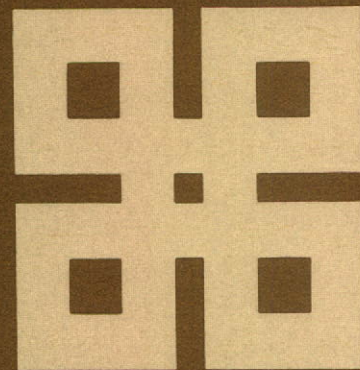


**The Hamilton
Group Limited**



Annual Report

1979

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OF MANAGEMENT

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HIGHLIGHTS

	1979	1978
Net income	\$ 1,465,239.00	\$ 1,905,277.00
Earnings per share	\$.65	\$.85
Dividends paid	\$.28	\$.20
Number of Class A and B shares outstanding	2,247,410	2,240,850
Class A and B shares registered in Canada	97.6%	98.0%

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DIRECTORS AND OFFICERS

HEAD OFFICE:

5050 South Service Road, Burlington, Ontario L7L 4Y7

DIRECTORS:

Frederick W. Dakin	President, The G. W. Robinson Co. Limited
Graham R. Dawson	President, Dawson Construction Ltd.
Lincoln S. Magor	President, Mimik Limited
John F. Schunk	Retired, former Vice-President, The Hamilton Group Limited
John G. Sheppard	Executive Vice-President - Financial, Dominion Foundries and Steel Limited
Paul A. Southall	Vice-President, The Hamilton Group Limited
Alan B. Young	Senior Vice-President, The Hamilton Group Limited
David M. Young	Senior Vice-President, The Hamilton Group Limited
William H. Young	President, The Hamilton Group Limited

HONORARY DIRECTOR:

James M. Young

OFFICERS:

William H. Young	President
Alan B. Young	Senior Vice-President
David M. Young	Senior Vice-President
Paul A. Southall	Vice-President
C. Leslie McCarthy	Secretary

REGISTRAR AND TRANSFER AGENT:

Canada Permanent Trust Company, Toronto, Ontario

AUDITORS:

Peat, Marwick, Mitchell & Co.

ANNUAL REPORT OF DIRECTORS

TO THE SHAREHOLDERS

The high cost of money adversely affected profit in all areas of interest of the Company during the fiscal year ended April 30, 1979. In Canada, the net earnings of Citicorp Leasing Canada Limited were lower than in the previous year, and Charter Credit Corporation incurred its first loss ever. IEOSA, in Mexico, showed a loss while the European operations showed increasing profit. Highlights for the year were:

- Net income of \$1,465,239 or 65 cents per share
- An increase of 2 cents in the quarterly dividend rate to 7 cents per share
- A gain of \$700,111 before tax on the sale of the Company's interest in Hamilton Leasing Limited
- The purchase of the assets of Hamilton Rentals in the United Kingdom for £2,437,000 sterling
- A share of net earnings of \$796,400 from the 40% interest in Citicorp Leasing Canada Limited
- A profit of \$546,976 from European operations
- A loss of \$407,579 in Charter Credit Corporation
- A loss of \$500,364 in Mexican operations

FINANCIAL

Net income, after allowing for minority interests, was \$1,465,239, or 65 cents per Class A and B share, for the year ended April 30, 1979, compared to \$1,905,277, or 85 cents per share, for the previous year.

The rate of the quarterly dividend per share was increased from five cents to seven cents with the payment of July 3, 1978.

Hamilton Group's 40% share in Citicorp Leasing Canada Limited (CLCL) contributed \$796,400 to the consolidated net income for the year, down \$268,950 from the \$1,065,350 contributed to Hamilton Group's consolidated net income a year ago. Although total receivables of CLCL were up 22.3% from the previous year to \$214 million, most of the new business was taken at highly competitive rates which will return little profit until money costs decline. The intense rate competi-

tion that prevailed in the past year, as chartered banks entered the market directly in anticipation of permission to lease in the forthcoming Bank Act, appears to be lessening with the prospect that new business will be available in future at profitable rates. The market in Canada is growing rapidly as leasing becomes increasingly an attractive alternative to other forms of financing. CLCL is well positioned with funds available at competitive cost, and with an organization second to none in the country, to participate strongly in this market growth.

Hamilton Group's wholly-owned subsidiary, Charter Credit Corporation, which was acquired in 1972, suffered a loss of \$407,579. The high cost of money, the intense competition for available mortgages in its Quebec and Nova Scotia markets and several large non-income producing assets, combined to cause the first loss incurred by the company in its 18 year history. This situation is continuing in the present year although recent developments give encouragement that some part of the non-income producing assets will be sold in the next twelve months and the proceeds invested to earn income.

Cancord Limited, Hamilton Group's wholly-owned subsidiary in cordage and twine manufacturing, had a satisfactory year. Torham Packaging Inc. (34% owned) and International Mercantile Factors Limited (37.5% owned) showed a good return on Hamilton Group's investment in them.

