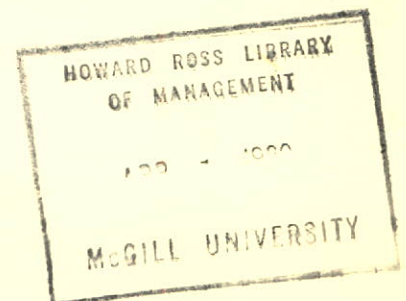
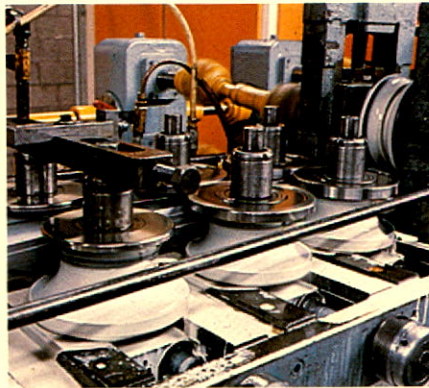
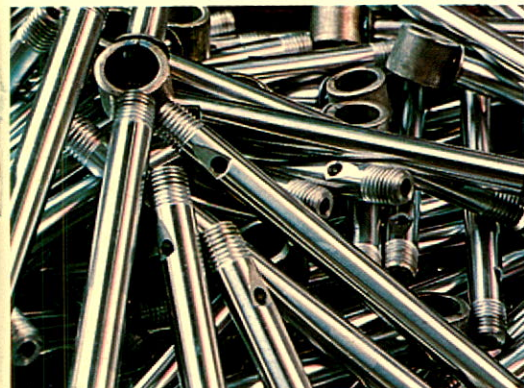
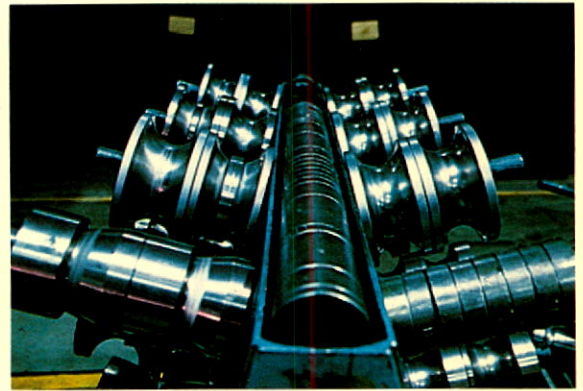




VAN DER HOUT ASSOCIATES LIMITED

1979 Annual Report



VAN DER HOUT ASSOCIATES LIMITED

Corporate Directory

Officers:

John B. Van Der Hout, Chairman

Sverre E. Lunder, President

Mark C. Steinman, Vice-President Finance

Brian A. Bennett, Vice-President Manufacturing

Barry S. Arbus, Secretary

Directors:

Barry S. Arbus, Partner, Lyons, Arbus, Barristers and Solicitors

Richard B. Black, Chairman, Maremont Corporation,
President & Chief Executive Officer, Alusuisse of America, Inc.

Roy A. Edwards, Vice-President, Aftermarket Sales

Joe B. Freeman, Senior Vice-President, Maremont Corporation

K. Gordon Green, Managing Director, Morgan Stanley Canada Limited

Sverre E. Lunder, President

Ireland J. Stewart, Senior Vice-President, Maremont Corporation

John B. Van Der Hout, Chairman

Albert E. Woods, Retired Banker

Head Office:

3600 Lakeshore Blvd. West, Toronto, Ontario M8W 1N8

Transfer Agents:

Guaranty Trust Company of Canada, Toronto

Auditors:

Arthur Andersen & Co., Chartered Accountants, Toronto

Listed:

Toronto Stock Exchange

Highlights

	1979	1978
Sales	\$44,984,137	\$41,474,840
Net income	\$ 1,593,960	\$ 1,107,804
Earnings per share*	\$.95	\$.66
Number of shares outstanding	1,681,608	1,681,608
Number of registered shareholders	794	933
Shareholders' equity	\$13,295,333	\$11,701,373
Book value per share	\$ 7.91	\$ 6.96

* Earnings per share exclude extraordinary items.

