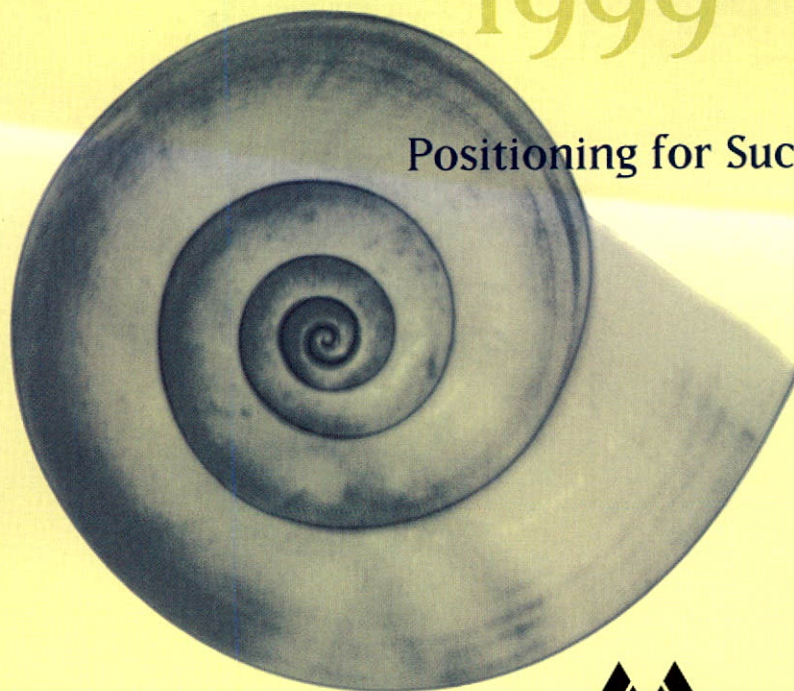




Annual Report

1999

Positioning for Success

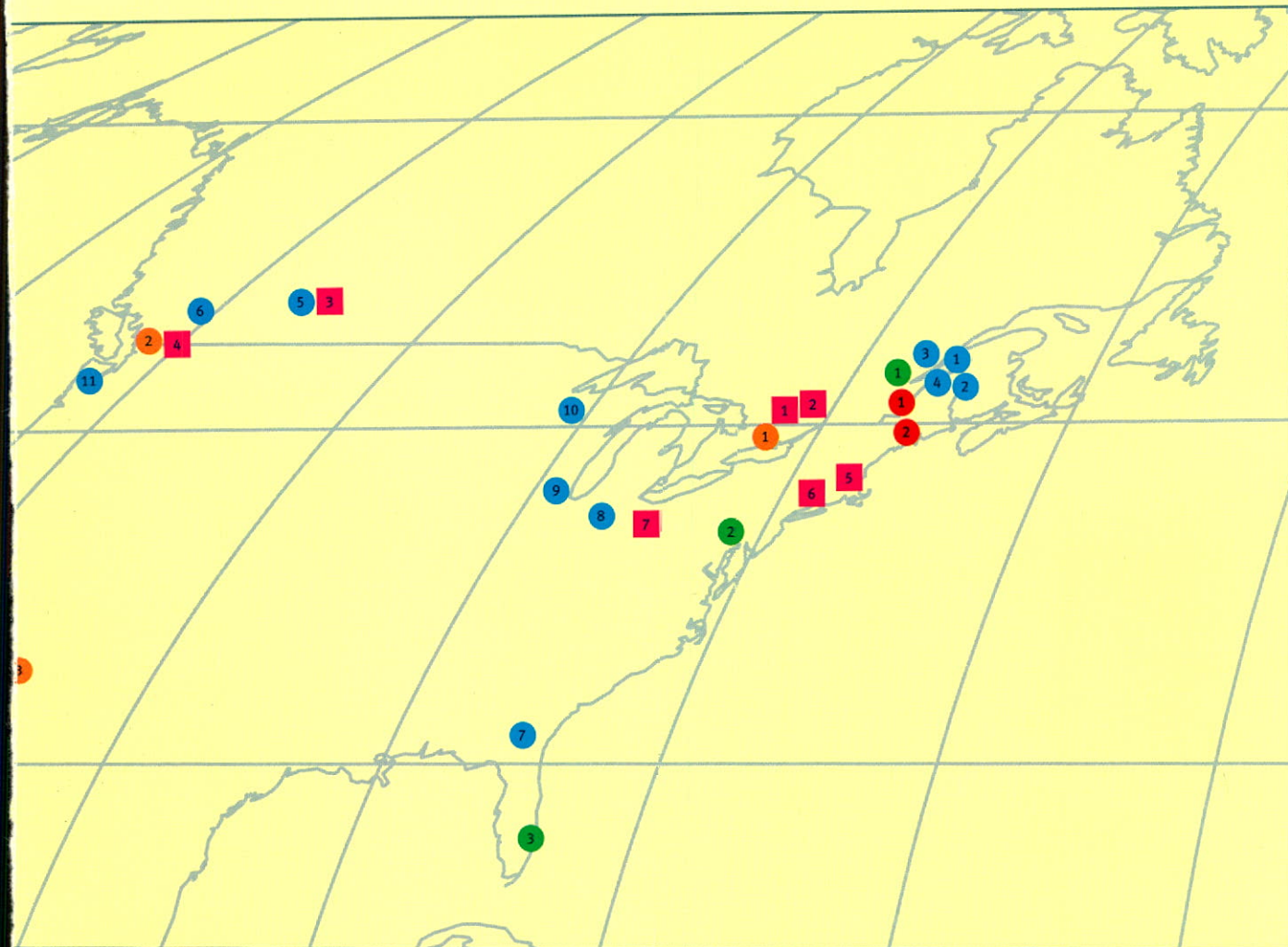


McGILL UNIVERSITY

JUN 8 1999



TREASURY DEPARTMENT





## DISTRIBUTION CENTRES

### KITCHEN CABINETS

-  1 Novax Group, Anjou (Quebec)
-  2 Novax Group, Laval (Quebec)

-  1 Mississauga (Ontario)
-  2 Toronto (Ontario)
-  3 Airdrie (Alberta)
-  4 Langley (British Columbia)
-  5 Berlin (New Jersey)
-  6 Lakewood (New Jersey)
-  7 Columbus (Ohio)
-  8 Sacramento (California)

POSITIONING FOR SUCCESS





## THE MAAX GROUP

**20** plants  
**8** distribution centres  
**2,300** employees  
**13** product lines

### SECTORS AND PLANTS

#### BATHROOM PRODUCTS AND ACCESSORIES

- 1 MAAX, Sainte-Marie (Quebec) (2 plants)
- 2 MAAX, Tring-Jonction (Quebec)
- 3 MAAX Spartan, Dorion (Quebec)
- 4 MAAX Spartan, Lachine (Quebec)
- 5 MAAX Westco, Airdrie (Alberta)
- 6 MAAX Westco, Armstrong  
(British Columbia)
- 7 MAAX Southeast, Valdosta (Georgia)
- 8 MAAX Midwest, Bremen (Indiana)
- 9 MAAX Midwest, Cedar Rapids (Iowa)
- 10 Pearl Baths, Minneapolis (Minnesota)
- 11 MAAX Hydro Swirl, Bellingham  
(Washington)

#### SHOWER DOORS AND MEDICINE CABINETS

- 1 Manhattan, Anjou (Quebec)
- 2 MAAX KSD, Southampton (Pennsylvania)
- 3 MAAX KSD, Riviera Beach (Florida)

#### SPAS

- 1 MAAX Spas (Ontario), Beamsville  
(Ontario)
- 2 MAAX Spas (B.C.), Maple Ridge  
(British Columbia)
- 3 MAAX Spas (Arizona), Chandler (Ariz.)



## A LOVE AFFAIR WITH WATER...

Founded in 1969, MAAX Inc. is the leading Canadian manufacturer of bathroom and kitchen products and spas. It ranks among the six largest firms in its industry in North America. With an excellent infrastructure including 20 plants and eight distribution centres across Canada and the U.S., MAAX has approximately 2,300 employees.

Over the years, MAAX has developed a strong presence in the major sectors of its industry, that is bathroom and kitchen products and spas. Thus, the Company possesses the required internal strengths to make its mark as a world leader by capitalizing on the unparalleled originality and quality of its products, its constant concern for customer service, and the commitment shared by all its employees to be a source of added value for its customers and shareholders. In this way, MAAX is coming ever closer to its goal of reaching the billion-dollar mark in annual sales by 2005.



BATHROOM PRODUCTS  
AND ACCESSORIES



SHOWER DOORS  
AND MEDICINE CABINETS



SPAS



KITCHEN CABINETS

## A COMPANY WITH SOLID VALUES

MAAX consistently succeeds in meeting the challenges inherent in its growth by capitalizing on proven values that are shared by all of its internal and external partners.

These values are:

- Innovation and creativity
- Customer oriented
- Employee empowerment
- Quality and cost conscious
- Open communication
- Results oriented

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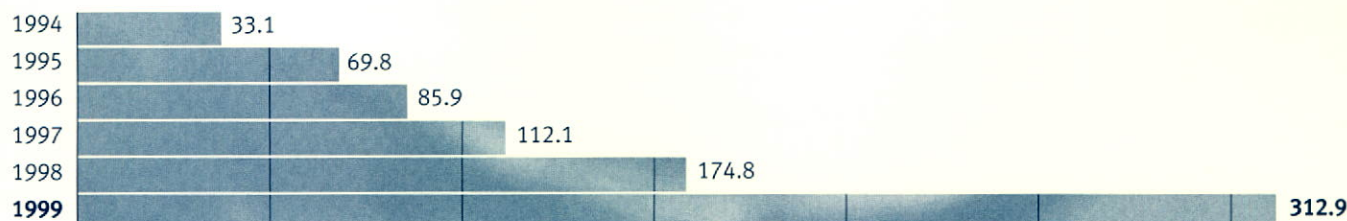
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## SUSTAINABLE, PROFITABLE GROWTH

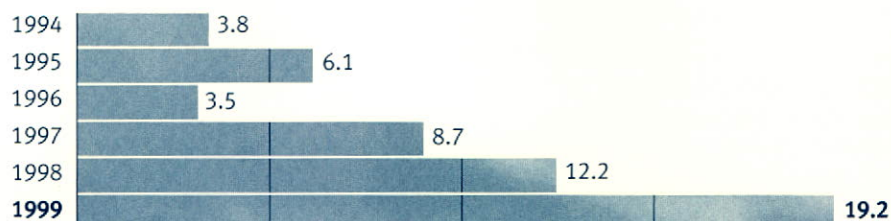
## SALES

(millions of \$)

