

The Hamilton
Group Limited

Annual
Report 1985

HIGHLIGHTS

	1985	1984
Income before extraordinary items	\$3,251,684	\$4,314,341
Net income	\$3,474,794	\$3,033,341
Earnings per share		
Basic earnings per share		
Income before extraordinary items	\$ 1.33	\$ 1.76
Net income	\$ 1.42	\$ 1.24
Fully diluted earnings per share		
Income before extraordinary items	\$ 1.26	\$ 1.70
Net income	\$ 1.33	\$ 1.21
Number of Class A and B shares outstanding	2,451,239	2,379,945
Class A and B shares registered in Canada	95.6%	94.8%

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CORPORATE INFORMATION

DIRECTORS:

Frederick W. Dakin*	Chairman, The G. W. Robinson Co. Limited
Graham R. Dawson*	Chairman, Dawson Construction Ltd.
Lincoln S. Magor**†	President, Mimik Inc.
Edward B. Priestner*†	President, Westinghouse Canada Inc.
John F. Schunk*	Retired, former Vice President, The Hamilton Group Limited
John G. Sheppard††*	Vice Chairman, Dofasco Inc.
Alan B. Young†	President, The Hamilton Group Limited
David M. Young	Chairman, Hamilton Rentals Limited — U.K.
William H. Young†	Chairman, The Hamilton Group Limited

††Chairman, Executive Committee of the Corporation

†Member, Executive Committee of the Corporation

**Chairman, Audit Committee of the Corporation

*Member, Audit Committee of the Corporation

HONORARY DIRECTOR:

James M. Young

OFFICERS:

William H. Young	Chairman
Alan B. Young	President
G. Duncan Shearer	Senior Vice President
William J. Young	Vice President
Gordon Brown	Vice President
Mark W. Horsley	Vice President
C. Leslie McCarthy	Vice President & Secretary

HEAD OFFICE:

Suite 300, Oakville Corporate Centre
700 Dorval Drive, Oakville, Ontario L6K 3V3

REGISTRAR AND TRANSFER AGENT:

Canada Permanent Trust Company, Toronto, Ontario

SOLICITORS:

Blake, Cassels & Graydon

AUDITORS:

Peat, Marwick, Mitchell & Co.

ANNUAL REPORT OF DIRECTORS

TO THE SHAREHOLDERS

Solid progress towards the establishment of the Company as a well financed and managed leader in the rentals and distribution of computer related products throughout North America continued in the 1985 fiscal year. While earnings before extraordinary items were less than the previous record year, largely because of delays in anticipated financing availability, they were nevertheless the second best in the Company's history. The completion of the sale of Hamilton Group's interest in the Citibank companies; the issue of ten million dollars in subordinated debentures both of which took place shortly after the year end; and the elimination of Hamilton Group's guarantee of the bank debt of its Mexican subsidiaries, were all very positive achievements for the Company.

Financial Results

Income for the year after tax but before extraordinary items, was \$3,251,684 or \$1.33 per share, compared to \$4,314,341 or \$1.76 per share for the previous year. After extraordinary items, income for the year was \$3,474,794 or \$1.42 per share, compared to \$3,033,341 or \$1.24 per share for the previous year. In 1984, extraordinary items included a provision of \$2,000,000 against the Company's exposure in Mexico which was offset partially by a reduction in income taxes due to prior years losses of \$719,000. In 1985, the reduction in taxes was \$94,000, but the extraordinary items also included the net gain of \$129,110 on the sale in July 1984 of the Torham Packaging Inc. investment which was described in last years Annual Report.

A stock dividend of three shares for every one hundred shares held, or a total of 71,294 shares, was paid in April. This was the cash equivalent of 22-1/8 cents per issued share. This was the first dividend paid to shareholders since May 1982 when a stock dividend of 3.0 cents per share was declared. The stock dividend amounts to less than 10% of the cumulative net income of the years 1984 and 1985. Future dividend policy either as cash or shares will depend not only on earnings but on the retained earnings required to provide a borrowing base for additional debt to finance the expansion of the computer business.

Citibank Leasing Canada Limited/Citibank Factoring Canada Limited

The agreement between the Company and Citibank Canada to reorganize the capital structure of the Citibank companies in which Hamilton Group held

40% of the common shares, and to create special Hamilton Group shares which Citibank Canada could purchase, as detailed in the 1984 report to shareholders, did not take place. A different agreement was negotiated under which Citibank Canada acquired all of Hamilton Group's interest in the Citibank companies. This agreement closed on May 15, 1985, shortly after the fiscal year end, resulting in a profit of \$5,586,000 after providing for income taxes of \$2,800,000. This profit will show as an extraordinary item when the Company's results are reported for the first quarter of the present fiscal year.

Hamilton Rentals Europe

The transaction involving the sale of Hamilton Group's former European subsidiaries to a new company, Hamilton Rentals Limited, which was explained in last years report to the shareholders, was finally completed during the year when the sale of HGL France S.A. received French government approval. Hamilton Group remains a guarantor of the bank debt of HGL France S.A., amounting to approximately \$3,300,000 Canadian at current exchange rates. This guarantee should be eliminated shortly.

Hamilton Rentals Europe has had a very successful beginning, showing a net profit after tax of £665,000 for its fiscal year ended April 30, 1985. The Company's share of these earnings amounted to \$498,800 which is consolidated in Hamilton Group's net income for the year. Hamilton Group holds 35.1% of the common shares of Hamilton Rentals Limited and £1,000,000 in 7% preferred shares. These latter shares are being redeemed at the rate of £200,000 in July of each year commencing in 1985.

Mexico Investments

Subsequent to year end, permission was received from Mexican authorities to proceed with the reorganization of Hamilton Group's various interests in Mexico. The details of the proposed reorganization and the amounts involved are stated in Note 5 of the Consolidated Financial Statements.

The end result of the reorganization is that the original bank debt of the Mexican companies of US\$16,000,000 will be restructured into (1) debt from a trust of the Mexican central bank for US\$2,700,000, (2) debt from the reorganized leasing company subsidiary IMEXA in the amount of US\$5,750,000 of which US\$5,300,000 is to be received through the trust of the Mexican central bank, and (3) an equity investment of US\$7,550,000. Of the total debt of US\$8,450,000, US\$8,000,000 is payable in quarterly instalments to a U.S. banker on Hamilton Group's

behalf, over four years commencing in 1988 and earns interest at the London Interbank Offered Rate. A provision of Canadian \$6,000,000 is held against possible partial loss of the equity investment.

No additional funds will be invested by Hamilton Group in the reorganized company.

