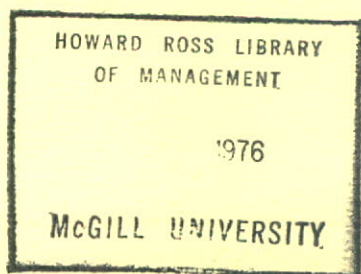


The Hamilton Group Limited

Annual Report 1976



HIGHLIGHTS

	1976	1975
Income before extraordinary items	\$ 2,046,168.00	\$ 957,881.00
Earnings available for Class A and B shares	\$ 1,992,879.00	\$ 994,529.00
Earnings per share		
Income before extraordinary items	\$.76	\$.30
Net income	\$ 1.72	\$.33
Dividends paid	\$.16	\$.20
Average number of Class A and B shares outstanding .	2,630,850	3,020,850
Class A and B shares owned in Canada	98.0%	72.6%

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DIRECTORS AND OFFICERS

HEAD OFFICE:

5050 South Service Road, Burlington, Ontario L7L 4Y7

DIRECTORS:

Graham R. Dawson	President, Dawson Construction Ltd.
Lincoln S. Magor	President, Mimik Limited
John F. Schunk	Vice-President, The Hamilton Group Limited
Paul A. Southall	Vice-President and Secretary, The Hamilton Group Limited
Robert N. Steiner	Retired Partner, A. E. Ames & Company
Alan B. Young	Senior Vice-President, The Hamilton Group Limited
David M. Young	Senior Vice-President, The Hamilton Group Limited
James M. Young	Vice-President, The Hamilton Group Limited
William H. Young	President, The Hamilton Group Limited

OFFICERS:

William H. Young	President
Alan B. Young	Senior Vice-President
David M. Young	Senior Vice-President
John F. Schunk	Vice-President
James M. Young	Vice-President
Paul A. Southall	Vice-President and Secretary

REGISTRAR AND TRANSFER AGENT:

Canada Permanent Trust Company, Toronto, Ontario

AUDITORS:

Peat, Marwick, Mitchell & Co.

ANNUAL REPORT OF DIRECTORS

TO THE SHAREHOLDERS

The first half of the fiscal year ended April 30, 1976 saw a continuation of profit improvement for the Company which began in the last months of the previous year as the cost of money declined. This decline was reversed towards the end of the first half and this, together with a generally sluggish economy, slowed the rate of profit improvement in the second half of the year.

Highlights of the year were:

- The implementation of the agreement with Citicorp Leasing International, Inc.
- An increase in net earnings available to shareholders of 114% to \$2,046,168.
- An extraordinary profit of \$2,390,625 arising from the sale of a 60% interest in the Canadian leasing subsidiaries.
- The retirement of \$181,800 par value, Series A preferred shares, \$1,300,000 par value Series B convertible preferred shares, and 780,000 common shares.
- An increase in the quarterly rate of the common share dividend.

FINANCIAL

Income before minority interests and the extraordinary items was \$2,108,014 for the year ended April 30, 1976, or 76c per common share, compared to \$1,042,818 for the previous year, or 30c per common share.

Minority interests in the income of the company are the preferred dividends paid by Charter Credit Corporation on its \$437,150 of preferred shares and the interests of minority shareholders in the income of IEOSA in Mexico.

At April 30, 1976 there were 2,240,850 Class A and Class B shares outstanding compared to 3,020,850 common shares at April 30, 1975. The difference represents the conversion and subsequent redemption of the 780,000 shares held by Citicorp Leasing International, Inc. (CLI). In addition the 130,000 Convertible Second Preferred shares held by CLI and the 1,818 Series A First Preferred shares held by the public were redeemed; therefore CLI is no longer a shareholder in The Hamilton Group Limited.

Both the Class A and Class B shares which were created during the year have full voting rights and are freely convertible. However, the directors may specify that the dividends on the Class B shares be not subject to tax in the shareholders' hands by paying a special tax of 15% which is more fully explained in note 10(d) to the financial statements on Page 20.

The quarterly dividend was increased to 5c per common share with the payment on January 1, 1976, partially restoring the reduction in rate made the previous year. Total dividend payment for the year was 16c per common share, compared to 20c per share paid in the previous year.

The agreement with Citicorp Leasing International, Inc., which was described in last year's annual report, became effective November 1, 1975 after the application to the Foreign Investment Review Agency received a favourable decision and after the shareholders of Hamilton Group had given their approval.

During the first six months of the fiscal year the Canadian leasing companies were wholly owned by the Hamilton Group with their operations fully consolidated in its financial statements. During the last six months these leasing companies were owned by Citicorp Leasing Canada Limited and so only the 40% interest that Hamilton Group retains in their profits was included in the Company's results. The last six months of Hamilton Group's fiscal year were the first six months of existence for Citicorp Leasing Canada Limited. Its profit in that period was adversely affected by non-recurring costs of the type usually faced by new companies in their early life.