A profit before tax of \$327,241 was realized from the sale of property in England and of the land in Burlington acquired by the Province to permit the relocation of the South Service Road in preparation for the building of an interchange at Appleby Line and the Queen Elizabeth Way.

In June 1978, Hamilton Group sold its 13.2% interest in Hamilton Leasing Limited in the United Kingdom for the sterling equivalent of \$2,071,000. This resulted in a profit before tax of \$700,111.

H.G.L. (U.K.) Finance Limited, Hamilton Group's wholly-owned subsidiary in the United Kingdom, contributed \$546,976 to the Company's consolidated net income for the year. Its subsidiary, Labhire Limited, continued to show good profit growth; while its subsidiary, Hamilton Rentals Limited, acquired in June 1978, contributed a profit in its first year of ownership.

Mexican operations, principally IEOSA the leasing company which is 85.9% owned by Hamilton Group, showed a loss of \$500,364, after providing for future tax recovery, in the consolidated figures of the Company. Included in the loss for the year was a charge to income before tax of \$1,046,800 as IEOSA provided for any foreseeable loss on its portfolio of leases and accounts receivable.

BANK ACT

The worrying implications on the future of Hamilton Group of some of the provisions of the new Bank Act as originally proposed were discussed in last years Report to Shareholders. During the year both The Standing Senate Committee on Banking, Trade and Commerce and The Standing Committee on Finance, Trade and Economic Affairs of the House of Commons held public hearings on the Bank Act. Hamilton Group made presentations to both hearings. The recommendations of each Committee following the hearings give encouragement that the existing ownership of Citicorp Leasing Canada Limited will be allowed to continue when the new Bank Act finally becomes law and other provisions of the Act will not be as restrictive on the growth of Citicorp Leasing Canada Limited as originally feared.

SHARE CAPITAL

By a resolution of the Board of Directors, \$5,062,063 of the retained earnings of The Hamilton Group Limited was capitalized and transferred to the paid-up capital account of the Company effective December 15, 1978. This increase in paid-up capital was attributed equally to each outstanding Class A and Class B share at the time, amounting to \$2.26 per share.

THE FUTURE

The present fiscal year which ends on April 30, 1980 marks the 100th anniversary of the Company which began as a small textile enterprise in Hamilton in 1880.

Looking back, the Company has seen many changes as it passed through the early years of Canada as a nation; two world wars and their aftermath; the depression of the 1930's; and the changes in the 1960's leading to Hamilton Group's present position as a financial company with interests in Canada, Europe and Mexico.

Looking forward beyond 1980, Citicorp Leasing

Canada Limited will become a large and profitable company, and Hamilton Group intends to maintain its 40% interest in it. The Mexican company is being strengthened and permitted to grow again as it overcomes the severe effect on it of the major devaluation of the peso in 1976. Projections show the Mexican operation at a break-even in 1981, then returning substantial profits from 1982 onwards. A buoyant Mexican economy, as the country's vast petroleum resources are developed, gives confidence that the projected results can be achieved. The equipment rental business, now firmly established in Europe and with North American operations planned for the future, should provide the Company with substantial and increasing profit. It is anticipated that the rental business will provide the major contribution to Hamilton Group's consolidated net income commencing in the year ending April 30, 1981.

The year ending April 30, 1980 itself may show little change in profit as high money cost continues and operating losses are anticipated in Charter Credit and Mexico. Circumstances, now unforeseen, can have an impact on some Company interests after 1980 but these can only delay temporarily the full achievement of the Company's profit potential.

As it enters its second century, prospects for The Hamilton Group Limited appear very bright.

CANADA

Citicorp Leasing Canada Limited (CLCL)

The Consolidated Balance Sheet and Statement of Earnings as at fiscal year end December 1978 with comparative figures for 1977 and a combined Five-year Summary are provided on Pages 7 and 8.

The year again produced a record in new receivables added of \$122 million, up 18.1% from the previous year. Total receivables increased from \$175 million to \$214 million for an increase of 22.3%.

Earned income increased 17.1% compared to the previous twelve month period while operating costs and provision for losses increased only 10.7%. However, borrowing costs increased 35.1% and this resulted in reduction of net income by 7.7% to \$2.18 million from \$2.36 million in 1977.

Net losses due to bad debts were \$616,000 or 0.32% of average gross receivables outstanding for the year. This is a new low for the company. Collections improved as total leases in arrears more than 30 days, as a percentage of gross receivables outstanding, decreased by almost 1% from 1977.

Thus, apart from the reduced profits, the 1978 financial results were very satisfactory. Unearned income as a percentage of leases receivable decreased from 23.6% in 1977 to 22.5% in 1978. This is an indication of the pressure on yields from increased competition in a far from buoyant economy. Also, during the year borrowing costs increased substantially.

