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GBC CAPITAL

LTD.

Annual Report and Accounts 1985



GBC CAPITAL LTD.

INVESTMENT OBJECTIVE

Growth of capital with emphasis on
small to medium sized companies
in the United States and Canada

GBC CAPITAL LTD.

HIGHLIGHTS

A 27 for 1 stock split of the common shares.

The issue to existing shareholders of warrants to purchase additional common shares.

The sale by GBC's parent, British Assets Trust, of a portion of its holding in GBC.

The listing of GBC common shares and warrants on The Stock Exchange, London.

A 19% rise in the net asset value per common share to a record \$2.43.

A 15% rise in the common dividend to 2.8 cents.

REVIEW OF FISCAL 1985 (1ST OCTOBER, 1984—30TH SEPTEMBER, 1985)

The past year was a highly eventful and successful one for GBC CAPITAL LTD.

During the first quarter GBC's common shares were subdivided 27 for 1. Subsequent to the split, shareholders were issued a warrant for each five shares held, entitling the warrant holder to purchase a new share of GBC at \$1.78 Canadian until September, 1990. In December, British Assets Trust issued to its own shareholders rights to purchase units consisting of one GBC share and one warrant. British Assets Trust thereby reduced its ownership of GBC's common shares from 67.5% to 54.3% and disposed of virtually all the GBC warrants it had received. This move increased significantly the number of GBC shareholders and permitted the listing of the common shares on The Stock Exchange, London.

North American stock markets increased during GBC's 1985 fiscal year, although there were considerable differences in the price action of various industry groups. As a generalization, consumer, financial and service sectors fared well, while heavy industry, commodities and technology did poorly. The year was characterized by slower than expected economic growth, disappointing corporate profits, lower interest rates and a peaking in the foreign exchange value of the U.S. dollar in late February, followed by a sharp decline thereafter in relation to world currencies.

GBC's results, measured in dollar terms, were most satisfactory. For the twelve month period ended 30th September, 1985, GBC's net assets rose 17.9% to a record \$182.9 million and the net asset value per common share increased 19.1% to \$2.43. In the same period, the Toronto Stock Exchange 300 Composite Stock Index and the Standard & Poor 500 Composite Stock Index rose 10.0% and 9.6% respectively. GBC's results for fiscal 1985 compare with a 3.9% rise in the Canadian consumer price index. The significant price appreciation of some of GBC's larger long term holdings such as Harris Steel and Toromont together with excellent performance generally of the Canadian portfolio were important contributors to GBC's overall success. Additionally the good relative price performance of many of GBC's larger U.S. holdings such as Shared Medical Systems, Cousins Properties, Pep Boys and PHH Group contributed to the favourable results. Finally, the continuing strength of the U.S. dollar in relation to that of the Canadian dollar improved the fiscal 1985 results which are measured in Canadian dollars.

Unfortunately, for the many U.K. shareholders in GBC, the good result measured in Canadian currency was not nearly as positive in relation to sterling. The Canadian dollar, which had appreciated sharply in relation to sterling since 1980, fell 14.4% during GBC's 1985 fiscal year, with the result that the Corporation's net asset value per common share measured in sterling rose only 2.0% to 126p. Although it is possible that the Canadian dollar will continue to be weak relative to sterling in the near future, its value should be maintained relative to sterling over the longer term. No attempt will be made to hedge against currency fluctuations.

GBC's net income during fiscal 1985 totalled \$2.6 million, equivalent to \$0.032 per common share after the payment of preferred dividends, the same as in 1984. The failure of earnings to rise during 1985 reflected principally an increase in expenses associated with the London listing and the additional costs of communicating with a sharply higher number of shareholders. GBC paid an interim dividend of 1.3 cents per share in June and a final dividend of 1.5 cents per share will be paid in December bringing the total payment to 2.8 cents per share in respect of the 1985 fiscal year. In sterling terms, GBC's earnings per share equalled 1.66p and the full dividend for fiscal 1985 1.45p.

North American stock markets are currently in a period of consolidation following the strong rise experienced earlier in 1985. Concerns stem principally from the large fiscal and foreign trade deficits, excessive debt loads that threaten third world countries, farmers and a number of corporations and the possibility of a recession in 1986. Despite these concerns it is believed that a policy of being fully invested in common shares of soundly financed companies exhibiting above average growth will produce satisfactory investment returns over the longer term.