Variation 1999/1998: **+79.0%**Annual compound growth rate over five years: **+56.7%**

## NET INCOME

(millions of \$)

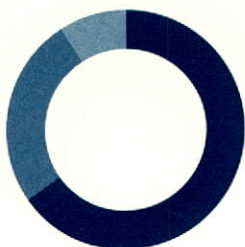
Variation 1999/1998: **+57.0%**Annual compound growth rate over five years: **+38.4%**

## CASH FLOW

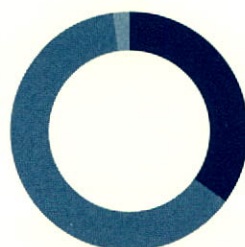
(millions of \$)

Variation 1999/1998: **+58.5%**Annual compound growth rate over five years: **+46.6%**SALES  
BY SECTOR

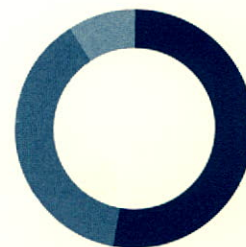
- Bathroom products and accessories: **\$204.0 M**
- Shower doors and medicine cabinets: **\$81.5 M**
- Spas: **\$27.4 M**

SALES  
BY REGION

- Canada: **\$108.9 M**
- U.S.: **\$199.4 M**
- Overseas: **\$4.6 M**

SALES  
BY DISTRIBUTION NETWORK

- Plumbing wholesalers: **\$166.2 M**
- Home improvement centres: **\$119.7 M**
- Spa distributors: **\$27.0 M**





**HIGHLIGHTS****A YEAR OF STRATEGIC ACQUISITIONS****APRIL 1998**

Acquisition of all of the assets of KSD Industries, Inc., a leading American manufacturer of shower doors and medicine cabinets with two plants, one in Pennsylvania and the other in Florida, as well as a distribution centre in New Jersey. This subsidiary's results were consolidated retroactively to February 1, 1998.

**MAY 1998**

Acquisition of the principal assets of Shostal Ltd., a leading Canadian manufacturer of shower kits, bathtub surrounds, bathtubs and showers with two plants in Quebec. This subsidiary's results were consolidated retroactively to April 1, 1998.

Implementation of a \$25 million capital expenditure program to automate all plants over the next three years.

**JULY 1998**

Conclusion of a public offering totalling \$96.5 million, or 5,000,000 common shares issued at a price of \$19.30 per share. The net proceeds from the offering were allocated to repaying long-term debt and financing MAAX's growth strategy, that is, the development of new product lines and the acquisition of complementary companies.

**SEPTEMBER 1998**

Acquisition of the shares of Savannah Spa Manufacturing, a Canadian spa manufacturer with a plant in British Columbia. This subsidiary's results were consolidated with those of MAAX as of September 1, 1998.

On September 8, 1998, acquisition of all of the assets of Novi American, Inc. and Novi Canada Ltd. and transfer of these assets to MAAX Spartan in order to increase the production capacity of bathroom equipment dedicated to the home improvement market, i.e. bathtub surrounds, shower kits, whirlpools and shower doors.

**OCTOBER 1998**

Acquisition of the shares of Coleman Spas, Inc., one of the five largest American spa manufacturers, with a plant in Arizona and a distribution network covering the entire U.S. The acquisition was consolidated retroactively to October 1, 1998.

**MARCH 1999**

Acquisition of the shares of Novax Modular Group Inc. (C.E. Cabinets), the third largest manufacturer of kitchen cabinets in Canada and one of the 35 largest in North America. Novax Group, which also manufactures bathroom vanities, operates two plants in Quebec and two warehouses, one in Ontario and one in British Columbia. The transaction will be consolidated retroactively to March 1, 1999.



**FINANCIAL HIGHLIGHTS**

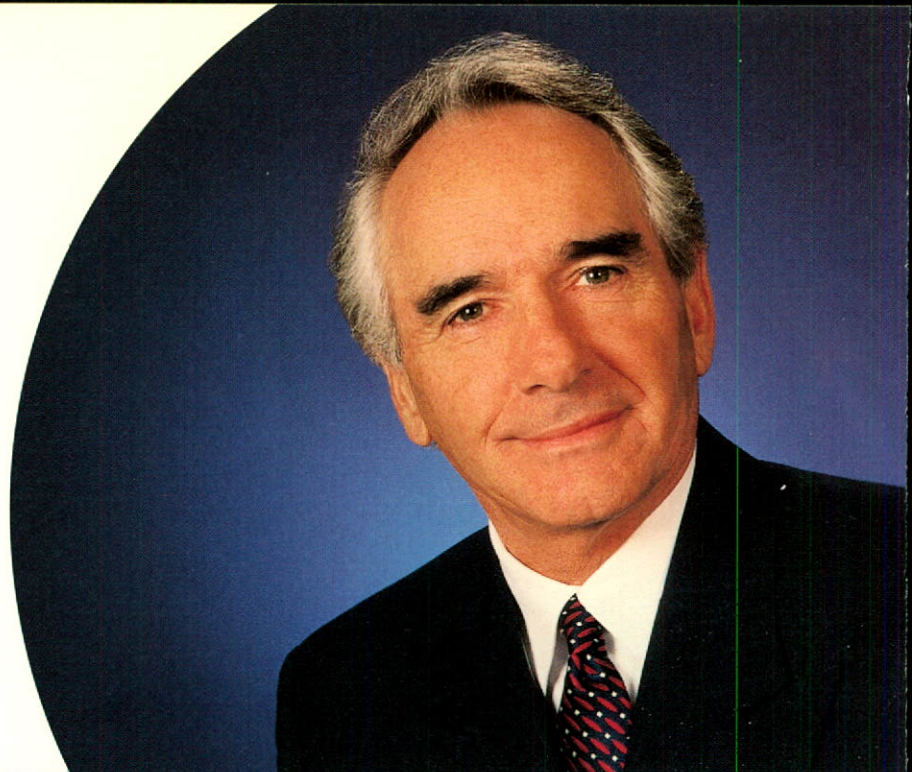
Years ended February 28  
(in thousands of dollars except per share amounts)

	1999	1998	1997	Variation 1999/1998
<b>Operating Results</b>				
Sales	\$ 312,895	\$ 174,841	\$ 112,086	79.0 %
Net income	\$ 19,193	\$ 12,224	\$ 8,657	57.0 %
Cash flow	\$ 31,841	\$ 20,084	\$ 14,713	58.5 %
<b>Per Share <sup>1</sup></b>				
Net income	\$ 0.88	\$ 0.68	\$ 0.53	29.4 %
Fully diluted net income	\$ 0.84	\$ 0.66	\$ 0.50	27.3 %
Cash flow	\$ 1.46	\$ 1.11	\$ 0.89	31.5 %
Net book value	\$ 8.66	\$ 4.57	\$ 3.67	89.5 %
<b>Financial Position</b>				
Working capital	\$ 66,286	\$ 23,237	\$ 7,193	185.3 %
Total assets	\$ 276,043	\$ 168,735	\$ 117,881	63.6 %
Total debt	\$ 30,931	\$ 57,468	\$ 26,798	(46.2)%
Shareholders' equity	\$ 204,833	\$ 83,641	\$ 65,210	144.9 %
<b>Financial Ratios</b>				
Net profit margin	6.1%	7.0%	7.7%	
Current ratio	2.52:1	1.61:1	1.24:1	
Total debt/equity ratio	0.15:1	0.69:1	0.41:1	
Return on average equity	11.9%	16.6%	17.1%	
Return on total assets	8.6%	8.5%	8.6%	

<sup>1</sup> Per share amounts have been adjusted to reflect a two-for-one stock split as at April 3, 1997.



## MESSAGE TO SHAREHOLDERS



In addition to being our third consecutive year of record financial performance, fiscal 1999 was a year of strategic decisions that will have a significant influence on MAAX's future positioning. It was an extraordinary, challenging and demanding year.

As the achievements and results for the last fiscal year clearly show, MAAX's development accelerated in 1999 with the completion of six strategic acquisitions that reinforced our position as a North American leader in the manufacturing and distribution of bathroom and kitchen products, as well as spas.

With regard to both operations and organization, we have structured our companies to make them more competitive, while tightening our management systems and integrating the companies acquired during the year so as to benefit from available synergies. MAAX thus achieved all the goals it set for 1999 and now has the necessary tools to focus its development efforts using internal resources and its capacity to continuously redefine the bathroom. Today, MAAX is structured into four market sectors: bathroom products and accessories, shower doors and medicine cabinets, spas, and kitchen cabinets.

### RECORD RESULTS FOR THE THIRD CONSECUTIVE YEAR

In 1999, MAAX recorded strong growth as sales increased by \$138.1 million, or 79.0%, to a total of \$312.9 million. The contribution of the acquired companies amounted to \$108.8 million, and internal growth was about \$33.1 million, for an increase of approximately 19.3%. This was made possible through the introduction of innovative products and a favourable economic climate.

Net income increased by 57.0% to reach \$19.2 million, or \$0.88 per share, and return on shareholders' equity amounted to 11.9%, compared to 16.6% for the previous year.

We are proud of having achieved these results while taking the necessary steps to ensure that MAAX is positioned as a leader in the years to come. Thus, by aligning goals for short-term performance with the imperatives of a long-term vision, we have been able to build solid foundations for continued growth in income. We achieved this double objective with the support of our shareholders, who enthusiastically responded to our public offering last July. This injection of \$96.5 million of new capital enabled us to firm up our financial structure and pursue our acquisitions program.

Over the last five years, MAAX has achieved compound annual growth of 56.7% in sales and 38.4% in net income. Such results do not happen by chance. They are the fruit of strategic decisions, actions and efforts, to which both internal and external resources have contributed in their own way, based on their respective responsibilities. Throughout the process, we have enhanced our expertise in managing our daily operations and in quickly integrating new acquisitions into our organization.



"Over the last five years, MAAX has achieved compound annual growth of 56.7% in sales and 38.4% in net income."

#### THE FOUNDATIONS FOR SUSTAINABLE, PROFITABLE GROWTH

MAAX is poised to welcome the new millennium with continued strong growth in sales and profitability, while putting measures into place to ensure a smooth transition to the year 2000 for all subsidiaries and customers. Our development strategy will focus on the internal growth of the entities that are already part of the group, as well as on targeted strategic acquisitions to further strengthen our market position.