The outlook for 1979 is similar to that of 1978 with a record volume of new business at very competitive rates coupled with continued high borrowing costs and lower profits. Total receivables outstanding increased to \$278 million as at June 30, 1979 from \$214 million at December 20, 1978 or 30% in the first six months of this year. When interest rates decline, CLCL will show a marked increase in profitability.

As previously noted in this report the proposed revision to the Canadian Bank Act continues to cause uncertainty with respect to the future of Hamilton Group's 40% interest in CLCL. It will

remain to be seen how the proposed Act will read when it is presented to Parliament, possibly in the late fall of this year.

Charter Credit Corporation

During the year Charter Credit's mortgage portfolio, including real estate held for re-sale, declined from \$13,372,543 to \$12,899,016.

Real estate held for re-sale are properties securing mortgages in default that Charter has re-possessed with clear title. These properties, together with loans over ninety days in arrears, were carried at \$4,923,224 at April 30, 1979 compared to \$4,369,730 at April 30, 1978, for an increase of \$553,494. This increase is due to expenditures, net of any income, of over \$800,000 during the year on accounts for maintenance and improvement less proceeds from property sales.

Most of the expenditure was on a property located in a good residential area of Quebec City comprising eighty townhouse units. The expenditure was to complete and improve the units to make them rentable and the property saleable. A further expenditure of approximately \$125,000 will be made in the present year. Charter has clear title to the property which is subject to a first mortgage of approximately \$1,230,000. Title to three other properties in the Quebec City area, consisting of a forty unit apartment block and two shopping centres, has been in legal dispute for over three years. The dispute was satisfactorily resolved in June 1979, which will soon clear title enabling the eventual sale of the properties. The carrying cost of these four Quebec City properties was approximately \$1,860,000 on Charter's books at its year end.

Charter now has clear title to a sixty unit apartment building in Dartmouth, Nova Scotia which is almost fully rented. Some further repair work is required in the present year and when this is completed the property will be listed for sale. In the meantime it is producing a positive cash flow which is being used to reduce Charter's carrying cost of the property which stood at \$1,155,613

at the year end. Another property in Dartmouth, carried at \$143,586 at the year end, was sold at a profit in July 1979.

Charter has three properties listed for sale either separately or as a parcel which had secured a defaulted mortgage in Quebec. One property is approximately 200 acres of land in a desirable area in the city of Chicoutimi; one property is "Ile aux lievres" an uninhabited island of approximately 2,000 acres in the St. Lawrence river near Rivière-du-Loup; one property is a tract of mountainous and wooded land of approximately 1,500 acres in the Lac Bleu area near Quebec City. Two separate offers of well over \$1,000,000 each have been made in the past for these properties and when neither offer could be completed by the prospective buyer, Charter applied the deposits forfeited of \$200,000 to reduce the carrying cost of the properties which stood at \$508,731 at the year end.

Charter has a one-third interest in a new 120,000 square foot industrial and office building in St. Eustache, Quebec at a carrying cost of \$428,885 at the year end. Space is now being rented in the building which is expected to produce a positive cash flow in the present fiscal year. When the property is fully rented it will be offered for sale.

While no capital loss is expected in total when these properties are sold the cost of carrying them with no income being recorded is having a severe effect on Charter's profit and this together with the high cost of money and intense competition for mortgage loans caused Charter to show a loss of \$406,580 for the year ended April 30, 1979, the first loss in its eighteen year history.

In the present fiscal year Charter should reduce the total of its non-income producing assets as improvements to a number of properties are completed and title disputes to others are resolved, enabling them to be offered for sale. However, competitive pressure on rates and high money cost will prevent Charter from returning to a profitable level as long as these conditions continue.

Cancord Limited

This wholly-owned subsidiary had a profitable year as a manufacturer of twine, ropes and cordage.

International Mercantile Factors Limited (IMF)

IMF has made excellent progress since it underwent the major organizational changes reported last year. It contributed a satisfactory return on Hamilton Group's investment of \$382,000 in the year after paying interest on Hamilton Group's subordinated loan of \$750,000. The outlook is very encouraging and it is expected that IMF's contribution to Hamilton Group's profit will increase in the present year.

CITICORP LEASING CANADA LIMITED

CONSOLIDATED BALANCE SHEET

December 31, 1978 with comparative figures for 1977

ASSETS

	(Dollar amounts expressed in \$'000's)	
	1978	1977
Leases receivable	\$ 186,746	\$ 163,003
Unearned income	(42,094)	(38,495)
Net leases receivable	144,652	124,508
Loans receivable, net	27,155	11,510
	<u>171,807</u>	<u>136,018</u>
Allowance for losses	(2,909)	(2,227)
Estimated residual values	9,518	8,575
Equipment purchased for lease commitments	21,477	5,416
Accounts receivable	95	37
Income taxes recoverable	431	232
Equipment and improvements	958	807
Excess of cost over book value	3,987	4,095
Other assets	594	256
	<u>\$ 205,958</u>	<u>\$ 153,209</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Short term unsecured debt	\$ 52,125	\$ 36,830
Due to parent and affiliates	107,798	76,981
Accounts payable and accrued charges	9,681	5,414
Long term unsecured debt	10,000	10,000
Subordinated funded debt	6,532	6,800
Deferred income taxes	6,598	3,940
Shareholders' equity:		
Capital stock		
Special shares	2,000	2,000
Common shares	10,000	10,000
Retained earnings	1,224	1,244
Total shareholders' equity	<u>13,224</u>	<u>13,244</u>
	<u>\$ 205,958</u>	<u>\$ 153,209</u>

