marketing Division*

H. H. LaPier, *Vice-President, Electrohome and
General Manager, Electronics Division*

G. J. McDonnell, *General Manager, Furniture
Division*

W. D. McGregor, *Vice-President Electrohome and
President, CAP Communications Limited*

Transfer Agents

Common Shares
Montreal Trust Company,
Toronto, Montreal, Winnipeg

Preference Shares
National Trust Company Limited,
Toronto, Montreal, Winnipeg, Vancouver

Solicitors

Clement, Eastman, Dreger, Martin & Meunier,
Kitchener, Ontario

Auditors

Thorne Riddell
Kitchener, Ontario

Electrohome began the 'eighties' with the best sales and profit performance in the Company's 73 year history. Each business segment, Industrial, Consumer and Communications, achieved sales and income gains. Industrial, notably the Electronics Division, made the largest contribution.

Consolidated sales were \$184 million in 1980 compared to \$129 million in 1979, a 43 percent increase.

After tax income, before extraordinary items, was \$9.5 million in 1980 versus \$3.4 million in 1979. Income after extraordinary items was \$15.8 million in 1980 and \$4.9 million in 1979.

During 1980 exports played an increasingly important role in Electrohome's business, reaching \$62 million compared to \$22 million in 1979. They now account for 34 percent of sales, double the previous year. This increase makes a positive contribution to the Company's and Canada's overall trade balance.

Capital expenditures in 1980 increased to \$3.3 million from \$1.3 million in 1979. The Communications segment utilized \$2.2 million for new facilities, stu-

dios, cameras and electronic news gathering equipment. The Industrial segment spent \$.9 million to improve manufacturing and engineering capabilities and the balance was invested by Corporate and the Consumer segment.

Research and development expenditures amounted to \$3.4 million in 1980 versus \$2.8 million in 1979. The majority was spent in the Industrial segment for new product development. This focus has helped provide a stronger, more diversified product and market base.

In the last four years sales have doubled with only a 22 percent increase in total assets. The cash flow resulting from this improvement enabled the Company to discharge the 8 percent secured sinking fund debentures in November and the insured loan with the Federal Government's Enterprise Development Board in December, 1980.

Debt (long and short term) was reduced to \$21 million from \$31 million in 1979 with year end working capital remaining constant at \$24 million.

As a result of the Company's improved financial position, dividends, in arrears since 1977, were paid on the Series A 5-3/4 percent cumulative preference shares.

Each of Electrohome's three business segments showed continued progress in 1980. The Industrial segment has become a major supplier of specialized video displays and electric motors. In 1980 Industrial accounted for 49 percent of Company sales. In the Electronics Division, video display sales for coin operated games and data monitors rose sharply. For the future, Telidon information systems offer growth potential. At the Motor Division a new permanent magnet DC motor plus a new long-life AC motor will provide additional sales opportunities. Printed circuit board manufacturing, metal stampings and environmental systems added to the Industrial segment's business which now includes exports to 20 countries.

In the Consumer segment sales revenue increased in a period of declining demand for consumer durables. Electrohome's broad range of color television has the latest in advanced technology and conveni-



Stewart Maclellan, President and Chief Executive Officer and John A. Pollock, Chairman of the Board.

ence features. Dealers and consumers responded positively to these factors. Comfort appliance sales were steady and microwave oven sales improved. Margins remain narrow in the highly competitive consumer durables area resulting in lower than desired profit levels.

In the Furniture Division Electrohome/Deilcraft product sold well. New furniture introductions have had positive market acceptance and future growth should outpace the industry.

The Service Division is extending its customer base. Electronic and electrical product reliability caused the Division to refocus its efforts. It seeks to increase its share of non-Electrohome product business and to develop new service maintenance contracts for computer systems. Revenues increased in 1980 and commensurate improvements are anticipated in 1981.

The Communications segment operates under the newly established, wholly owned subsidiary, CAP Communications Limited (formerly Central Ontario Television Limited). Sales and income improvements continued in 1980. A major expansion program at the broadcasting operation began early in the year. Facilities were enlarged and considerable new equipment installed. The program will be completed by May 1981.

Centralized staff services were strengthened and financial management, transportation and employee relations programs advanced. In the last quarter a new on-line computer system was installed in the industrial area providing improved manufacturing systems and controls for this expanding segment of our business.

Five labour contracts were ratified during 1980. Three are for one year; one was for 14 months; the other was a two year agreement. Annual settlements, including fringe benefits, averaged between 11 and 12 percent. Average employment increased during the year to 2561 from 2418.

Several organizational changes occurred in 1980. At mid-year James Holmes resigned as Chairman and Chief Executive Officer. J. A. Pollock moved from President to the position of Chairman and Vice-President Operations. Stewart Maclellan, a senior business executive joined Electrohome on August 1st as President and Chief Executive Officer. D. S. Sykes continues as Executive Vice-President. H. H. LaPier, General Manager, Electronics Division, and W. D. McGregor, President, CAP Communications Limited were named Vice-Presidents of Electro-

home. They will continue their on-going Divisional responsibilities and assist in long term corporate planning. In October, D. O. Douey joined the Company as Vice-President Finance.

W. M. Harrold and G. J. McDonnell were promoted to General Managers at the Service and Furniture Divisions respectively. Each has extensive experience with Electrohome.

G. S. Dembroski and L. W. Larkin, appointees to the Board of Directors representing preference shareholders, retired in November 1980 when preference share dividends were resumed. Their valued counsel was appreciated.

It is with sincere regret that we report the passing of H. W. Main, Executive Vice-President, a Director and Officer of Electrohome. His business career spanned 45 years with the Company. Mr. Main's significant contributions, notably in design and marketing, will be sorely missed.

During this important year of change and growth, Electrohome appreciated the dedication and counsel provided by its Board members. As well, the Company wishes to acknowledge the support given by shareholders, customers and suppliers, bankers and the Federal Government's Enterprise Development Board, and, in particular, its managers and employees.