On behalf of the Board
Neil B. Ivory, President

Montreal, Canada
29th October, 1985

MANAGEMENT

Pembroke Management Ltd. manages GBC's investment portfolio in accordance with broad guidelines approved by GBC's Board of Directors. Pembroke also provides accounting, secretarial and other corporate services to GBC.

Pembroke was formed in 1968 and three of its four founders, Neil Ivory, Ian Soutar and Scott Taylor, are still the principal shareholders of the company. These three individuals have been responsible for the investment management of GBC since 1968 and continue in that role, aided by Claude King, who joined Pembroke in 1983. Three of the other members of the team, Richard Haller, Cyril Reid and John Connolly who share the corporate responsibilities of GBC have also been with Pembroke since it was formed. While Pembroke manages a limited number of other accounts, GBC is its major client.

Pembroke concentrates almost entirely on producing above average results for its existing client base with very little time being devoted to seeking new accounts. In addition to participating in the results of GBC through the management fees earned, the three principals of Pembroke have for many years had a significant personal share ownership in GBC. Pembroke manages equity portfolios only, with emphasis on small to medium sized companies exhibiting above average growth. A great deal of importance is placed upon knowing the managements of the companies in which investments are made, understanding their philosophies, and in staying in close touch with them. Pembroke much prefers to invest in companies where the management has a major share ownership. Typically holdings are retained for several years.



From left to right Ian Soutar, Neil Ivory, Scott Taylor.