The major benefits from the Citicorp arrangement will become apparent with the passage of time, in increased earnings per common share of Hamilton Group. Citicorp Leasing Canada will actively develop markets previously unavailable to Hamilton Group's leasing subsidiaries because of financial limitations and earnings from its other interests will be divided by the lesser number of Hamilton Group common shares that are outstanding.

The Labhire Group in Europe, whose results are fully consolidated in the Hamilton Group statements, showed a loss of \$181,000 in the year, compared to a loss of \$562,000 for the previous year. Most of the loss in the year is due to the German operations which were disposed of at the year end.

During the year the Company sold its 20% interest in SELMA Spa, a leasing company in Italy. While the sale price per share was at 300% of par the decline in value of the Italian lire against the Canadian dollar limited the profit in the sale to \$76,475.

Part of the former textile property held by the Company in Hamilton was sold during the year and \$99,945 profit was realized. Real Estate valued on the Company books at \$713,192 in Hamilton and at \$96,429 in nearby Dundas is being held for sale and should return a profit when disposal is complete. However, efforts during the past seven years to obtain rezoning of the Dundas property have shown little tangible progress through the maze of approvals required. In addition, Hamilton Group owns approximately twenty acres adjacent to its Burlington head office which is available for future sale or development.

Impulsora de Equipos de Oficina, S.A. (IEOSA), the leasing company in Mexico which is 85.9%

owned by Hamilton Group had a 54% increase in profit of which Hamilton Group's interest amounting to \$236,800, was included in the Company's figures for the year. The results of IEOSA are reported more fully elsewhere in the report.

Subsequent to the year end the Company has been notified by the federal tax authorities that the reassessments requiring additional income taxes plus interest for the years 1964 to 1967, as explained in last year's annual report, were being withdrawn. The federal tax figures shown in the Company's financial statements for these years will stand and the Government of Canada bonds placed in trust, pending resolution of the matter, will be released and returned to the Company.

Membership in the Board of Directors was reduced to nine by a by-law approved by the shareholders on October 30, 1975 as Citicorp Leasing International, Inc. (CLI) no longer required representation. As a result, Messrs. George Davis, Brian Livsey, Edward Harshfield and Wallace Campbell, all senior officers of CLI, submitted their resignations. George Davis and Brian Livsey have been directors of the Company since the original arrangement with CLI was completed in 1971, while Edward Harshfield and Wallace Campbell joined the Board in later years. All have made a major contribution to the direction of Hamilton Group while they served as Board members. The participation of the nominees of Citicorp in Board activities has been of great value to the Company and their counsel and help has been very much appreciated. Fortunately for Hamilton Group the wide ranging connections and experience of the Citicorp organization will continue to be available through the close association in Citicorp Leasing Canada Limited.

CANADA

Charter Credit Corporation

Hamilton Group's wholly-owned subsidiary with its head office in Montreal, continued to grow in profit, although at a slower rate than previously.

Income before income taxes rose marginally for the fiscal year ended April 30, 1976 to \$303,000 from \$297,000 in the previous year. However, the achievement of this 2.2% increase in income in view of the continued restriction on funds, the emphasis on increased liquidity and a generally poor economic climate, was satisfactory. Demand for mortgage funds in Charter's principal markets of Quebec and Eastern Ontario was weaker but activities in Central Ontario and the Halifax area of Nova Scotia expanded to partially offset this decline in demand.

During this period mortgages receivable decreased from \$16,192,146 to \$14,771,874 or 8.8%. However, it is planned to maintain or slightly increase the size of the portfolio in the current year. The amount of the increase will depend as much on funds available as the availability of new business.

The adverse economic climate made collections difficult but actual bad debt expense remained at 0.51% of average mortgage receivables compared to 0.58% in fiscal 1975.

Charter continues to be well run and profitable but results are expected to remain at levels similar to 1975. Slightly increased volume will be offset by inflationary expense increases and probable higher interest costs.

Cancord Limited

This subsidiary which is the remaining manufacturing interest of Hamilton Group had a profitable year on sales of twine, ropes and cordage of over a million and a quarter dollars.

Canaplan Leasing Limited

Canaplan, a 50% owned automotive leasing company, continued to expand its leasing

portfolio. The amount of leases receivable increased from \$9.3 million in 1975 to \$11.1 million in 1976, equal to an increase of 19.4%. Progress has been made in having this increased business volume generate additional profits for Hamilton Group but the return on investment remains below acceptable levels. It is hoped to improve this situation during the current fiscal year as the basic business of Canaplan is sound.

International Mercantile Factors Limited (IMF)

During the year, Hamilton Group's equity investment in IMF increased by \$46,656 to \$431,050 representing Hamilton Group's 50% share of IMF's net income for the year. Advances remained at \$550,000. IMF is now in its fourth fiscal year of operation and necessary reserves have reached adequate levels. Provided bad debts and interest costs remain at current levels, earnings should show a further increase in the present year.