We have put into place the elements that will enable us to consolidate and enhance our leadership position in the bathroom, kitchen and spa markets so that we can continue to offer our customers more personalized service, all while capitalizing on our extensive manufacturing and distribution network.

In addition to maximizing manufacturing and distribution synergies between our subsidiaries, we will continue our program to automate the manufacturing units, intensify our vertical integration, and continue offering our customers the best possible logistics and service.

Furthermore, MAAX anticipates an internal growth rate of more than 15% for the current fiscal year through continued industry growth, expansion of distribution networks and the introduction of innovative product lines. To this end, we are very pleased to announce that MAAX will enter the faucet and vanity markets in the next few months. These two sectors complement our existing product lines, and the potential for synergy is very high because they use the same distribution networks. We expect to post annual sales of approximately \$50 million in those two categories within three years. MAAX is thus intensifying the horizontal integration of its activities and becoming more widely known as a one-stop shopping centre for bathroom and kitchen equipment.

MAAX's goal is to offer its customers innovative products that provide the best value for money in each of the market segments in which we are active. We are proud of the many achievements of our three Research and Development centres.

Overall, the contribution of the recent acquisitions for a full fiscal year and the maintenance of a high rate of internal growth should allow the Company to achieve sales of over \$445 million for the current year, while posting profit margins at a level consistent with our historical performance. These factors combined with our strategic acquisition program should contribute to bring the Company ever closer to our objective of reaching the \$665 million mark in annual sales by 2002.

We recently launched the first-ever on-line bathroom planner. With this initiative, which we call the Virtual Bathroom Planner, consumers can now design a virtual plan for the bathroom of their dreams, based on a vast selection of MAAX products. This will facilitate bathroom renovation or construction projects. All of our customers and distributors will benefit from this initiative, which will further enhance our services and help us to stay *ahead of the wave*.

Over the years, we have laid the foundations for our future growth. In the North American market, our four operating sectors represent a potential market of approximately \$20 billion



following page  
OPERATIONS COMMITTEE

**David Poulin 1**  
Vice-President,  
Operations

**Howard Ellner 2**  
Vice-President  
General Manager,  
Shower Doors and Medicine  
Cabinets Sector

**Dagmar Egerer 3**  
Senior Vice-President,  
Sales

**André Héroux 4**  
Vice-President,  
Operations

**Marie-France Poulin 5**  
Executive Vice-President

**David Wright 6**  
Vice-President  
General Manager,  
Spa Sector

**Richard Garneau 7**  
Executive Vice-President  
and Chief Financial Officer

**Jean-François Dodier 8**  
Manager, Finance and  
Administration

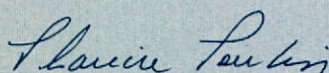
**Bruno Raby 9**  
Sales Manager  
Eastern Canada

and manufacture the products involved in the two most popular home renovation projects. Now, more than ever, we are equipped to meet growth in the bathroom as well as the kitchen markets.

The well-being and comfort of our customers is the driving force behind MAAX, and every one of our 2,300 employees – 1,540 in Canada and 760 in the U.S. – embraces this passion with creativity and pride. MAAX's success is based on respect for our customers, and an environment in which all employees are empowered and share the same culture and values.

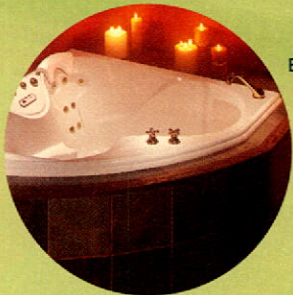
Our customers are, and will continue to be, our top priority. As President, I would like to assure you of my commitment to strive for nothing short of excellence in all the projects we undertake with all our partners: customers, suppliers, employees and shareholders.

I would like to thank all of you for allowing us to become what we are today. As we enter this new millennium, I invite you to be a part of our exciting future growth.



**Placide Poulin**  
Chairman of the Board  
President and Chief Executive Officer  
May 1999





BATHROOM PRODUCTS  
AND ACCESSORIES



SHOWER DOORS  
AND MEDICINE CABINETS



SPAS

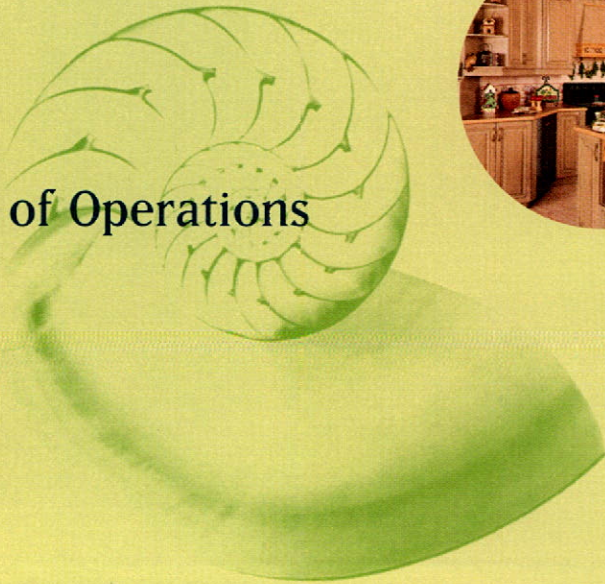


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KITCHEN CABINETS

# Review of Operations





## OVERVIEW OF OPERATIONS


**BATHROOM PRODUCTS  
AND ACCESSORIES**

**SHOWER DOORS  
AND MEDICINE CABINETS**

## DESCRIPTION

This sector includes all bathroom fixture manufacturing activities that use acrylic, thermoplastic or fiberglass as a raw material. The main products are bathtubs, whirlpool baths, showers and bathtub surrounds.

**Production Infrastructure**

Bathroom products and accessories are manufactured at 12 plants:

- Seven plants in Canada: five in Quebec, one in Alberta and one in British Columbia;
- Five plants in the United States: Georgia, Indiana, Iowa, Minnesota, and Washington.

This sector includes all shower door and medicine cabinet manufacturing activities, as two of the principal raw materials used in this category of bathroom fixtures are metal and tempered glass.

**Production Infrastructure**

Shower doors and medicine cabinets are manufactured at three plants, one in Canada (Quebec) and two in the United States (Pennsylvania and Florida).

## ACHIEVEMENTS

- Significant increase in sales as a result of two new acquisitions, i.e., the two Shostal Ltd. plants and the assets of Novi, as well as high internal growth.
- Marked increase in the renovation centre line through new acquisitions and the introduction of several new product models, including a new line of fiberglass products for seniors and disabled people.
- Implementation of the Indiana plant automation program and investments to improve the manufacturing capacity of three plants in Quebec.
- The successful integration of MAAX KSD spurred exceptional growth in this sector.
- This sector also benefited from an aggressive marketing program to significantly increase home centre penetration.
- Introduction of a new line of decorative mirrors.

## OBJECTIVES

- Support accelerated growth using new product lines targeted specifically at our different clientele and through the introduction of faucet and bathroom vanity product lines.
- Capitalize on the launches of revolutionary new products that showcase MAAX innovation, such as the Sensation bathtub or the Rainforest shower, which simulates a tropical rain shower.
- Complete the automation program at the plants in this sector.
- Continue promoting the MAAX brand throughout North America and intensify development of international markets.
- Develop and market a new line of bathroom vanities with built-in medicine cabinets.
- Increase penetration into the home centre market.



## SPAS



This sector includes all manufacturing activities related to spas, a category of products partly served by a different distribution network, i.e., spa and pool distributors.

### Production Infrastructure

Spas are manufactured at three plants, two in Canada (Ontario and British Columbia) and one in the United States (Arizona).

- The acquisition of Savannah Spa Manufacturing and Coleman Spas, which became MAAX Spas (B.C.) and MAAX Spas (Arizona) respectively, considerably increased spa sales and consolidated MAAX's position among the North American leaders in this market.
- MAAX gained not only the recognition of the Coleman Spas brand, but also a manufacturing infrastructure, both in Canada and the U.S., ensuring its presence right across the continent.
- Development of several new spa models.

- Maximize manufacturing, distribution and marketing synergies.
- Implement a marketing strategy that will permit increased penetration into various distribution networks.

## KITCHEN CABINETS



This sector includes all kitchen cabinet manufacturing activities, as one of the principal raw materials is wood.

### Production Infrastructure

Kitchen cabinets are manufactured at two Canadian plants (Quebec).

- The acquisition of Novax Modular Group (C.E. Cabinets), which created this new sector of activity, will have an impact on the next year's results because it took place on March 31, 1999.
- The acquisition makes MAAX the third largest kitchen cabinet manufacturer in Canada and one of the 35 largest in North America.
- The kitchen is the most popular renovation project in North America with annual sales of more than \$10 billion.

- Achieve \$40 million in sales this year.
- Optimize use of the extensive MAAX distribution network as kitchen cabinet and bathroom product markets use the same basic networks.



## REVIEW OF OPERATIONS



In fiscal 1999, MAAX intensified its business thrust of the last few years, in addition to completing a series of six highly complementary acquisitions and an extensive redeployment of its operating resources.

Over the past year, MAAX laid the foundations for its future growth. This process was marked by a series of strategic actions aimed at furthering the achievement of our positioning objectives.

## SIX COMPLEMENTARY ACQUISITIONS

As the table below shows, MAAX completed a record number of acquisitions during the last fiscal year, integrating a total of six companies.

COMPANIES ACQUIRED (NEW ENTITY) <sup>1</sup>	DATE <sup>2</sup>	STRATEGIC OBJECTIVES
KSD Industries (MAAX KSD)	Feb. '98	• Development of shower door and medicine cabinet manufacturing infrastructure on the U.S. Eastern Seaboard
Shostal (MAAX Spartan)	April '98	• Manufacturing expansion • Large expansion of product lines for home improvement market
Novi (MAAX Spartan)	Sept. '98	• Expansion of product lines for home improvement market
Savannah Spa (MAAX Spas (B.C.))	Sept. '98	• Development of spa manufacturing infrastructure in western Canada
Coleman Spas (MAAX Spas (Arizona))	Oct. '98	• Considerable expansion of spa line • Expansion of the spa sector's manufacturing presence in U.S.
Novax Modular Group	March '99	• First major breakthrough in kitchen cabinet and bathroom vanity market

<sup>1</sup> Entity that acquired the assets or new corporate name of the entity  
<sup>2</sup> Date results were recorded

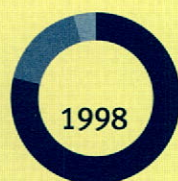
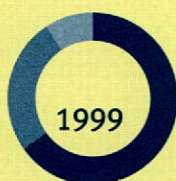
From a strategic point of view, each of these acquisitions met our positioning objectives and our acquisition criteria, but, above all, these transactions have made MAAX a leading player in all our target markets.