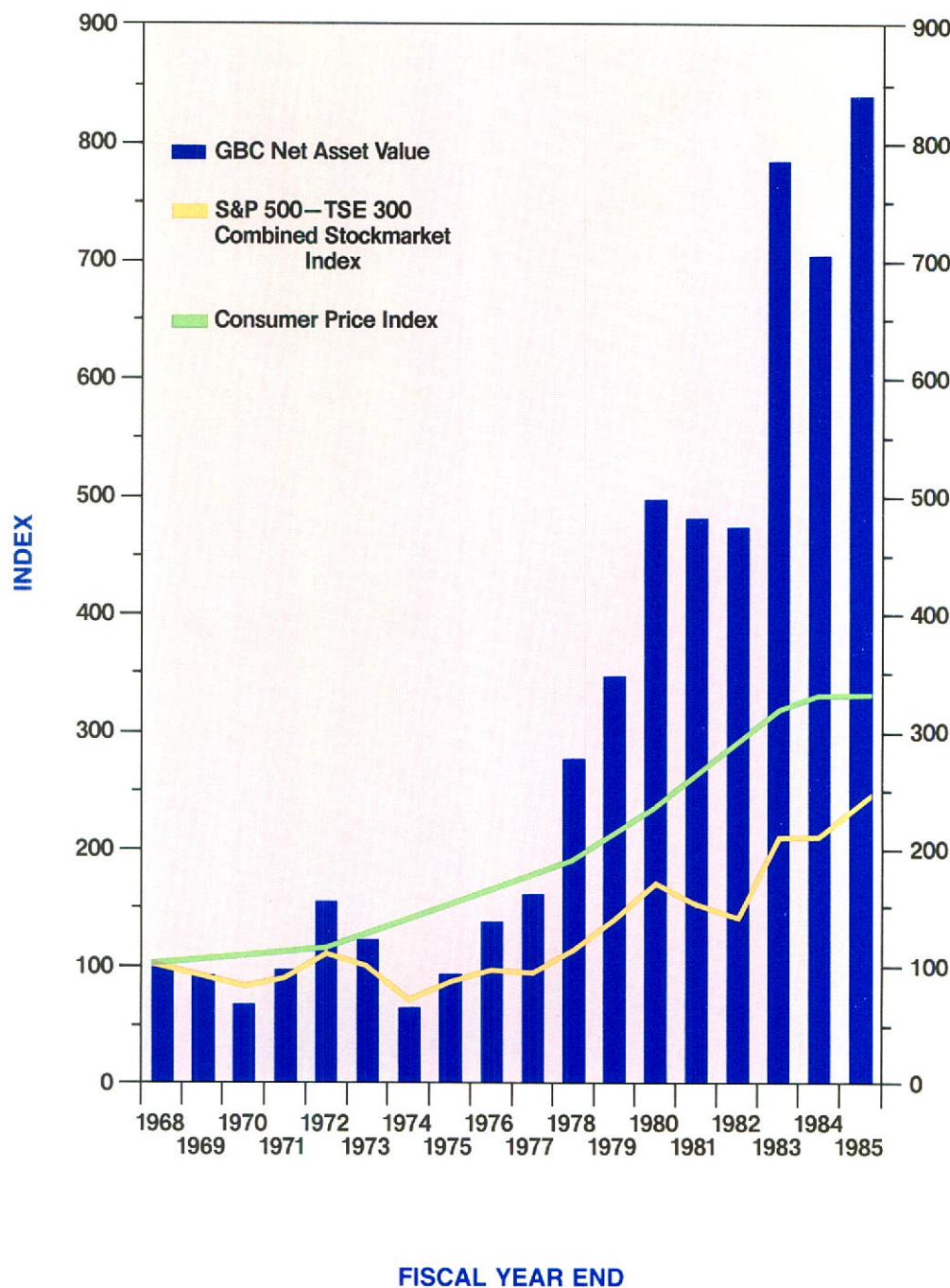
OBJECTIVES AND LONG TERM RESULTS

GBC's investment objective is to increase its long term capital value at a rate superior to investment alternatives and the consumer price index.

Over the seventeen year period in which GBC has been managed by Pembroke net asset value per common share has risen from \$0.29 per share to \$2.43 per share, an average compound rate of increase of 13.4% per annum. As the charts on this page demonstrate, this experience has been superior to the North American stock market

averages and the rate of inflation in Canada as measured by the consumer price index.

While a high level of income is not an objective, growth of income and rising dividends are a goal. Since 1968 GBC's net earnings have risen from \$0.3 million to \$2.6 million an average annual increase of 13.5%. GBC initiated its first common stock dividend in 1972 and this payment has risen to 2.8 cents in fiscal 1985, an annual compound growth of 32.2%.



FINANCIAL SUMMARY

	Gross income (\$'000)	Net income (\$'000)	Per common share— Net income (cents)	Dividends paid ⁴ (cents)	Total assets (\$'000)	Net assets (\$'000)	Available for common shares (\$'000)	Net asset value per common share	Contingent capital gains tax per common share
1985	4,782	2,610	3.15	2.52	186,550	182,898	176,439	\$2.43	\$0.30
1984	4,443	2,623	3.17	2.44	158,673	155,120	148,662	2.04	0.24
1983	3,747	1,965	2.26	2.11	175,472	171,899	165,440	2.27	0.33
1982	3,520	1,832	2.07	2.00	109,725	106,345	99,887	1.37	0.15
1981	3,450	2,081	2.44	2.52	110,856	107,410	100,951	1.39	0.17
1980	2,728	1,559	1.70	1.33	114,515	110,934	104,475	1.44	0.22
1979	2,283	1,303	1.37	1.11	82,824	79,452	72,994	1.00	0.13
1978	1,697	882	0.78	0.25	67,866	64,593	58,134	0.80	0.10
1977 ³	904	427	0.26	—	44,046	40,895	34,437	0.47	0.04
1976	1,184	589	0.37	0.24	38,548	35,429	28,970	0.40	0.02
1975	974	457	0.19	0.22	29,417	26,197	19,738	0.28	—

NOTES

1 Certain figures have been restated in order to remove the effects of equity accounting which had been used for fiscal years 1972 to 1978 inclusive.

2 No provision has been made for income taxes on capital gains which may arise on the future sale of investments.

3 Nine month period ended 30th September, 1977. Prior years ended on 31st December.

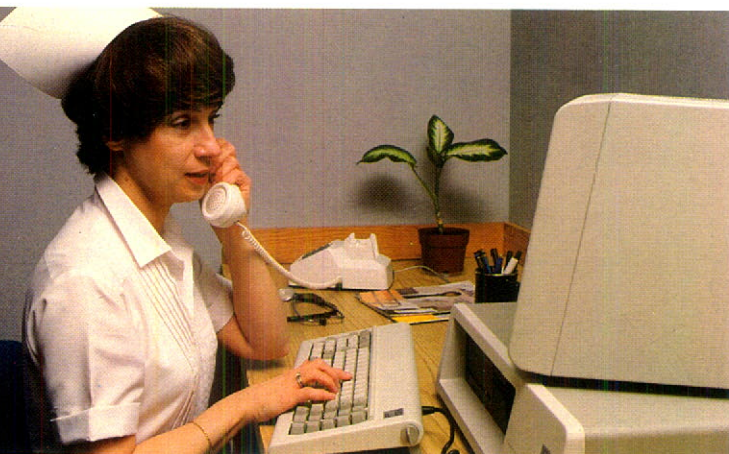
4 Dividends paid during fiscal year.