In 1981 increased competition, volatile markets, escalating inflation and high interest rates are expected to adversely affect the rate of growth and return on sales.

Nevertheless future prospects for the Company are favourable. With the broadening of our products and markets we have reduced our historic dependence on the cyclical consumer segment and strengthened our ability to manage economic change. Your management believes growth potential exists in each business segment and that a firm foundation has been established for continued progress.

On behalf of the Board

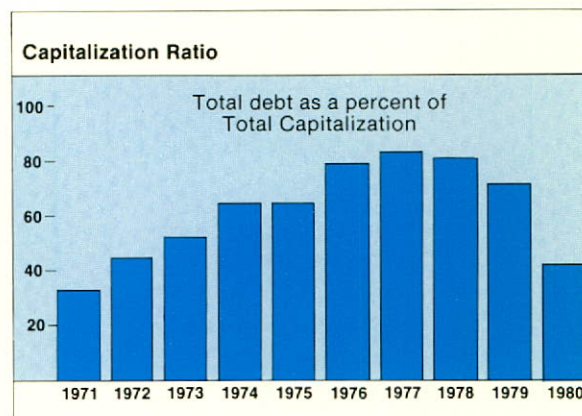
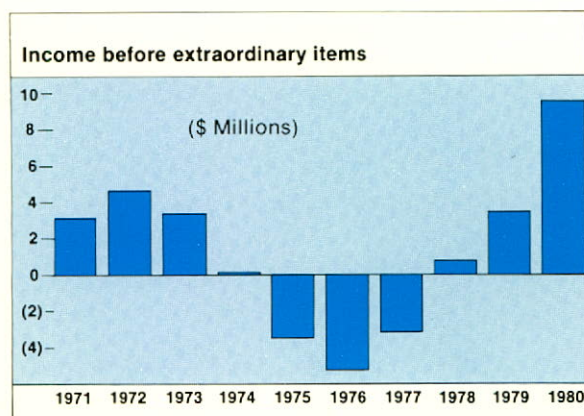
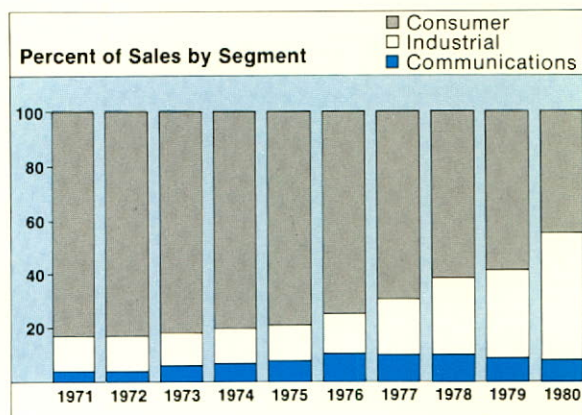
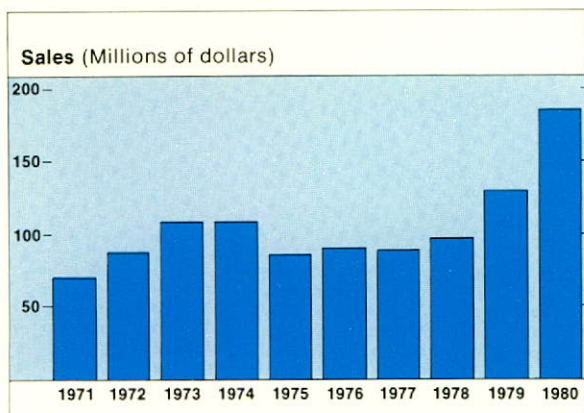


J. A. Pollock
Chairman of the Board



Stewart Maclellan
President and
Chief Executive Officer

March 18, 1981



Sales of \$184 million in 1980 were the highest in the Company's history, an increase of 43 percent over 1979. Income before extraordinary items was \$9.5 million compared to \$3.4 million the previous year. Net Income for the year was \$15.8 million compared to \$4.9 million in 1979.

Income per share before the extraordinary items was \$3.07 compared to \$1.09 in 1979. Net Income per share after the extraordinary items amounted to \$5.09 compared to \$1.61 in 1979. On a fully diluted basis, income per share before the extraordinary items was \$2.66 compared to 95 cents in 1979. Net Income per share after the extraordinary items, on a fully diluted basis, was \$4.40 compared to \$1.42 in 1979.

Operations in 1980 contributed \$15 million to working capital which was used for the repayment of long term debt amounting to \$11.7 million, and the purchase of fixed assets amounting to \$3.3 million.

Although sales increased by 43 percent over the previous year, Accounts Receivable rose 9 percent, while inventories dropped \$.3 million to \$28.2 million at year-end.

During the year shareholders' equity increased from \$12.9 million to \$28.6 million. Shareholders' equity as a percent of total capitalization increased from 29 percent to 57 percent. This is a substantial improvement over the low of 16 percent in 1977.

Industrial

In recent years the Industrial segment's two major entities, Electronics and Industrial Products, have grown faster than any of the Company's other business enterprises. Each is highly diversified. In 1980 Industrial accounted for 49 percent of Company sales.

The Electronics Division designs, engineers and markets internationally a broad range of sophisticated video displays and other electronic products. Its modern Kitchener manufacturing operation also produces Electrohome's television and appliance products for the Consumer Marketing Division. Printed circuit boards are produced in a facility at Niagara-on-the-Lake.

The Electronics operation that 10 years ago was solely dedicated to producing quality consumer products has been broadened and strengthened to provide unique commercial and contract electronic designs. Each year brings new generations of monochrome and color video display devices. Several innovative video products and systems for the computer, word processing and video games industries reached international markets in 1980. Others will follow in 1981.

With advanced technology in areas such as projection television and computer display systems additional benefits are provided. In 1980 a new large screen monochrome data projection monitor, that interfaces with most computers, was introduced. Practical applications of this product's versatility can be seen at New York and Chicago commodity exchanges.