The equipment leasing and rental companies are performing better than expected. Sales volumes, margins, collections and administrative costs are all better than budgets at the start of the 1986 fiscal year. The present challenge is a shortage of new funds in Mexico to fund the acquisition of equipment for lease. After the proposed reorganization is completed and this problem is resolved, the profitability of the Mexican operations should enable the debt to be retired in due course and make the company more attractive to potential buyers of the equity.

DEBT AND CAPITAL

Sale of \$10,000,000 12% Convertible Subordinate Debentures

This issue was successfully sold in May 1985 resulting in the Company receiving \$9,710,000 after costs and commissions paid. The issue matures on May 16, 1995. It may be converted into common shares of Hamilton Group at \$9.50 per share until maturity. It is non-redeemable for three years and thereafter is redeemable on a formula basis. The debentures are subordinate to all other bank or secured borrowing and so establish the base to permit the financing and growth planned for the business in future years.

Share Capital

During the year, 71,294 shares were issued as a stock dividend which brought the outstanding Class A and Class B common shares to 2,451,239. Should all shares reserved for the conversion of the 12% convertible subordinate debentures (1,052,632) and the exchange of the Hamilton Rentals Limited — Europe (598,461) into Hamilton Group common shares be issued, then the total outstanding common shares would be 4,102,332. The proposed share purchase plan and stock option plans would add a potential issue of 240,000 shares if approved by the shareholders.

The Class A common shares traded on the Toronto Stock Exchange from a low of \$5.62 to a high of \$8.00 per share. The closing price at April 30, 1985 was \$7.25. The book value per issued share at year end was \$6.46 per common share compared to \$5.10 last year.

Banking

The closing of the sale of the Citibank Leasing/Factoring Canada Limited shares and the issue of convertible debentures resulted in a substantial reduction of bank borrowing. Note 17 of the consolidated financial statements shows the effect of these changes. The peak was reached in January 1981 when the Company had bank borrowings of \$55,101,000 which included US\$15,000,000 in guarantees of debt of its Mexican subsidiaries. At year end, April 30, 1985 bank borrowing had been reduced to \$36,900,000, and in the April 30, 1985 pro-forma balance sheet it is reduced to \$16,415,000. Bank debt does not include guarantees of approximately \$3,300,000 to Hamilton Rentals France, now part of the European company in which Hamilton Group has a 35.1% interest. These guarantees are expected to be eliminated in the near future. In the pro-forma balance sheet shareholders' equity and subordinate term debt increased from \$15,830,000 to \$31,416,000.

The ratio of secured bank debt to borrowing base of equity and subordinate debt has changed from a figure of 2.3:1 at April 30, 1985 to 0.5:1 in the April 30, 1985 pro-forma balance sheet.

With these improvements a new agreement will be negotiated with the Company's bankers which will be more in keeping with the needs of a growth business.

OUTLOOK

The computer business is currently receiving much publicity about its first "recession". Recession in these terms appears to mean a reduction in growth from 50% to 15%-20% per year. However, a 15% to 20% growth in revenue for Hamilton Group should be achievable and is still substantial growth.

With the completion of the sale of the investment in Citibank Leasing and Factoring, the flow of earnings from this source has ceased. Equity income from Citibank Leasing/Factoring which was recorded on an after tax basis will have to be replaced by increased earnings from the computer business which is subject to full taxation rates. Thus, it is expected that profit after tax for the year 1986 will be lower than the amount earned in 1985 although cash flow should show little change. On the other hand, the sale of the Citibank Leasing and Factoring interests has created a net gain of \$5.5 million which will be reported as an extraordinary item in the first quarter of the fiscal year 1986, and the financial base has been established to support future growth of the computer operations.

Overall the outlook for Hamilton Group is favourable. Further geographic expansion will continue over the next few years in both the United States and Canada.

The possibility of the United States subsidiary participating in increased export sales is encouraging.

It is Hamilton Group's strategy to develop a significant position in the computer sales and rental business in Canada and the United States, a market that still has great potential for growth.

Head Office

The Company moved its head office in early May 1985 to attractive new premises at the Oakville Corporate Centre, 700 Dorval Drive in Oakville. The new premises provide the space and facilities to accommodate future growth plans.

Employees

Subsequent to the year end, two new Vice Presidents of The Hamilton Group Limited were appointed. M. W. Horsley joined Hamilton Group as Vice President and will be resident in Mexico where he will be responsible for the management and disposition of Hamilton Group's interests in that country. C. L.

McCarthy, formerly Corporate Secretary, was appointed Vice President and Corporate Secretary. This appointment recognizes his long service and outstanding contribution to the Company.

In order to attract and maintain superior employees, Hamilton Group has reviewed all employee benefits. This has resulted in an improved benefit plan, a commencement of a pension plan for the United States employees, and the commencement of revisions to Canadian pension plans to meet the changing government requirements. At the annual meeting it is planned to present a share purchase and a stock option plan for shareholders' approval. These steps are necessary to maintain Hamilton Group's good reputation and competitiveness in maintaining the high standard of our employees.

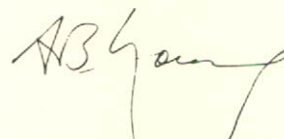
It is appropriate to express gratitude for the continued hard work, loyalty and dedication of the employees who have made possible the success of the past year.