TOP HOLDINGS

Valuation of Holding \$32.9 million

FINANCIAL INFORMATION

Six Months to 30th June	1985	1984
	(\$ Million)	(\$ Million)
Revenues	149.6	122.6
Net Earnings	19.4	15.7
Earnings Per Share	\$0.78	\$0.64



SHARED MEDICAL SYSTEMS

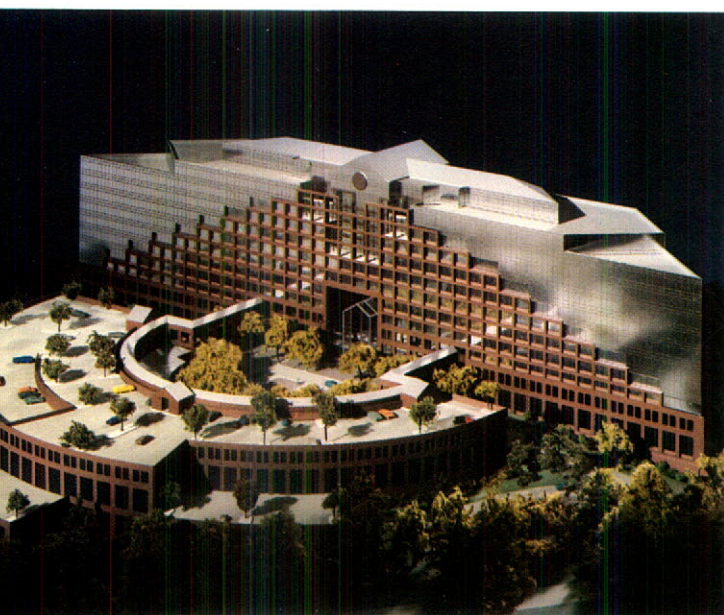
SMS has been the largest holding in GBC Capital for the past nine years during which time its revenues and earnings have increased approximately seven-fold, each year being a new record. The company provides information processing services and systems to hospitals and physicians in the U.S., Canada and the U.K. and several additional countries.

SMS has gained its leadership position within its industry by attracting and keeping a large number of satisfied customers. This has been achieved by a major commitment to research and development which has provided a broad choice of proven technologies for the large field force of dedicated professionals to deliver to customers. Meanwhile sound management has assured the financial stability required to guarantee the continuity of service. The company appears well positioned to sustain an above average growth rate in 1985 and beyond.

Valuation of Holding \$8.8 million

FINANCIAL INFORMATION

Six Months to 30th June	1985	1984
	(\$ Million)	(\$ Million)
Revenues	27.0	73.9
Net Profits	3.6	31.9
Earnings Per Share	\$0.47	\$3.59



COUSINS PROPERTIES INCORPORATED

Cousins has been an important holding in GBC Capital for eight years and the stock has appreciated over nine times since purchase. The company is a successful real estate developer in Atlanta, Georgia presently concentrating its efforts on three major projects.

The first is a 234 acre office park called Wildwood that is under joint development with IBM to serve some of the latter's growing office space requirements in North Atlanta. The building pictured opposite is one of the new office projects presently under construction.

Somewhat further north in Atlanta, Cousins owns a 657 acre tract of land on which it plans to develop a major shopping center in association with a subsidiary of Sears Roebuck.

The third project is the Omni International office complex in downtown Atlanta in which Cousins retains a 25% interest after selling the balance to Turner Broadcasting which will cause this development to become economically viable after years of losses.

Cousins now appears to be well positioned to enhance asset value per share from a level that is already estimated to be well in excess of the present stock price. Revenues and profits were inflated last year from the sale of assets, but the growth in asset value continues in 1985.

TOP HOLDINGS

HARRIS STEEL GROUP INC.

Valuation of Holding \$8.4 million

The Harris Steel Group is based in Toronto and operates through five independent divisions. The company serves all of Canada and the eastern and central sectors of the United States.

Two of the divisions act as contractors and suppliers for major steel construction projects such as office towers, large highway bridges and factory buildings. In the last two years Harris has been particularly successful in obtaining profitable contracts for offices in New York City and the surrounding area. The photograph is of a model of a 50-storey building on Lexington Avenue for which Harris is fabricating and erecting 11,500 tons of steel.

The other three divisions manufacture a broad range of products for non-residential construction and general industrial use.