Electrohome is also a pioneer in the development of Telidon display terminals for Canada's 'advanced' videotex system. The Company has participated in all field trials in Canada, the United States and abroad. In 1980 Telidon received standards recognition and acceptance in the United States. In February 1981, the Canadian Government allocated \$27.5 million for Telidon product development and market promotion.

A "New Ventures" group was formed in the Electronics Division to help insure a continuous flow of product to market. Its mandate is widespread. Project teams probe the data, graphics, communications, computer, medical, surveillance and video games fields for new business opportunities. New Ventures concentrates on developing viable products and systems for future manufacture to supply domestic and international markets.

The Industrial Products Division's Cambridge plant produces a wide array of custom engineered subfractional horsepower AC and DC motors for domestic and export markets. In addition, metal stampings for Company and outside customers are produced in Kitchener facilities. The latter operation also houses the Environmental Systems group which produces sophisticated ultrafiltration products with energy saving and pollution control benefits.

While Electrohome has a dominant position in the domestic market for its present product line major marketing efforts are directed toward new motor designs and the world marketplace. Approximately 65 percent of the Motor Division's sales is shipped outside Canada. The lower valued Canadian dollar has assisted in this expansion. Nearly 20 countries are on the Division's export list.

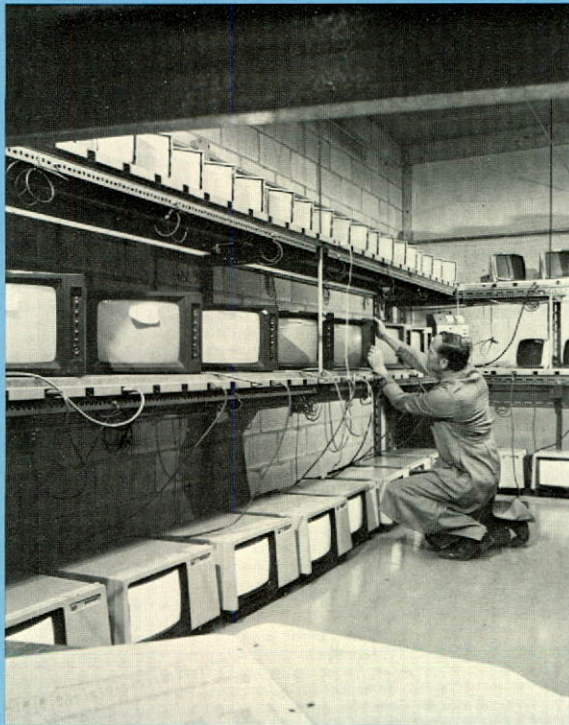
Each motor is custom designed for the customer's specific application making manufacturing flexibility extremely important. Large volume users of Electrohome sub-fractional horsepower motors include automotive, commercial vehicle, consumer and comfort appliance manufacturers. Weak demand in the automotive field adversely affected shipments in 1980.

New products developed last year include a high efficiency 'permanent magnet' motor and a long-life unit-bearing AC motor. It is expected that these designs will find ready markets throughout the world, although economic conditions continue to be a problem in many of the markets served.



Color video displays

Video display production



Television quality audit

Electric motor production



Packaged products which utilize small motors in their design, such as fans, bilge blowers and furnace conversion kits, supplement the Original Equipment Manufacture and after market business.

New markets, mainly domestic, have been developed for metal stampings and Environmental Systems. In addition to Electrohome's internal requirements for metalwork new customers were established in the automotive, appliance and electronic fields. Environmental Systems have moved beyond the treatment of soluble oil/water waste to the design of other ultrafiltration products. The food processing industry is beginning to recognize the cost reduction, energy saving and waste control benefits this technology offers.

Product diversification has been a highlight in the Industrial segment's significant contribution to sales and income growth. Exports of \$62 million in 1980 accounted for 34 percent of Company sales. Future employment opportunities are tied to sustaining expansion in this area. Research and innovative design are keynote to success. These efforts will intensify in 1981 and beyond.

Consumer

Electrohome's reputation for quality consumer products and service was established in 1907 and remains a benchmark today. Currently, electronic and electrical products are the mainstay of the Consumer Marketing Division. The Furniture Division designs, manufactures and markets Electrohome/Deilcraft occasional tables, dining and bedroom suites. Service Electrohome provides warranty and after warranty service, as well as commercial contract service to an expanding customer base. These three Divisions make up the Consumer segment and account for 44 percent of Company sales.

The Consumer segment of Electrohome interfaces with other Divisions. A variety of products are manufactured for Consumer Marketing by the Electronics Division. Deilcraft provides handsomely styled, high quality console cabinets for television and stereo units. Warranties are supported by the Service Division.

Electrohome's comprehensive range of color television, small screen black and white TV sets and deluxe stereo consoles has a reputation for excellence. Current designs are the most reliable ever built. Our advanced technology and convenience features are well recognized by our large retail and distributor network.

ELECTROCOLOR picture purity is highlighted in both portable and color TV console designs. Electronic tuning with built-in remote random access cable capability, important in the large Canadian cable market, is another feature. So is V.I.R. color corrective integrated circuitry. The extensive range of screen sizes runs from 6 inches to 6 feet. These strengths helped Electrohome increase its volume of television business throughout the year.

Comfort appliances have high reliability and performance standards. Electrohome's humidifiers, dehumidifiers, portable electrostatic air purifiers and fans are energy efficient. Similarly, our microwave oven line includes the latest technological advancements.

Sales of Electrohome/Deilcraft branded furniture increased during the year. However, excess capacity in Canada's furniture industry placed added pressure on our operations in Kitchener and Milverton.

Several new Deilcraft designs were introduced in 1980. They were well received by dealers and consumers. Inherent in these products is a return to more traditional styling motifs with woods and finishes providing accent and design flavour. Furniture with increased versatility is scaled to suit available living space in modern home and apartment environments. Stylish wall systems and entertainment centres, which efficiently utilize space, can be custom tailored to room sizes and are available in a variety of styles.

