NOMA

Noma Industries Limited

Annual Report 1986

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Noma Industries Limited is a group of Canadian controlled companies specializing in the manufacture and marketing of a range of electrical and mechanical products for the consumer and industrial markets. Products are marketed in Canada, the U.S.A. and Europe. The Noma group consists of 18 operating plants in the Toronto region and 3 in the U.S.A. The Company has a national distribution and sales organization in Canada through 7 regional sales offices coast-to-coast and distributor networks in the U.S.A. and Europe. Noma's shares are listed and traded on the Toronto Stock Exchange.

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Annual Meeting

The Annual Meeting of Shareholders will be held on Wednesday, May 27, 1987 in the Ontario Room at the Royal York Hotel, Toronto commencing at 11:00 am.

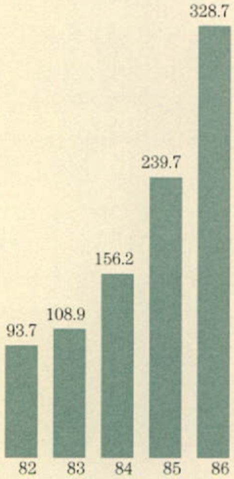
On peut se procurer sur demande la version française du présent rapport.

Financial Highlights

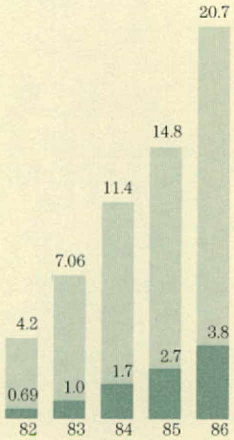
	1986	1985
Sales	**$328,746,000**	$239,751,000
Net Earnings	**$ 20,762,000**	$ 14,879,000
Shareholders' Equity	**$126,123,000**	$ 59,150,000
Return on Average Shareholders' Equity	**22.4%**	28.5%
Earnings per Class A share	**$ 0.72**	$ 0.58*
Dividends paid	**$ 3,885,000**	$ 2,740,000

**Restated to reflect stock split, June 1986*

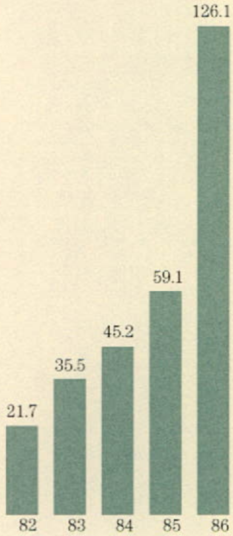
Sales Revenues
$ Millions



Net Earnings and Dividends
$ Millions



Net Worth
$ Millions



Report to Shareholders

Review of 1986

We are pleased to report that 1986 was another year of progress and achievements by the Noma group of companies. Consolidated sales grew to $328,746,000 – a 37% increase over $239,751,000 of last year. Net earnings also increased substantially by 40% from $14,879,000 of last year to a new high of $20,762,000.

These results include, for the first time, contributions by companies which were acquired last year, *Beacon Electric Inc.*, *Tinsel Inc.*, *Bellastra Products Limited* and *Pyroil Canada Limited.* The effective purchase date of Pyroil was 1 July, 1986 hence its contribution was limited to the remaining six months of the year. The integration of these companies into the Noma Group has been accomplished smoothly and our consolidated results illustrate the effects on the expansion of our business.

Our Canadian based companies continued to show leadership in the Canadian market and strength in exports to the markets of Europe and the USA. Total exports were up by approximately 80% to a new level of $64 million. In the USA, *Beacon Electric* at Boston and *Noma International* at Chicago worked well together in rationalizing product lines and marketing functions. The result is a strengthening of Noma's position in the market for Christmas lighting products from coast to coast.

Early in the summer your directors decided to make a further issue of treasury shares to broaden the shareholders' base. In July 2,000,000 Class A non-voting shares were issued at a price of $15.25 per share and they sold quickly. Part of the net proceeds were used to finance a major acquisition later in the year.

Operations in the USA were the focus of our attention towards the end of the year when the decision was taken to purchase a 91% ownership position in *Western International Incorporated* of Des Moines, Iowa. Western is a major manufacturer and distributor of power lawnmowers and garden tractors in the US market. Its range of products will complement those of *Canadiana Outdoor Products, Inc.* at Brampton, Ontario and thus broaden Noma's market presence in North America for both winter and summer outdoor products.

Personnel

We take this opportunity to formally welcome to the Noma family the employees of *Pyroil Canada Limited* and of *Western International Incorporated* and, in particular, the executives of these companies to Noma's management team.

Mr. Norman Eversfield –
President of *Pyroil Canada Limited*
Mr. William Rathke –
President of
Western International Incorporated

Norman Eversfield adds to our management skills many years of executive experience in the manufacture and marketing of automotive parts for the original equipment and replacement sectors of the automotive market. Bill Rathke has many years of experience in a senior executive position at *Western International* and has a detailed knowledge of the US market for the company's products.

It is also a pleasure to formally record recent promotions of two of Noma's executives, Mr. Karl Meier to the position of President, *Noma Inc.* and Mr. Shlomo Brenner as President of *Beck Electric Manufacturing Company.* Each of these gentlemen was formerly Vice President and General Manager of his respective company and they have, by their leadership and initiatives, made significant contributions to the growth of these major divisions of Noma.