CITICORP LEASING CANADA LIMITED
CONSOLIDATED STATEMENT OF EARNINGS

Year ended December 31, 1978 with comparative figures for 1977

	(Dollar amounts expressed in \$000's)	
	1978	1977
Earned income	\$ 28,641	\$ 24,452
Cost of borrowed funds	14,145	10,469
Provision for losses	1,298	1,069
Operating expenses	8,789	8,046
	<u>24,232</u>	<u>19,584</u>
Earnings before income taxes	4,409	4,868
Income taxes	2,227	2,503
Net earnings	<u>\$ 2,182</u>	<u>\$ 2,365</u>

CANADIAN LEASING
COMBINED FIVE-YEAR SUMMARY

(Dollar amounts expressed in \$000's)

	Dec. 31 1978	1977	1976	April 30 1976	1975
BALANCE SHEET					
Total receivables	\$213,901	174,513	139,173	123,176	126,564
Allowance for losses	\$ 2,909	2,227	1,778	2,016	1,992
Allowance for losses to receivables	% 1.4	1.3	1.3	1.6	1.6
Unearned income	\$ 42,094	38,495	33,888	29,159	30,898
Unearned income to losses receivable	% 22.5	23.6	24.3	23.7	24.4
Estimated residual value of equipment	\$ 9,518	8,575	8,344	5,850	5,870
Total assets	\$205,958	153,209	121,636	106,900	102,174
OPERATIONS					
Lease income	\$ 64,804	57,143	51,693	48,981	46,253
Earned income	\$ 28,641	24,452	22,974	18,967	18,464
Provision for losses	\$ 1,298	1,069	2,468	878	1,406
Gross receivables added	\$122,228	103,464	78,373	49,357	65,135
Original principal invested	\$275,811	240,313	196,280	178,656	168,378
Net losses due to bad debts	\$ 616	620	2,712	851	1,217
Net losses to average total receivables	% 0.32	0.40	2.10	0.68	1.01
Number of employees at end of year	268	245	232	253	226
Number of transactions outstanding	89,597	89,487	90,085	90,146	89,964
Average original principal per transaction	\$ 3.08	2.69	2.18	1.98	1.87

INTERNATIONAL

EUROPE

As reported in last year's annual report, as a post year end event, Hamilton Group sold its complete shareholding in Hamilton Leasing Limited to Finance for Industry Limited in the U.K. Thus after 16 years, Hamilton Leasing disappears from Hamilton Group's annual reports, to be replaced by Hamilton Rentals Limited, an equipment rental business acquired in the same transaction.

Total rental operations in Europe contributed \$546,976 to Hamilton Group's consolidated net income in 1978/79, compared to \$269,068 in 1977/78 and \$39,389 in 1976/77. Labhire, part of Hamilton Group's operations since 1972, is the largest contributor to these profits, but all the rental operations should be contributing from now on. 1978/79 profits were increased by the strength of the pound during the year, and this is probably non-recurring, but total rental profits are expected to continue to increase quickly independent of swings in the exchange rates.

Labhire Ltd. (UK)

This subsidiary had another successful year, and continues to grow rapidly. Sales were up 46% for the year ended April 30, 1979 over the year before, but profits were up less than 20% due to much higher financial costs. During the year Labhire undertook a major expansion of its rental inventory, and interest and depreciation costs increased faster than sales. It is anticipated that this situation will correct itself this year, as Labhire expects another year of very strong sales growth.

Much of this inventory expansion was into the whole new field of microprocessor development systems. This is a rapidly growing field for rental, as any company wishing to adapt microprocessors into its products needs such a system, but the need may be only short term and the company better off to rent. Labhire has formed a new division to look after this business. This division employs specialists who can give technical assistance to clients, as well as renting them the hardware.

Labhire France S.A.

Sales of Labhire France increased 28% last year,

and profits 10%. Business in the latter half of the year was somewhat disappointing, as Labhire France was budgeting for the same magnitude of sales increase as Labhire Ltd. in the U.K.

A major program is now underway to expand Labhire France into microprocessor development systems like Labhire Ltd., and this should be as interesting a business in France as it is in the U.K. Because of the financial cost of this expansion, and the probable need for Labhire France to move to larger premises this year, profits for the current financial year will not increase very much, but the base is being formed for larger profits in future.