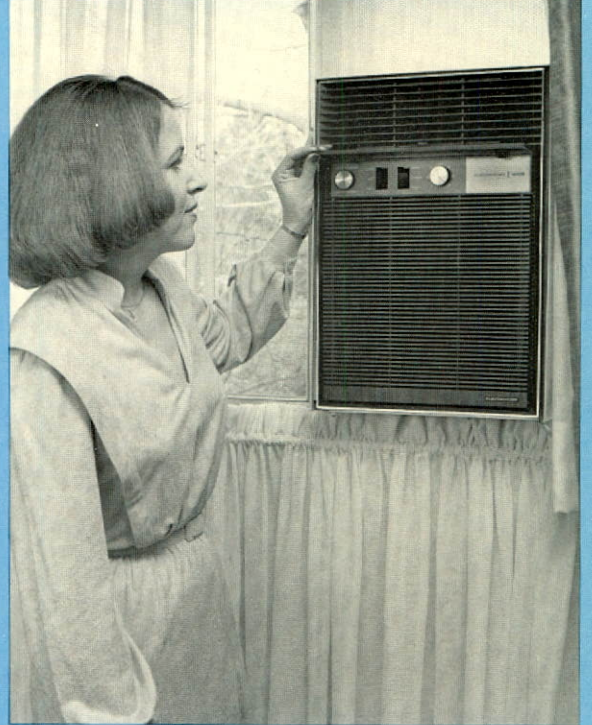
Service Electrohome also expanded its operations in 1980. There are 28 branches across Canada, plus a United States branch in Tonawanda, New York.

Our Canadian service network is now one of the country's largest for electronic and electrical pro-



Handsome color TV console

Efficient air conditioner



Electrohome/Deilcraft home furnishings

ducts in the consumer and commercial fields. With the high reliability of Electrohome products greater emphasis is being placed on commercial electronic product service.

Increasing numbers of Service maintenance contracts were established for computer systems. Today, contracts are in effect with 22 major customers across Canada. Over 600 sites, some in major cities, others in 'outlying' areas, are being served. Our network of service branches, skilled technicians, modern equipment, plus a large fleet of service vehicles enables the Division to meet commercial customer requirements.

Typical computer installations using our commercial contract services include airports, restaurant chains, hospitals, stock exchanges and other businesses. Short term goals are to double this customer base annually.

In the Consumer Product segment service for Electrohome products is a significant marketing strength. Electrohome Service technicians have particular competence in electronic and refrigeration-type products. Peak demands in these areas occur during different seasons. The Division has also moved to provide 'all brand' service for a number of television and appliance products.

All branches stock a wide range of parts, components and accessories. Computerized inventory control, a microfiche library of schematics and manuals, plus technological know-how are additional strengths.

The Service Division's growth opportunities are being enhanced by the introduction of sophisticated new electrical and electronic products.

Communications

Electrohome's Communications segment operates as a wholly owned subsidiary, CAP Communications Limited (formerly Central Ontario Television Limited). Television, AM and FM radio stations are

integral parts of the broadcast subsidiary. Head Office, studios and the main transmitter are in Kitchener.

The television operation, CKCO-TV, serves a large percentage of Ontario residents reaching from Toronto to Windsor, Niagara to North Bay. There are licenced broadcast stations in Kitchener, Wallaceburg, Warton and Huntsville. This enables CKCO-TV to reach a measured two million viewers each week.

Programs of the CTV network are combined with an extensive locally originated service. Over 25 hours a week of regular production, plus special local programming, is presented. Additionally CKCO-TV produced a number of programs for the CTV network, a syndicated presentation and a new series, Backstage at the Centre. The latter is a weekly interview/variety show featuring international performers appearing at Kitchener's Centre in the Square. A growing portion of revenues comes from production of TV programs and commercials.

The broadcast market served by CKCO-TV, CKKW/AM and CFCA/FM is one of the most competitive in Canada. Television programming in particular is vying for viewers with a large number of other Canadian and United States stations. Program and production staffs are challenged to match national network excellence. It is essential that our programming be of the highest calibre.

In 1980 the news operations of CKCO-TV completed a changeover to the use of electronic news gathering equipment. This improves news delivery time and enhances the cost effectiveness of the news operation.

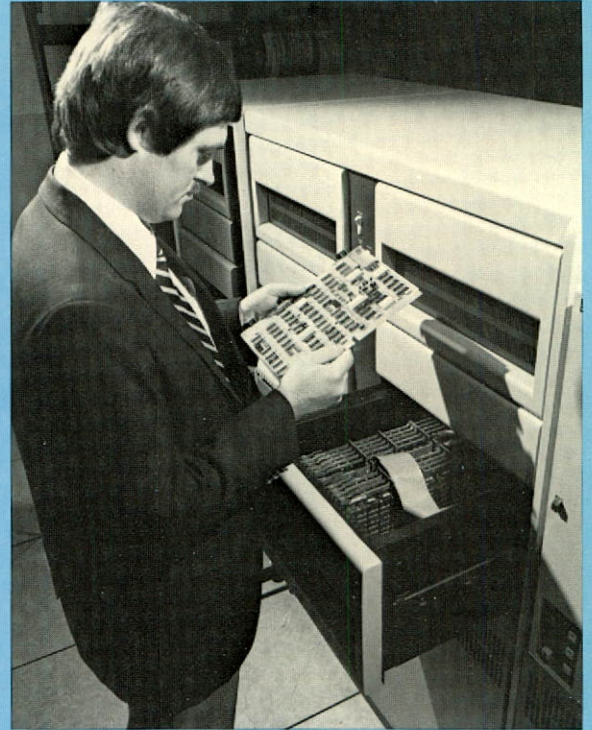
Renovations and additions to the broadcast headquarters building commenced in the spring of 1980 and will be completed in 1981. This involved a full scale upgrading of production, programming, news and technical facilities for all phases of operations. This investment of \$2.2 million will permit continued progress in each area of the Communications segment.