Harris was not immune from the recession which affected all steel related industries but was able to remain profitable. Net earnings reached their low point in 1984 when they amounted to \$0.31 per share. This year there has been a strong recovery and, for the first six months, earnings were \$0.34 per share. The short term outlook for earnings is positive and the recent sale of 2 million shares of treasury stock has strengthened the balance sheet. Harris is thus in an excellent position to develop new sources of revenue to compensate for a decline in office construction.

FINANCIAL INFORMATION

Six Months to 30th June	1985 (\$ Million)	1984 (\$ Million)
Revenues	127.5	77.6
Net Earnings	3.3	0.8
Earnings Per Share	\$0.34	\$0.08



THE PEP BOYS—MANNY, MOE AND JACK

Valuation of Holding \$6.5 million

Pep Boys operates a chain of approximately 145 auto parts and accessories stores, most of which offer automobile maintenance and repair services. The units are located in Southern California, Arizona and on the East Coast of the U.S. Pep Boys' successful record and bright prospects reflect a strong management team, a broad range of automotive related products that are competitively priced and the availability of service bays.

The company has embarked upon an aggressive expansion program that should increase retail space 15 to 20% annually for the next several years. There is considerable room for geographic expansion and little in the way of strongly entrenched competition presently. The traditional provider of automotive repair, the oil company service station, is withdrawing from this activity, leaving an excellent growth opportunity for companies like Pep Boys.

FINANCIAL INFORMATION

Six Months to 30th June	1985 (\$ Million)	1984 (\$ Million)
Revenues	186.8	168.5
Net Profits	10.1	8.6
Earnings Per Share	\$0.62	\$0.55



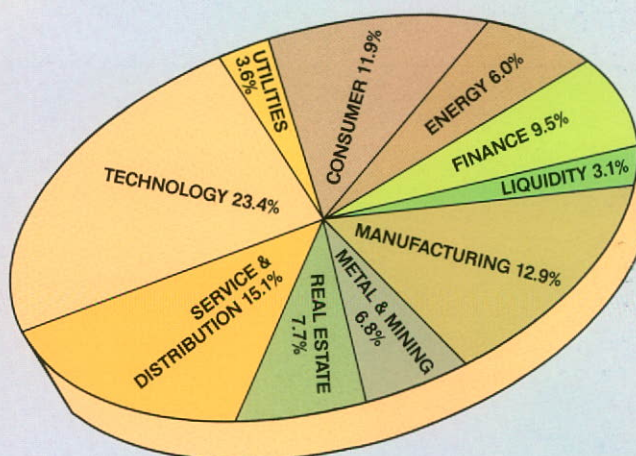
INVESTMENTS RANKED BY VALUE As at 30th September, 1985