Citicorp Leasing Canada Limited (CLCL)

As previously noted in this report, the Canadian leasing operations formerly owned 100% by Hamilton Group are now owned 100% by CLCL of which Hamilton Group owns 40%, and Citicorp owns 60%. CLCL did not assume ownership of the Canadian leasing operations until November 1, 1975 and therefore for 6 of the 12 months of Hamilton Group's fiscal year, the leasing operations were restricted as to growth and funds available. The next three months were to a major degree involved in reactivation and reorganizational activities so that in fiscal 1976, Hamilton Group derived little benefit from the new organization. However, the leasing operations of CLCL are now definitely expanding and with equity accounting, Hamilton Group should soon benefit from the increasing earnings of CLCL.

The first fiscal year end balance sheet for CLCL as at December 20, 1975 is published on page 7. This is at the completion of its first fiscal period of less than 2 months. However, this balance sheet will provide a basis for future comparisons. Further, as Hamilton Group's continuing 40% interest in the Canadian leasing operations of CLCL represents a major part of Hamilton Group's potential earnings, a combined 5-year summary that has been published in previous reports is again repeated below for the years ended April 30th. This clearly shows that Hamilton Group's inability to fund the leasing operations resulted in a decline in leases receivable and leases receivable added compared to 1975. However, both lease income

and earned income increased slightly and this coupled with strict expense control and lower borrowing costs resulted in net income before taxes increasing by 121.6% for the twelve months ended April 30th, 1976 compared to the similar period in 1975.

The combined summary shows an increase of 27 employees as at April 30, 1976 compared to 1975. This increase reflects the restaffing since November 1st, 1975 to obtain and administer increased business volume. Now that the leasing operations are well staffed and adequate funds are available, a steady growth in leases receivable and net income is anticipated.

CANADIAN LEASING

COMBINED FIVE-YEAR SUMMARY

(Dollar amounts expressed in \$000's)

BALANCE SHEET	1976	1975	1974	1973	1972
Leases receivable	\$123,176	126,564	115,008	77,140	57,288
Allowance for losses	\$ 2,016	1,992	1,803	1,219	1,074
Allowance for losses to leases receivable	% 1.6	1.6	1.6	1.6	1.9
Unearned income	\$ 29,159	30,898	26,706	17,731	13,625
Unearned income to leases receivable	% 23.7	24.4	23.2	23.0	23.8
Estimated residual value of equipment	\$ 5,850	5,870	4,896	3,154	2,385
Total assets	\$106,900	102,174	100,869	65,523	48,590
OPERATIONS					
Lease income	\$ 48,981	46,253	32,936	24,220	18,571
Earned income	\$ 18,967	18,464	13,339	9,812	7,792
Provision for losses	\$ 878	1,406	1,222	619	519
Leases receivable added	\$ 49,357	65,135	75,443	48,271	32,126
Original cost of leased equipment	\$178,656	168,378	146,033	98,620	73,592
Net losses due to bad debts	\$ 851	1,217	637	475	260
Net losses to average leases receivable	% 0.68	1.01	0.66	0.71	0.50
Number of employees at end of period	253	226	242	212	166
Number of leases	90,146	89,964	82,100	63,200	51,300
Average original cost of equipment per lease	\$ 1.98	1.87	1.78	1.56	1.44

CITICORP LEASING CANADA LIMITED**CONSOLIDATED BALANCE SHEET**

December 20, 1975

ASSETS

Cash	\$ 1,748,311
Leases receivable	119,626,780
Allowance for losses	(2,024,430)
Unearned income	(27,718,576)
Estimated residual values	5,853,626
Equipment purchased for lease commitments	2,414,105
Accounts receivable	185,141
Fixed assets	310,448
Excess of cost over book value	4,271,208
Other assets	390,962
	<u>\$105,057,575</u>

CITICORP LEASING CANADA LIMITED**CONSOLIDATED BALANCE SHEET**

December 20, 1975

LIABILITIES AND SHAREHOLDERS' EQUITY

Short term unsecured debt	\$ 64,006,367
Accounts payable and accrued charges	3,939,965
Income and other taxes payable	2,710,090
Long term secured debt	395,200
Long term unsecured debt	13,188,024
Subordinate funded debt	7,908,537
Deferred income taxes	801,855
Shareholders' equity:	
Preferred shares	2,000,000
Common shares	10,000,000
Retained earnings	107,537
Total shareholders' equity	<u>12,107,537</u>
	<u>\$105,057,575</u>

INTERNATIONAL

MEXICO

Impulsora de Equipos de Oficina ("IEOSA")

IEOSA remains severely affected by the profit and liquidity program. During the year ended April 30, 1976, loans payable were reduced 24.9% from 178.9 million pesos to 134.4 million pesos. Concurrently leases receivable were reduced 16.1% from 231.6 million pesos to 194.3 million pesos. Despite an inflation rate in Mexico in excess of 20%, operating costs and staff numbers were maintained at 1975 levels. The cost of borrowed funds dropped significantly due to lower average interest rates and reduction in loans outstanding. The result was an increase in net income before taxes of 60.5% from 4.3 million pesos to 6.9 million pesos. Due to the increase in capital the return on equity dropped from 24.7% in fiscal 1975 to 8.5% in 1976. On the other hand, the debt equity ratio is now a conservative 2.3 to 1.