Hamilton Rentals Limited (U.K.)

The problems of making Hamilton Rentals into a separate company on its own, when it had been just a division of Hamilton Leasing, proved more expensive and time-consuming than anticipated, with the result Hamilton Rentals Limited was only marginally profitable during the year. Hamilton Group purchased assets only from Hamilton Leasing, and a new head office organization had to be created in London and everything moved there from Hamilton Leasing's office in Bristol. In particular the problems of moving off Hamilton Leasing's Bristol computer centre, onto Hamilton Rentals own in-house computer in London, have proven much more time-consuming than expected. It will probably take the remainder of the present fiscal year to sort out all these problems, and in the meantime Hamilton Rentals is incurring heavy extra costs.

On the positive side, the rental business continued to develop, and sales for the year were up 44% over the comparable months of the year earlier. Hamilton Rentals Limited is expected to earn reasonable profits in this financial year, but will not reach its full level of profitability until the year ending April 30, 1981 when all its re-organization costs should be behind it.

Hamilton Rentals France

During the year it was decided to start the rental of computer products in France, as a division of Labhire France S.A., and this business has been operating several months now under the trading

INTERNATIONAL

name of Hamilton Rentals France. Its original budget called for taking 16 months to reach the break-even level, but business to date has been better than anticipated and Hamilton Rentals France is now expected to reach profitability early in 1980.

Indications are that the French market for mini-computers and computer peripheral products is as large as that in the U.K., and equally receptive to the idea of renting. It is expected that Hamilton Rentals France will become a very profitable component of The Hamilton Group Limited.

Future

Labhire was in Germany from 1973 to 1976, and the venture was not a success and the business was sold to its competitor there in 1976. It seems that Labhire was a little too early into this market, and had it stayed on the market for rental would have developed quickly. Now, with the advent of microprocessor development systems equipment, it appears that the German market for instrument rental is big enough for Labhire to be able to re-enter it successfully. The sale of the previous business in Germany in 1976 imposed certain restrictions on Labhire re-entering this market, but these expire in May 1980 and Labhire anticipates re-entering the German market then. Hamilton Rentals also may start a German operation as a market survey there showed very encouraging results.

There is now a high degree of communality of the equipment rented out in the various countries by both Labhire and Hamilton Rentals, and increasingly they are doing cross border renting and shipping inventory from one country to another depending on who has the customer for it. Thus it is almost inevitable that both Labhire and Hamilton Rentals will continue to expand in Europe, particularly within the Common Market, as each new office starts up immediately as another sales office for all the existing companies. Limitations will be personnel and finances, but the future seems very promising.

MEXICO

Impulsora de Equipos de Oficina S.A. (IEOSA)

Although improvements were realized in IEOSA during the year, progress was disappointingly slow due in a large part to influences beyond its control. No new funds were made available for expanding the leasing business during fiscal 1979. Thus IEOSA continued to incur the high cost of maintaining an organization, critical to its future, without the off-setting benefits of expansion. Costs were also adversely influenced by the very high inflation

rate in Mexico which was in excess of 20% for the year.

IEOSA reported a net operating loss for the year of 22 million pesos which on consolidation with Hamilton Group resulted in an after tax loss of \$500,364 Canadian. However, included in this large loss was the provision for any doubtful lease, note or account receivable. The allowance for all doubtful accounts totalled \$1,962,467 at year end and the charge to income during the year was \$1,046,800.

There was some limited progress in matching U.S. pay liabilities with U.S. pay assets. However, there is still an imbalance, equivalent to approximately U.S. \$5 million, between debt in U.S. dollars and receivables in pesos.

1979 has laid the foundation for improved performance in 1980 by ensuring a clean lease portfolio and the implementation of administrative procedures to respond to growth. Based on these improvements, Hamilton Group plans to provide IEOSA with sufficient new funds to achieve a 50% growth in leases receivable outstanding during the fiscal year ending April 30, 1980, and 30% in the following two years. Under this three year plan a loss is projected in fiscal 1980, a breakeven in 1981, and a substantial profit in fiscal 1982. This projection includes the cost of providing a reserve for changes in values where assets and liabilities are denominated in different currencies.

The prospect of again being able to operate a competitive, growth-oriented leasing company has already provided a great improvement in employee morale and considerable excitement.

It is also an objective of IEOSA to develop more borrowings in pesos without Hamilton Group's guarantee. However, this will take time to achieve until IEOSA's potential is demonstrated.

Mexico as a whole is faced with certain problems in relating to an inflation rate in excess of the United States, its chief trading partner; a 3% per year population growth rate; and a developing agricultural system. However, the continued development of the petroleum industry and oil reserve coupled with the excellent administration of the Lopez-Portillo led government augurs well for the overall economic performance of Mexico for the next several years.