### SALES BY SECTOR

(millions of \$)

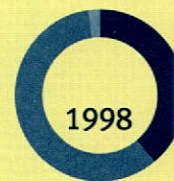
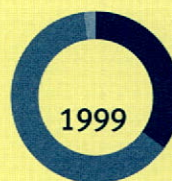
	1999	1998	variation
Bathroom products and accessories	204.0	138.4	+47.4%
Shower doors and medicine cabinets	81.5	28.9	+182.0%
Spas	27.4	7.5	+264.8%



### SALES BY REGION

(millions of \$)

	1999	1998	variation
Canada	108.9	68.6	+58.7%
U.S.	199.4	103.4	+92.8%
Overseas	4.6	2.8	+64.1%



We were careful to transform all of the acquired organizations into true MAAX entities, that is, businesses centred on operating and financial performance, product quality, and customer service. Inculcating these companies with MAAX's values and efficiently integrating a total of ten plants, three distribution centres, six management teams, and many new customers and employees throughout North America, occupied a considerable proportion of our energies during the last fiscal year. These efforts and the synergies that have been generated between the new entities and our existing networks are already providing benefits for MAAX.

#### AN EFFICIENT OPERATIONAL STRUCTURE

As the map at the beginning of this annual report shows, MAAX has divided its activities into four distinct operating sectors:



#### SOLID SALES GROWTH IN EACH OPERATING SECTOR

MAAX's positioning in these four sectors is not however fully reflected by its financial performance over the last fiscal year, because all of the acquired companies contributed for a period of less than 12 months and Novax Group, which represents the entire kitchen cabinet sector, was only acquired after the year-end.

Consequently, the sales of bathroom products and accessories increased by 47.4% to reach \$204 million, representing 65.2% of consolidated sales. Benefiting from the contribution of MAAX KSD for a full fiscal year, the shower doors and medicine cabinets sector achieved growth of 182.0% of its sales, which amounted to \$81.5 million, or 26.1% of the consolidated total. Finally, under the combined stimulus of the acquisition of Coleman Spas and Savannah Spa, the spa sector generated growth of 264.8% in sales, which reached \$27.4 million, or 8.7% of MAAX's total sales.

Geographically speaking, MAAX made 63.7% of its sales in the U.S., 34.8% in Canada, and 1.5% internationally. On the U.S. market, where housing start-ups increased from 1.48 million units in 1997 to 1.61 million units in 1998, our sales increased by almost 93%, reaching \$199.4 million. In Canada, where housing start-ups remained stable at 137,400 in 1998, MAAX posted sales of \$108.9 million, or a close to 59% increase. MAAX also recorded growth of 64% in its international sales, which amounted to \$4.6 million.

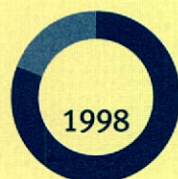
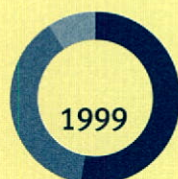




## SALES BY DISTRIBUTION NETWORK

(millions of \$)

	1999	1998	variation
Plumbing wholesalers	166.2	134.1	+23.9%
Home improvement centres	119.7	33.2	+260.5%
Spa retailers	27.0	7.5	+260.7%



The strong increase in sales specifically reflects an equally marked growth in MAAX's customer base.

In fiscal 1999, MAAX achieved its goal of increasing its presence in home improvement centres, where its sales increased substantially, reaching \$119.7 million, or 38.2% of consolidated sales, compared to 19.0% for the previous year. Moreover, further to the acquisitions of Coleman Spas and Savannah Spa, MAAX achieved spa sales of \$27.0 million, or 8.7% of total sales, compared to 4.3% in 1998. Finally, sales through our extensive network of plumbing wholesalers, where MAAX already occupied an enviable position, increased by 23.9% to \$166.2 million or 53.1% of consolidated sales.

## OPERATIONS

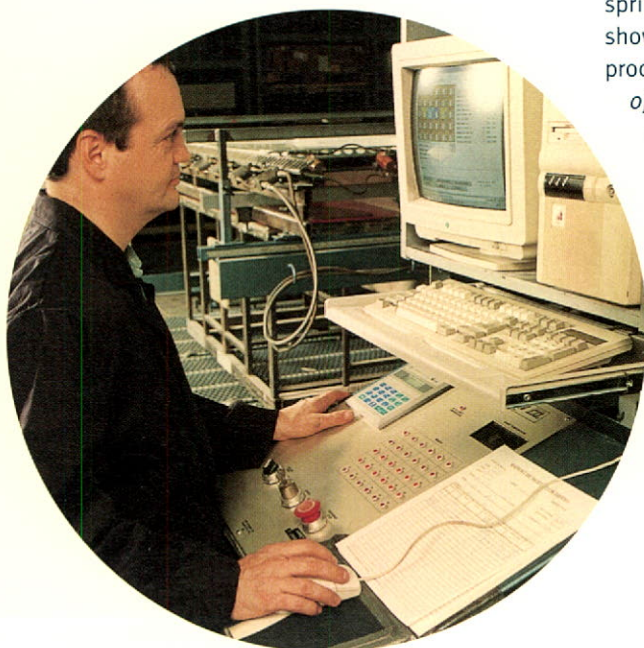
In order to improve the operating efficiency of its 20 plants, MAAX has initiated a wide-ranging program to automate its production lines by developing a tailor-made robotic technology, which we have implemented in our Indiana plant. Over the next 12 months, we will pursue our program in three other plants. Finally, MAAX has continued working on its quality assurance program and we are confident that all our facilities will meet ISO 9001 and 9002 standards within two years. The distribution centre concept that we developed in Toronto in 1998, i.e. a large warehouse with a spacious showroom, was also implemented in two other Canadian locations: Langley (British Columbia) and Airdrie (Alberta).

## RESEARCH & DEVELOPMENT

The 19.3% internal growth in MAAX's sales during the last fiscal year was largely due to the continued high pace of investment in the research and development of new products and manufacturing processes. In fact, last year we devoted over \$2.5 million to this function, which will always be the jewel in our Company's crown. And, to a great extent, these efforts have been productive, since 40 new products have been introduced in the spring of 1999, including the Sensation bathtub and the Rainforest shower with its tropical rain effect (see back-cover). Behind all these products, which have consistently allowed MAAX to keep its place *ahead of the wave*, stands the dedicated hard work of the many specialists in design, industrial engineering and manufacturing technology who work in our R&D centres.

## HUMAN RESOURCES

Many new partners have joined MAAX in 1998. We now have over 2,300 employees, some 1,000 more than at the same time last year. Our human resources represent another undeniable source of pride for MAAX because they embody the values that have always been at the root of our success and constitute the direct link between our products and the markets. Each and every one of our members works actively and unceasingly for the well-being and satisfaction of our customers, whom are our "raison d'être."







Furthermore, we proudly note that MAAX's implication and dynamic outlook have been recognized by numerous organizations and institutions; over the past year, more than ten prizes were received either by MAAX or its president. These awards underlined not only managerial quality but the company's involvement within the community and its efforts to protect the environment.

#### OUTLOOK

MAAX plans to capitalize on its acquisitions of the last year and on a favourable economic, demographic and social environment to actively pursue its market penetration strategy. In addition to focusing on the full development of the synergies between the new companies making up our group, we will continue to favour initiatives that clearly demonstrate to our customers the key role they occupy among our priorities. Thus, MAAX will complete the implementation of a logistics system that will enable its customers to receive all the benefits of an outstanding service. With a view to making our clients more aware of the distinctive features of MAAX products, we will be opening the doors of our Training Academy, which will have an incredible showroom as well as classrooms and laboratories designed for providing the best possible training. Furthermore, the Virtual Bathroom Planner is already on-line and this initiative constitutes a first in our industry.

Finally, we will be able to take full advantage of the recognition of the MAAX group's trademarks in the North American industry by introducing new products and launching two whole new product lines in September 1999, i.e. faucets and bathroom vanities. The spa division's brand image has been considerably reinforced over the past year and we foresee capitalizing on this asset in order to accelerate its growth. Furthermore, the acquisition of Novax Group has made MAAX a top player in the manufacture of kitchen cabinets and we will be able to benefit from our extensive distribution network to stimulate the sales of this company.

MAAX is now firmly established in the two rooms in the home where the most popular renovation projects are carried out, and it will remain on the alert to acquire all the tools it needs to fully benefit from its position.

**Marie-France Poulin**  
Executive Vice-President



**FINANCIAL RETROSPECTIVE**

(in thousands of dollars except per share amounts)

	1999	1998	1997	1996	1995	1994
<b>Operating Results</b>						
Sales	\$ 312,895	\$ 174,841	\$ 112,086	\$ 85,902	\$ 69,789	\$ 33,126
Operating income <sup>1</sup>	\$ 47,807	\$ 30,528	\$ 21,118	\$ 12,054	\$ 13,924	\$ 7,255
Fully diluted net income	\$ 19,193	\$ 12,224	\$ 8,657	\$ 3,514	\$ 6,144	\$ 3,760
Cash flow	\$ 31,841	\$ 20,084	\$ 14,713	\$ 7,750	\$ 9,208	\$ 4,739
<b>Per Share <sup>2</sup></b>						
Net income	\$ 0.88	\$ 0.68	\$ 0.53	\$ 0.22	\$ 0.41	\$ 0.26
Fully diluted net income	\$ 0.84	\$ 0.66	\$ 0.50	\$ 0.22	\$ 0.39	\$ 0.25
Cash flow	\$ 1.46	\$ 1.11	\$ 0.89	\$ 0.48	\$ 0.62	\$ 0.32
Book value	\$ 8.66	\$ 4.57	\$ 3.67	\$ 2.72	\$ 2.46	\$ 1.99
Shares outstanding (in thousands)	23,644	18,332	17,770	16,306	15,724	14,802
<b>Financial Position</b>						
Working capital	\$ 66,286	\$ 23,237	\$ 7,193	\$ 10,792	\$ 8,131	\$ 13,480
Fixed assets	\$ 70,503	\$ 48,800	\$ 43,354	\$ 34,266	\$ 19,260	\$ 10,172
Total assets	\$ 276,043	\$ 168,735	\$ 117,881	\$ 82,861	\$ 60,470	\$ 35,870
Total debt	\$ 30,931	\$ 57,468	\$ 26,798	\$ 28,765	\$ 12,997	\$ 1,178
Shareholders' equity	\$ 204,833	\$ 83,641	\$ 65,210	\$ 44,252	\$ 38,564	\$ 29,489
<b>Financial Statistics</b>						
Net profit margin	6.1%	7.0%	7.7%	4.1%	8.8%	11.4%
Current ratio	2.52:1	1.61:1	1.24:1	1.75:1	1.58:1	3.30:1
Total debt/equity ratio	0.15:1	0.69:1	0.41:1	0.65:1	0.34:1	0.04:1
Return on average equity	11.9%	16.6%	17.1%	8.3%	18.6%	13.7%
Return on total assets	8.6%	8.5%	8.6%	4.9%	12.8%	11.5%

<sup>1</sup> Before depreciation, amortization, research and development costs, interest and income taxes.