Outlook for 1987

We are confident that in 1987 Noma will continue to stride forward. For example, the coordination of operations by *Canadiana* and *Western International* will produce beneficial results to consolidated sales and earnings. Also during the year, an additional plant for the manufacture of automotive wiring harnesses will be brought to full operational status by the *Beck Electric* division. Other major divisions have good prospects for further growth in their respective markets.

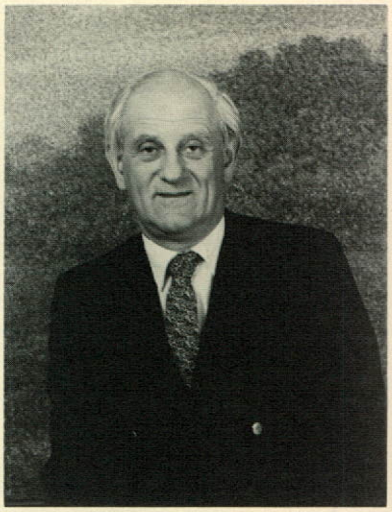
We have a strong and experienced management team and our financial position is particularly sound. Noma has become more international in structure and outlook and we shall be alert for business opportunities in North America and elsewhere. In 1987 we expect that 50% of sales will be in markets outside Canada. The longer term future of our group of companies will be influenced by economic conditions and business opportunities for international trade in markets throughout the world.

Appreciation

On behalf of the Board of Directors we thank all shareholders for your support, our employees for their vitality and perseverance and our customers and suppliers for their loyalty and service.

H. T. Beck
Chairman and
Chief Executive Officer

R. A. Koehler
President



H. T. Beck
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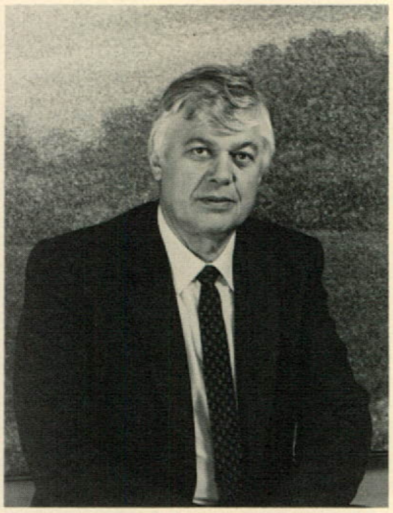
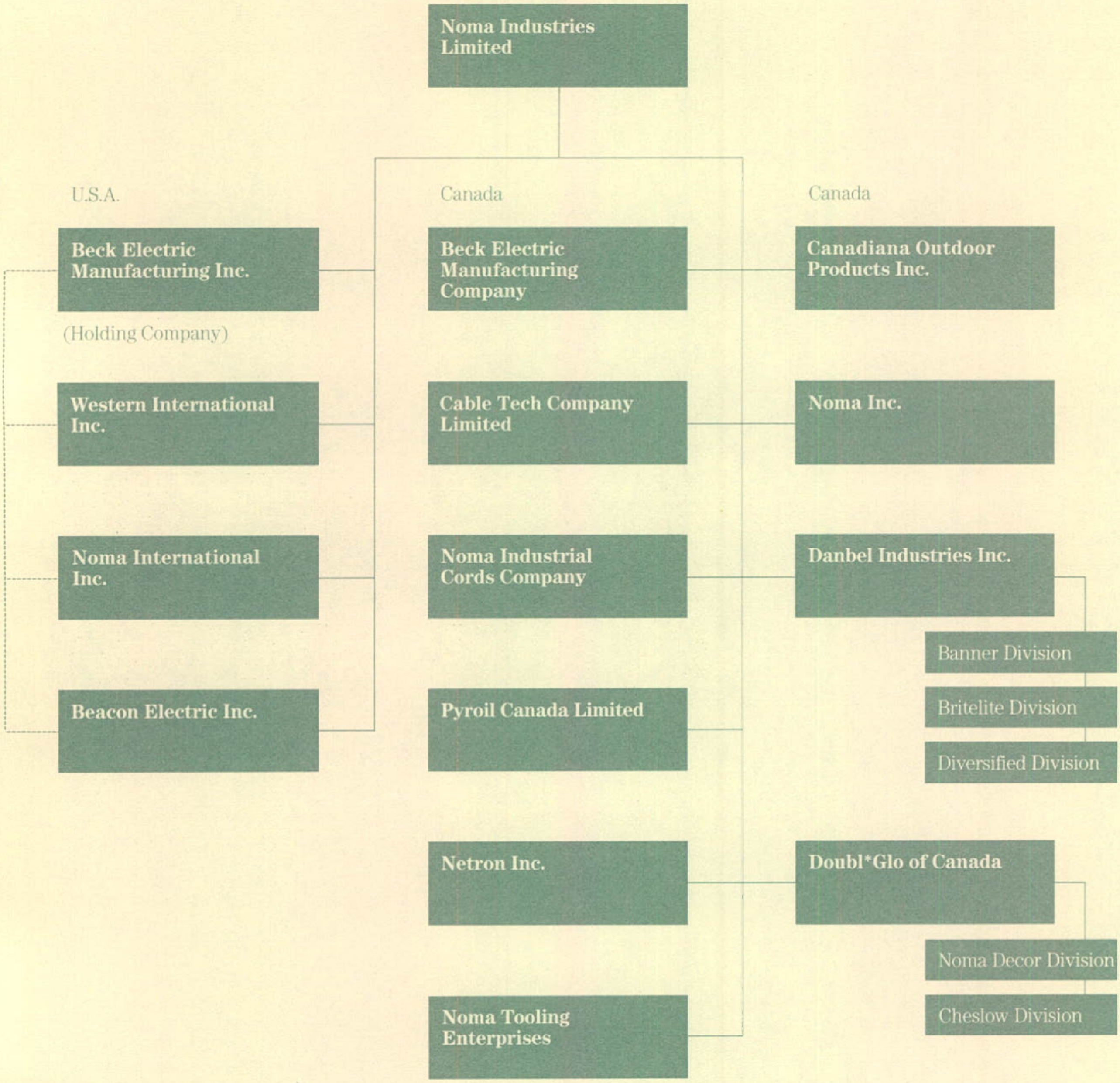