On behalf of the Board of Directors

July 31, 1985



W. H. Young, Chairman



A. B. Young, President

ANNUAL REPORT ON OPERATIONS

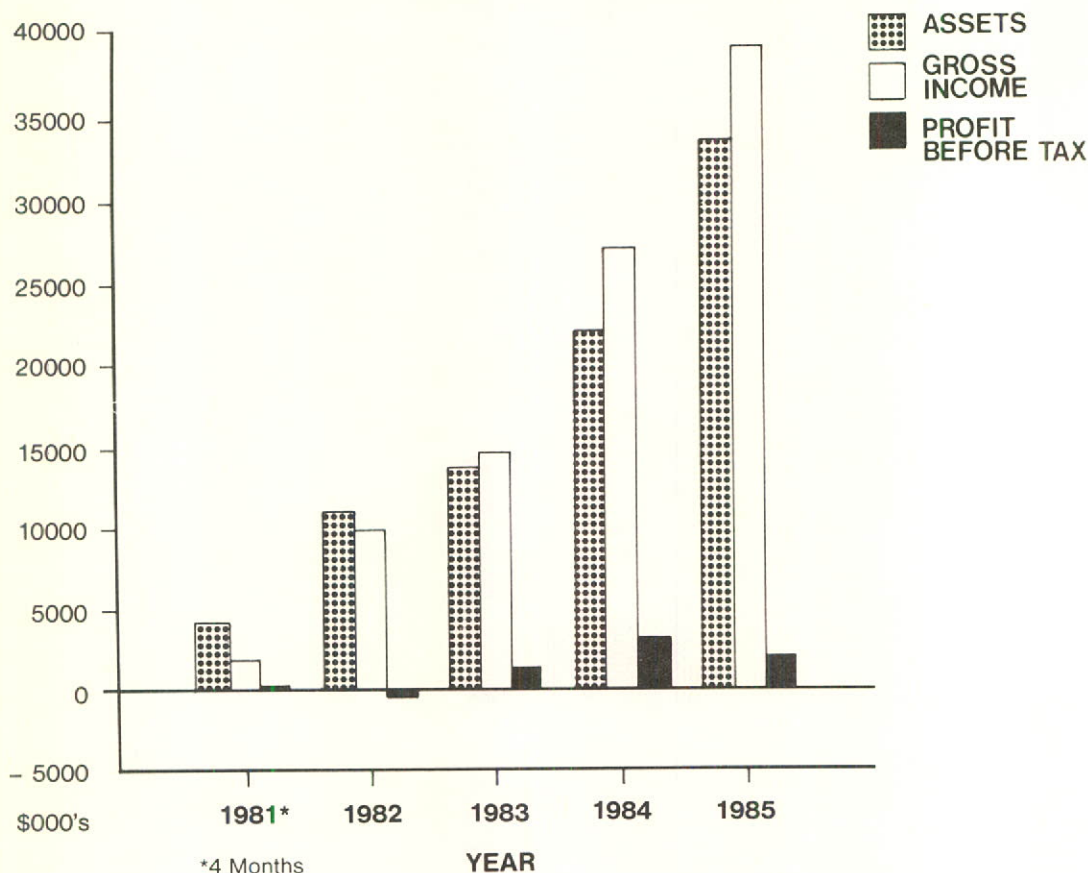
Operating profit before interest costs and provision for income taxes dropped 7.6% (\$565,244) from \$7,428,589 in 1984 to \$6,863,345 in 1985. The two causes for this drop were costs associated with the expansion required to sustain future growth and the unexpected delay in receipt of new funds necessary to acquire computer equipment for sale and rent, and to finance the higher level of receivables. Good business was rejected. Gross income from operations increased 42% to \$42,259,990 during 1985 and the development costs incurred in 1985 should provide the base for a further increase in 1986.

The results of the computer sales and rentals accounted for 92.5% of gross income and this percentage will be higher in 1986. The growth in assets and gross income of the computer segment in

Canada and the United States is consistent and steady. This growth is shown in the (following) graphs (on page 7). However, as noted the costs of expansion reduced profits before tax and every effort will be made to improve profit margins in the current year.

As part of the improvements being made to control expenses and improve margins, a comprehensive data processing reporting system is being developed. During 1985 the first stage of the system was implemented in Canada and by year end was making a valuable contribution to operations. During 1986, the first stage of the system will be introduced to the United States while continued development and implementation of expanded systems will take place in Canada.

COMPUTER RENTALS & SALES — NORTH AMERICA



HAMILTON COMPUTER SALES AND RENTALS (CANADA)

The Canadian operations are a division of The Hamilton Group Limited. Their head office and major warehouse is in the western part of Toronto.

During the year a major expansion was undertaken and offices were opened in Vancouver and Ottawa to complement existing branches in Calgary and Montreal. A new warehouse and office facility was added in western Toronto, adjacent to the existing head office. The first retail store "HAMILTON Business Centre" was opened at 33 Yonge Street, Toronto, and its results have exceeded expectations. Further retail outlets are planned for 1986. To provide service and trained staff for these increased facilities required a 41% increase in the number of employees.

As a measure of the success of this expansion programme, last quarter gross revenue was 68% higher than the first quarter. This increase would have been even higher as the division turned down a substantial amount of new business in the third quarter due to a shortage of funds. However, the "up front" costs of expansion resulted in a decline in operating profit of 8% for 1985 versus 1984. Improvement in profit margins has the highest priority in 1986.

To date all the development of the new corporate management information system has taken place in Toronto. This development, implementation and transition from the previously used data center has been costly and administratively difficult. The new system is now operating on a timely and accurate basis and providing essential control of all inventories and receivables. The system will be polished and expanded to other areas of control and information during 1986.

HAMILTON Computer Sales and Rentals enjoys excellent relationships with its major suppliers such as, Apple, Compaq, Digital Equipment, Epson, Hewlett Packard, IBM, Tektronix and Wang. Customer service and repeat business are also an essential area for success, and they are monitored closely. The employees are well trained and dedicated. These factors, coupled with the expansion achieved in 1985, should provide the necessary ingredients for a successful 1986.

HGL SOFTWARE LIMITED (U.S.A.)

HGL Software Limited is wholly-owned subsidiary of The Hamilton Group Limited. Its head office is located in Allendale, New Jersey.

At the beginning of fiscal 1985, the computer business was in one location in Allendale and was approximately half the size of the Canadian operations in terms of operating profit. Thus a major expansion from the smaller basis had an even greater relative effect on operating profits which declined 37% in 1985 compared to 1984, although gross revenue did increase 29% year over year. Lack of funds and a turn down in the U.S.A. computer market affected the U.S. operations more severely than Canada.

Much was achieved in 1985 that will have a positive impact on 1986. The warehouse and office facilities at Allendale were almost doubled in size. A new office and warehouse facility was opened in Dallas, and sales offices were opened in Cincinnati, and Los Angeles. This greater geographic representation in the U.S. should produce substantially greater revenue and operating profit contribution in 1986.

On May 1, 1985, Redwood Technology Group Inc. commenced operations. Essentially this was a management buy out of the small business software division of a larger military software firm. HGL Software helped finance the establishment of Redwood and in so doing acquired the exclusive marketing rights to the VOX office software. The VOX programmes provide a link between well known programmes covering word processing, data base, spread sheet, electronic mail and personal diary for the VAX line of Digital computers. VOX can provide a major step forward on the way to complete office automation.

During 1985, export sales of equipment started and shipments were made to such countries as Columbia, Taiwan and The Peoples Republic of China. Much ground work has been done in order to start these shipments abroad, but the potential for substantial sales — especially to China — is significant.

Managing the development of HGL Software Limited in the huge U.S. market place and the potentially large export market will provide an exciting challenge. The number of employees increased 51% during 1985 and further increases will be required in 1986. The senior management has been expanded and strengthened by additions of national marketing, operations and administrative managers. The management information system developed and proven in Canada will be introduced to the U.S. operations in the first six months of fiscal 1986. These steps will improve control, information and skills necessary to realize the anticipated growth on a profitable basis.

HAMILTON RENTALS LIMITED (EUROPE)

The Hamilton Group Limited owns 35.1% of Hamilton Rentals Limited and under certain conditions, shareholders of Hamilton Rentals Limited may convert their shares into shares of The Hamilton Group Limited whereby Hamilton Rentals Limited could become a wholly-owned subsidiary of The Hamilton Group Limited in the future. The head office of Hamilton Rentals Limited is in London, England and subsidiaries operate in France, with head office in Paris; Germany with head office in Dusseldorf; and in Holland.