With the additional capital, conservative ratios, and maintenance of staff, IEOSA is ready to rapidly expand in the growing Mexican market as soon as significant additional debt is available. To this end, preliminary negotiations have commenced with a Mexican financial group that, if successful, would give the Mexican group in excess of 50% of the voting shares and provide IEOSA with sufficient funds to commence a period of profitable expansion.

Credit and collection experience during 1976 in Mexico paralleled the 1975 results. Collections remain difficult but since year end definite progress has been made. Net losses for the year were 0.4% of average leases receivable, compared to 0.9% in 1975. These write-offs were better than the Canadian leasing experience for a similar period.

In summary, IEOSA remains on a "mark-time" basis. The current plan is to maintain leases receivable at the 200 million pesos level until new resources are in place. At that time, IEOSA will be ready to take advantage of the many leasing opportunities in Mexico.

EUROPE

Labhire Group

Labhire Limited in the United Kingdom, including HGL (UK) Finance Ltd., had a profitable year in 1975/76, as equipment utilization improved and rental rates were higher. General business conditions in the United Kingdom are still not encouraging, as inflation, a weak currency, and record high unemployment all contribute to the general uncertainty of business. However, it is likely that business will improve during this year, and Labhire Limited is anticipating better profits in the year ending April 30, 1977.

The French operations of Labhire showed marked improvement in the past year, although not rapidly enough to bring the company to a break-even position. The loss in France was slightly greater than the profit in the United Kingdom, so that these two operations together were still unprofitable in the year. Sales of Labhire S.A. are continuing to improve, and its losses to decline, as its services become more generally known in France, and a profit is expected this year from the French and English Labhire operations combined.

As mentioned in the 1975 annual report, the German operations of Labhire were very substantially curtailed last year — the Dusseldorf office was closed and operations concentrated on Munich — and no new equipment purchased. During the latter part of the year an agreement was reached to sell Labhire GmbH, at the effective date of April 30, 1976, subject to regulatory permissions. Overall, the loss of the Labhire Group was \$181,124 in 1975/76, which was a big improvement from the \$562,000 of last year. The short term rental of technical equipment, which is the business of the Labhire Group, varies more with the prevailing business climate than does leasing. It has the advantage, in inflationary times, of being able to revise rental rates upward on existing inventory as costs increase, while the equipment inventory of the leasing companies is leased at fixed rates for a fixed term, generally five years. Hence, given a normal level of business activity and equipment utilization, both the English and French operations of Labhire should be increasingly profitable.

INTERNATIONAL

Hamilton Leasing Limited

Hamilton Group now owns 672,000 shares of £1 par value of 5,091,250 issued shares of Hamilton Leasing or 13.2%. These are valued on the Company books at 1,779,550 (note 4, page 17).

Finance for Industry Limited (FFI) is the major shareholder, owning 72% of the Company. FFI, in turn, is owned by the major clearing banks in the United Kingdom and the Bank of England. Hamilton Group has an option expiring August, 1977 to purchase 655,500 shares at a price of £1 per share plus interest compounded at an annual rate of 18% from August 1, 1974. If the option were exercised, Hamilton Group would own 26% of Hamilton Leasing.

Hamilton Leasing made great progress last year in the complete reorganization detailed in the 1975 report, but still suffered a loss in its operations for the year. The progress towards profitability is continuing, but only a break-even or a modest profit is expected for this current year.

Like Labhire, Hamilton suffered from the poor business conditions in the U.K. last year, and sales were well below budget. However, unlike Labhire which rents equipment for short periods,

Hamilton leases most of its equipment on five year leases, and last year's poor business conditions kept the bad debt losses of Hamilton at the very high level of the previous year. These losses were nearly all on contracts written in the expansionary times of 1972/73, when credit criteria were not as strict. The losses on contracts dating back to this period are still continuing, and it may take another year before these terminate.

Hamilton's leases receivables are increasing after two years of retrenchment. As old, low rate contracts pay down, the money is reinvested in much higher yielding new business. Bad debt losses, while still much too high, are reducing. Productivity is still improving, with the number of employees declining despite expanding business. Finally, Hamilton is now borrowing on a back-to-back basis, so that the margins on the new business it is doing are fixed and will not be subject to future squeezes such as have occurred during the last two years.

Thus Hamilton Leasing is headed back to profit, but it is a slow process, and one that is being well hindered by the poor economic conditions of the U.K.