No.	Amount	Company	Market Value		Main Activity
			U.S.A.	Canada	
1	800,000	Shared Medical Systems	\$32,904,000+		Hospital data processing
2	306,822	Cousins Properties	8,833,712		Real estate development
3	560,000	Harris Steel, A			
	440,000	Harris Steel, B		\$8,365,000	Steel fabrication and distribution
4	200,000	Pep Boys — Manny, Moe & Jack	6,512,250		Automotive parts retailer
5	137,400	PHH Group	6,451,857		Management services
6	100,000	Scotts Hospitality			
	100,000	Scotts Hospitality, C		5,262,500	Hotels and fast foods
7	160,000	Rouse Co.	4,990,440		Real estate development
8	\$1,500,000	Union Planters Corp. 6%, cv., Debs. due 1997			
	60,000	Union Planters Corp.	4,580,854		Regional banking
9	100,000	Interprovincial Pipe Line		4,225,000	Crude oil pipeline
10	400,000	Toromont Industries		4,150,000	Engineered products
Top Ten Investments			64,273,113	22,002,500	46.2% of Total Assets
11	300,000	Laidlaw Transportation, B		4,087,500	Waste management and transportation
12	60,000	Lockheed Corp.	3,886,785		Defense supplier
13	125,000	FlightSafety International	3,748,828		Training simulators
14	\$1,095,000	Southern Bancorporation 10%, cv., Debs. due 1996	3,708,075		Regional banking
15	209,500	Echo Bay Mines		3,666,250	Gold mining
16	60,000	Wajax Ltd, cv., Pfd. A.			
	125,000	Wajax Ltd, A		3,582,500	Heavy equipment distribution
17	125,000	Rent-A-Center	3,406,078		Consumer electronics renter
18	125,000	Inco Ltd., Pfd. C.		3,328,125	Nickel producer
19	100,000	Pic 'N' Save	3,221,850		Retailer
20	10,000	Teledyne Inc.	3,167,010		Electronic and engineered products
Top Twenty Investments			85,411,739	36,666,875	65.4% of Total Assets
21	100,000	Handleman Company	2,879,100		Pre-recorded music distributor
22	40,000	Cincinnati Financial	2,742,000		Property & casualty insurance
23	112,500	Harper Group	2,718,436		Freight forwarding
24	100,000	TransCanada PipeLines		2,525,000	Natural gas pipeline
25	40,000	Nucor Corp.	2,385,540		Steel manufacturer
26	36,000	Grafton Group			
	144,000	Grafton Group, A		2,380,500	Apparel retailer
27	200,000	Dickenson Mines, A, cum rights			
	150,000	Dickenson Mines, B, cum rights		2,329,250	Gold mining
28	130,000	Noble Affiliates Inc.	2,316,990		Oil and gas
29	50,000	Louisiana Land & Exploration	2,210,737		Oil and gas
30	75,000	Acco World Corp.	2,120,766		Office supplies manufacturer
Top Thirty Investments			102,785,308	43,901,625	78.6% of Total Assets
31	110,000	Newsco Well Service		2,090,000	Oilfield services
32	200,000	Sensormatic Electronics	2,022,225		Security equipment
33	20,000	Cdn Imperial Bank, Pfd. A.		2,020,000	Banking
34	44,000	SunTrust Banks	1,907,746		Regional banking
35	58,700	Lornex Mining		1,819,700	Copper producer
36	200,000	Poco Petroleums		1,575,000	Oil and gas
37	50,000	Bank of Montreal, Pfd. A.			
	50,000	Bank of Montreal, Warrants		1,573,750	Banking
38	50,000	CooperVision	1,516,669		Eye care products
39	60,000	First Financial Management	1,490,962		Banking computer services
40	60,000	Kiena Gold Mines		1,462,500	Gold mining
Top Forty Investments			109,722,911	54,442,575	88.0% of Total Assets

No.	Amount	Company	Market Value		Main Activity
			U.S.A.	Canada	
41	40,000	Dynatech Corp.	1,418,985		Telecommunications equipment
42	25,000	New York Times, A	1,371,000		Newspaper publisher
43	40,000	Renaissance Energy cv., 2nd Pfd. A.		1,285,600	Oil and gas
44	40,000	Royal Bank of Canada		1,210,000	Banking
45	100,000	Numac Oil & Gas		1,125,000	Oil and gas
46	101,900	Time Energy Systems	1,012,861		Energy conservation
47	37,500	Actmedia Inc.	951,131		Advertising
48	200,000	Chauvco Resources, A		950,000	Oil and gas
49	175,000	Precambrian Shield Resources		875,000	Oil, gas and gold
50	50,000	Analogic Corp.	822,600		Data conversion, measurement
Top Fifty Investments			115,299,488	59,888,175	93.9% of Total Assets
51	25,000	Ocean Drilling & Exploration	719,775		Oil and gas
52	50,000	Power Conversion Inc.	711,206		Lithium batteries
53	5,885	Sun Microsystems, cv., Pfd. D	685,808†		Mini-computers
54	83,334	Interleaf, cv., Pfd. E	685,505†		Electronic publishing
55	100,000	Microbilt Corp.	685,500†		Computer maintenance
56	2,000,000	Carma Ltd., A		640,000	Real estate development
57	40,000	Endo-Lase Inc.	534,690		Medical laser products
58	50,000	Science Dynamics Corp.	394,162		Telecommunications equipment
59	70,000	Encore Computer Corp.	220,731		Mini-computers
60	32,500	Noble Drilling Corp.	150,382		Oil contract drilling
Top Sixty Investments			120,087,248	60,528,175	96.8% of Total Assets
61	\$250,000	Killucan 80 Exploration		125,000†	Oil and gas
62	52,256	Summit Software Systems	71,643†		Computer software
63	76,923	Phoenix Data Systems	1†		Computer graphics
64	34,435	ImmunoMed Corp.	1†		Medical research
65	44,300	Telelogic Inc., cv., Pfd. C	1†		Automatic dialers
66	30,000	Creative Output Inc.	1†		Computer software
67	500,000	Corrida Oils, Warrants		1†	Oil and gas
Total Value of Investments			120,158,897	60,653,176	96.9% of Total Assets of \$186,550,044
Liquidity			4,031,819	1,706,152	
Total Assets			\$124,190,716	\$62,359,328	
			66.6%	33.4%	