Through 1980 there was steady improvement in sales and income at CAP Communications and plans for 1981 anticipate continued growth.



Direct factory service

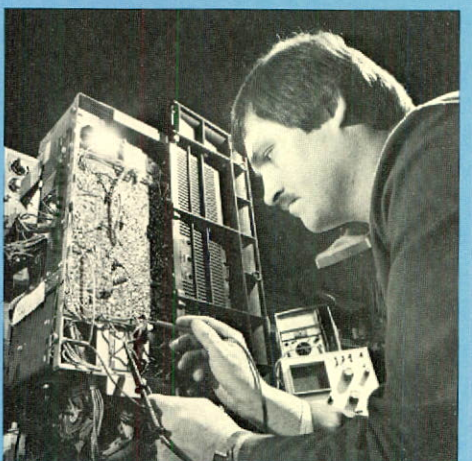
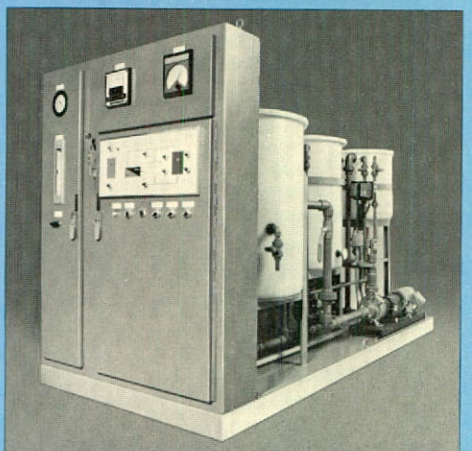
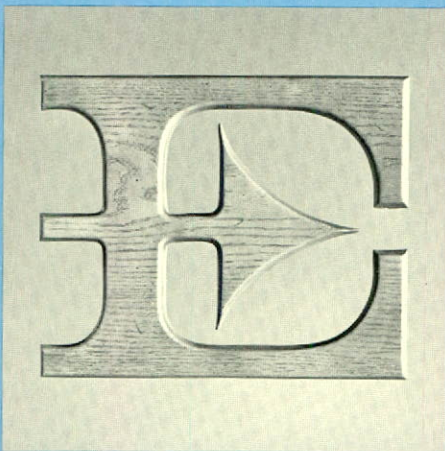
Computer maintenance service



Television news presentation

Broadcast control centre





Modern office environment

Printed circuit assembly

Television control room

Deilcraft dining suite

Logo

Ultrafiltration system

Television service

New electric motors

Technical excellence

CONSOLIDATED STATEMENT OF INCOME & RETAINED EARNINGS —Year Ended December 26, 1980

| | 1980 | 1979 |
|--|------------------|-----------|
| | (in thousands) | |
| Sales | \$183,985 | \$128,695 |
| Cost of sales, selling and administrative expenses | 163,234 | 116,426 |
| Income before undernoted items | 20,751 | 12,269 |
| Depreciation | 1,422 | 1,438 |
| Depreciation of property under capital leases | 248 | 232 |
| Interest on long term debt | 3,019 | 3,838 |
| Other interest | 1,167 | 640 |
| Amortization of intangible assets | 76 | 76 |
| | 5,932 | 6,224 |
| Income before income taxes and extraordinary items | 14,819 | 6,045 |
| Income taxes | | |
| Current | 5,760 | 424 |
| Deferred (reduction) | (487) | 2,252 |
| | 5,273 | 2,676 |
| Income before extraordinary items | 9,546 | 3,369 |
| Extraordinary items | | |
| Income tax reduction on application of prior years' losses and on claiming for tax purposes expenses recorded in prior years | 4,185 | 1,559 |
| Reduction of deferred taxes on reorganization (Note 6) | 2,062 | |
| | 6,247 | 1,559 |
| NET INCOME | 15,793 | 4,928 |
| Retained earnings at beginning of year | 7,352 | 2,424 |
| Dividends on preference shares (including all arrears) | 341 | |
| | 7,011 | 2,424 |
| RETAINED EARNINGS AT END OF YEAR | \$ 22,804 | \$ 7,352 |
| | | |
| EARNINGS PER SHARE | | |
| Before providing for dilution | | |
| Income before extraordinary items | \$ 3.07 | \$ 1.09 |
| Net income | 5.09 | 1.61 |
| Fully diluted | | |
| Income before extraordinary items | 2.66 | .95 |
| Net income | 4.40 | 1.42 |

ELECTROHOME LIMITED

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CONSOLIDATED BALANCE SHEET —As at December 26, 1980

1980

1979

(in thousands)

ASSETS

CURRENT ASSETS

| | | |
|---|---------------|---------------|
| Accounts receivable | \$22,872 | \$20,961 |
| Inventories | | |
| Raw materials at lower of cost and replacement cost | 8,647 | 7,190 |
| Finished goods and work in process, at lower of cost and net realizable value | 19,582 | 21,338 |
| Income taxes recoverable | 56 | 435 |
| Prepaid expenses | 2,507 | 2,034 |
| | <u>53,664</u> | <u>51,958</u> |

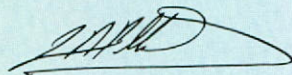
FIXED ASSETS (Note 2)

| | | |
|---|---------------|---------------|
| Land, buildings, machinery and equipment including property under capital lease | 34,577 | 32,932 |
| Less accumulated depreciation | 19,814 | 19,681 |
| | <u>14,763</u> | <u>13,251</u> |

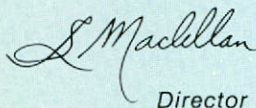
EXCESS OF COST OVER BOOK VALUE

| | | |
|---|-------|-------|
| at dates of acquiring subsidiary companies less amortization over forty years | 1,873 | 1,949 |
|---|-------|-------|