<sup>2</sup> Per share amounts have been restated to account for the two-for-one stock split as at April 3, 1997.



## FINANCIAL REVIEW

## SALES BY SECTOR



This management's discussion and analysis of the Company's operating results and changes in financial position for the year ended February 28, 1999, as well as its financial position at that date, should be read in conjunction with the consolidated financial statements appearing in this annual report. All per share amounts appearing in this annual report have been adjusted to account for the stock split as at April 3, 1997.

## DESCRIPTION OF BUSINESS

MAAX is a leader in the design, development, manufacture and distribution of bathroom fixtures as well as spas. On February 28, 1999, the Company was active in three business sectors: bathroom products and accessories, shower doors and medicine cabinets, and spas. MAAX's most important segment is its bathroom product and accessory business, which includes sales of acrylic, fiberglass and thermoplastic bathtubs. For a more detailed description of the various business sectors, please refer to pages 8 and 9 of this annual report. The Company's business has been subdivided into segments to reflect the differences in technology and marketing strategies. All operations are carried out in Canada and the United States.

## OPERATING RESULTS

During the fiscal year ended February 28, 1999, MAAX achieved a record financial performance for a third consecutive year.

In 1999, the Company posted an improvement of 79.0% in sales, which climbed to \$312.9 million, up from \$174.8 million for the previous year. This increase of \$138.1 million was due to:

- internal growth of 19.3%;
- the contribution for the full fiscal year of MAAX KSD, a subsidiary acquired at the very end of fiscal 1998; and
- the contribution of the acquisitions concluded during the year, namely Shostal Ltd. (11 months), Novi (6 months), Savannah Spa Manufacturing (6 months) and Coleman Spas (5 months).

On a segmented basis, MAAX's sales of bathroom products and accessories rose 47.4% to reach \$204,006,000, or 65.2% of consolidated business volume. Sales of shower doors and medicine cabinets grew by 182.0% to total \$81,527,000, thereby accounting for 26.1% of the Company's revenues. Finally, sales of spas increased by 264.8% to reach \$27,362,000, which corresponds to 8.7% of total consolidated business volume.

Operating income (earnings before depreciation, amortization, research and development costs, interest and income taxes) reached \$47,807,000, up from \$30,528,000 for the previous year, an increase of 56.6%. Operating expenses as a percentage of sales went from 82.5% to 84.7%. This increase was mainly due to the costs of integrating the six companies acquired over the past year.

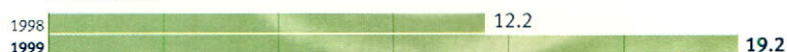


**CASH FLOW**

(millions of \$)

**NET INCOME**

(millions of \$)



In 1999, MAAX injected \$2,488,000 into the research and development of new products and higher performance manufacturing processes, up 72.3% over \$1,444,000 the previous year.

The Company incurred financial expenses of \$3,952,000 over the past year, compared with \$1,794,000 in 1998, as a result of a \$2,083,000 loss on exchange rate fluctuations.

The major investments allocated to business acquisitions and the capital program translated into a 53.2% increase in total depreciation and amortization costs, which rose to \$11,317,000, compared with \$7,387,000 the previous year.

After accounting for these various expenses, income before income taxes grew by 51.0% to reach \$30,050,000, up from \$19,903,000 in 1998.

Consequently, MAAX achieved record net income of \$19,193,000, up 57.0% over \$12,224,000 for the previous year. Despite a 27.7% increase in the weighted average number of shares outstanding following the conclusion of a public offering in July 1998, income per share amounted to \$0.88 on 21,824,804 shares outstanding, compared with \$0.68 on 18,029,349 shares in 1998, an increase of 29.4%. Fully diluted income per share amounted to \$0.84, up from \$0.66 one year earlier. Finally, return on average equity stood at 11.9%, and return on average total assets at 8.6%.

The first half of last year gave rise to strong growth in sales and net income compared with the first six months of the previous fiscal year.

**QUARTERLY FINANCIAL RESULTS**

(in thousands of dollars except per share amounts)

**Year ended February 28, 1999**

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Sales	\$69,679	\$77,476	\$87,133	\$78,607	\$312,895
Net income	4,912	6,050	4,668	3,563	19,193
Net income per share	0.27	0.28	0.20	0.15	0.88

**Year ended February 28, 1998**

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Sales	\$44,655	\$45,382	\$42,204	\$42,600	\$174,841
Net income	3,685	4,113	2,975	1,451	12,224
Net income per share	0.21	0.23	0.16	0.08	0.68

This positive trend was mostly due to the recognition of the financial results of MAAX KSD and MAAX Spartan, combined with a high, steady pace of internal growth. Although the acquisitions made in the second half of the year stimulated growth in sales, net income showed a slow-down during the third and fourth quarters. However, management is confident that the implementation of manufacturing and distribution synergies with the MAAX Group's new entities will lead to a general improvement in profit margins for the current fiscal year.



**BUSINESS ACQUISITIONS**

(millions of \$)

**ADDITIONS TO FIXED ASSETS**

(millions of \$)

**CHANGES IN FINANCIAL POSITION**

During the last fiscal year, cash flow rose 58.5% to reach \$31.8 million or \$1.46 per share, compared with \$20.1 million or \$1.11 per share in 1998. Working capital used cash of \$22,704,000, mainly due to the increase in inventories and accounts receivable as a result of the numerous acquisitions made over the past year. Operating activities therefore provided cash of \$9,137,000 after net changes in non-cash operating working capital items compared to \$7,616,000 last year.

In fiscal 1999, MAAX invested \$77,453,000 in business acquisitions and the purchase of fixed assets to secure a solid foundation for its future growth. The five acquisitions completed over the past year thus used cash of \$55,601,000. The Company also allocated approximately \$18 million to its capital expenditure program over the past year.

To finance all these investments, the Company completed a public offering of 5,000,000 common shares at a per share price of \$19.30, for net proceeds of \$96.5 million. On a net basis, MAAX reduced its long-term debt by \$21.2 million. Overall financing activities therefore provided cash of \$75,598,000 in 1999.

After accounting for these various inflows and outlays of cash, the Company benefited from a cash surplus of \$1,376,000 at the end of last year.

**FINANCIAL POSITION**

MAAX's total assets grew by 63.6% to reach \$276,043,000, compared with \$168,735,000 as at February 28, 1998. In light of the public offering and the contribution of net income for the past year, shareholders' equity climbed from \$83,641,000 or \$4.57 per share to \$204,833,000 or \$8.66 per share, an increase of 144.9%. Working capital almost tripled to total \$66,286,000, for a current ratio of 2.52:1, as opposed to 1.61:1 at the end of February 1998.

As indicated previously, the five acquisitions made over the past year and strong internal growth have led to a significant increase in accounts receivable, inventories, as well as an increase of \$37.8 million in goodwill, representing a total of \$92.3 million in 1999. The various financing activities reduced the long-term debt to \$23,146,000, down from \$42,908,000 as at February 28, 1998. Overall, the Company's total debt therefore decreased from \$57,468,000 to \$30,931,000. The total debt/equity ratio stood at 0.15:1, compared with 0.69:1 at the end of fiscal 1998.

**THE YEAR 2000**

Since 1996, the Company has been engaged in a multi-year effort to identify and address year 2000 related issues. To this end it has undertaken a detailed inventory of its software and hardware systems and equipment. For the most part the updating and replacement of our essential systems has already been completed and our accessory systems are scheduled to be completed by July 31, 1999.

In addition, efforts are well underway to track whether key MAAX partners have completed, or are undertaking, appropriate year 2000 actions.

The total cost budgeted by the Company to ensure that our systems are year 2000 compliant is in the order of \$2 million. A large portion of this amount will, in any case, already have been included in annual budgets related to technology.



**TOTAL ASSETS**

(millions of \$)

**SHAREHOLDERS' EQUITY**

(millions of \$)



The Company is confident that its internal systems will be fully ready for the turnover to the year 2000. However, the possibility of year 2000 related problems cannot be totally eliminated, especially in relation to the measures taken by our business partners.

**OUTLOOK, REQUIREMENTS  
AND SOURCES OF FUNDS IN FISCAL 2000**

Considering the favorable outlook for the industry, the launching of a great many new products, the development of new lines such as faucets, the contribution of the companies acquired last year and the contribution of a new business sector with the acquisition of Novax Group, which manufactures kitchen cabinets and bathroom vanities, MAAX management is highly confident that we will achieve a record financial performance once again in fiscal 2000. The Company expects to generate business volume of \$445 million for the current fiscal year, while posting profit margins consistent with its historical performance. MAAX could also benefit from other acquisitions meeting its criteria of broadening its product lines or extending its geographic reach in Canadian, American and international markets.

The growth in profit margins and cash flow should benefit, among other things, from the pursuit of an intensive plant automation program, a marketing strategy well targeted in terms of the Company's various customer bases and the contribution of the acquired companies.

The acquisition of Novax Group, effective March 1, 1999, will represent an outlay of \$24,125,000. Capital expenditures are expected to remain at substantially the same level as last year, at approximately \$20 million, enabling the Company to continue expanding its product lines and satisfy the growing demand for its products under conditions of optimal efficiency.

In the next fiscal year, cash flow should largely cover the funding requirements generated by these operations and the planned repayment of a minimum of \$7.8 million in long-term debt. Surplus cash flow will be used to increase working capital. In the event of new investment opportunities, MAAX currently has cash of approximately \$1.4 million and unused credit facilities of more than \$56 million.