†at Directors' Valuation

DISTRIBUTION OF ASSETS BY SECTOR



GBC CAPITAL LTD.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION As at 30th September, 1985

	1985	1984
Investments		
Securities at market value (Note 2)	\$180,812,073	\$152,231,609
Current assets		
Cash and term deposits	5,307,412	5,458,185
Due from brokers	1,583,481	503,578
Accrued income on investments	455,229	410,209
Income taxes recoverable	323,100	854,900
	7,669,222	7,226,872
Current liabilities		
Preferred dividend payable	78,750	78,750
Due to brokers	581,414	486,012
Accounts payable and accrued expenses	235,587	220,841
Income taxes payable	1,035,500	—
	1,931,251	785,603
Net current assets	5,737,971	6,441,269
	186,550,044	158,672,878
Minority interest	3,652,455	3,552,450
Net assets (Note 5)	\$182,897,589	\$155,120,428
Represented by		
Capital stock (Note 3)	\$ 22,177,875	\$ 22,166,574
Contributed surplus	1,325,310	1,325,310
Retained earnings	8,432,287	7,972,118
Surplus on changes in investments (Note 4)	66,071,584	56,139,111
Unrealized appreciation of investments (Note 2)	84,890,533	67,517,315
	\$182,897,589	\$155,120,428

On behalf of the Board

Neil B. Way, Director

J. S. Lane, Director

GBC CAPITAL LTD.

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS FOR THE YEAR ENDED 30th September, 1985

	1985	1984
Income from investments	\$ 4,782,209	\$ 4,443,289
Management expenses	958,874	846,866
Other expenses	420,528	199,861
	1,379,402	1,046,727
	3,402,807	3,396,562
Income and withholding taxes	634,284	618,043
	2,768,523	2,778,519
Minority interest	158,387	155,582
Net income	2,610,136	2,622,937
Retained earnings at beginning of year	7,972,118	7,442,504
	10,582,254	10,065,441
Dividends		
5¼% preferred shares	315,000	315,000
Common shares	1,834,967	1,778,323
	2,149,967	2,093,323
Retained earnings at end of year	\$ 8,432,287	\$ 7,972,118
Net income per common share	\$0.0315	\$0.0317

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
30th September, 1985

1. Accounting policies and presentation

a. General

The Corporation follows generally accepted accounting principles applicable in Canada in the preparation of its financial statements and their application is consistent with that of the preceding year. These principles conform in all material respects with international accounting standards.

b. Principles of consolidation

The consolidated financial statements include the accounts of Dominion-Scottish Investments Limited (99.25% of the common shares owned) and Sutton Ventures Ltd. (100% owned).

c. Foreign currencies

Transactions in foreign currencies during the year were recorded at the relative rates of exchange applicable on the dates of such transactions. Amounts in foreign currencies included in assets and liabilities have been shown in Canadian funds, converted at rates of exchange applicable at the end of the year, any adjustment thereon being credited or charged, as the case may be, to "Surplus on changes in investments".

d. Statement of changes in financial position

A statement of changes in net assets (Note 5) has been substituted for a statement of changes in financial position.

2. Securities at market value

	1985	1984
Held by:		
GBC Capital Ltd.	\$ 51,212,174	\$ 43,956,093
Dominion-Scottish Investments Limited	99,619,023	78,540,215
Sutton Ventures Ltd.	29,980,876	29,735,301
Securities at valuation	180,812,073	152,231,609
Securities at average cost	94,797,736	83,686,235
	86,014,337	68,545,374
Amount required to adjust average cost from a corporate basis to a consolidated basis	(1,123,804)	(1,028,059)
Balance included in shareholder's equity as unrealized appreciation of investments	\$ 84,890,533	\$ 67,517,315

GBC CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 30th September, 1985

2. Securities at market value (continued)

Securities at market value include those at the directors' valuation of \$35,157,461 (1984 — \$35,940,859) of which \$32,904,000 (1984 — \$29,358,450) represent the holdings in Shared Medical Systems Corp. at a 10% discount from quoted market value and \$2,253,461 (1984 — \$5,265,055) represent securities with no quoted value. No provision has been made for any liability for income taxes on capital gains which may arise on the future sale of investments. This is currently estimated to amount to \$21,849,000 or \$0.30 per common share (1984 — \$17,368,000 or \$0.24 per common share) based on the unrealized appreciation recorded by each of the consolidated corporations.