CONSOLIDATED FINANCIAL STATEMENTS

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

April 30, 1976

with comparative figures for 1975

ASSETS		
	1976	1975
Cash and short term deposits	\$ 2,357,208	\$ 4,746,566
Leases receivable, less allowance for losses, \$514,628 (1975, \$2,324,948) (note 2)	14,750,725	143,141,540
Mortgages receivable, less allowance for losses \$217,695 (1975, \$227,193)	15,137,828	16,479,661
Unearned income	(3,529,007)	(36,057,150)
Estimated residual value of property and equipment	1,106,475	6,884,621
Equipment purchased for lease commitments, at cost	117,540	2,319,017
Notes and accounts receivable	2,479,044	2,621,188
Real estate held for sale (note 3)	809,621	931,859
Investments and advances (note 4)	9,479,100	4,743,946
Property, plant, equipment and improvements (note 5)	3,617,871	4,343,787
Deferred income taxes	1,380,560	—
Excess of cost over net book value of subsidiaries at dates of acquisition less amounts written off	1,274,289	1,395,207
Other assets	896,004	980,860
	<u>\$ 49,877,258</u>	<u>\$152,531,102</u>

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

April 30, 1976

with comparative figures for 1975

LIABILITIES AND SHAREHOLDERS' EQUITY

	1976	1975
Short-term unsecured debt (note 6)	\$ 28,048,079	\$ 89,991,273
Notes and accounts payable and accrued charges	1,863,028	5,118,192
Income and other taxes payable	463,349	1,841,715
Long-term secured debt (note 7)	1,010,000	1,842,097
Long-term unsecured debt (note 7)	—	24,832,500
Subordinated funded debt (note 8)	648,500	9,471,433
Mortgage payable (note 9)	1,469,900	1,482,358
Deferred income taxes	—	1,909,012
Minority interests in subsidiary companies including interest in preferred shares of \$437,150 (1975, \$458,450)	1,062,670	780,293
Shareholders' equity:		
Capital stock (note 10):		
Preferred shares	—	1,481,800
Shares without par value	3,901,337	6,501,337
	<u>3,901,337</u>	<u>7,983,137</u>
Retained earnings	11,201,509	7,078,630
Contributed surplus	208,886	200,462
	<u>15,311,732</u>	<u>15,262,229</u>
Total shareholders' equity	15,311,732	15,262,229
Contingent liabilities and commitments (note 11)		
	<u>\$ 49,877,258</u>	<u>\$152,531,102</u>

On behalf of the Board:

A. B. YOUNG, Director

W. H. YOUNG, Director

See accompanying notes to consolidated financial statements.

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF RETAINED EARNINGS
Year ended April 30, 1976
with comparative figures for 1975

	1976	1975
Amount at beginning of year	\$ 7,078,630	\$ 6,688,271
Add:		
Net income	4,581,793	1,046,881
	<u>11,660,423</u>	<u>7,735,152</u>
Deduct:		
Dividends:		
First preferred shares, Series A	4,539	9,777
Second preferred shares	48,750	42,575
Common shares	181,251	604,170
Class A shares	221,045	—
Class B shares	2,579	—
	<u>458,164</u>	<u>656,522</u>
Taxes on undistributed income (note 10(d))	750	—
	<u>458,914</u>	<u>656,522</u>
Amount at end of year	<u><u>\$ 11,201,509</u></u>	<u><u>\$ 7,078,630</u></u>

CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS
Year ended April 30, 1976
with comparative figures for 1975

	1976	1975
Amount at beginning of year	\$ 200,462	\$ 190,899
Discount on redemption of preferred shares of the company and a subsidiary, net	8,424	9,563
Amount at end of year	<u><u>\$ 208,886</u></u>	<u><u>\$ 200,462</u></u>

See accompanying notes to consolidated financial statements.

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

Year ended April 30, 1976

with comparative figures for 1975

	1976	1975
Gross income (note 12)	\$ 17,883,657	\$ 58,447,153
Income before the following	13,519,824	47,721,113
Recovery of cost of leased property	4,192,478	30,784,267
Cost of borrowed money including \$1,915,567 (1975, \$3,375,819) on indebtedness initially incurred for a term exceeding one year	8,009,066	14,736,504
Depreciation and amortization	217,836	488,575
	12,419,380	46,009,346
Operating income	1,100,444	1,711,767
Investments:		
Income	1,633,256	306,360
Loss on revaluation (net)	—	(68,369)
Amortization of goodwill	(63,631)	(64,940)
	1,569,625	173,051
Profit on sale of real estate	99,945	—
Income before income taxes, minority interests and extraordinary item	2,770,014	1,884,818
Income taxes:		
Current	1,176,000	1,834,000
Deferred	(514,000)	(992,000)
	662,000	842,000
Income before minority interests and extraordinary items	2,108,014	1,042,818
Minority interests	(61,846)	(84,937)
Extraordinary items (note 13)	2,535,625	89,000
Net income	\$ 4,581,793	\$ 1,046,881
Earnings per share:		
Income before extraordinary items	\$.76	\$.30
Net income	1.72	.33

See accompanying notes to consolidated financial statements.