**Richard Garneau**  
Executive Vice-President  
and Chief Financial Officer



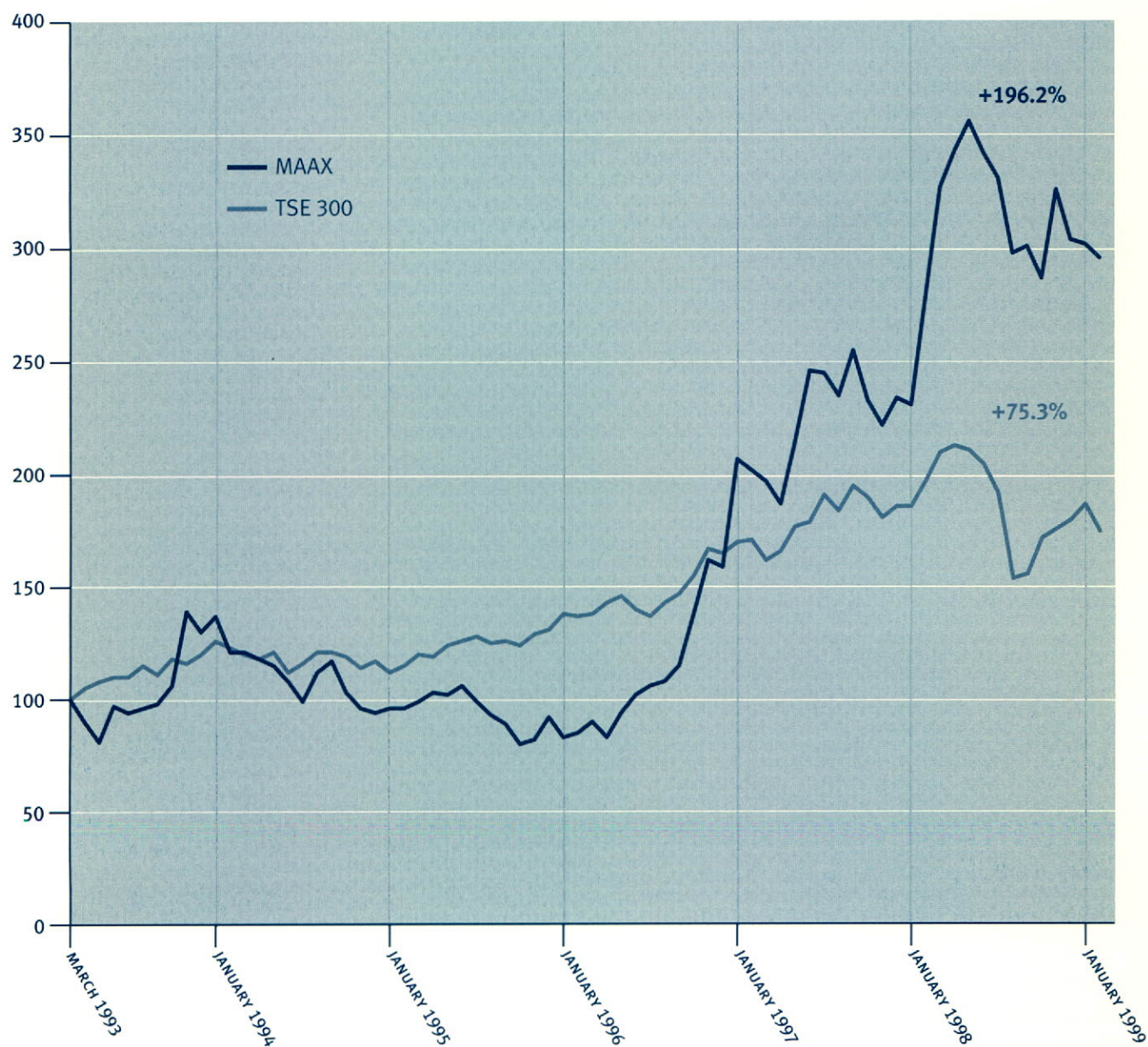
## STOCK PERFORMANCE

## STOCK INFORMATION

(as at February 28, 1999)

## Common shares

Ticker symbol	MXA		
Number of shares outstanding	23,643,959		
Public float	20,235,506	Trading volume: 52 weeks	11,160,459
Closing price at year-end	\$16.50	Trading volume: weekly average	214,624
High: 52 weeks	\$20.50	Price/earnings ratio	18.75
Low: 52 weeks	\$13.75	Price/cash flow ratio	11.30





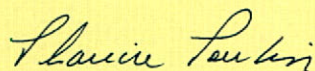
## MANAGEMENT'S REPORT ON THE FINANCIAL STATEMENTS

The consolidated financial statements of MAAX Inc. and the other financial information contained in this annual report are the responsibility of the Company's management and have been approved by the Board of Directors. These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and include amounts established according to the most probable assumptions made by management and based on prudent judgment.


To fulfill its obligations, the Company's management sees to the maintenance of adequate accounting records, the establishment of satisfactory internal controls to safeguard its assets, and the development of policies and procedures to provide assurance as to the reliability of the information.

The external and internal auditors have unrestricted access to the Audit Committee to discuss any matter relevant to their audit. This Committee is responsible for examining the financial statements and recommending their approval to the Board. It is also responsible for recommending the appointment or renewal of the term of the external auditors.

The external auditors appointed by the shareholders are responsible for auditing the consolidated financial statements and expressing an opinion based on their audit.



Placide Poulin  
President and Chief Executive Officer  
Sainte-Marie, Quebec  
April 16, 1999



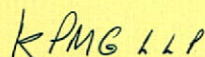
Richard Garneau  
Executive Vice-President  
and Chief Financial Officer

## AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Maax Inc. as at February 28, 1999 and 1998 and the consolidated statements of income and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at February 28, 1999 and 1998 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.



Chartered Accountants  
Quebec, Canada  
April 16, 1999



**CONSOLIDATED BALANCE SHEET**

As at February 28, 1999, with comparative figures for 1998  
(in thousands of dollars)

	NOTE	1999	1998
<b>ASSETS</b>			
Current assets:			
Cash		\$ 1,376	\$ -
Accounts receivable		58,216	33,671
Inventories	3	46,847	25,625
Prepaid expenses		3,500	2,010
		109,939	61,306
Fixed assets	4	70,503	48,800
Goodwill	5	92,293	57,923
Other assets		3,308	706
		\$ 276,043	\$ 168,735
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Bank loan	6	\$ -	\$ 5,906
Accounts payable and accrued liabilities		35,468	20,990
Income taxes payable		400	2,519
Current portion of long-term debt	7	7,785	8,654
		43,653	38,069
Long-term debt	7	23,146	42,908
Deferred income taxes		4,411	4,117
Shareholders' equity:			
Capital stock	8	144,364	43,847
Contributed surplus		208	208
Retained earnings		55,688	39,055
Cumulative translation adjustment		4,573	531
		204,833	83,641
Commitments and contingencies	12		
Subsequent event	15		
		\$ 276,043	\$ 168,735

See accompanying notes to consolidated financial statements.

On behalf of the Board,

Director

Director



## CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

Year ended February 28, 1999, with comparative figures for 1998  
(in thousands of dollars, except per share amounts)

	NOTE	1999	1998
Sales		\$ 312,895	\$ 174,841
Expenses:			
Operating		265,088	144,313
Research and development		2,488	1,444
Financial	14	3,952	1,794
Depreciation and amortization	14	11,317	7,387
		282,845	154,938
Income before income taxes		30,050	19,903
Income taxes	9		
Current		9,775	7,206
Deferred		1,082	473
		10,857	7,679
Net income		19,193	12,224
Retained earnings, beginning of year		39,055	26,831
		58,248	39,055
Share issue expenses, net of income taxes of \$1,152		2,560	—
Retained earnings, end of year		\$ 55,688	\$ 39,055
Income per share		\$ 0.88	\$ 0.68
Fully diluted income per share		\$ 0.84	\$ 0.66

See accompanying notes to consolidated financial statements.



# **CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION**

Year ended February 28, 1999, with comparative figures for 1998  
(in thousands of dollars)

	NOTE	1999	1998
Cash provided by (used for):			
Operations:			
Net income		\$ 19,193	\$ 12,224
Items not involving cash:			
Depreciation and amortization		11,317	7,387
Amortization of financial expenses		249	—
Deferred income taxes		1,082	473
Operating cash flows		31,841	20,084
Changes in non-cash operating working capital		(22,704)	(12,468)
		9,137	7,616
Financing:			
Balance payable on business acquisition		—	21,356
Issuance of a convertible debenture		—	4,271
Long-term debt		27,346	10,173
Repayment of long-term debt		(48,553)	(10,475)
Issuance of shares		100,517	5,599
Share issue expenses		(3,712)	—
		75,598	30,924
Investments:			
Business acquisitions	2	(55,601)	(30,933)
Additions to fixed assets		(17,979)	(9,052)
Proceeds from disposal of fixed assets		425	225
Goodwill		(1,021)	—
Other assets		(3,277)	(64)
		(77,453)	(39,824)
Increase (decrease) in cash position		7,282	(1,284)
Bank loan, beginning of year		(5,906)	(4,622)
Cash (bank loan), end of year		\$ 1,376	\$ (5,906)

See accompanying notes to consolidated financial statements.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended February 28, 1999

(tabular amounts are expressed in thousands of dollars)

The Company is incorporated under the Quebec Companies Act. Its principal business activity is to design, develop, manufacture and distribute sanitary products and spas.

### 1. SIGNIFICANT ACCOUNTING POLICIES:

#### a) Consolidation:

The consolidated financial statements include the accounts of the Company and all its subsidiaries.

#### b) Inventories:

Raw materials are valued at the lower of cost and replacement cost. Work in progress and finished goods are valued at the lower of cost and net realizable value.

Cost is determined using the first-in, first-out basis.

#### c) Fixed assets:

Fixed assets are stated at cost, net of government grants and investment tax credits. Depreciation is calculated using the following methods, rates and periods:

Assets	Methods	Rates and periods
Paving	Diminishing balance	4%
Buildings	Straight-line	40 years
Moulds and dies	Straight-line	3 to 7 years
Furniture and equipment	Diminishing balance	20%
Data processing system	Diminishing balance	15% and 30%
Automotive equipment	Diminishing balance	30%

#### d) Goodwill:

Goodwill represents the excess of the purchase price over the fair value of net assets of acquired businesses and is amortized using the straight-line method over periods not exceeding 40 years.

The unamortized portion of goodwill is regularly compared with its fair value based on expected future income and, in case of permanent impairment, the carrying value of goodwill would be written down.