To Our Shareholders:

1979 was a year of further improvement in performance for the Company. Sales reached \$44,984,000, an increase of 8.5% over the \$41,475,000 reported last year. Net earnings from operations were \$1,594,000 or 95¢ per share compared to \$1,108,000 or 66¢ per share in 1978. The improved sales performance reflected an expanded customer base in both the original equipment market and the Canadian aftermarket.

The improved sales to original equipment manufacturers was particularly noticeable in the heavy-duty commercial, industrial, and military vehicle markets. In the Canadian replacement market we introduced Radial Ryder, a popularly priced, heavy-duty shock absorber, suitable for both bias ply and radial tires. The initial trade and consumer acceptance of this new product has been very encouraging. In addition, sales continued to be stimulated by our expansion of the "Gabriel Shock Shop" program of merchandising support.

The improved operating results during 1979 were primarily the result of higher sales and an improved product mix. The Company also continued its focus on internal controls and improved management information systems. Effective February 1, 1980, the Company ceased business activities of its Orangeville Division which was primarily engaged in the distribution of automotive parts, brake lathes and related equipment. The financial impact of the closure was fully reflected in the 1979 results and was not material.

As we enter 1980, we detect major softening in the original equipment market, particularly among passenger car manufacturers. In addition, the Canadian replacement market, although steady, does not appear to be showing signs of major growth. The added complexities of record high interest rates and constant inflationary pressures lead us to anticipate a slowing of our recent growth rate. While we remain confident about the long-term growth prospects for the market and about our Company's performance, we acknowledge that 1980 will be a difficult year.

On Behalf of the Board

A handwritten signature in blue ink, appearing to read "S. E. Lunder", is positioned above the printed name and title.

S. E. Lunder
President

VAN DER HOUT ASSOCIATES LIMITED AND SUBSIDIARY

Consolidated Statements of Income

for the years ended December 31, 1979 and 1978

	1979	1978
Net sales	\$44,984,137	\$41,474,840
Cost of sales	36,015,262	34,058,452
Gross profit	\$ 8,968,875	\$ 7,416,388
Expenses:		
Selling, general and administrative expenses	\$ 5,640,154	\$ 5,152,408
Interest on long-term debt	508,895	42,684
Other interest	250,866	490,152
	\$ 6,399,915	\$ 5,685,244
Income before income taxes	\$ 2,568,960	\$ 1,731,144
Provision for income taxes	975,000	610,000
Income before minority interest	\$ 1,593,960	\$ 1,121,144
Minority interest (Note 2)	—	13,340
Income before extraordinary items	\$ 1,593,960	\$ 1,107,804
Extraordinary items (Note 3)	—	574,105
Net income for the year	\$ 1,593,960	\$ 1,681,909
Earnings per share:		
Before extraordinary items	\$.95	\$.66
After extraordinary items	\$.95	\$ 1.00

The accompanying notes are an integral part of these statements.

Consolidated Statements of Retained Earnings

for the years ended December 31, 1979 and 1978

	1979	1978
Balance, beginning of the year	\$ 5,555,265	\$ 3,873,356
Add: Net income for the year	1,593,960	1,681,909
Balance, end of the year	\$ 7,149,225	\$ 5,555,265