Approved by the Board

\$70,300\$67,158

Director



Director

| | 1980 | 1979 |
|--|------------------------|-----------------|
| | (in thousands) | |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Bank advances (Note 3) | \$ 9,066 | \$ 3,726 |
| Accounts payable and accrued liabilities | 16,707 | 17,315 |
| Deferred service contract income | 3,196 | 2,902 |
| Principal due within one year on long term debt | 721 | 4,081 |
| | <u>29,690</u> | <u>28,024</u> |
| LONG TERM DEBT (Note 3) | | |
| Term bank loan | 9,812 | 22,638 |
| 8% Secured sinking fund debentures | | 1,783 |
| Payable to Government of Canada | 902 | 1,453 |
| Obligations under capital leases (Note 4) | 1,455 | 1,394 |
| | <u>12,169</u> | <u>27,268</u> |
| Less principal due within one year | 721 | 4,081 |
| | <u>11,448</u> | <u>23,187</u> |
| DEFERRED INCOME TAXES | 534 | 3,083 |
| | <u>534</u> | <u>3,083</u> |
| SHAREHOLDERS' EQUITY | | |
| CAPITAL STOCK (Note 5) | | |
| Authorized | | |
| 94,826 Preference shares, par value \$100 each, issuable in series | | |
| 5,000,000 Common shares without par value | | |
| Issued | | |
| 14,826 5¾% Cumulative redeemable preference shares, Series A | 1,483 | 1,483 |
| 3,123,481 Common shares (3,044,584 shares in 1979) | 4,341 | 4,029 |
| RETAINED EARNINGS | 22,804 | 7,352 |
| | <u>28,628</u> | <u>12,864</u> |
| | <u>\$70,300</u> | <u>\$67,158</u> |

ELECTROHOME LIMITED

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CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION —Year Ended December 26, 1980

| | 1980 | 1979 |
|--|-----------------|-----------------|
| | (in thousands) | |
| WORKING CAPITAL DERIVED FROM | | |
| Operations | \$14,990 | \$ 8,926 |
| Sales of fixed assets | 159 | 247 |
| Issue of common shares | 312 | 196 |
| | <u>15,461</u> | <u>9,369</u> |
| WORKING CAPITAL APPLIED TO | | |
| Reduction of long term debt | 11,739 | 4,130 |
| Additions to fixed assets including property under capital leases | 3,341 | 1,317 |
| Dividends on preference shares | 341 | |
| | <u>15,421</u> | <u>5,447</u> |
| INCREASE IN WORKING CAPITAL | 40 | 3,922 |
| WORKING CAPITAL AT BEGINNING OF YEAR | <u>23,934</u> | <u>20,012</u> |
| WORKING CAPITAL AT END OF YEAR | <u>\$23,974</u> | <u>\$23,934</u> |

AUDITORS' REPORT

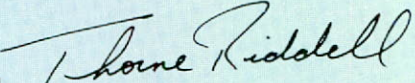
To the shareholders of ELECTROHOME Limited

We have examined the consolidated balance sheet of ELECTROHOME Limited as at December 26, 1980 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements

present fairly the financial position of the company as at December 26, 1980 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.

Kitchener, Canada
February 24, 1981



Chartered Accountants

Notes to Consolidated Financial Statements

17

Year Ended December 26, 1980

1. SUMMARY OF ACCOUNTING POLICIES

Significant accounting policies other than those detailed on the financial statements follow:

(a) Fixed assets

Fixed assets are stated at cost. Depreciation is provided on the straight line basis using the following annual rates:

| | |
|-------------------------|-------------|
| Buildings | 2½% to 5% |
| Machinery and equipment | 10 % to 20% |
| Automotive equipment | 20 % to 25% |

The capitalized values of property under capital leases are depreciated on the straight line basis over the terms of the leases.

(b) Deferred service contract income

Proceeds from the sale of extended warranty contracts are deferred and brought into income over the period of the contract.

(c) Translation of foreign currencies

Current assets and current liabilities have been translated into Canadian dollars at the rate of exchange at the balance sheet date. The resulting gains and losses are recorded in the statement of income.

2. FIXED ASSETS

| | 1980 (in thousands) | | 1979 (in thousands) | |
|--------------------------|---------------------|-----------------|---------------------|-----------------|
| | Owned Assets | Capital Leases | Owned Assets | Capital Leases |
| Land | \$ 992 | | \$ 716 | |
| Buildings | 11,717 | \$ 1,395 | 10,423 | \$ 1,787 |
| Machinery and equipment | 19,110 | 1,363 | 19,007 | 999 |
| | <u>31,819</u> | <u>2,758</u> | <u>30,146</u> | <u>2,786</u> |
| Accumulated depreciation | 18,231 | 1,583 | 17,922 | 1,759 |
| | <u>\$13,588</u> | <u>\$ 1,175</u> | <u>\$12,224</u> | <u>\$ 1,027</u> |

Owned assets are stated at cost.

Capital leases are stated at fair market value at time of inception of lease.

3. BANK ADVANCES AND LONG TERM DEBT

Subsequent to year end, the Company has arranged a long term revolving line of credit with a Canadian bank in the amount of \$15 million at an interest rate of bank prime plus 1%, and a short term line of credit with a Canadian bank in the amount of \$12 million at bank prime interest rate.

Bank financing is secured by, debentures containing a fixed charge on real property, a floating charge on all other assets; a general assignment of debts and security on inventories under The Bank Act.

The amount payable to the Government of Canada, Department of Regional Economic Development (DREE), is payable in two equal installments of \$451,000 on December 15, 1981 and 1982.

4. OBLIGATIONS UNDER LEASES

Capital leases

The following is a schedule of future minimum lease payments under capital leases together with the present value of the net minimum lease payments at December 26, 1980.

| | |
|--|--------------------|
| 1981 | \$ 395,000 |
| 1982 | 282,000 |
| 1983 | 247,000 |
| 1984 | 174,000 |
| 1985 | 112,000 |
| Later years | 1,104,000 |
| Total minimum lease payments | <u>2,314,000</u> |
| Less amount representing interest (average rate 11.4%) | <u>859,000</u> |
| Present value of net minimum lease payments | <u>\$1,455,000</u> |

Of the present value of net minimum lease payments, \$270,000 is due in 1981 and is included in principal due within one year on long term debt.