R. A. Koehler
President

Operating Structure



Review of Operations

Growth of Noma's operating companies continued in 1986, not only in terms of significant increases in consolidated sales and net earnings, but also by further reinforcement of capabilities in production, sales and marketing functions. New products and new production processes were developed, additional manufacturing space and specialized equipment were brought into operation and plans were set in motion to provide for future expansion in response to business opportunities.

Consumer Products and Markets

In the consumer products field, gains in manufacturing productivity and profitability were achieved by *Noma Inc.* and *Canadiana Outdoor Products, Inc.* These, coupled with vigorous marketing and sales activities, produced outstanding results by each of these companies. At *Noma Inc.* emphasis on quality of products, superior packaging and effective advertising resulted in an excellent sell-through at retail level in all major product categories. Effective management of labour and material costs permitted margins to be maintained without increasing selling prices.

Canadiana's products sold extremely well in both the domestic and export markets. The *"Trac-Drive"* snowblowers introduced last year have become the preferred choice of many consumers in North America and Europe. Another winter season product, the *Noma GT "SNORACER"*, has become so popular that two new versions of the product are being developed for introduction in the 1987/8 winter season.

Canadiana's strength in the outdoor products field will be substantially augmented by the addition of *Western International Incorporated* which became a Noma company on December 31, 1986. These companies will work closely together in 1987 to coordinate the most effective deployment of their respective resources and strengths.

Noma's expanded range of Christmas products continued to sell well in the Canadian and US markets. 1986 was the first full year in which *Beacon Electric Inc.* participated as a member of the Noma group of companies. The comprehensive range of Christmas lights, decorations and trees is now produced, with specialized equipment, in five of Noma's plants – 3 in Canada and 2 in the USA. A good sell-through at retail levels in both countries and additions of new products give prospects of another good Christmas season in 1987. During the year *Beacon* and *Noma International* will unify sales and marketing operations in the US market.

At *Danbel Industries Inc.,* which manufactures a range of residential lighting fixtures, emphasis was placed on process and product development to upgrade the line of track-lighting products and to produce a new series of attractive thermoformed plastic shades. In addition, the Rab line of outdoor lighting fixtures was expanded through the introduction of high pressure sodium and metal halide fixtures as well as security motion detection systems for use with outdoor fixtures.

Industrial Products and Markets

Noma's wire and cable products, wiring harnesses and power cords continued to sell well in a number of sectors of the industrial market to both Original Equipment Manufacturers (OEM's) and to electrical distributors. Throughout the year, *Cable Tech Company Limited* expanded its range of products and achieved gains to its relatively small position in the electrical distributor sector of the market while continuing to develop its business with *OEM* customers. The company's wire and cable products are used in the manufacture and installation of electrical products and systems such as electrical heating apparatus, traffic light systems, domestic appliances and wiring systems in the home and commercial and residential construction.

At *Noma Industrial Cords Company* a new power cord interconnect system for commercial lighting applications was successfully developed. This system, trade market *"Nocom"*, employs armoured cables, robust, molded-on plugs and connectors and is designed to provide time and cost-saving interconnections of 347 volt commercial fluorescent lighting systems. These are found in office buildings, shopping plazas and similar construction projects. The company continues to improve its capabilities to design, develop and produce specialty cord products for *OEM* customers.

The appliances wiring harness division of *Beck Electric Manufacturing Company* continues to be the leading producer of power cords and wiring harnesses to Canada's manufacturers of domestic refrigerators, washing machines, microwave ovens and other major appliances. During the year the company actively pursued opportunities in the USA with potential customers in the electrical appliances and electronics industries.

During 1987, product development work, improvements in productivity and manufacturing methods and sales and marketing functions will be directed towards achieving increased market shares in these sectors of the industrial market.

The Automotive Products and Market

Noma's business in this market continues to grow at a brisk pace, particularly in the *OEM* portion of the market. *Beck Electric*'s position as a reliable and qualified supplier to the major North American vehicle manufacturers became more firmly established in 1986. In addition, the acquisition of *Pyroil Canada Limited* at mid year augmented Noma's capabilities and products in this market. *Pyroil* is an experienced manufacturer of an extensive range of engine block heaters, battery heating blankets and peripheral products which it sells to both *OEM* and "after market" customers.

Noma Inc. achieved significant progress in addressing the "after market" with its top quality products such as booster cables, ignition wiring sets, battery cables and terminals.