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Financial Position

for the years ended December 31, 1979 and 1978

	1979	1978
Sources of working capital:		
<i>Operations —</i>		
Income before extraordinary items	\$1,593,960	\$1,107,804
<i>Charges not requiring an outlay of funds —</i>		
Depreciation and amortization	716,896	908,737
Increase in deferred income taxes	395,000	171,000
Gain on disposal of equipment	(27,198)	—
Minority interest in income	—	13,340
Total provided from operations	\$2,678,658	\$2,200,881
Increase in long-term debt	2,931	—
Reclassification of bank debt to long-term	—	4,467,500
Reduction in income tax provision due to loss carry-forward	—	334,105
Settlement on claim for damages, net	—	240,000
Proceeds from disposal of equipment	372,630	—
Total sources of working capital	\$3,054,219	\$7,242,486
Applications of working capital:		
Additions to property, plant and equipment,	\$2,853,937	\$ 831,073
Decrease in long-term debt	—	39,010
Disposition of controlled corporation, net of funds of corporation sold	—	141,704
Total applications of working capital	\$2,853,937	\$1,011,787
Net increase in working capital	\$ 200,282	\$6,230,699
Changes in working capital:		
<i>Increase (decrease) in current assets —</i>		
Receivables	\$ 378,532	\$ 874,662
Inventories	5,267,551	(1,841,064)
Income taxes recoverable	(53,109)	(440,432)
Prepaid expenses	55,974	(97,020)
<i>Decrease (increase) in current liabilities —</i>		
Bank indebtedness	(2,168,224)	5,494,012
Accounts payable and accrued liabilities	(2,664,627)	1,288,555
Payable to affiliate	(148,072)	539,408
Income taxes payable	(464,048)	—
Current portion of long-term debt	(3,695)	412,578
Net increase in working capital	\$ 200,282	\$6,230,699

The accompanying notes are an integral part of these statements.

VAN DER HOUT ASSOCIATES LIMITED AND SUBSIDIARY

Consolidated Balance Sheets

December 31, 1979 and 1978


Assets	1979	1978
Current Assets:		
Receivables —		
Trade, less allowances of \$192,224		
(1978 - \$187,396) (Note 5)	\$ 7,147,393	\$ 7,109,691
Sundry	631,159	399,239
Affiliate	160,917	52,007
Inventories (Notes 4 and 5)	14,905,103	9,637,552
Income taxes recoverable	—	53,109
Prepaid expenses	109,573	53,599
Total current assets	\$22,954,145	\$17,305,197
Property, Plant and Equipment, at cost (Note 5):		
Land	\$ 828,909	\$ 828,909
Buildings and improvements	2,655,554	2,201,227
Machinery and equipment	11,437,041	9,883,842
	\$14,921,504	\$12,913,978
Less - Accumulated depreciation and amortization	6,397,687	6,181,770
	\$ 8,523,817	\$ 6,732,208
Total	\$31,477,962	\$24,037,405

The accompanying notes are an integral part of these balance sheets.

Approved on behalf of the Board:



John B. Van Der Hout, *Director*



Sverre E. Lunder, *Director*

Liabilities and Shareholders' Equity	1979	1978
Current Liabilities:		
Bank indebtedness (Note 5)	\$ 3,872,544	\$ 1,704,320
Accounts payable and accrued liabilities	6,617,192	3,952,565
Payable to affiliate	391,508	243,436
Income taxes payable	464,048	—
Current portion of long-term debt (Note 5)	42,705	39,010
Total current liabilities	\$11,387,997	\$ 5,939,331
Long-term Debt , less current portion included above (Note 5)	\$ 4,663,632	\$ 4,660,701
Deferred Income Taxes	\$ 2,131,000	\$ 1,736,000
Shareholders' Equity:		
Capital stock —		
Authorized:		
1,800,000 Common shares, no par value		
Issued:		
1,681,608 Shares	\$ 5,857,142	\$ 5,857,142
Contributed surplus	308,488	308,488
Retained earnings per accompanying statements	7,149,225	5,555,265
	\$13,314,855	\$11,720,895
Less - 2,600 Shares held in treasury, at cost	19,522	19,522
Total shareholders' equity	\$13,295,333	\$11,701,373
Total	\$31,477,962	\$24,037,405

Auditors' Report

To the Shareholders of Van Der Hout Associates Limited:

We have examined the consolidated balance sheets of VAN DER HOUT ASSOCIATES LIMITED (an Ontario corporation and a subsidiary of Maremont Corporation) AND SUBSIDIARY as at December 31, 1979 and 1978, and the consolidated statements of income, retained earnings and changes in financial position for the years 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, the accompanying consolidated financial statements present fairly the financial position of Van Der Hout Associates Limited and Subsidiary as at December 31, 1979 and 1978, and the results of their operations and changes in their financial position for the years then ended in accordance with generally accepted accounting principles consistently applied during the periods.