Transferring the Head Office to Europe has led to a substantial improvement in European Operations with strengthened management and improved reporting. The profit contribution before tax for the twelve months ended April 30, 1985 was £1,139,000 (1984 £197,000).

U.K. operations report consistent and profitable growth, are well managed, with a solid base of rental income and continuing demand. Gross income is consistently reaching £1,000,000 monthly.

France contributed the highest profit in their history. Rental income is high, but further investment is required in France to enable them to up-grade their rental equipment, and maintain market share.

Germany and Holland are still relatively new and small and as yet are break-even operations. Future prospects for growth appear to be attractive.

The European management anticipate continuing growth and increased earnings in the coming year.

INTERNATIONAL MERCANTILE FACTORS LTD. (IMF)

The Hamilton Group Limited loans to IMF and its 37.5% share of equity produced income of \$420,000 which was an 18% increase over 1984. The total funds advanced and invested in IMF produced an overall return that exceeded 20%.

IMF has taken space in Hamilton Group's new head office in Oakville from where it will operate its first branch office. This first geographic expansion and continued development from its head office in Montreal should ensure another excellent year in 1986.

CANCORD

Cancord manufactures rope, cordage and twine products from cotton and synthetic yarns at its plant in Hamilton. Its products are shipped to manufacturers and distributors located across Canada. The Cancord operations continue to contribute a modest profit to the consolidated income of the Company.

ASSETS IN COURSE OF REALIZATION

The wind down of Charter Credit Corporation continued to make progress. As of this date, there are only 9 active mortgages held by Hamilton Group and these are all current and due to be completed by September, 1987. Real estate held for sale in Canada was also reduced during the year, but the purchase of the former head office of Hamilton Rentals Limited in London, England which was excluded from the reorganization of 1984, limited the overall reduction in book value to \$8,468 for a year end total of \$1,374,818.

After some 14 years since the first application was made, the 6.5 acre former cotton mill site in Dundas, Ontario has been rezoned for residential development. This property along with 18 acres adjacent to the former head office at the Appleby Line and Queen Elizabeth Way in Burlington are valuable assets that will be profitably sold or developed as soon as market conditions permit.

The rental property of 80 townhouses in Quebec City is fully rented and producing a greater cash flow than possible savings in bank interest from net cash proceeds if the property were sold in current market conditions. However, the property will be sold should market conditions improve.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of The Hamilton Group Limited as at April 30, 1985 and the consolidated statements of income, retained earnings, contributed surplus and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at April 30, 1985 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.

Hamilton, Canada
June 21, 1985

Peat, Marwick, Mitchell & Co.
Chartered Accountants

CONSOLIDATED BALANCE SHEET
April 30, 1985
with comparative figures for 1984
ASSETS

	1985	1984
Operating assets:		
Cash and short-term deposits	\$ 419,000	\$ 64,000
Equipment for sale, rental or service (notes 2 & 16(a))	22,785,450	16,574,590
Accounts and notes receivable	9,714,089	5,129,130
Other	1,372,003	1,061,531
	<u>34,290,542</u>	<u>22,829,251</u>
Assets in course of realization, net of allowance for losses:		
Mortgages receivable	498,698	1,015,066
Real estate held for sale	1,374,818	1,383,286
Rental property (note 3)	1,281,160	1,284,903
	<u>3,154,676</u>	<u>3,683,255</u>
Other assets:		
Investments and advances, at equity (note 4)	14,059,075	15,689,664
Advances relating to Mexican subsidiaries (note 5)	10,479,560	(6,000,000)
Equipment and leasehold improvements (notes 6 & 16(a))	1,396,959	831,657
Deferred income taxes	589,705	599,705
Other	207,318	425,276
	<u>26,732,617</u>	<u>11,546,302</u>
	<u>\$64,177,835</u>	<u>\$38,058,808</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

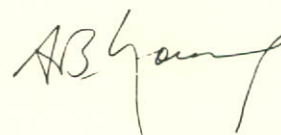
	1985	1984
Liabilities:		
Short-term debt (note 7).....	\$28,694,000	\$16,506,869
Notes and accounts payable and accrued charges.....	10,936,160	9,242,767
Long-term debt (note 8).....	8,205,749	—
Minority interest in preferred shares of subsidiaries	158,150	177,550
Deferred foreign exchange.....	353,600	—
	<u>48,347,659</u>	<u>25,927,186</u>
Shareholders' equity:		
Capital stock (note 9)	10,199,500	9,673,707
Retained earnings	5,073,949	1,849,838
Foreign exchange translation adjustment.....	216,000	—
Excess of appraised value of property over cost (note 10).....	—	275,110
Contributed surplus	340,727	332,967
	<u>15,830,176</u>	<u>12,131,622</u>
Total shareholders' equity		
Commitments and contingent liability (note 16).....	<u>\$64,177,835</u>	<u>\$38,058,808</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Director



Director

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME

Year ended April 30, 1985

with comparative figures for 1984

	1985	1984
Gross income (note 11)	\$42,259,990	\$29,679,345
Income before the following	3,345,626	4,017,300
Income from investments	3,517,719	3,411,289
	6,863,345	7,428,589
Cost of borrowed money including \$450,358 (1984; \$134,419) on indebtedness initially incurred for a term exceeding one year	3,757,661	2,310,248
Income before income taxes and extraordinary items	3,105,684	5,118,341
Income taxes (note 12)	146,000	(804,000)
Income before extraordinary items	3,251,684	4,314,341
Extraordinary items (note 13)	223,110	(1,281,000)
Net income	\$ 3,474,794	\$ 3,033,341
Earnings per share (note 14):		
Income before extraordinary items	\$ 1.33	\$ 1.76
Net income	\$ 1.42	\$ 1.24

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS**Year ended April 30, 1985****with comparative figures for 1984**

	1985	1984
Retained earnings (deficit) at beginning of year.....	\$ 1,849,838	\$ (1,277,055)
Net income	3,474,794	3,033,341
Amortization and realization of excess of appraised value of property over cost (note 10).....	275,110	93,552
	<u>5,599,742</u>	<u>1,849,838</u>
Stock dividends.....	(525,793)	—
	<u>\$ 5,073,949</u>	<u>\$ 1,849,838</u>
Retained earnings at end of year.....		

CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS**Year ended April 30, 1985****with comparative figures for 1984**

	1985	1984
Amount at beginning of year.....	\$ 332,967	\$ 317,839
Discount on redemption of preferred shares of a subsidiary	7,760	15,128
	<u>\$ 340,727</u>	<u>\$ 332,967</u>
Amount at end of year		

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
Year ended April 30, 1985
with comparative figures for 1984

	1985	1984
Operations:		
Income before extraordinary items	\$ 3,251,684	\$ 4,314,341
Add (deduct) items not affecting funds:		
Depreciation and amortization, net of recoveries on sales of \$1,760,545 (1984; \$567,734)	3,034,574	2,341,239
Equity income from investments, net of cash dividends received	(1,565,235)	(2,730,992)
Deferred income taxes	(240,000)	385,000
Other	475,000	48,000
Funds provided from operations	<u>4,956,023</u>	<u>4,357,588</u>
Operating assets and liabilities:		
Increase in liabilities other than borrowings	1,693,393	4,029,791
Decrease in collateral cash deposits	—	2,108,751
Increase in equipment for sale, rental or service	(8,932,939)	(8,521,402)
Increase in accounts and notes receivable	(4,584,959)	(2,578,207)
Other assets	(216,472)	(202,621)
Funds invested in operating assets	<u>(12,040,977)</u>	<u>(5,163,688)</u>
Assets in course of realization:		
Repayment of mortgages receivable	459,628	1,475,227
Increase in real estate held for sale	(172,792)	(77,195)
Additions to rental property	(44,257)	—
Funds realized	<u>242,579</u>	<u>1,398,032</u>
Other:		
Decrease in investments and advances	3,574,934	1,215,990
Advances relating to Mexican subsidiaries	(16,479,560)	—
Purchases of equipment and improvements	(815,805)	(289,569)
Proceeds (repayment) of long-term debt	8,205,749	(393,000)
Deferred foreign exchange	353,600	—
Capital stock issued	—	74,250
Other	171,326	(38,834)
	<u>(4,989,756)</u>	<u>568,837</u>
Decrease (increase) in short-term debt, net of change in cash and short-term deposits	<u>\$ (11,832,131)</u>	<u>\$ 1,160,769</u>
Funds provided from operations, per share (basic)	<u>\$ 2.02</u>	<u>\$ 1.78</u>
See accompanying notes to consolidated financial statements.		

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 1985

The company, incorporated under the Canada Business Corporations Act, carries on the business of computer equipment sales and rental operations through its subsidiaries and associates in Canada, Europe and the United States.

1. Summary of significant accounting policies:

(a) Basis of presentation:

The consolidated financial statements include the accounts of the company and all subsidiaries except the Mexican subsidiaries (note 5). All material intercompany 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:

The consolidated financial statements are stated in Canadian dollars. Monetary items denominated in a foreign currency are translated at the rates of exchange in effect at the year-end. Non-monetary and operating items are translated at the rates of exchange in effect when the transactions occurred. Unrealized exchange gains or losses related to monetary items having a fixed or ascertainable life extending beyond the end of the subsequent fiscal year are included in the deferred foreign exchange account in the Balance Sheet and amortized over the remaining life of the related monetary item. Other foreign currency translation gains or losses are included in the current year's income.

For consolidation purposes, accounts of foreign subsidiaries are translated to Canadian dollars using the current rate method. Unrealized gains or losses on translation of foreign subsidiaries' accounts for consolidation purposes are deferred until realized. To conform with the recent Accounting Recommendations of The Canadian Institute of Chartered Accountants, the foreign exchange adjustment account is classified as part of Shareholders' Equity. In prior years, this account was classified outside Shareholders' Equity.

(c) Mortgages receivable and interest income:

The mortgage financing subsidiary records 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 recognized as income according to standard mortgage amortization tables. Discounts on mortgages and unrealized profits on sales of repossessed properties are recognized as income in equal monthly amounts over the remaining life of the mortgages.

(d) Depreciation and amortization:

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

Depreciation is provided on equipment for rental at annual rates ranging from 16-2/3% to 33-1/3%.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1985

	1985	1984
2. Equipment for sale, rental or service:		
Equipment for rental, at cost.....	\$23,418,410	\$17,113,189
Less accumulated depreciation.....	<u>7,471,487</u>	<u>4,749,408</u>
	15,946,923	12,363,781
Equipment for sale and service, at cost.....	<u>6,838,527</u>	<u>4,210,809</u>
	<u>\$22,785,450</u>	<u>\$16,574,590</u>
3. Rental property:	1985	1984
Rental property, at cost.....	\$ 2,585,071	\$ 2,565,031
Less:		
Mortgage payable.....	1,112,418	1,136,635
Accumulated depreciation.....	<u>191,493</u>	<u>143,493</u>
	<u>\$ 1,281,160</u>	<u>\$ 1,284,903</u>
The first mortgage, due in 2002, with interest at 9.5%, is payable in equal monthly instalments of \$10,758, including principal and interest, and is secured by the rental property.		
4. Investments and advances, at equity:	1985	1984
Citibank Leasing Canada Limited and Citibank Factoring Canada Limited.....	\$ 7,613,427	\$ 8,603,263
Hamilton Rentals Limited.....	4,301,128	4,464,201
International Mercantile Factors Ltd.	2,144,520	1,844,913
Other.....	<u>—</u>	<u>777,287</u>
	<u>\$14,059,075</u>	<u>\$15,689,664</u>

- (a) During the year, the company sold its 39.4% investment in Torham Packaging Inc. for a cash consideration of \$1,015,200, realizing a gain of \$129,110, net of deferred income taxes of \$250,000 (note 13).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 1985

- (b) Subsequent to the 1984 year-end, the company entered into an agreement that would have restructured its investment in Citibank Leasing Canada Limited, disposed of its investment in Citibank Factoring Canada Limited, and reorganized the share capital of The Hamilton Group Limited. The agreement was to be effective July 27, 1984 and the details were reported in the notes to the 1984 consolidated financial statements.

The agreement was subject to approval of regulatory authorities which could not be obtained, and the agreement did not close on July 27, 1984. A restructured agreement was signed on September 7, 1984, effective May 15, 1985. The details are contained in note 17 (b).

Income from investments includes \$2,700,000 (1984; \$2,776,000) attributable to the company's investments in Citibank Leasing Canada Limited and Citibank Factoring Canada Limited.

5. Advances relating to Mexican subsidiaries:

In March, 1983, the company entered into an agreement to sell, subject to the approval of Mexican authorities, its Mexican subsidiaries, Sercomex S.A. de C.V. (Sercomex), Impulsora Mexicana de Arrendamiento S.A. (Imexa), and Rent-e-Quipo S.A. The necessary government approvals were not forthcoming and the agreement lapsed.

The company is implementing an alternate plan for disposal of its Mexican subsidiaries and of related financing of \$16,000,000 U.S. Because of this, their accounts are not included in the consolidated financial statements.