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
Year ended April 30, 1976
with comparative figures for 1975

Funds provided:	1976	1975
Net income	\$ 4,581,793	\$ 1,046,881
Add (deduct) items not affecting cash:		
Provision for losses	335,536	1,622,128
Depreciation and amortization	217,836	279,084
Amortization of goodwill	63,631	64,940
Deferred income taxes	(514,000)	(992,000)
Gain on sale of subsidiaries	(2,429,625)	—
Funds provided from operations	2,255,171	2,021,033
Funds provided from leases receivable:		
Decrease in leases receivable	9,634,150	—
Increase in residual values	(68,573)	—
Net losses	(175,404)	—
Decrease in unearned income	(3,509,103)	—
	5,881,070	—
Proceeds from issue of second preferred shares	—	1,300,000
Decrease (increase) in mortgages receivable	1,351,331	(4,679,974)
Decrease in equipment purchased for lease commitments	454,771	2,022,291
Decrease in real estate held for sale	122,238	—
Increase in short-term unsecured debt	15,844,856	873,984
Minority shareholders' interests in subsidiary companies	282,377	47,930
Disposal of (additions to) fixed assets, net	201,635	(1,036,967)
Funds provided from sale of subsidiaries	10,475,181	—
Decrease (increase) in cash and deposits	2,389,358	(605,847)
	<u>\$ 39,257,988</u>	<u>\$ (57,550)</u>
Funds used:		
Funds invested in leases receivable:		
Increase in leases receivable	—	\$ 13,010,489
Increase in residual values	—	1,251,838
Net losses	—	1,387,141
Increase in unearned income	—	(3,703,047)
	—	11,946,421
Increase (decrease) in notes and accounts receivable	\$ 419,941	(404,251)
Investment in other companies	6,421,470	410,204
Decrease in long-term secured debt	436,897	206,366
Decrease (increase) in long-term unsecured debt	24,832,500	(14,411,692)
Decrease in subordinated funded debt	831,762	1,096,551
Decrease in mortgage payable	12,458	11,423
Decrease in liabilities other than borrowings	1,688,843	107,705
Redemption of preference shares	4,083,493	21,500
Dividends declared	458,164	656,522
Other	72,460	301,701
	<u>\$ 39,257,988</u>	<u>\$ (57,550)</u>

See accompanying notes to consolidated financial statements.

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1976

1. Summary of significant accounting policies:

(a) Principles of consolidation:

The consolidated financial statements include the accounts of the company and all subsidiaries. All material inter-company balances and transactions have been eliminated. The consolidated statement of income includes the operations of six former subsidiaries for the six months ended October 31, 1975, the date on which the investment in those subsidiaries was sold.

(b) Currency translation:

Assets and liabilities arising in foreign currencies due within one year have been translated at the rates of exchange in effect at the year end. Other foreign currency items have been translated at the rates in effect when the transactions occurred.

(c) Leases receivable and unearned income:

The leasing subsidiary follows the practice of recording gross rentals to be received over the periods of the leases and estimated residual values on leases written (estimated as a percentage of the original equipment cost) as assets when leases are executed. The excess of such amounts over the cost of the related equipment is recorded as unearned income. A portion of the unearned income is credited to current income at the commencement of the lease periods in an amount estimated to offset lease acquisition costs. The balance of unearned income is credited to current income over the terms of the leases in diminishing periodic amounts on the sum of the digits method based on payments deemed to be made in

accordance with the lessees' contractual obligations. The balance of the payments deemed to be made is recorded as recovery of cost of leased equipment.

(d) Mortgages receivable and interest income:

The mortgage financing subsidiaries generally follow the practice of recording as an asset the principal portion of the mortgage payments to be received over the term of the mortgage when the funds are advanced. Interest is taken into income according to standard mortgage amortization tables. Discounts on mortgages and unrealized profits on sales of repossessed properties are taken into income in equal monthly amounts over the remaining life of the mortgages.

(e) Income taxes:

The company follows the tax allocation method of accounting for income taxes which makes full provision for such taxes on all reported income.

(f) Depreciation and amortization:

(i) Fixed assets:

Generally, depreciation is provided on plant and equipment, and amortization on leasehold improvements on a straight-line basis at annual rates which are designed to write off the assets over their estimated useful life.

(ii) Excess of cost over net value of subsidiaries at dates of acquisition is being amortized over a twenty year period.

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1975

2. The lease contracts provide for equal periodic payments to be received over their terms. The amount of rentals to be received over the next five years and thereafter is summarized below:

	1976	1975
Within:		
One year	\$ 6,701,137	\$ 49,940,794
Two years	4,784,697	40,610,867
Three years	2,598,135	29,172,734
Four years	875,150	17,565,669
Five years	306,234	6,237,045
Thereafter	—	1,939,379
	<u>\$ 15,265,353</u>	<u>\$145,466,488</u>

3. Real estate held for sale:

This includes \$90,066 (1975, \$88,145) which is carried at cost and \$719,555 as valued by the Board of Directors as at April 30, 1975.