Operating leases

The following is a schedule of lease payments under operating leases.

| | |
|-------------|--------------------|
| 1981 | \$ 911,000 |
| 1982 | 593,000 |
| 1983 | 341,000 |
| 1984 | 63,000 |
| 1985 | 20,000 |
| Later years | 66,000 |
| | <u>\$1,994,000</u> |

5. CAPITAL STOCK

(a) By articles of amendment dated May 30, 1980, the company reclassified its Class A and Class B shares as common shares.

(b) During the year, options were exercised to acquire 78,897 common shares for cash.

(c) Options to purchase common shares were outstanding at December 26, 1980, as follows:

| Number of Shares | Price per Share | Date of Expiry |
|----------------------------------|-----------------|--|
| To Management personnel: | | |
| 10,961 | \$ 3.80 | Dec. 22, 1981 |
| 24,887 | \$ 4.04 | 11,562 on June 15, 1981 and 13,325 on June 15, 1982. |
| 59,000 | \$13.78 | Dec. 17, 1985 |
| To Enterprise Development Board: | | |
| 436,005 | \$ 2.06 | Dec. 15, 1983 |

ELECTROHOME LIMITED

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6. REORGANIZATION

On July 2, 1980, Electrohome Limited amalgamated with certain of its subsidiaries whereby capital cost allowances and other reserves and expenses not claimed for tax purposes were utilized to reduce deferred income taxes of the subsidiaries in the amount of \$2,062,000. On July 3, 1980, the broadcast operations were sold to a wholly owned subsidiary, CAP Communications Limited.

7. INCOME TAXES

The company has utilized all of its losses carried forward from prior years, and has claimed for tax purposes substantially all other reserves and expenses previously recorded in the accounts.

8. COMMITMENTS

- (a) The company paid \$294,000 in 1980 against its commitments for past service pensions under employees' pension plan agreements. The commitment, estimated by the company's actuarial consultant at \$2,335,000 as of December 26, 1980, will be paid in accordance with the provisions of The Ontario Pensions Act, and will be charged against income in the year of payment.
- (b) Outstanding letters of credit at December 26, 1980 amounted to \$2,644,000.

9. SEGMENTED INFORMATION

Results for the year by segment (in thousands of dollars)

| | Total | Consumer | Industrial | Communications |
|--------------------------------------|------------------|-----------------|------------------|-----------------|
| SALES: | | | | |
| External sales | \$183,985 | \$81,618 | \$ 89,415 | \$12,952 |
| Intersegment sales | 30,829 | 4,151 | 26,678 | — |
| | <u>\$214,814</u> | <u>\$85,769</u> | <u>\$116,093</u> | <u>\$12,952</u> |
| SEGMENT OPERATING INCOME | | | | |
| | \$ 20,805 | \$ 5,279 | \$ 12,532 | \$ 2,994 |
| CORPORATE EXPENSES | | | | |
| | \$ 5,012 | | | |
| NET INCOME | | | | |
| | <u>\$ 15,793</u> | | | |
| ASSETS: | | | | |
| Segment | \$ 67,801 | <u>\$28,443</u> | <u>\$ 30,695</u> | <u>\$ 8,663</u> |
| Corporate | 2,499 | | | |
| Consolidated | <u>\$ 70,300</u> | | | |
| DEPRECIATION AND AMORTIZATION | | | | |
| Segment | \$ 1,609 | <u>\$ 383</u> | <u>\$ 567</u> | <u>\$ 659</u> |
| Corporate | 137 | | | |
| Consolidated | <u>\$ 1,746</u> | | | |
| CAPITAL EXPENDITURES: | | | | |
| Segment | \$ 3,216 | <u>\$ 86</u> | <u>\$ 929</u> | <u>\$ 2,201</u> |
| Corporate | 125 | | | |
| Consolidated | <u>\$ 3,341</u> | | | |
| SALES: | | | | |
| Domestic | \$121,885 | | | |
| Export | 62,100 | | | |
| | <u>\$183,985</u> | | | |

Intersegment sales are accounted for at prices comparable to open market prices for similar products and services.