The main plant of *Beck Electric* was operating at full capacity throughout the year. A substantial new contract to supply ignition wiring sets made it necessary to set up an additional plant to accommodate this manufacturing operation. The plant was equipped and put into operation in record time during early spring.

Towards the end of the year, *Beck Electric* was successful in securing a major new contract to supply a range of more complex wiring harnesses to General Motors at Oshawa, Ontario for the *GM-10* program. An additional plant of 80,000 sq. ft. has been purchased at Scarborough, Ontario for this purpose and is currently being equipped. It will be brought to full operational capacity towards the end of 1987 and will contribute positively to sales and earnings in 1988.

The Data Processing Market

At *Netron Inc.* 1986 was the most successful year to date in terms of growth and profitability. Further advancements were made to the *Netron/Cap* products to support the rapid development of *Cobol* software for mainframe computers of *IBM, DEC* and *WANG,* as well as *IBM PC's.* These refinements permit programs to be developed once on any of these machines and provide portability across all of them, without the need to re-write the code.

Netron's time and cost saving methodology has been accepted by more and more clients such as government agencies, financial institutions and companies in the manufacturing and service sectors of industry and commerce. It is also used extensively by Noma's operating companies.

During 1986, *Netron* established sales offices at Los Angeles and Atlanta and marketing activities were extended overseas. As a consequence, the company's client base continues to expand, particularly in the USA, and includes a major client in Australia.

Technology, Engineering and Development

Noma's continuing quest for improvements in quality, productivity, cost-saving techniques, vertical integration and new products stimulates, each year, an ongoing engineering and development work program by the operating companies.

1986 was another year in which innovative production equipment and tooling was developed, tested and put into operation. Similarly, a number of new products were placed in production and development work was begun on others. Plant layouts were upgraded and automated production equipment was installed and brought to operational status. These development activities and the associated capital expenditures are critical to maintaining competitiveness with imported products, particularly from the Orient.

Manufacturing technology, its development and application, are essential keys to maintaining a competitive position in markets — today more than at any time in history. It begins with the ingenuity of the human mind and its successful development depends upon the skills of the engineer, the artisan, the technician and, ultimately, on the motivation and perseverance of the men and women on the production floor. It requires a team effort and, in this regard, employees of the Noma companies are outstanding — in production operations and in the field operations of sales and marketing. This is the spirit and vitality of Noma which gives confidence of further prosperity of this group of companies in 1987 and future years.

Financial Officer's Report

The Noma group turned in another year of excellent operating results. Of the consolidated sales increase of 37% over 1985, 23% was due to growth in existing businesses and the remainder was contributed by companies recently acquired – *Beacon Electric Inc.* and *Tinsel Inc.* for the full year and *Pyroil Canada Limited* for six months. Earnings before income taxes and minority interests rose to $40,672,000 or 12.4% of sales from $26,087,000 in 1985 (10.9% of sales).

Provision for consolidated income tax escalated sharply to $19,095,000. The composite rate of tax in 1986 was 46.9% compared to 40.9% in 1985. The higher tax rate was primarily because of changes to income tax legislation which increased rates and eliminated the inventory tax allowance. Nevertheless, net earnings still advanced by approximately 40% to $20,762,000 and earnings per each Class A Non-Voting share, based on a weighted average of 28,903,108 Class A and Class B shares outstanding in 1986, rose to 72¢ from 58¢ in 1985. The higher tax rate contributed significantly to reducing the return on average shareholders' equity to 22.4%.

Sales of "Consumer Products" which in 1986 included the sales of *Beacon Electric Inc.* and *Tinsel Inc.* for the first time, increased dramatically from $175,171,000 to $253,491,000 and profit "contribution" on these sales increased from $18,983,000 to $33,206,000. Sales from "Components Manufacturing" in 1986 amounted to $75,255,000. Margin was affected by higher raw material costs which could not be passed on and by start-up costs of a major plant expansion. The start-up period is over and improved productivity is being realized.

Funds Generated

Working capital increased from $44,622,000 at December 31, 1985 to $86,142,000 at December 31, 1986 and the ratio of current assets to current liabilities remained constant at 1.8 to 1. "Funds provided from operations" (net earnings plus depreciation and amortization, deferred taxes and minority interest) amounted to $31,837,000 up by 46% from $21,705,000 in 1985. Two treasury stock issues – a private placement of the equivalent of 2,200,000 Class A Non-Voting shares in January and a public issue of 2,000,000 Class A Non Voting shares in July raised approximately $49,000,000. There was virtually no additional long-term debt incurred during the year except for $5,756,000 assumed on the acquisition of Western International. The "total debt to equity" ratio decreased to 1.1 to 1 from 1.3 to 1.

Assets

The December 31, 1986 consolidated balance sheet figures included the assets and liabilities of *Western International Incorporated* which was acquired at the year end.

"Inventories" of $101 million included approximately $42 million inventory of *Western International Incorporated* which, at year end, was at a peak for 1987 production and shipment of lawn tractors and lawnmowers. If this figure is excluded, the inventory increase for all other Noma divisions is commensurate with the higher level of overall business.