The plan is being implemented in steps as follows:

- (a) During fiscal 1984, the Bank of Mexico formed a trust (Ficorca) to control payment of private sector foreign currency debts outside Mexico. Under the Ficorca program, the Mexican companies exchanged notes with Ficorca such that the trust will provide U.S. funds in equal quarterly instalments from 1988 to 1992 that will allow the companies to discharge their foreign debts, in return for payment from the companies to the trust, of the peso equivalent of such debts established at 1983 exchange rates. During the term of the program, the Mexican companies will incur interest expense on notes payable to the trust at peso borrowing rates. The trust will pay interest on the U.S. dollar notes at the London Interbank Offering Rate (libor). The Mexican subsidiaries have entered the Ficorca program for \$5,300,000 U.S. which will be repaid in pesos as described above.
- (b) In addition, \$2,700,000 U.S. has been paid in cash by Imexa to Ficorca. Ficorca is obligated to remit this amount directly to a foreign bank in quarterly instalments from 1988 to 1992. The repayment of this amount is not subject to the fulfilment of any further conditions by the company or its subsidiaries and is a direct obligation of the trust.
- (c) During fiscal 1985, the company paid \$8,450,000 U.S. to a bank to acquire the bank's \$8,000,000 U.S. receivable from Ficorca and its \$450,000 U.S. receivable from Imexa. Accordingly, as future payments are received by the bank, they will be paid over to the company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 1985

- (d) The company intends to merge Sercomex and Imexa into one company and then will invest \$7,550,000 U.S. in the merged company which will apply this amount to repay its remaining foreign bank debt. To date, \$3,750,000 U.S. has been advanced to banks on behalf of the Mexican subsidiaries, and the balance of \$3,800,000 U.S. will be made available to complete the investment as soon as the proposed merger of the Mexican subsidiaries is finalized. Approval to proceed with the merger was received from the Mexican authorities June 18, 1985, and the company is now proceeding to implement the new capital structure.
- (e) Mexican regulations require the company to sell a majority interest in the Mexican subsidiaries to a Mexican controlled company.

At April 30, 1985, the advances relating to the company's Mexican subsidiaries are as follows:

Amounts bearing interest at libor:

Ficorca plan — \$8,000,000 U.S. repayable in the amount of \$500,000 U.S. in 1988; \$2,000,000 U.S. in each of 1989, 1990 and 1991; and \$1,500,000 U.S. in 1992	\$10,928,000
\$450,000 U.S. repayable on demand	594,810
	<hr/> 11,522,810
Advances to banks on behalf of Mexican subsidiaries — \$3,750,000 U.S.	4,956,750
	<hr/> 16,479,560
Less provision for losses	6,000,000
	<hr/> <u>\$10,479,560</u>

The provision for losses was established during prior years of great economic uncertainty in Mexico. Based on information currently available, the estimated provision for losses of \$6,000,000 is considered adequate.

Following the merger and the planned additional \$3,800,000 U.S. (\$5,225,000 Cdn.) investment ((d) above), the company's total investment in and advances relating to the Mexican subsidiaries, net of the provision for losses, will amount to \$15,704,560 Cdn. (note 17 (c)). The effect of these changes will strengthen the financial structure of the Mexican operations and improve their ability to service the Ficorca debt.

The series of transactions during 1985 and planned for 1986 will not increase the company's overall commitment to Mexico.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1985

6. Equipment and leasehold improvements:	1985	1984
Equipment	\$ 1,577,039	\$ 995,672
Leasehold improvements.....	555,490	332,909
	<u>2,132,529</u>	<u>1,328,581</u>
Less accumulated depreciation and amortization	735,570	496,924
	<u>\$ 1,396,959</u>	<u>\$ 831,657</u>

7. Short-term debt:

As security for \$27,194,000 of the short-term debt, the company has pledged its shares of its subsidiaries and other investments and has given a demand debenture as collateral for a floating charge on all of the assets and undertakings of the company and its consolidated subsidiaries as well as a fixed charge on its real property in Canada. The company has also provided a general assignment of accounts receivable, an assignment of equipment for sale, rental or service, and a general security agreement of the company and its consolidated subsidiaries. Dividend payments are subject to bank approval. The remaining short-term debt of \$1,500,000 is unsecured.

8. Long-term debt:	1985	1984
Bank loan, due May 1, 1986.....	\$ 5,000,000	—
Bank loan, due December 31, 1987	3,205,749	—
	<u>\$ 8,205,749</u>	<u>—</u>

Both loans bear interest at bank prime rate plus 1.5%, and are subject to the same security and other provisions as for the short-term secured debt (note 7).

The loan due December 31, 1987 is repayable by monthly principal payments of \$35,833, annual principal payments of \$360,000 on July 31, 1985, 1986 and 1987 and periodic payments of proceeds of sale of assets in course of realization, and other non-operating assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 1985

9. Capital stock:

- (a) The capital stock 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. Class B shareholders receive a stock dividend equivalent to Class A cash dividends.

- (b) Summary of changes in shares and stated value:

	Class A Shares	Class B Shares	Stated Value
Balance beginning of year	2,283,366	96,579	\$ 9,673,707
Shares converted during the year	75,892	(75,892)	
Shares issued as stock dividend	70,658	636	525,793
Balance end of year	<u>2,429,916</u>	<u>21,323</u>	<u>\$10,199,500</u>

An amount of \$122,429 is receivable from employees for shares issued under the company's previous Stock Purchase Plan.

- (c) 1985 Employee Share Purchase Plan:

In 1985, the company established an Employee Share Purchase Plan to provide eligible employees with the opportunity to purchase shares annually through a payroll deduction plan. The plan provides for employees to contribute up to 5% of their annual earnings to purchase stock from treasury.

Approval has been received from the regulatory authorities to reserve a total of 50,000 Class A Common shares for the plan. The plan is subject to the approval of the shareholders.

10. Excess of appraised value of property over cost:

The excess of appraised value of fixed assets over cost relates to land and a building in Burlington, Ontario which were sold in 1981 to Citibank Leasing Canada Limited, in which the company has a 40% equity interest. 40% of the gain on the sale, representing that portion attributable to the company's proportionate equity interest in the purchasing company, was being amortized to retained earnings over a period of five years. Due to the disposal of the investment in Citibank Leasing Canada Limited on May 15, 1985 (note 17 (b)), the remaining balance has been included in retained earnings.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 1985

11. Segmented information:

The directors have determined that the company is an investment holding company with the operations of its consolidated subsidiaries classified into one business segment of computer equipment sales and rental.