During this period it is planned to return IEOSA to a very profitable operation and one that is less dependent on Hamilton Group for its new funds.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of The Hamilton Group Limited as at April 30, 1979 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 was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures 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 those subsidiaries represent approximately 26% of the consolidated assets.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at April 30, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

A large, elegant handwritten signature in dark ink, reading "Peat Marwick Mitchell & Co". The script is fluid and cursive, with the "& Co" part being more compact and stylized.

Hamilton, Canada
July 6, 1979

Chartered Accountants

CONSOLIDATED FINANCIAL STATEMENTS

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

April 30, 1979

with comparative figures for 1978

ASSETS		
	1979	1978
Cash and short-term deposits	\$ 1,274,371	\$ 2,195,976
Leases receivable, less allowance for losses, \$709,157 (1978, \$288,874) (note 3)	10,457,892	10,072,570
Mortgages receivable, less allowance for losses, \$184,120 (1978, \$198,512)	9,526,701	10,765,306
Unearned income	(2,941,701)	(2,876,840)
Estimated residual value of property and equipment	1,113,246	987,499
Equipment purchased for lease commitments, at cost	182,884	174,023
Accounts and notes receivable (note 4)	6,174,417	5,205,087
Real estate held for sale (note 5)	3,607,038	3,037,475
Investments and advances (note 6)	6,884,892	8,700,927
Property, plant, equipment and improvements (note 7)	14,969,785	4,149,342
Deferred income taxes	2,072,971	2,755,554
Excess of cost over net book value of subsidiaries at dates of acquisition less amounts written off	1,059,859	1,149,695
Other assets	2,938,002	915,312
	<u>\$ 57,320,357</u>	<u>\$ 47,231,926</u>

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

April 30, 1979

with comparative figures for 1978

LIABILITIES AND SHAREHOLDERS' EQUITY

	1979	1978
Short-term secured debt (note 8)	\$ 34,548,200	\$ 28,091,867
Notes and accounts payable and accrued charges	5,228,901	2,339,773
Other taxes payable	109,935	13,589
Long-term secured debt (note 9)	726,000	762,000
Subordinated funded debt	—	103,500
Mortgage payable (note 10)	1,425,323	1,441,489
Minority interests in subsidiary companies including interest in preferred shares of \$343,150 (1978, \$346,650)	369,713	433,885
Shareholders' equity:		
Stated capital (note 11)	8,990,639	3,901,337
Retained earnings (note 11 (b))	5,675,698	9,900,200
Contributed surplus	245,948	244,286
Total shareholders' equity	<u>14,912,285</u>	<u>14,045,823</u>
Contingent liability (note 12)		
	<u>\$ 57,320,357</u>	<u>\$ 47,231,926</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, 1979
 with comparative figures for 1978

	1979	1978
Amount at beginning of year	\$ 9,900,200	\$ 8,442,370
Net income	1,465,239	1,905,277
	<u>11,365,439</u>	<u>10,347,647</u>
Deduct:		
Dividends:		
Class A shares	568,829	418,094
Class B shares	58,849	27,253
	<u>627,678</u>	<u>445,347</u>
Reduction in retained earnings (note 11 (b))	5,062,063	—
Taxes on undistributed income	—	2,100
	<u>5,689,741</u>	<u>447,447</u>
Amount at end of year	<u>\$ 5,675,698</u>	<u>\$ 9,900,200</u>

CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS
 Year ended April 30, 1979
 with comparative figures for 1978

	1979	1978
Amount at beginning of year	\$ 244,286	\$ 242,861
Discount on redemption of preferred shares of a subsidiary	1,662	1,425
Amount at end of year	<u>\$ 245,948</u>	<u>\$ 244,286</u>

See accompanying notes to consolidated financial statements.

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

Year ended April 30, 1979

with comparative figures for 1978

	1979	1978
Gross income (note 13)	<u>\$ 22,899,397</u>	<u>\$ 13,718,928</u>
Income before the following	<u>10,775,300</u>	<u>8,288,656</u>
Recovery of cost of leased property	4,248,000	3,195,207
Cost of borrowed money including \$179,450 (1978, \$202,039) on indebtedness initially incurred for a term exceeding one year	4,246,321	3,145,481
Depreciation and amortization	2,870,893	545,928
	<u>11,365,214</u>	<u>6,886,616</u>
Operating income (loss)	(589,914)	1,402,040
Investments:		
Income	964,263	1,024,913
Gain on dispositions	700,111	122,747
Amortization of excess of cost over net book value of subsidiaries	(88,388)	(62,292)
	<u>1,575,986</u>	<u>1,085,368</u>
Gain on sale of real estate	327,241	410,524
	<u>1,903,227</u>	<u>1,495,892</u>
Income before income taxes and minority interests	1,313,313	2,897,932
Income taxes (note 14)	(112,000)	939,000
Income before minority interests	1,425,313	1,958,932
Minority interests	39,926	(53,655)
Net income	<u>\$ 1,465,239</u>	<u>1,905,277</u>
Earnings per share	<u>\$.65</u>	<u>\$.85</u>

See accompanying notes to consolidated financial statements.