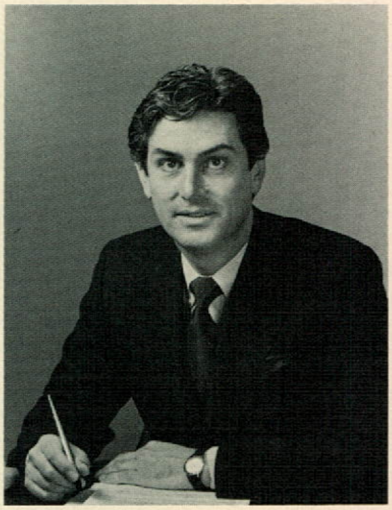
"Fixed assets", net of disposals, increased by $16,997,000 to $56,200,000 during 1986 which included $11,594,000 spent during the year through operations and the remainder came from acquired business. The $11,594,000 spent through operations was a more normal level from the $17,215,000 in 1985 which included the construction and acquisition costs of three buildings. "Other assets" on the balance sheet increased by approximately $18 million over 1985 because of the intangible assets acquired through the purchase of *Beacon Electric Inc.*, *Pyroil Canada Limited* and *Western International Incorporated*. $963,000 was charged to 1986 pre-tax earnings for amortization of these assets.

Dividends

Total dividend payouts in Class A and Class B shares increased by 42% in 1986 from $2,740,000 to $3,885,000. The 1986 payout amounted to 26% of 1985 net earnings.

As a result of the treasury stock issues and growth in earnings the company's consolidated Shareholders' Equity rose to $126,123,000 at December 31, 1986 – more than double the $59,150,000 at the end of last year. Should interest rates stay at their currently low levels and long-term funds remain plentiful, consideration for future requirements may well be from the debt market.

Norman S. Eckler
Vice President, Finance



Norman S. Eckler
Vice President, Finance

Auditors' Report

The Shareholders,
Noma Industries Limited.

We have examined the consolidated balance sheet of Noma Industries Limited as at December 31, 1986 and the consolidated statements of earnings, 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 31, 1986 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.

Touche Ross & Co.

Chartered Accountants

Toronto, Ontario,
March 17, 1987.

Consolidated Balance Sheet

As at December 31, 1986

(Thousands of dollars)	**1986**	1985
Assets		
Current		
Cash and short-term investments	**$ 25,169**	$ 650
Accounts receivable	**65,793**	43,397
Inventories	**101,143**	51,743
Sundry assets and prepaid expenses	**2,670**	2,015
	194,775	97,805
Fixed (Note 2)	**56,200**	39,203
Other (Note 3)	**19,047**	1,431
	$270,022	$138,439
Liabilities		
Current		
Bank indebtedness (Note 4)	**$ 49,496**	$ 23,089
Accounts payable and accrued liabilities	**53,286**	26,453
Income taxes payable	**3,042**	1,867
Notes payable	**1,012**	1,397
Current portion of long-term debt (Note 5)	**1,797**	377
	108,633	53,183
Deferred income taxes	**8,713**	5,715
Long-term debt (Note 5)	**24,600**	19,348
	141,946	78,246
Minority interests in subsidiary companies	**1,953**	1,043
	143,899	79,289
Commitments and contingencies (Note 6)		
Shareholders' Equity		
Capital stock (Note 7)	**62,205**	12,086
Retained earnings	**64,066**	47,189
Unrealized foreign exchange adjustment	**(148)**	(125)
	126,123	59,150
	$270,022	$138,439

See accompanying notes to consolidated financial statements.

On behalf of the Board

H. T. Beck Director

R. A. Koehler Director

Consolidated Statement of Earnings

For the year ended December 31, 1986

(Thousands of dollars)	1986	1985
Sales	**$328,746**	$239,751
Costs and expenses		
Cost of sales, selling and administrative expenses	**276,969**	204,994
Depreciation and amortization (Note 8)	**7,018**	4,312
Interest on long-term debt	**2,150**	1,034
Interest on other indebtedness	**1,937**	3,324
	288,074	213,664
Earnings before income taxes and minority interests	**40,672**	26,087
Income taxes (Note 9)	**19,095**	10,662
Minority interests	**815**	546
	19,910	11,208
Net earnings	**$ 20,762**	$ 14,879

Earnings Per Share (Note 7b)	1986	1985*
Class A		
Average number of shares outstanding	**21,946,394**	18,727,720
Earnings per share	**$0.72**	$0.58
Class B		
Average number of shares outstanding	**6,956,714**	6,968,280
*Earnings per share	**$0.71**	$0.57

* *Restated to reflect a two-for-one split in 1986.*

See accompanying notes to consolidated financial statements.

Consolidated Statement of Retained Earnings

For the year ended December 31, 1986

(Thousands of dollars)	1986	1985
Balance at beginning of year	**$47,189**	$35,050
Net earnings	**20,762**	14,879
	67,951	49,929
Dividends	**3,885**	2,740
Balance at end of year	**$64,066**	$47,189