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1976

4. Investments and advances:	1976	1975
Investment in shares:		
Citicorp Leasing Canada Limited	\$ 4,634,313	—
Hamilton Leasing Limited	1,779,550	1,779,550
Other investments:		
At equity	1,030,442	1,003,896
At cost	29,846	144,711
At market value	795,506	1,490,510
	<u>8,269,657</u>	<u>4,418,667</u>
Advances to affiliated companies	1,209,443	325,279
	<u>\$ 9,479,100</u>	<u>4,743,946</u>

The investment in Citicorp Leasing Canada Limited is valued at the company's share of the net tangible assets therein. The company's share of the equity of Citicorp Leasing Canada Limited amounts to \$6,320,729.

The investment in Hamilton Leasing Limited is valued at cost plus value of stock dividends received. The company's share of the equity of Hamilton Leasing Limited amounts to £333,000, equivalent to approximately \$600,000 at the exchange rate in effect at April 30, 1976. Of the total decline in value of approximately \$1,180,000, approximately \$500,000 results from the decline in the exchange rate of the British pound to April 30, 1976. This possible exchange loss has been reduced to approximately \$100,000 by acquiring a forward exchange contract to sell £1,000,000 for \$2,158,000 (Note 11). The balance of \$680,000 results from a decline in the value of the equity of Hamilton Leasing Limited. No provision has been made to recognize this possible loss as, in the opinion of management, the decline in value is considered to be of a temporary nature.

5. Property, plant, equipment and improvements, at cost less accumulated depreciation and amortization:	1976	1975
Buildings	\$ 2,271,865	\$ 2,305,119
Equipment and improvements	338,074	896,029
Automobiles	230,348	363,541
Rental equipment	1,471,316	1,607,627
	<u>4,311,603</u>	<u>5,172,316</u>
Less accumulated depreciation and amortization	942,256	1,088,771
	<u>3,369,347</u>	<u>4,083,545</u>
Land	248,524	260,242
	<u>\$ 3,617,871</u>	<u>\$ 4,343,787</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1976

6. Short-term unsecured debt.	1976	1975
Bank indebtedness	\$ 28,048,079	\$ 68,652,273
Commercial paper	—	21,339,000
	<u>\$ 28,048,079</u>	<u>89,991,273</u>

7. Long-term secured debt (payable by subsidiary companies):

Maturing in year ending April 30	Including amounts payable in U.S. funds of	Rate %	1976	1975
Senior notes:				
1984	\$ —	6¾	\$ 1,010,000	\$ 1,163,000
1969 debentures:				
1985	—	8½	—	210,000
1985	\$ 210,000	7½	—	226,800
			<u>1,010,000</u>	<u>1,599,800</u>
Indebtedness initially incurred for term exceeding one year to mature or be paid in full in year ending April 30, 1976 . . .			—	242,297
			<u>\$ 1,010,000</u>	<u>\$ 1,842,097</u>

Long-term unsecured debt:

Maturing in year ending April 30	Including amounts payable in U.S. funds of	Rate %	1976	1975
1977	2,000,000	8⅛	—	\$ 2,038,000
1978	15,500,000	8¾-11⅞	—	17,247,000
1979	—	7⅞	—	5,547,500
			<u>—</u>	<u>\$ 24,832,500</u>

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1976

8. Subordinated funded debt:

	1976	1975
9% Subordinated notes payable maturing in equal annual instalments on August 1, 1976 and 1977	\$ 500,000	\$ 750,000
7% Debentures maturing April 1, 1977 U.S. \$75,000	—	80,766
7% Debentures maturing August 1, 1978	148,500	171,000
6½% Sinking fund debentures, ranking equally with the 7% debentures, due February 1, 1976	—	216,500
Subordinated funded debt at April 30, 1975 transferred on sale of subsidiaries	—	8,253,167
	<u>\$ 648,500</u>	<u>\$ 9,471,433</u>

9. First mortgage, due July 1, 1998, with interest at 8½%, payable in equal monthly instalments of \$11,763 including principal and interest.

10. Capital stock:

	1976	1975
(a) 5% non-cumulative preferred shares of the par value of \$10 each, redeemable at par. Authorized 440,000 shares	—	—
5% first preferred shares, Series A, of a par value of \$100 each, redeemable at \$101. After redemption of 1,818 shares during the year and reclassification, authorized and issued nil	—	181,800
7½% cumulative convertible second preferred shares of a par value of \$10 each, redeemable at par. Authorized and issued after purchase for cancellation during the year of 130,000 shares, nil	—	1,300,000
	<u>—</u>	<u>1,481,800</u>