A summary of the geographic segments of the company is as follows:

1985	Canada	United States	Eliminations	Consolidated
Gross income, third parties	\$27,787,990	\$14,472,000		\$42,259,990
Transfers between geographic segments.....	299,677	—	(299,677)	—
Gross income	<u>\$28,087,667</u>	<u>\$14,472,000</u>	<u>\$ (299,677)</u>	<u>\$42,259,990</u>
Segment income	<u>\$ 3,072,646</u>	<u>\$ 870,000</u>		<u>\$ 3,942,646</u>
Less net corporate expenses not allocated to segments.....				(597,020)
Income before the following, per Consolidated Statement of Income.....				<u>\$ 3,345,626</u>
Identifiable assets	<u>\$58,654,378</u>	<u>\$12,101,000</u>	<u>\$ (6,577,543)</u>	<u>\$64,177,835</u>
1984				
Gross income, third parties	\$18,489,191	\$11,190,154		\$29,679,345
Transfers between geographic segments.....	116,039	153,846	(269,885)	—
Gross income	<u>\$18,605,230</u>	<u>\$11,344,000</u>	<u>\$ (269,885)</u>	<u>\$29,679,345</u>
Segment income	<u>\$ 3,381,774</u>	<u>\$ 1,238,000</u>		<u>\$ 4,619,774</u>
Less net corporate expenses not allocated to segments.....				\$ (602,474)
Income before the following, per Consolidated Statement of Income.....				<u>\$ 4,017,300</u>
Identifiable assets	<u>\$32,260,733</u>	<u>\$ 7,867,000</u>	<u>\$ (2,068,925)</u>	<u>\$38,058,808</u>

12. Income taxes:

The income tax rate of (4.7)% (1984; 15.7%) differs from the statutory federal income tax rate of 46% because of the inclusion in income of non-taxable income from investments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1985
13. Extraordinary items:

	1985	1984
Gain on sale of Torham Packaging Inc., after provision for deferred income taxes of \$250,000 (note 4 (a))	\$ 129,110	—
Reduction of income taxes due to application of prior years' losses	94,000	\$ 719,000
Provision for loss on bank loans of Mexican subsidiaries ...	—	(2,000,000)
	<u>\$ 223,110</u>	<u>\$ (1,281,000)</u>

14. Earnings per share:

Under a share exchange agreement entered into in 1984 between the company and the other shareholders of Hamilton Rentals Limited which acquired the company's former European subsidiaries, the other shareholders have the right, commencing July 31, 1986 through July 31, 1991, to exchange their shares for Class A shares of the company. The rate of exchange is 3.25 Hamilton Rentals Limited shares for one Class A share of the company or for equivalent cash at the date of exercise, at the company's option for certain shareholders. Full exercise of these options would result in the issuance by the company of 598,461 additional Class A shares.

Fully diluted earnings per share for the current year, calculated assuming full conversion of the Hamilton Rentals Limited shares as at May 1, 1984, are as follows:

Income before extraordinary items	<u>\$ 1.26</u>
Net income	<u>\$ 1.33</u>

The basic earnings per share for 1984 have been restated to reflect the 1985 stock dividend.

15. Transactions with related parties:

The company entered into transactions with related parties in the normal course of business as follows:

	1985	1984
Management fees charged to associated companies	<u>\$ 430,000</u>	<u>\$ 402,000</u>
Interest charged to associated companies	<u>\$ 120,000</u>	<u>\$ 198,000</u>

16. Commitments and contingent liability:
(a) Lease commitments:

The following is a summary of assets acquired under capital leases:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1985

	Cost	1985 Accumulated depreciation	Net book value	1984 Net book value
Equipment for sale, rental or service.....	\$ 1,367,025	\$ 126,163	\$ 1,240,862	—
Equipment and leasehold improvements.....	\$ 549,745	\$ 73,529	\$ 476,216	\$ 228,457

The aggregate minimum capital lease payments are as follows:

1986	\$ 891,401
1987	646,405
1988	395,809
1989	310,758
1990	67,920
	<u>2,312,293</u>
Less amount representing interest, at annual rates from 11.5% to 13.75%	<u>401,821</u>
Balance of obligation, included in notes and accounts payable.....	<u>\$ 1,910,472</u>

In addition, the company has commitments under operating leases for premises and the aggregate minimum amount that will be incurred as annual rental is as follows:

1986	\$ 1,005,099
1987	929,092
1988	771,218
1989	613,939
1990	454,889
Thereafter	<u>42,686</u>

(b) Contingent liability:

The company is guarantor of the former French subsidiary's bank loans, and is contingently liable for \$3,300,000 at April 30, 1985. A refinancing of the European debt is presently being negotiated and it is expected that the company will be relieved of this guarantee when the refinancing is completed.

17. Subsequent events:

- (a) Subsequent to the year-end, the company issued by private placement, \$10,000,000 principal amount of 12% convertible, redeemable, subordinated debentures, maturing May 16, 1995. The debentures are convertible into Class A shares of the company at \$9.50 per share, until maturity. Commencing on May 16, 1988, and provided that the trading price of the company's Class A shares meets certain criteria, the debentures are redeemable by the company at a price of \$107.50 for each \$100 of principal, declining to par at maturity.

- (b) On September 7, 1984, the company entered into an agreement to dispose of its 40% interest in the common shares of Citibank Leasing Canada Limited and Citibank Factoring Canada Limited, effective May 15, 1985. Cash proceeds amounted to \$17,000,000.

The sale was consummated on May 15, 1985 in accordance with the terms of the agreement, resulting in a net gain on disposal of \$5,586,000, after provision for income taxes of \$2,800,000.

In addition, the company's investment in the special shares of Citibank Leasing Canada Limited was redeemed on September 7, 1984 at the company's carrying value of \$1,000,000.

- (c) The events in (a) and (b) above, together with the planned additional investment of \$3,800,000 U.S. in the Mexican subsidiaries (note 5), will have a significant effect on the assets and liabilities of the company. A summary of the principal Balance Sheet items affected, as if the subsequent events and the planned additional investment in Mexico had taken place on April 30, 1985, is as follows:

ASSETS	April 30, 1985	
	Actual 000's	Pro-forma 000's
Operating assets (unchanged)	\$ 34,291	\$ 34,291
Assets in course of realization (unchanged)	3,155	3,155
Other assets:		
Investments and advances	14,059	6,445
Investments in and advances relating to Mexican subsidiaries	10,480	15,705
Other	2,193	2,483
	<u>\$ 64,178</u>	<u>\$ 62,079</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Short-term debt	\$ 28,694	\$ 13,209
Income tax payable	—	2,800
Long-term debt	8,206	3,206
1985 12% convertible subordinated debentures	—	10,000
Other (unchanged)	11,448	11,448
Shareholders' equity	15,830	21,416
	<u>\$ 64,178</u>	<u>\$ 62,079</u>

PRINCIPAL OPERATING UNITS

HAMILTON COMPUTER SALES AND RENTALS — Canada

Division of The Hamilton Group Limited

415 Horner Avenue, Toronto, Ontario

Branches: Montreal, Downtown Toronto, Ottawa,
Calgary, Vancouver

W. J. Young, Chief Operating Officer of HAMILTON
Computer Sales and Rentals and Vice President of
The Hamilton Group Limited

G. Care, National Sales Manager — Systems
Products

P. Nielsen, National Sales Manager — Distribution
Products

S. Meadley, Controller

Sells, rents and services computer hardware and
software products. Operates retail computer sales
store under the name HAMILTON Business Center.