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Financial Position

For the year ended December 31, 1986

(Thousands of dollars)	**1986**	1985
Cash provided from (used for)		
Operating activities		
Net earnings	**$ 20,762**	$ 14,879
Non-cash items		
Depreciation and amortization	**7,018**	4,312
Deferred income taxes	**3,635**	2,107
Minority interests and other	**422**	407
Net change in non-cash working capital	**(6,448)**	(15,695)
Cash provided from operating activities	**25,389**	6,010
Investment activities		
Purchase of fixed assets, net of disposals	**(11,594)**	(17,215)
Cash resources used for acquisitions (Note 10)	**(60,156)**	(15,032)
Purchase of other assets	**(1,258)**	(255)
Cash used for investment activities	**(73,008)**	(32,502)
Financing activities		
Additions to long-term debt	**309**	16,594
Reduction of long-term debt	**(812)**	(1,473)
Dividends paid	**(3,885)**	(2,740)
Capital stock issued	**50,119**	–
Cash provided from financing activities	**45,731**	12,381
Cash used in year	**(1,888)**	(14,111)
Net bank indebtedness at beginning of year	**(22,439)**	(8,328)
Net bank indebtedness at end of year	**$(24,327)**	$(22,439)
Non-cash operating working capital changes		
Increase in accounts receivable	**$(12,619)**	$(11,945)
Increase in inventories	**(571)**	(5,586)
Increase in accounts payable and accrued liabilities	**5,690**	4,810
Increase (decrease) in taxes payable	**989**	(2,372)
Increase (decrease) in sundry assets and liabilities	**63**	(602)
	$ (6,448)	$(15,695)

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1986

1. Significant accounting policies

a. Principles of consolidation

These consolidated financial statements include the accounts of the Company and all its subsidiary companies. All significant inter-company transactions are eliminated.

b. Basis of accounting

These financial statements are prepared on a historical cost basis and do not reflect the impact of specific price changes or changes in the general level of prices.

c. Inventories

Inventories of raw materials, work-in-process and finished goods are valued at the lower of cost, determined on a first-in, first-out basis, and net realizable value.

d. Depreciation and amortization

Fixed assets are recorded at cost net of related investment tax credits and depreciated on the straight-line basis at the following rates which are intended to extinguish the cost of these assets over their estimated useful lives:

Buildings	2.5% per annum
Machinery and equipment	10% per annum
Data processing equipment	20% per annum
Moulds, dies and tooling	25% per annum

Leasehold rights and improvements are amortized over five years or the remaining life of the respective leases, whichever is the shorter period. Patent costs are amortized over a period of seventeen years, trademarks over a period of ten years, and copyrights over a period of twenty-eight years.

e. Deferred development costs

Deferred development costs relate to the costs incurred for the development of new products. These costs are stated net of grants from the Federal Government and related investment tax credits. The net development costs are being amortized over a period not exceeding two years.

f. Goodwill

Goodwill is amortized on a straight-line basis over forty years.

g. Deferred finance and other charges

Deferred finance charges are amortized on a straight-line basis over the life of the related debt. Other deferred charges are amortized over a period of five years.

h. Sales agency contract

The cost of the sales agency contract acquired following the acquisition of Western International Incorporated (see Note 10) will be amortized over the minimum notice period in the contract in place of the commission expenses which would otherwise be payable. Approximately ⅓ of the cost will be amortized in each of the fiscal years 1988 to 1990 inclusive.

i. Income taxes

The provision for income taxes is computed on the allocation basis whereby provision is made for income taxes deferred by virtue of expenses for income tax purposes exceeding that booked in the accounts.

j. Foreign currency translation

All amounts in foreign currencies are converted to Canadian dollars as follows:

Monetary assets and liabilities are translated into Canadian dollars at the current rate of exchange at the balance sheet date, and income and expense items are translated at the average rate of exchange prevailing during the year.

Translation gains and losses are charged to operations, except in the case of self-sustaining foreign subsidiaries where they are deferred.

2. Fixed assets

(Thousands of dollars)	**1986**			1985
	Cost	*Accumulated depreciation and amortization*	*Net book value*	*Net book value*
Buildings	**$22,294**	**$ 1,957**	**$20,337**	$14,544
Machinery and equipment	**37,432**	**12,994**	**24,438**	17,432
Leasehold improvements	**1,603**	**640**	**963**	720
Moulds, dies and tooling	**10,686**	**4,721**	**5,965**	3,102
	72,015	**20,312**	**51,703**	35,798
Land	**4,497**	**–**	**4,497**	3,405
	$76,512	**$20,312**	**$56,200**	$39,203

3. Other assets

(Thousands of dollars)	1986	1985
Patents, trademarks and copyrights	**$ 5,820**	$ 65
Goodwill	**5,922**	819
Deferred development costs	**622**	324
Deferred finance and other charges	**460**	223
Leasehold rights	**701**	–
Sales agency contract	**5,522**	–
	$19,047	$1,431

4. Bank indebtedness

A bank loan of approximately $19,686,000 is secured by the assets of a subsidiary. All other bank indebtedness of the Company is unsecured.

5. Long-term debt

(Thousands of dollars)	1986	1985
Series A Debentures (a)	**$15,000**	$15,000
Mortgages on real property (b)	**3,570**	3,857
Non-interest bearing equipment loans (c)	**1,087**	868
Note payable (d)	**5,750**	–
Industrial Development Revenue Bond (e)	**990**	–
	26,397	19,725
Less current portion	**1,797**	377
	$24,600	$19,348

a) Sinking Fund Debentures 11¾% due to September 1, 2000, are secured by a floating charge on the assets of the Company and certain of its Canadian subsidiaries.

b) $613,000 with interest at 8¾% due December 1, 1992.
$756,000 with interest at 10⅛% due December 1, 1994.
$837,000 with interest at 13% due March 1, 1989.
$72,000 with interest at 8% due April 13, 2004.
$936,000 U.S. (Cdn. $1,292,000) with interest at 8½% due July 1, 1998.

c) Non-interest bearing equipment loans are repayable in varying amounts over the period July 1987 to November 1995.

d) $4,166,000 U.S. (Cdn. $5,750,000) fixed rate note with interest at 11.6% due October 31, 1988.

e) $707,000 U.S. (Cdn. $990,000) Industrial Development Revenue Bond with interest at 7% due August 1, 2004.