Ten Year Review

| | 1980 | 1979 | 1978 | 1977 | 1976 | 1975 | 1974 | 1973 | 1972 | 1971 |
|---|-------|-------|-------|--------|--------|--------|-------|-------|-------|-------|
| Results For The Year | | | | | | | | | | |
| (in millions of dollars) | | | | | | | | | | |
| Sales | 184.0 | 128.7 | 98.2 | 92.1 | 93.7 | 87.5 | 107.1 | 107.1 | 88.0 | 69.8 |
| Depreciation and amortization | 1.7 | 1.7 | 1.8 | 1.9 | 2.1 | 2.0 | 1.8 | 1.5 | 1.2 | .9 |
| Interest expense | 4.2 | 4.5 | 4.1 | 3.8 | 3.7 | 3.0 | 3.2 | 1.9 | .8 | .8 |
| Income (loss) before income taxes and extraordinary items | 14.8 | 6.0 | 1.6 | (2.4) | (4.6) | (4.8) | .6 | 6.0 | 8.5 | 6.3 |
| Income taxes (reduction) | 5.3 | 2.7 | .9 | .7 | .5 | (1.3) | .5 | 2.7 | 4.0 | 3.3 |
| Income before extraordinary items | 9.5 | 3.3 | .7 | (3.1) | (5.1) | (3.5) | .1 | 3.3 | 4.5 | 3.0 |
| Extraordinary items | 6.3 | 1.6 | — | — | (2.9) | — | — | — | — | — |
| Net income (loss) | 15.8 | 4.9 | .7 | (3.1) | (8.0) | (3.5) | .1 | 3.3 | 4.5 | 3.0 |
| Expenditures for fixed assets | 3.3 | 1.3 | .6 | .4 | 1.6 | 2.3 | 5.3 | 4.3 | 5.2 | 2.2 |
| Year End Position | | | | | | | | | | |
| (in millions of dollars) | | | | | | | | | | |
| Inventories | 28.2 | 28.5 | 19.8 | 24.3 | 31.1 | 26.0 | 34.7 | 25.0 | 19.9 | 11.4 |
| Fixed assets (net) | 14.8 | 13.3 | 13.9 | 15.1 | 18.2 | 19.3 | 19.0 | 15.5 | 12.6 | 8.6 |
| Total assets | 70.3 | 67.2 | 54.7 | 57.8 | 65.8 | 64.0 | 75.4 | 59.4 | 47.6 | 33.1 |
| Working capital | 24.0 | 23.9 | 20.0 | 20.2 | (2.0) | 5.8 | 12.1 | 13.5 | 13.6 | 8.5 |
| Debt (long and short term) | 21.2 | 31.0 | 33.6 | 37.4 | 39.7 | 33.2 | 39.1 | 24.7 | 15.7 | 7.7 |
| Common shareholders' equity | 27.1 | 11.1 | 6.1 | 5.9 | 9.0 | 17.1 | 20.6 | 21.0 | 18.2 | 14.0 |
| Per common share | | | | | | | | | | |
| (in dollars) | | | | | | | | | | |
| Income (loss) before extraordinary items (a) (b) | 3.07 | 1.09 | .20 | (1.06) | (1.74) | (1.20) | .02 | 1.07 | 1.47 | .99 |
| Extraordinary items | 2.02 | .52 | .01 | (.01) | (.97) | — | — | — | — | — |
| Dividends paid | — | — | — | — | — | — | .15 | .15 | .15 | .08 |
| Equity (a) (b) | 8.69 | 3.65 | 2.03 | 1.95 | 3.02 | 5.72 | 6.91 | 7.04 | 6.11 | 4.75 |
| Other Information | | | | | | | | | | |
| Common shares outstanding (year end—in thousands) | 3,123 | 3,045 | 2,993 | 2,986 | 2,986 | 2,986 | 2,986 | 2,985 | 2,983 | 2,944 |
| Number of common shareholders | 2,267 | 2,264 | 2,343 | 2,561 | 2,631 | 2,662 | 2,740 | 2,754 | 2,296 | 1,108 |
| Number of employees (average) | 2,561 | 2,418 | 2,018 | 2,240 | 3,119 | 2,938 | 3,900 | 3,656 | 3,363 | 2,487 |

(a) After allowance for preference dividends.

(b) Before dilution for outstanding stock options.

Head Office

Electrohome Limited, 809 Wellington Street North
Kitchener, Ontario N2G 4J6

Industrial

Electronics Division Plant: Kitchener
Industrial Products Division Plant: Cambridge
Metal and Environmental Systems Plant: Kitchener
Lightning Circuits Plant: Niagara-on-the-Lake
Sales Offices: Kitchener, Cambridge, Niagara-
on-the-Lake, Vancouver; Cheshire, England

Consumer

Consumer Marketing Division Offices: Kitchener
Electrohome Furniture Division Plants: Kitchener
and Milverton

Sales Branches: Toronto, Montreal, Winnipeg,
Calgary, Vancouver

National Service Headquarters: Kitchener

Service Branches: Kitchener, Toronto, Barrie,
Brantford, Mississauga, Hamilton, London,
St. Catharines, Guelph, Oshawa, Windsor,
Peterborough, Kingston, Ottawa, Sherbrooke,
Chicoutimi, Trois Rivieres, Sudbury, Montreal,
Quebec City, Winnipeg, Regina, Edmonton,
Calgary, Lethbridge, Surrey, Vancouver, Victoria;
Tonawanda, N.Y.

Communications

Headquarters, Studios, Transmitter for CFCA
Stereo FM Radio, CKKW AM Radio: Kitchener

CKKW AM, 1090: Kitchener

CFCA Stereo FM, 105.3: Kitchener

CKCO-TV, Channel 13, Western Ontario: Kitchener

CKCO-TV, Channel 2, Georgian Bay: Wiarton

CKCO-TV, Channel 42, Chatham/Sarnia:
Wallaceburg

CKCO-TV, Channel 11, The Muskokas: Huntsville

Industrial

Electronics

Data Display Monitors, CRT Computer Terminal
Displays, Surveillance Monitors. Professional
Color and B & W Video Monitors, Contract
Television/B & W and Color, High Resolution
Color Monitors, Custom Video Displays, Telidon
Displays, Earth/Satellite Receivers, Large Screen
Monochrome Data/Graphics Video Displays,
Educational TV Receiver/Monitors, Printed Circuit
Boards, Contract Engineering Services

Industrial Products

Sub-fractional Horsepower Motors/AC and DC,
Packaged Motor Products, Metal Stamping and
Fabricating, Reverse Osmosis/Ultrafiltration
Systems, Energy Conservation Systems

Consumer

Electronics

Color and B & W Television, Large Screen
Projection Color Television, Hotel/Motel Color
Television, Cable Convertors, Stereo Hi-Fidelity
Consoles, Portable Small Screen TV/Audio/
Tape Combinations, Appliance/TV Stands,
Microwave Ovens

Appliances

Fans, Humidifiers, Dehumidifiers, Air
Conditioners, Air Purifiers, Electronic Bug
Lanterns, Furnace Humidifiers, Private Brand
Products

Furniture

Living and Family Room Occasional Furniture,
Dining Room Suites, Bedroom Suites, Modular
Wall Systems, Contract Furniture

Service

Computer System Maintenance, Data Display
Monitor Service, Electronics and Appliance Parts
and Accessories Sales, Surveillance System
Service and Installations, Electrohome Products
Warranty and After Warranty Service, Multi-Brand
Product Service

Communications

Television Advertising

Television Commercial Production

Radio Advertising—AM and FM

Radio Commercial Production—AM and FM