#### e) Other assets:

Deferred costs, stated at cost less accumulated amortization, are amortized using the straight-line method over 3 and 5 years.

#### f) Foreign currency translation:

##### *Self-sustaining foreign operations*

Net assets of self-sustaining foreign operations are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. Items affecting income are translated at the average exchange rate of the year. Adjustments arising from this translation are deferred and recorded as a separate item of shareholders' equity and will be included in income when there will be a reduction in the net investment in these foreign operations.

##### *Foreign currencies transactions*

Monetary assets and liabilities in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the end of the year. Other assets and liabilities are translated at exchange rates prevailing at the respective transaction dates.

Exchange gains or losses related to long-term monetary items are deferred and amortized evenly over the remaining life of the asset or liability. Other exchange gains or losses are included in income. Items affecting income are translated at the exchange rate prevailing at the respective transaction dates.



## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

g) **Derivative financial instruments:**

The Company uses various derivative financial instruments to reduce its exposure to fluctuations in foreign currency exchange rates. The income or expense resulting from the use of these instruments is included in net income for the period and in the same financial statement category as the income or expense arising from the corresponding hedged position. Unrealized gains and losses are not recognized until the maturity of the underlying instrument.

h) **Use of estimates:**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related amounts of revenues and expenses and disclosure of contingent assets and liabilities. Consequently, actual results could differ from those estimates.

## 2. BUSINESS ACQUISITIONS:

On April 1, 1998 and on September 9, 1998, the Company acquired the assets of Shostal Ltd. and Novi respectively, two companies specialized in the design, development, manufacturing and distribution of sanitary products.

In addition, on September 1, 1998 and on October 1, 1998, the Company acquired the shares of Savannah Spa Manufacturing and of Coleman Spas, Inc. respectively, which are specialized in the design, development, manufacturing and distribution of spas.

During the past year, the Company also acquired the assets of KSD Industries, Inc., a manufacturer of shower doors and medicine cabinets in United States.

These acquisitions have been accounted for using the purchase method and the results of operations are included from the dates of acquisitions. The fair value of net assets acquired is as follows:

	1999	1998
Net operating working capital	\$ 11,470	\$ 7,089
Fixed assets	11,440	1,340
Other assets	153	-
Goodwill	33,639	22,719
	56,702	31,148
Long-term debt	(1,101)	(215)
	55,601	30,933
Deficiency in cash position	(3,643)	(1,472)
Net assets acquired at fair value	\$ 51,958	\$ 29,461
Consideration:		
Cash	\$ 40,995	\$ -
Debenture, 4%	6,000	-
Note payable (US \$1,200,000), 7.5%	1,843	-
Balance payable on business acquisition (US \$15,000,000 in 1998)	-	21,834
Convertible debenture (US \$3,000,000)	-	4,367
Issuance of capital stock	3,120	3,260
	\$ 51,958	\$ 29,461



## 3. INVENTORIES:

	1999	1998
Raw materials	\$ 25,643	\$ 13,527
Work in progress and finished goods	21,204	12,098
	\$ 46,847	\$ 25,625

## 4. FIXED ASSETS:

	COST	ACCUMULATED DEPRECIATION	1999 NET BOOK VALUE	1998 NET BOOK VALUE
Lands and paving	\$ 5,110	\$ 95	\$ 5,015	\$ 3,514
Buildings	39,186	3,473	35,713	25,844
Moulds and dies	14,366	5,982	8,384	5,823
Furniture and equipment	27,670	11,045	16,625	10,259
Data processing system	4,873	2,309	2,564	1,671
Automotive equipment	4,287	2,085	2,202	1,689
	\$ 95,492	\$ 24,989	\$ 70,503	\$ 48,800

## 5. GOODWILL:

	1999	1998
Goodwill at cost	\$ 98,333	\$ 60,493
Less accumulated amortization	6,040	2,570
	\$ 92,293	\$ 57,923

## 6. BANK LOAN:

Bank loan of an authorized amount of US \$2,000,000 bears interest at the bank prime rate, being 7.75% as at February 28, 1999.



## 7. LONG-TERM DEBT:

	1999	1998
Revolving credit (US \$12,362,000 in 1999)	\$ 18,640	\$ 23,739
Convertible debenture (US \$2,000,000 in 1999; US \$3,000,000 in 1998), 6%, payable in equal instalments on August 31, 1999 and 2000, convertible on these dates into common shares at US \$12 per share	3,016	4,271
Note payable, 4%, payable in annual equal instalments of \$667,000, maturing in March 2000	1,333	2,000
Debenture, 4%, payable in three annual instalments of \$2,000,000, beginning in March 1999	6,000	—
Note payable (US \$1,200,000), 7.5%, payable in two equal instalments of US \$600,000, maturing on October 1, 2000	1,809	—
Amount payable US \$15,000,000	—	21,356
Others	133	196
	30,931	51,562
Current portion of long-term debt	7,785	8,654
	\$ 23,146	\$ 42,908

The Company has a revolving credit facility of \$75,000,000 in Canadian dollars or the equivalent in U.S. dollars to finance its current operations, capital expenditures and business acquisitions. This revolving credit will be available until 2003 and may be extended annually subject to the approval of the lender. The agreement governing this credit contains certain covenants, including the maintaining of certain financial ratios and collateral security mortgaging all current and future assets.

The revolving credit bears interest at floating rates based on banker's acceptance rate, bank prime rate or LIBOR. On February 28, 1999, the effective interest rate was 5.68%.

The principal repayments on long-term debt, excluding revolving credit, for each of the next three years are as follows: 2000 - \$5,122,000; 2001 - \$5,102,000 and 2002 - \$2,067,000.

As stipulated in the credit agreement, an amount representing one seventh of the revolving credit was used to establish the current portion of long-term debt.

## 8. CAPITAL STOCK:

## Authorized:

Unlimited number and without par value :

Class A and class B preferred shares, non-participating and non-voting. The Company's statutes authorize the issuance of class A and class B preferred shares in one or several series and allow directors to determine the quantity and designation of each series of shares and their attributes, without requiring the approval of the shareholders.

Common shares.

	1999	1998
Issued and paid:		
23,643,959 common shares (18,331,559 in 1998)	\$ 144,364	\$ 43,847



## 8. CAPITAL STOCK (CONTINUED):

## Issuances:

During the year ended February 28, 1999, the Company proceeded with the following issues:

- Public issuance of 5,000,000 common shares at \$19.30 per share for a consideration of \$96,500,000;
- 195,000 (200,000 in 1998) common shares, for an amount of \$3,120,000 (\$3,260,000 in 1998), as part of the consideration paid in connection with the acquisition of Shostal Ltd. (KSD Industries, Inc. in 1998);
- 117,400 (195,100 in 1998) common shares for a cash consideration of \$897,000 (\$960,000 in 1998) under the stock option plan for management and executives of the Company.

During the past year, 166,667 common shares under conversion rights of a promissory note of \$1,378,000.

## Shares reserved:

Under a stock option plan, 3,572,980 (1,572,980 in 1998) common shares are reserved for management and executives of the Company. The options expire within 10 years of the date of their being granted or earlier in cases of termination of employment, retirement or death.

As at February 28, 1999, 2,430,000 (2,036,000 in 1998) options were granted and 1,090,500 (973,100 in 1998) of those were exercised. The 1,339,500 outstanding options may be exercised at prices ranging from \$0.245 to \$19.05 and will expire between March 2000 and January 2009.

In addition, the Company has reserved 166,667 common shares in connection with the convertible debenture.

## 9. INCOME TAXES:

The reconciliation between income tax expense calculated using combined statutory and effective tax rates is as follows:

	1999		1998	
	\$	%	\$	%
Income tax expense calculated using combined basic rates in Canada and United States	11,556	38.5	8,035	40.4
Add (deduct) tax effect of the following:				
Credit for manufacturing and processing profits	(578)		(721)	
Permanent differences	(451)		162	
Investment income	211		84	
Federal tax on large corporation and other differences	119		119	
	(699)	(2.4)	(356)	(1.8)
	10,857	36.1	7,679	38.6



**10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT:**

The Company operates and sells its products internationally and is therefore exposed to risks related to foreign exchange fluctuations. In order to reduce these risks, the Company uses derivative financial instruments according to guidelines approved by its Board of Directors. None of these instruments is held or issued for speculative purposes.

**Foreign exchange risk management:**

The Company uses certain derivative financial instruments to reduce its exposure to foreign currency risk. The notional amounts of derivatives shown in the following table do not represent amounts exchanged by the parties and thus, are not a measure of the exposure of the Company through its use of derivatives. The amounts exchanged are calculated on the basis of the notional amounts and the other terms of the derivatives which relate to exchange rates.

**Forward exchange contracts in US dollars:**

MATURITY	1999		1998	
	NOMINAL AMOUNT	AVERAGE RATE	NOMINAL AMOUNT	AVERAGE RATE
1999	\$ —	—	\$ 21,500	1.3953
2000	24,000	1.4067	23,000	1.4057
2001	25,000	1.4275	16,000	1.4194
2002	27,000	1.4556	5,000	1.4239
2003	10,000	1.5479	—	—

**Credit risk management:**

The Company is exposed to credit risk on the accounts receivable from its customers. In order to reduce its credit risk, the Company monitors the financial condition of its customers on a regular basis, and reviews the credit rating of all new customers. An allowance for doubtful accounts is established to cover the specific credit risk of its customers, historical trends and economic circumstances. The Company does not believe that it is exposed to an unusual level of credit risk.

The Company believes that the diversity of its customer base, by product and by region, reduces its credit risk and the impact of abrupt fluctuations in product demand.

**Fair value of financial instruments:**

The carrying amount of cash, accounts receivable, accounts payable and accrued liabilities approximates their fair value because of the short-term maturities of these items.

The carrying amount of the long-term debt approximates its fair value because the interest rates are close to the market rates as at February 28, 1999.

The fair value of the forward exchange contracts, being the difference between the notional amounts and the fair value of the financial instrument estimated by obtaining quotes from counterparties for same or similar financial instruments, is approximately \$4,900,000 below notional amounts.

**11. SEGMENTED INFORMATION:**

The Company designs, develops, manufactures and distributes products in three business segments, being: the bathroom products and accessories segment, the shower doors and medicine cabinets segment, and the spas segment. The bathroom products and accessories segment includes sales of bathtubs and showers made of acrylic, fiberglass and ABS. The business segments are managed separately because each business requires different technologies and marketing strategies. The management of the Company evaluates performance of each segment based on income before income taxes. All operations are located in Canada and United States.