The annual principal payments required in the next five years to meet the long-term obligations are:

(Thousands of dollars)	
1987	$1,797
1988	5,573
1989	1,388
1990	730
1991	1,085

6. Commitments and contingencies

a. The Company is obligated under the conditions of operating leases for facilities involving current annual rentals as follows:

(Thousands of dollars)	
1987	$2,582
1988	2,162
1989	1,511
1990	1,217
1991	693

b. There were forward currency purchase and sale contracts of $38,818,000 (1985 – $12,882,000) and letters of credit outstanding at December 31, 1986 of $8,889,000 (1985 – $5,371,000).

c. The Company could be required to purchase the minority shareholdings in six subsidiaries under certain conditions at prices based on those companies' future book values or earnings.

d. In connection with the acquisition of Pyroil Canada Limited, additional consideration may be payable to the vendor based on earnings in excess of predetermined targets for the fiscal years ending June 30, 1987, 1988 and 1989.

7. Capital stock

	Class A non-voting shares (b)		*Class B convertible voting shares (b)*		*Total*	
	(Number – Unlimited)		*(Number – Unlimited)*			
	Shares issued	*Thousands of dollars*	*Shares issued*	*Thousands of dollars*	*Shares issued*	*Thousands of dollars*
December 31, 1985 outstanding	9,364,960	$ 11,244	3,483,040	$ 842	12,848,000	$ 12,086
Issued on private placement	1,100,000	19,319	–	–	1,100,000	19,319
Employee purchase programme	38,790	412	–	–	38,790	412
	10,503,750	–	3,483,040	–	13,986,790	–
Two-for-one share split	10,503,750	–	3,483,040	–	13,986,790	–
Shares issued from treasury	2,000,000	29,788	–	–	2,000,000	29,788
Shares issued to purchase portion of minority shareholdings	41,200	600	–	–	41,200	600
Conversion	14,600	2	(14,600)	(2)	–	–
December 31, 1986 outstanding	23,063,300	$ 61,365	6,951,480	$ 840	30,014,780	$ 62,205

a) First and second preference shares with an unlimited authorized number may be issued in series in amounts, and with such rights, privileges, restrictions and conditions attaching thereto as determined by the Board of Directors at the time of issuance. The 10,001 Second preference shares, series I which were issued for $1 were purchased for cancellation for the total sum of $1,000 during the year. No preference shares were outstanding at the end of the year.

b) The Class A shares are entitled to a preferential non-cumulative quarterly dividend of one-eighth cent per share, thereafter dividends are paid equally on both Class A and Class B shares. The Class B shares are convertible to Class A non-voting shares on a one to one basis. The Company has reserved 800,000 Class A non-voting shares for an executive stock option plan and options were granted under the plan for 556,000 shares at $9.625 and 25,800 shares at $12.00.

8. Depreciation and amortization

(Thousands of Dollars)	**1986**	1985
Depreciation	**$5,273**	$3,737
Amortization of		
Leasehold improvements	**253**	183
Patents, trademarks and copyrights	**534**	4
Goodwill	**115**	23
Deferred costs	**492**	365
Leasehold rights	**351**	–
	$7,018	$4,312

9. Income taxes

The provision for income taxes has been computed as follows:

(Thousands of Dollars)	**1986**	1985
Income taxes on earnings before income taxes and minority interests, at 53.3% (1985 – 51.9%)	**$21,678**	$13,539
Less		
Manufacturing and processing allowance	**2,355**	1,865
Inventory allowance	**81**	753
Other	**147**	259
	2,583	2,877
Provision for income taxes	**$19,095**	$10,662

10. Acquisitions

· Effective January 1, 1986, the Company acquired the assets and business of Beacon Electric Inc., a manufacturer and distributor of Christmas light products.

· Effective June 30, 1986 the Company acquired all of the outstanding shares of Pyroil Canada Limited, a manufacturer and distributor of engine block heaters.

· Effective December 31, 1986 the Company acquired ninety-one percent (91%) of the common shares of Western International Incorporated a manufacturer of garden tractors, lawnmowers and snowblowers.

· With the acquisition of Western International Incorporated the Company acquired a sales agency contract and miscellaneous related assets.

These acquisitions have been accounted for under the purchase method and the results of the operations of these acquisitions have been included in the consolidated statement of earnings of the Company from the effective dates of acquisition. These transactions which substantially fall under the consumer products segment (Note 11) are summarized as follows:

(Thousands of Dollars)		
Net assets acquired at assigned values		
Fixed assets		$10,929
Other assets		12,880
Goodwill		4,970
Working capital, excluding bank indebtedness assumed		36,961
		65,740
Less		
Long term liabilities	$5,756	
Minority interest	465	
Deferred taxes	(637)	5,584
		$60,156
Funded by		
Cash		$40,826
Bank indebtedness assumed		19,330
Cash resources used		$60,156

The Company also increased its investment in certain subsidiary companies. This resulted in an increase in goodwill of approximately $248,000.