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
Year ended April 30, 1979
with comparative figures for 1978

Funds provided:	1979	1978
Income before minority interests	\$ 1,425,313	\$ 1,958,932
Add (deduct) items not affecting funds:		
Provision for losses	1,127,092	298,770
Depreciation and amortization	2,976,550	608,220
Excess of earnings of non-consolidated subsidiaries over dividends received	—	(494,071)
Revaluation of investments	11,486	(18,897)
Deferred income taxes	(100,000)	786,000
Gain on sale of real estate	(327,241)	(410,524)
Loss (gain) on sale of investments	(700,111)	100,485
Funds provided from operations	<u>4,413,089</u>	<u>2,828,915</u>
Funds provided from mortgages receivable:		
Decrease in mortgages receivable	1,252,997	1,617,775
Net credit losses	(94,684)	(78,466)
	<u>1,158,313</u>	<u>1,539,309</u>
Decrease (increase) in investments and advances to other companies, net	18,838	(369,268)
Dividends received from non-consolidated subsidiaries in excess of earnings	413,951	—
Proceeds on sale of real estate	738,709	930,475
Proceeds on sale of investments	2,071,871	704,736
Increase (decrease) in short-term debt	6,456,333	(1,221,627)
Increase in liabilities other than borrowings	2,986,922	1,316,339
Decrease in cash and short-term deposits	921,605	70,841
	<u>\$ 19,179,631</u>	<u>\$ 5,799,720</u>
Funds used:		
Funds invested in leases receivable:		
Increase in leases receivable	\$ 805,605	\$ 156,952
Increase in residual values	125,747	254,864
Net credit losses	626,517	234,914
Decrease (increase) in unearned income	(64,861)	1,865,248
	<u>1,493,008</u>	<u>2,511,978</u>
Increase in accounts and notes receivable	969,330	1,043,655
Increase in real estate held for sale	608,029	—
Acquisition of assets of Hamilton Rentals Division (note 2)	5,025,014	—
Additions to plant, equipment and improvements, net	9,036,940	1,194,549
Decrease in long-term secured debt	155,666	516,322
Dividends paid	600,439	445,347
Other	1,291,205	87,869
	<u>\$ 19,179,631</u>	<u>\$ 5,799,720</u>

See accompanying notes to consolidated financial statements.

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1979

The company, incorporated under the Canada Corporations Act and subsequently continued under the Canada Business Corporations Act carries on leasing, financing and rental operations through its subsidiaries in Canada, England, Mexico and Europe.

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. Certain accounts of the previous year have been reclassified to conform with the current year's presentation.

(b) Currency translation:

Assets and liabilities arising in foreign currencies due within one year and leases and notes receivable arising in foreign currencies 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.

Gains on translation of foreign subsidiaries' accounts for consolidation purposes are deferred until realized and losses are reflected in income.

(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) 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 book 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, 1979

2. Business acquisition:

Effective June 1, 1978 a subsidiary company acquired all the assets of the Hamilton Rentals division of Hamilton Leasing Limited, a United Kingdom company, for cash consideration which was financed through short-term bank borrowings. The assets acquired at fair values assigned are summarized as follows:

Land and buildings	\$ 96,215
Rental equipment	4,586,228
Office equipment and automobiles	266,046
Repair parts and service supplies	76,525
Total consideration	<u>\$ 5,025,014</u>

The division acquired is in the business of short-term rental and sale of typewriters and computer peripheral equipment principally in the United Kingdom. Rentals are typically one month to twelve months duration.

The acquisition was accounted for as a purchase with results of operations included from the effective date of acquisition.

3. Leases receivable:

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

Within:	
One year	\$ 6,925,616
Two years	2,925,055
Three years	996,302
Four years	266,011
Five years	54,065
	<u>\$11,167,049</u>

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1979

4. Accounts and notes receivable:

Accounts and notes receivable comprise the following:	1979	1978
Accounts receivable — trade	\$ 4,930,656	\$ 1,961,305
7½% Note receivable due May 1, 1983	463,796	535,176
Notes receivable — other	779,965	2,708,606
	<u>\$ 6,174,417</u>	<u>\$ 5,205,087</u>

5. Real estate held for sale:

	1979	1978
At cost	\$ 3,459,500	\$ 2,878,108
As valued by the Board of Directors at April 30, 1975	213,905	213,905
	<u>3,673,405</u>	<u>3,092,013</u>
Less accumulated depreciation	66,367	54,538
	<u>\$ 3,607,038</u>	<u>\$ 3,037,475</u>

Depreciation is being provided on certain facilities used by the company and subsidiaries, pending the sale of the property.

Included in real estate held for sale are properties, acquired by subsidiary companies as a result of foreclosure proceedings, with a carrying value of \$3,188,195 (1978, \$2,601,779). The carrying value represents the amount of defaulted loans plus disbursements made to protect the companies' positions or to maintain or improve the properties, less revenues, if any from these properties. The realizable value of certain of these properties, because of their nature cannot readily be determined.