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1976

10. Capital stock (continued):

	1976	1975
Convertible shares without par value. Class A, authorized 7,500,000 shares, issued 2,193,975 shares; Class B, authorized 7,500,000 shares, issued 46,875 shares	\$ 3,901,337	—
Common shares of no par value. Authorized 1975, 7,500,000 shares; issued 1975, 3,020,850 shares . . .	—	6,501,337
	<u>\$ 3,901,337</u>	<u>\$ 6,501,337</u>

- (b) After the redemption of 1,818 5% first preferred shares, Series A, the remaining 36,709 shares were reclassified as 367,090 5% non-cumulative preferred shares of a par value of \$10 each and an additional 332,910 shares of the same class were created increasing the authorized shares of this class to 700,000. Until the close of business on December 12, 1975 the holders of Class B shares had the option to convert three such shares into one preferred share (note 10(e)). The holders of 780,000 Class B shares elected to use this option and 260,000 5% non-cumulative preferred shares of a par value of \$10 each were issued therefor. The 260,000 shares so issued were subsequently redeemed.
- (c) The 7,500,000 Common shares without par value, authorized at April 30, 1975, were reclassified as 7,500,000 Class A convertible shares without par value ("Class A shares"). In addition, 7,500,000 Class B convertible shares without par value ("Class B shares") were created.
- (d) The Class A and Class B shares are fully voting and are convertible into each other on a one-for-one basis. There are two distinctions between the two classes of shares. Firstly, the directors may, in declaring a dividend on the Class B shares, specify that the dividend shall be paid out of tax-paid undistributed surplus on hand or out of 1971 capital surplus on hand. In either case the company pays a tax of 15% and the shareholder receives 85% of any dividend so declared which is not subject to any further income tax in his hands, though the valuation base for capital gains tax purposes will be decreased by the amount received by the Class B shareholder. At April 30, 1976 retained earnings included tax-paid undistributed surplus of \$1,671. Secondly, at the option of the shareholder thereof, Class B shares shall be convertible at any time prior to the close of business on December 12, 1975 into fully paid and non-assessable preferred shares of the capital stock of the company at the conversion rate of one preferred share for each three Class B shares tendered for conversion (note 10(b)).

10. Capital stock (continued):

- (e) The company shall not issue any Class A shares, Class B shares or Preferred shares if after such issue the number of authorized but unissued Class A shares, Class B shares or Preferred shares would be insufficient to satisfy the conversion privileges above in the event that all shares of each other class which are eligible for conversion are actually converted into Class A shares, Class B shares or Preferred shares in accordance with the conversion provisions. During the year the holders of 826,875 Class A shares converted such shares into a similar number of Class B shares of which 780,000 shares were converted to 5% non-cumulative preferred shares (note 10(b)).
- (f) The changes in authorized capital as referred to above were effected by Supplementary Letters Patent dated November 20, 1975.

11. Commitments:

Forward exchange contracts to purchase \$1,800,000 U.S. (1975, \$44,450,000) maturing on June 9, 1976.

Forward exchange contracts to sell £1,000,000 (1975, Nil) maturing May, 1977.

Contingencies:

A foreign country has claimed taxes on certain profits made by the company in prior years. The company has claimed offsetting losses which in its opinion, more than offset such claim.

12. Gross income arises from:

	1976	1975
Lease rentals and related income	\$ 8,824,879	\$ 54,726,718
Interest on advances to affiliated companies	5,300,632	27,000
Interest from mortgages and agreements of sale	2,275,235	2,345,128
Sales	1,482,911	1,348,307
	<u>\$ 17,883,657</u>	<u>\$ 58,447,153</u>

13. Extraordinary items:

	1976	1975
Gain on sale of former subsidiaries less applicable income taxes of \$39,000	\$ 2,390,625	—
Income tax credits arising from prior years losses	145,000	\$ 89,000
	<u>\$ 2,535,625</u>	<u>\$ 89,000</u>

14. Remuneration of officers and directors:

In 1976 the aggregate remuneration as directors of the company's nine directors amounted to \$10,200 (1975, \$8,800); the aggregate remuneration as officers of the company's seven officers amounted to \$299,000 (1975, \$275,400); during 1976 six officers were also directors.

15. The company's ability to increase dividends is subject to the restrictions imposed by the Anti-Inflation Act and Regulations.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of The Hamilton Group Limited and subsidiaries as of April 30, 1976 and the consolidated statements of income, retained earnings, contributed surplus and changes in financial position for the year then ended. Our examination of the financial statements of The Hamilton Group Limited and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the Mexican subsidiaries. The assets of these subsidiaries represent approximately 33% of the consolidated assets.

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiaries at April 30, 1976 and the results of their operations and the changes in their 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.

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Hamilton, Ontario
July 12, 1976

BANKERS

CANADA

Bank Canadian National
The Bank of Nova Scotia
Canadian Imperial Bank of Commerce
The Mercantile Bank of Canada

UNITED STATES OF AMERICA

Bank of Virginia International
Chemical Bank
Crocker National Bank
The Detroit Bank and Trust Company
The First National Bank of Chicago
Wachovia Bank and Trust Company
Wells Fargo Bank