Principal suppliers — Apple, Compaq, Digital, Epson,
Hewlett Packard, IBM, Tektronix and Wang.

HAMILTON RENTALS LIMITED — Europe

35.1% owned affiliate of The Hamilton Group Limited.
Under certain provisions for exchange of common
shares, could become a 100% owned subsidiary.

Hamilton House, North Circular Road, London,
England

Branches/Subsidiaries: Paris, France; Dusseldorf,
Munich, and Hamburg, Germany; Holland.

D. M. Young, Chairman

R. West, Managing Director

M. Bramley, Secretary and Finance Director

Sells, rents and services computer hardware and
software products.

France, in addition operates a division which sells,
rents and services technical test and measurement
equipment.

Principal suppliers — Digital, Hewlett Packard, IBM,
Satelcom and Tektronix.

HGL SOFTWARE LIMITED — U.S.A.

100% owned subsidiary of The Hamilton Group
Limited

6 Pearl Court, Allendale, New Jersey, U.S.A.

Branches: Dallas, Cincinnati, Los Angeles.

G. Brown, President of HGL Software Limited and
Vice President of The Hamilton Group Limited

H. Ungemach, Operations Manager

D. Freeland, National Sales Manager

Sells, rents and services computer hardware and
software products.

Principal suppliers — Data General, Digital, Hewlett-
Packard, IBM and Tektronix.

REDWOOD TECHNOLOGY GROUP INC. — U.S.A.

20% owned affiliate of The Hamilton Group Limited

170 Aquidneck Avenue

Middletown, Rhode Island

U.S.A.

W. Reidy, President

Develops, sells and services VOX software products
for office automation.

**INTERNATIONAL MERCANTILE FACTORS
LTD. — Canada**

37.5% owned affiliate of The Hamilton Group Limited
1010 St. Catherine Street West, Montreal, Quebec
Branch: Oakville, Ontario

E. Bissell, President

Full recourse factoring, inventory and receivables
financing, letters of credit.

CANCORD — Canada

Division of The Hamilton Group Limited
193 Elgin Street, Hamilton, Ontario
N. J. Mohoruk, General Manager

Manufactures sash cord, rope, twine and cordage
products under the BOUNTY, CANCORD, GIANT,
HERCULES and STAR brand names.

**IMPULSORA MEXICANA DE ARRENDAMIENTOS,
S.A. — Mexico**

98% owned subsidiary of The Hamilton Group Limited
2047 Insurgentes Sur, Mexico, D.F.
Branches: Monterrey, Guadalajara, Vera Cruz;
representatives in Acapulco, Ciudad Obregon, Merida,
Tampico, Queretaro, Leon.

Subsidiary: 92% owned Rent-e-Quipo, S.A.

M. Horsley, Vice President of The Hamilton Group
Limited

R. E. Kennedy, Chairman

E. Gomez, President

Equipment leasing of office, transportation and
general equipment. Rental and service of office
equipment.

TO THE SHAREHOLDERS

Income after tax for the first quarter ended July 31, 1985 was \$139,093 (\$0.06 per share), compared to \$901,712 (\$0.37 per share) in 1984. Net income after extraordinary items was \$5,725,666 (\$2.34 per share) and there was no extraordinary item in 1984. Net income per share fully diluted was \$1.48.

The extraordinary gain of \$5,586,573 resulted from the sale of the 40% common share interest in Citibank Factoring Canada Limited and Citibank Leasing Canada Limited which was completed on May 15, 1985. The sale of these investments caused a major reduction in income which was anticipated. Operating income was lower than expected due to poor results from computer sales and rentals in the United States. The general slow down in the U. S. domestic computer sales and rentals market is expected to continue. The results from Canada and from U. S. export sales are encouraging.

The annual meeting will be held at 4:30 p.m. on October 24, 1985 at the Holiday Inn in Oakville, Ontario. The notice of meeting, information circular and annual report are enclosed with this report.

A. B. Young, President

THE HAMILTON GROUP LIMITED
CONSOLIDATED STATEMENT OF INCOME
THREE MONTHS ENDED JULY 31, 1985
(with comparative figures for 1984)

	<u>1985</u>	<u>1984</u>
Gross income	\$ 12,546,683	\$ 9,122,213
Income before the following	626,569	719,090
Investment income	234,100	1,112,933
Cost of borrowed money	860,669	1,832,023
	819,576	719,311
Income before income taxes and extraordinary items	41,093	1,112,712
Income taxes	98,000	(211,000)
Income before extraordinary items	139,093	901,712
Extraordinary items	5,586,573	-
Net income	\$ 5,725,666	\$ 901,712
Earnings per share (basic):		
Income before extraordinary items	\$ 0.06	\$ 0.37
Net income	\$ 2.34	\$ 0.37
Earnings per share (fully diluted):		
Income before extraordinary items	\$ 0.06	
Net income	\$ 1.48	

THE HAMILTON GROUP LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
THREE MONTHS ENDED JULY 31, 1985
(with comparative figures for 1984)

	<u>1985</u>	<u>1984</u>
Funds provided from operations	\$ <u>2,544,347</u>	\$ <u>1,272,141</u>
Funds invested in operating assets		
Increase in liabilities other than borrowings	2,569,969	1,171,427
Increase in equipment for sale, rental or service	(3,219,263)	(2,964,687)
Increase in accounts and notes receivable	(1,706,972)	(1,893,248)
Other assets	(298,956)	(132,668)
	<u>(2,655,222)</u>	<u>(3,819,176)</u>
Funds provided from assets in course of realization	<u>68,375</u>	<u>98,912</u>
Other assets and liabilities		
Proceeds on sale of investments	14,500,000	1,015,200
Proceeds of debenture issue	10,000,000	-
Repayment of long-term debt	(5,542,284)	-
Decrease (increase) in investments and advances	(412,049)	573,338
Purchase of equipment and improvements	(111,169)	(46,222)
Other	(333,798)	14,426
	<u>18,100,700</u>	<u>1,556,742</u>
Decrease (increase) in short-term debt	\$ <u>18,058,200</u>	\$ <u>(891,381)</u>
Funds provided from operations, per share (basic)	\$ <u>1.04</u>	\$ <u>0.52</u>