6. Investments and advances:

	1979	1978
Investment in shares:		
Citicorp Leasing Canada Limited	\$ 4,717,263	\$ 5,284,863
Hamilton Leasing Limited	—	1,371,550
Other investments:		
At equity	689,576	382,287
At cost	—	152,751
At market value	598,053	609,476
	<u>6,004,892</u>	<u>7,800,927</u>
Advances to affiliated companies	880,000	900,000
	<u>\$ 6,884,892</u>	<u>\$ 8,700,927</u>

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1979

6. Investments and advances: (continued)

The investment in International Mercantile Factors Ltd. is valued on the equity basis. During the year, the company's proportionate interest was reduced from 50% to 37½% as a result of the issuance of common shares to outside interests. The effect of the change in the company's proportionate investment has been charged to consolidated net income.

The investment in Torham Packaging Inc. ("Torham") was accounted for on the cost basis for the year ended April 30, 1978. Torham is now being accounted for on an equity basis to more appropriately reflect the company's involvement in Torham's operations. The effect of this change which is not significant has been included in the current year's consolidated net income.

7. Property, plant, equipment and improvements, at cost less accumulated depreciation and amortization:

	1979	1978
Buildings	\$ 2,800,586	\$ 2,450,683
Equipment and improvements	741,441	438,134
Automobiles	878,601	248,462
Rental equipment	14,645,968	2,592,072
	<u>19,066,596</u>	<u>5,729,351</u>
Less accumulated depreciation and amortization	4,162,354	1,653,964
	<u>14,904,242</u>	<u>4,075,387</u>
Land	65,543	73,955
	<u>\$ 14,969,785</u>	<u>\$ 4,149,342</u>

8. Short-term secured debt:

The company has entered into an agreement with its bankers whereby its shares in its principal investments are pledged as collateral.

9. Long-term secured debt (payable by Charter Credit Corporation):

6¾% senior notes, Series A, maturing April 15, 1984.

The senior notes rank prior to all other indebtedness of the subsidiary company and are secured by a first floating charge on all assets of the subsidiary.

The sinking fund requirements, net of purchases of par value of \$74,000 made in advance of sinking fund requirements, are \$26,000 in 1980, \$100,000 in each of the years 1981 through 1983 and \$400,000 in 1984.

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1979

10. Mortgage payable:

First mortgage, due July 1, 1998, with interest at 8 $\frac{7}{8}$ %, payable in equal monthly instalments of \$11,763 including principal and interest.

11. Stated capital:

- (a) The stated capital is comprised of Class A and Class B shares without par value. The Class A and Class B shares are fully voting and are convertible into each other on a one-for-one basis.
- (b) Under the provisions of the Income Tax Act (Canada), until December 31, 1978, the directors could specify that dividends declared on Class B shares be paid out of tax paid undistributed surplus or out of 1971 capital surplus on hand. Such dividends were not subject to income tax in the Class B shareholders' hands; however, the valuation base for capital gains tax purposes was decreased by the amount received by the shareholder.
- (c) On December 15, 1978, the directors resolved to increase the stated value of the issued common shares from \$3,901,337 to \$8,963,400 by decreasing the retained earnings by \$5,062,063. Under the provisions of the Income Tax Act (Canada), this increase was deemed to be a dividend and the directors further resolved that such dividend be deemed to be payable for tax purposes out of the company's 1971 capital surplus on hand.
- (d) Summary of changes in shares and stated value:

	Class A Shares	Class B Shares	Stated Value
Balance beginning of year	2,015,650	225,200	\$3,901,337
Shares converted during the year	46,258	(46,258)	—
Shares issued as result of stock dividends	—	6,560	27,239
Increase by directors' resolution	—	—	5,062,063
Balance end of year	<u>2,061,908</u>	<u>185,502</u>	<u>\$8,990,639</u>

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1979

12. Contingent liability:

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.

13. Gross income arises from:

	1979	1978
Lease rentals and related income	\$ 19,406,532	\$ 9,865,314
Interest on advances to affiliated companies	119,442	69,271
Interest from mortgages and agreements of sale	1,527,599	2,054,483
Sales	1,845,824	1,729,860
	<u>\$ 22,899,397</u>	<u>\$ 13,718,928</u>

14. Income taxes:

Income taxes payable by the company and its subsidiaries are reduced as a result of non-taxable items which are included in the determination of income.

Certain of the subsidiaries have losses for tax purposes aggregating approximately \$1,253,300 which are available to reduce taxable income of future years with \$937,300 expiring in 1982 and \$316,000 expiring in 1984.

BANKERS

CANADA

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

UNITED STATES OF AMERICA

Bank of Virginia International
Chemical Bank
Crocker National Bank
The First National Bank of Chicago
Wells Fargo Bank