Arthur Andersen & Co.

Toronto, Ontario
February 7, 1980.

ARTHUR ANDERSEN & CO.
Chartered Accountants

VAN DER HOUT ASSOCIATES LIMITED AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 1979 and 1978

1. Summary of significant accounting policies

(a) Principles of Consolidation

The accompanying financial statements of Van Der Hout Associates Limited (the "Company") are consolidated with those of its wholly-owned subsidiary. All material intercompany transactions have been eliminated.

(b) Inventories

Inventories are valued at the lower of cost, as determined by the first-in, first-out (FIFO) method, or net realizable value.

(c) Property, Plant, Equipment, Depreciation and Amortization

Expenditures for property, plant and equipment, and for renewals or improvements which extend the originally estimated economic life of assets are capitalized. Expenditures for maintenance and repairs are charged to expense. When items are disposed of, the cost and accumulated depreciation are eliminated from the accounts, and any gains or losses are included in the results of operations.

Provisions for depreciation are determined on either the straight-line basis or declining balance basis over the expected average useful lives of the asset groups. Leasehold improvements are amortized on a straight-line basis over the terms of the respective leases.

(d) Deferred Income Taxes

Deferred income taxes arise primarily from the Company claiming capital cost allowance for income tax purposes in excess of depreciation recorded in the books.

(e) Research and Development Costs

Research and development costs are expensed as incurred.

2. 1978 Internal reorganization

Effective April 1, 1978, all subsidiaries were amalgamated except for one 51%-owned corporation which was sold in June, 1978.

In June, 1978, the Company sold its 51% interest in a controlled corporation for \$260,000. The gain on the sale was immaterial and was credited to expenses in the income statement.

3. 1978 Extraordinary items

Extraordinary items comprise:

(a) a reduction in the 1978 income tax provision due to tax loss carry-forwards from prior years, a substantial portion of which was utilized as a result of the amalgamation of certain subsidiaries as discussed in Note 2 (as of December 31, 1978, all available tax loss carry-forwards had been utilized)	\$334,105
(b) settlement on claim for damages, net of expenses	240,000
	<u>\$574,105</u>

4. Inventories

Inventories consist of the following:

	1979	1978
Finished goods	\$ 6,106,692	\$4,026,179
Work-in-process	1,644,447	1,426,952
Raw materials, parts and supplies	7,153,964	4,184,421
	<u>\$14,905,103</u>	<u>\$9,637,552</u>

5. Long-term debt

	1979	1978
9½% Mortgage, payable in monthly instalments of \$4,880 including interest, due January 18, 1984, secured by a building.	\$ 193,191	\$ 232,211
Government capital assistance, payable in five equal annual payments commencing June 1, 1981, secured by related equipment.	96,896	—
Term bank loans due April, 1981	4,416,250	4,467,500
	<u>\$4,706,337</u>	<u>\$4,699,711</u>
Less-Current portion payable within one year	42,705	39,010
	<u>\$4,663,632</u>	<u>\$4,660,701</u>

During 1979 the Company extended banking arrangements that provided for borrowings up to \$1,500,000 (Cdn.) at prime plus ¼% and up to \$2,500,000 (U.S.) at the London Interbank Rate plus ¾%. These loans are repayable on April 30, 1981, and the maturity date may be re-extended by mutual consent of the Company and the bank.

All bank indebtedness is secured by certain accounts receivable and inventories and an assignment of the Company's fire insurance pertaining to certain inventories.

It is the Company's intention to renew borrowings under the bank loan agreement at maturity or to replace them with other similar borrowings. Accordingly, the maturity of these borrowings will not require use of the Company's working capital.