11. Segmented information

The Company's operations are considered to consist of the following classes of business:

Components manufacturing – the manufacture of components and parts for sale to other manufacturers.

Consumer products – the manufacture or purchase for sale of consumer products.

Industry basis

(Thousands of Dollars)

	Components manufacturing		*Consumer products*		*Consolidated*	
	1986	1985	**1986**	1985	**1986**	1985
Sales to outside customers	**$ 75,255**	$ 64,580	**$ 253,491**	$ 175,171	**$ 328,746**	$ 239,751
Inter-segment sales	**16,712**	14,091	**456**	461		
Total sales	**$ 91,967**	$ 78,671	**$ 253,947**	$ 175,632		
Contribution before the undernoted	**$ 11,553**	$ 11,462	**$ 33,206**	$ 18,983	**$ 44,759**	$ 30,445
Interest expense					**4,087**	4,358
Minority interests					**815**	546
Income taxes					**19,095**	10,662
					23,997	15,566
Net earnings					**$ 20,762**	$ 14,879
Assets identified with segments	**$ 54,192**	$ 37,228	**$ 215,830**	$ 101,211	**$ 270,022**	$ 138,439
Capital expenditures	**$ 5,125**	$ 8,126	**$ 6,469**	$ 9,089	**$ 11,594**	$ 17,215
Depreciation and amortization	**$ 2,315**	$ 1,681	**$ 4,703**	$ 2,631	**$ 7,018**	$ 4,312

Geographic basis

(Thousands of Dollars)

	Canada		*Outside Canada*		*Consolidated*	
	1986	1985	**1986**	1985	**1986**	1985
Sales to outside customers	**$ 272,757**	$ 210,215	**$ 55,989**	$ 29,536	**$ 328,746**	$ 239,751
Inter-segment sales	**4,287**	4,717	**53**	–		
Total sales	**$ 277,044**	$ 214,932	**$ 56,042**	$29,536		
Net earnings	**$ 17,241**	$ 13,889	**$ 3,521**	$ 990	**$ 20,762**	$ 14,879
Assets identified with segments	**$ 165,846**	$ 117,733	**$ 104,176**	$ 20,706	**$ 270,022**	$ 138,439

Canadian sales to outside customers included $64,267,000 of export sales ($35,682,000 in 1985).

Five year Financial Summary

(In Thousands of Dollars except per share data)	**1986**		1985		1984		1983		1982	
Sales										
Consumer Products										
– Christmas	**$ 89,663**	**27%**	$ 53,552	22%	$ 41,547	26%	$ 21,759	20%	$20,056	21%
– Others	**163,828**	**50%**	121,619	51%	68,230	44%	50,670	46%	48,554	52%
	253,491	**77%**	175,171	73%	109,777	70%	72,429	66%	68,610	73%
Components Manufacturing	**75,255**	**23%**	64,580	27%	46,424	30%	36,532	34%	25,100	27%
Total	**$328,746**	**100%**	$239,751	100%	$156,201	100%	$108,961	100%	$93,710	100%
Financial Data										
Net Earnings	**$ 20,762**		$ 14,879		$ 11,409		$ 7,060		$ 4,168	
Return on Average Shareholders' Equity	**22.4%**		28.5%		28.2%		25.7%		20.8%	
Shareholders' Equity	**$126,123**		$ 59,150		$ 45,286		$ 35,581		$21,760	
Fixed Asset Additions	**$ 11,594**		$ 17,215		$ 8,350		$ 3,836		$ 1,861	
Depreciation and Amortization of Fixed Assets	**$ 5,526**		$ 3,920		$ 2,754		$ 2,367		$ 2,524	
Total Assets	**$270,022**		$138,439		$ 82,045		$ 58,081		$56,272	
Per Share Data*										
Earnings per Class A share	**$ 0.72**		$ 0.58		$ 0.45		$ 0.32		$ 0.21	
Dividends per Class A share	**$ 0.135**		$ 0.11		$ 0.07		$ 0.05		$ 0.04	
Market Price Range										
Class A										
High	**$ 18.63**		$ 10.00		$ 4.63		$ 2.54		$ 0.75	
Low	**$ 9.13**		$ 4.57		$ 2.07		$ 0.68		$ 0.48	

*For comparative purposes, all per share data for years prior to 1986 have been restated to reflect stock splits.

Corporate Directory

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Chairman of the Board
and Chief Executive Officer

Norman E. Hardy,
Chairman of the Board,
John Labatt Limited

James F. Kay,
Chairman of the Board,
Dylex Limited

Rudolph A. Koehler,
President

Donald Rafelman,
President, Fallbrook Holdings
Limited

Siegfried Riemer,
President, Cable Tech
Company Limited

Barrie D. Rose,
Chairman and
Chief Executive Officer,
Androcan Inc.

Catherine Rubin

Lionel H. Schipper, Q.C.
President,
Schipper Enterprises Inc.

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and Chief Executive Officer

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Norman S. Eckler,
Vice President, Finance
and Secretary

Meinrad C. Meerkamper,
Corporate Controller

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Toronto

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Barclays Bank of Canada
Continental Illinois National
Bank and Trust Company
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