**11. SEGMENTED INFORMATION (CONTINUED):**

The accounting policies used in these business segments are the same as those described in the summary of significant accounting policies. Intersegment sales are recorded at the exchange value, which is the amount agreed to by the parties.

Approximately 23% of total sales are attributed to one client.

Reconciliations with the financial statements of revenues and assets by business segments and geographic segments are:

	1999	1998
<b>BY BUSINESS SEGMENT:</b>		
Sales:		
Bathroom products and accessories	\$ 204,033	\$ 138,507
Shower doors and medicine cabinets	82,207	28,942
Spas	27,362	7,500
	313,602	174,949
Intersegment sales:		
Bathroom products and accessories	27	72
Shower doors and medicine cabinets	680	36
	707	108
Net sales:		
Bathroom products and accessories	204,006	138,435
Shower doors and medicine cabinets	81,527	28,906
Spas	27,362	7,500
	\$ 312,895	\$ 174,841
Income before income taxes:		
Bathroom products and accessories	\$ 20,671	\$ 15,288
Shower doors and medicine cabinets	9,634	3,592
Spas	(255)	1,023
	\$ 30,050	\$ 19,903
Depreciation and amortization:		
Bathroom products and accessories	\$ 8,523	\$ 6,495
Shower doors and medicine cabinets	1,845	522
Spas	949	370
	\$ 11,317	\$ 7,387
Assets:		
Bathroom products and accessories	\$ 173,961	\$ 115,423
Shower doors and medicine cabinets	58,616	46,982
Spas	43,466	6,330
	\$ 276,043	\$ 168,735
Additions to fixed assets:		
Bathroom products and accessories	\$ 13,978	\$ 8,228
Shower doors and medicine cabinets	3,623	513
Spas	378	311
	\$ 17,979	\$ 9,052



## 11. SEGMENTED INFORMATION (CONTINUED):

	1999	1998
<b>BY GEOGRAPHIC SEGMENT:</b>		
Net sales, from Canadian facilities:		
Canada	\$ 108,758	\$ 68,480
United States	43,007	26,997
Other	3,433	2,792
	155,198	98,269
Net sales, from American facilities:		
Canada	94	110
United States	156,455	76,462
Other	1,148	–
	157,697	76,572
	\$ 312,895	\$ 174,841
Fixed assets and goodwill:		
Canada	\$ 78,532	\$ 48,153
United States	84,264	58,570
	\$ 162,796	\$ 106,723

## 12. COMMITMENTS AND CONTINGENCIES:

**a) Operating leases:**

The Company rents fixed assets under operating leases of which rentals total \$12,917,000. Annual rentals under these leases for each of the next five years are as follows: 2000 – \$3,845,000; 2001 – \$3,186,000; 2002 – \$2,513,000; 2003 – \$1,852,000; 2004 – \$763,000 and thereafter – \$758,000. In addition, the Company must pay, for certain leases, its share of the annual operating expenses.

**b) Business acquisitions:**

The acquisition agreements of Novi and Coleman Spas, Inc. both include a price adjustment clause based on the final value of net assets acquired on a \$1 for a \$1 basis if these net assets are different from the amount stipulated in the contracts. The parties to these agreements are in the final phase of arbitration.

**c) Royalties:**

In connection with the purchase of Coleman Spas, Inc., the parties entered into a ten-year licensing agreement to use the Coleman Spas trademark and associated logos. As defined in the licensing agreement, beginning October 1, 2001, the Company will be required to make royalty payments equal to 1.5% of net sales and 3% of net sales for the period from October 1, 2004 to September 30, 2007.



**13. RELATED PARTY TRANSACTIONS:**

Under an agreement signed with a shareholder company, the Company is committed to pay on an annual basis management fees and a bonus of 5% calculated on consolidated income before bonus and taxes. This agreement will expire on February 28, 2000.

Under this agreement, the Company recorded the following transactions during the year:

	1999	1998
Management fees	\$ 602	\$ 582
Bonus	1,653	1,066
	\$ 2,255	\$ 1,648

**14. INFORMATION ON THE INCOME STATEMENT:**

	1999	1998
Financial expenses:		
Interest on long-term debt	\$ 2,524	\$ 692
Other interest and financial expenses	2,046	1,102
Amortization of deferred exchange losses	151	-
Amortization of deferred financing charges	98	-
Interest income	(867)	-
	\$ 3,952	\$ 1,794
Amortization and depreciation:		
Fixed assets	\$ 8,464	\$ 5,425
Goodwill	2,230	1,210
Other assets	623	752
	\$ 11,317	\$ 7,387

**15. SUBSEQUENT EVENT:**

On April 1, 1999, the Company announced the acquisition of all the shares of Novax Modular Group Inc., a manufacturer of kitchen cabinets, for a cash payment of \$24,125,000. The purchase price is subject to an earnout provision in effect until 2002. The transaction is effective on March 1, 1999.

**16. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE:**

The effects of the year 2000 issue may be experienced before, on, or after January 1, 2000. The impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to ascertain that all aspects of the year 2000 issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

**17. COMPARATIVE FIGURES:**

Certain of the 1998 figures presented for comparative purposes have been reclassified to conform with the financial statement presentation adopted in the current year.



## BOARD OF DIRECTORS

### Placide Poulin

Chairman of the Board,  
President and  
Chief Executive Officer, MAAX Inc.

### Richard Garneau

Executive Vice-President  
and Chief Financial Officer,  
MAAX Inc.

### Marie-France Poulin

Executive Vice-President,  
MAAX Inc.

### David Poulin

Vice-President, Operations,  
MAAX Inc.

### Jean-Pierre Chartrand

Vice-President,  
Novacap Investments Inc.

### Dennis Wood

President,  
C-MAC Industries Inc.

### Louis Garneau

President and Designer,  
Louis Garneau Sports Inc.

### André Lamothe <sup>1</sup>

President and Chief Operating Officer,  
South Shore Industries Ltd.

### Paul Bilodeau <sup>1, 2</sup>

Chartered Administrator

### Me Jacques A. Vachon

Corporate Secretary

<sup>1</sup> Member of the Audit Committee

<sup>2</sup> Member of the Environmental Committee

## OFFICERS

### Placide Poulin <sup>1, 2</sup>

President and Chief Executive Officer

### Richard Garneau <sup>1, 2, 3</sup>

Executive Vice-President  
and Chief Financial Officer

### Marie-France Poulin <sup>1, 2, 3</sup>

Executive Vice-President

### David Poulin <sup>1, 2, 3</sup>

Vice-President, Operations

### André Héroux <sup>1, 2, 3</sup>

Vice-President, Operations

### Dagmar Egerer <sup>1, 2, 3</sup>

Senior Vice-President, Sales

### Jean-François Dodier <sup>1</sup>

Manager, Finance and Administration

### Howard Ellner <sup>3</sup>

Vice-President General Manager,  
Shower Doors and  
Medicine Cabinets Sector

### David Wright <sup>3</sup>

Vice-President General Manager,  
Spa Sector

### Bruno Raby <sup>1</sup>

Sales Manager – Eastern Canada

### Harvey Blatt <sup>2</sup>

Vice-President, Business Development

### Richard P. Frieder <sup>2</sup>

Vice-President, Business Development

### Stanley Hyman <sup>2</sup>

Advisor

<sup>1</sup> Executive Committee

<sup>2</sup> Strategic Committee

<sup>3</sup> Operations Committee



## CORPORATE INFORMATION

### Head Office

600 Cameron Road  
Sainte-Marie-de-Beauce, Quebec  
G6E 1B2  
Tel.: (418) 387-3646  
Fax: (418) 387-9033  
Web site: [www.maax.com](http://www.maax.com)

### Subsidiaries

#### BATHROOM PRODUCTS AND ACCESSORIES

MAAX Inc.  
MAAX Westco Inc.  
MAAX Spartan Inc.  
MAAX Southeast (MAAX USA, Inc.)  
MAAX Midwest (Bremen Glas, Inc.)  
MAAX Hydro Swirl Manufacturing Corp.

#### SHOWER DOORS AND MEDICINE CABINETS

Manhattan Products (Canada) Ltd.  
Manhattco Products, Inc.  
MAAX KSD Corporation

### SPAS

MAAX Spas (Ontario) Inc.  
MAAX Spas (B.C.) Inc.  
MAAX Spas (Arizona), Inc.

### KITCHEN CABINETS

Novax Modular Group Inc.

### Distribution Centres

Mississauga (Ontario)  
Toronto (Ontario)  
Airdrie (Alberta)  
Langley (British Columbia)  
Berlin (New Jersey)  
Lakewood (New Jersey)  
Columbus (Ohio)  
Sacramento (California)

### Registrar and Transfer Agents

Fiducie Desjardins Inc.  
Montreal, Quebec  
Montreal Trust Company  
Toronto, Ontario

### Auditors

KPMG LLP  
Quebec City, Quebec

### Legal Counsel

Desjardins, Ducharme, Stein, Monast  
Quebec City, Quebec  
Vachon, Besner & Ass.  
Sainte-Marie-de-Beauce, Quebec

### Banker

National Bank of Canada

### Stock Exchange Listing

Ticker symbol: MXA  
Montreal Exchange  
Toronto Stock Exchange

### Recent Financial Comments

Yorkton Securities, April 1999  
RBC Dominion Securities, April 1999  
Merrill Lynch, April 1999  
Nesbitt Burns, April 1999  
CIBC Wood Gundy, March 1999  
Sprott Securities, January 1999

### Annual Information Form

A copy of the Annual Information Form, filed with the Securities and Exchange Commissions of Ontario, Manitoba, Saskatchewan, Alberta and British Columbia, and a copy of the Notice annuelle, filed with the Commission des valeurs mobilières du Québec, may be obtained on written request from the Corporate Secretary.

Pour recevoir la version française de ce rapport, veuillez écrire à:

MAAX Inc.  
a/s Marie-Michelle St-Jacques  
600, route Cameron  
Sainte-Marie-de-Beauce (Quebec)  
G6E 1B2  
ou communiquer par courriel:  
[mmstjacques@maax.com](mailto:mmstjacques@maax.com)

### Annual General Meeting of Shareholders

Tuesday, June 29, 1999, at 11:30 a.m.  
Queen Elizabeth Hotel  
Marquette Room  
900 René-Lévesque Blvd. West  
Montreal, Quebec



NEW GENERATION PRODUCTS



Rainforest



Sensation







600 Cameron Road  
Sainte-Marie-de-Beauce  
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