Aggregate repayments required in each of the next five years, excluding the term bank loans are as follows:

1980	\$42,705
1981	66,152
1982	70,596
1983	71,884
1984	19,379

6. Remuneration of directors and senior officers

The aggregate remuneration paid by the Company and its subsidiary to its directors and senior officers for the year ended December 31, 1979 approximated \$352,000 (1978 - \$308,000).

7. Commitments

(a) Long-Term Leases

Buildings are rented under leases which expire at various dates between 1980 and 1984. Rental expenses related to these leases, excluding property taxes and insurance, amounted to approximately \$174,000 in 1979 (1978 - \$171,000). Rental commitments for the next five years under these leases are as follows:

1980	\$237,211
1981	241,372
1982	241,372
1983	212,876
1984	172,984

(b) Pension Plan

The Company has a pension plan covering salaried employees. As of December 31, 1979, the unfunded past service liability with respect to the plan for salaried employees amounted to approximately \$145,000 (1978 - \$204,000). The Company's policy is to provide for current costs as such costs are incurred and to amortize and fund past service costs over a period of fifteen years. In 1979, \$76,000 (1978 - \$76,000) was provided and is reflected in the consolidated statements of income.

8. Subsequent event

Effective February 1, 1980, the Company ceased business activities of its "Orangeville Division" which was primarily engaged in the distribution of automotive parts, brake lathes and related equipment. The impact of this closure is not material to the accompanying consolidated financial statements.

VAN DER HOUT ASSOCIATES LIMITED AND SUBSIDIARY

Five Year Comparative Summary of Operations

	1979	1978	1977	1976	1975
Net sales	\$44,984,137	\$41,474,840	\$35,200,877	\$30,745,661	\$26,791,291
Cost of sales	36,015,262	34,058,452	28,409,392	25,568,911	21,475,746
Gross profit	\$ 8,968,875	\$ 7,416,388	\$ 6,791,485	\$ 5,176,750	\$ 5,315,545
Selling, general and administrative expenses	5,640,154	5,152,408	5,026,388	5,702,925	4,643,187
Operating income (loss)	\$ 3,328,721	\$ 2,263,980	\$ 1,765,097	\$ (526,175)	\$ 672,358
Interest expenses	759,761	532,836	565,677	560,382	591,921
Income (Loss) from consolidated operations before income taxes	\$ 2,568,960	\$ 1,731,144	\$ 1,199,420	\$ (1,086,557)	\$ 80,437
Provision for (recovery of) income taxes	975,000	610,000	517,248	(247,919)	71,406
Income (Loss) from consolidated operations	\$ 1,593,960	\$ 1,121,144	\$ 682,172	\$ (838,638)	\$ 9,031
Minority interest	—	(13,340)	(18,798)	(19,394)	(7,695)
Income (Loss) before extraordinary items	\$ 1,593,960	\$ 1,107,804	\$ 663,374	\$ (858,032)	\$ 1,336
Extraordinary Items	—	574,105	-	-	-
Net income (loss)	\$ 1,593,960	\$ 1,681,909	\$ 663,374	\$ (858,032)	\$ 1,336
Earnings (Loss) per share					
Before extraordinary items	\$.95	\$.66	\$.40	\$ (.51)	\$ -
After extraordinary items	\$.95	\$ 1.00	\$.40	\$ (.51)	\$ -

PRODUCTS:

Gabriel brand shock absorbers
Standard and heavy duty shock absorbers
Truck and bus shock absorbers
Racing shock absorbers
Bus, truck and auto tail and exhaust pipe
Steel tubing

MARKETS:

Automotive replacement market
Automotive original equipment market
Heavy duty original equipment market
Industrial original equipment market
Agricultural market
Recreational market
Defense market



VAN DER HOUT ASSOCIATES LIMITED

Headquarters:

3600 Lakeshore Blvd. West, Toronto, Ontario M8W 1N8

Sales Offices:

3600 Lakeshore Blvd. West, Toronto, Ontario M8W 1N8

89 Mills Road, Ajax, Ontario L1S 2M2

Manufacturing Operations:

Toronto, Mississauga and Ajax, Ontario

Distribution Centre:

Mississauga, Ontario