3. Capital stock

	1985	1984
5¼% cumulative redeemable preferred shares without nominal or par value		
Authorized and issued 120,000 shares	\$ 6,000,000	\$ 6,000,000
Common shares without nominal or par value		
Authorized		
Not limited		
Issued		
72,755,932 shares, (1984 — 2,694,429 shares)	16,177,875	16,166,574
	\$22,177,875	\$22,166,574

The preferred shares are redeemable at the option of the Corporation at any time in whole or from time to time in part, on not less than 30 days' notice, at \$52.50 per share (in one restricted event at \$50 per share) plus accrued and unpaid dividends, if any, to the date of redemption. The Corporation may, at any time and from time to time, also purchase the whole or any part of such preferred shares in the open market at a price not exceeding the redemption price thereof plus costs of purchase.

In November 1984, the 2,694,429 common shares issued and outstanding were subdivided into 72,749,583 common shares on the basis of 27 common shares for every one common share.

In December 1984, the Corporation issued to the holders of its common shares one warrant for every five common shares held. Each warrant carries the right to subscribe for one common share at a price of \$1.78. The subscriptions can be exercised at any time up to 1st September 1990. During the year, 6,349 warrants were exercised and there are 14,543,579 warrants outstanding at 30th September, 1985.

GBC CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 30th September, 1985

4. Surplus on changes in investments	1985	1984
Balance at beginning of year	\$56,139,111	\$46,735,000
Gain on changes in investments including gain on exchange of \$371,647 (1984 – \$416,894)	13,477,318	12,571,511
Income taxes on changes in investments	3,544,845	3,167,400
	9,932,473	9,404,111
Balance at end of year	\$66,071,584	\$56,139,111
5. Changes in net assets	1985	1984
Net assets at beginning of year	\$155,120,428	\$171,898,821
Add		
Gain on changes in investments		
Securities at average cost at beginning of year	83,686,235	80,008,373
Purchases	39,236,883	30,843,432
	122,923,118	110,851,805
Securities at average cost at end of year	94,797,736	83,686,235
Cost of securities sold	28,125,382	27,165,570
Proceeds from securities sold	41,231,053	39,320,187
	13,105,671	12,154,617
Gain on exchange	371,647	416,894
Net income for the year	2,610,136	2,622,937
Issue of common shares	11,301	—
Increase in unrealized appreciation of investments	17,373,218	—
	33,471,973	15,194,448
Deduct		
Decrease in unrealized appreciation of investments	—	26,712,118
Income taxes on changes in investments	3,544,845	3,167,400
Dividends		
5¼% preferred shares	315,000	315,000
Common shares	1,834,967	1,778,323
	5,694,812	31,972,841
Net increase (decrease) for the year	27,777,161	(16,778,393)
Net assets at end of year	\$182,897,589	\$155,120,428
Net asset value per common share	\$2.43	\$2.04

GBC CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 30th September, 1985

6. Directors' and officers' remuneration

Aggregate remuneration paid during the year to the Corporation's directors was as follows:

	1985	1984
Paying corporation		
GBC Capital Ltd.	\$40,400	\$34,500
Dominion-Scottish Investments Limited	36,800	34,500
Sutton Ventures Ltd.	2,000	2,000
	\$79,200	\$71,000

The Corporation has five officers, one of whom is also a director. The officers of the Corporation as such received no remuneration.

7. Net asset value/net income per common share

Net asset value per common share at 30th September 1984 and net income per common share for the year ended 30th September 1984 are based on the 72,749,583 common shares issued and outstanding following the subdivision referred to in Note 3.

Net asset value per common share at 30th September 1985 of \$2.43 is based on the 72,755,932 shares outstanding at that date. The net asset value per common share would have been reduced to \$2.32 had the outstanding warrants been exercised at that date. There is no dilution in net income per share if an allowance is included for imputed interest, net of income taxes, derived from the investment of the funds which would have been received through the exercise of the warrants at the date of issue.

AUDITORS' REPORT

The Shareholders,
GBC Capital Ltd.

We have examined the consolidated statement of financial position of GBC Capital Ltd. as at 30th September, 1985 and the consolidated statement of income and retained earnings 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 Corporation as at 30th September, 1985 and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, Quebec,
29th October, 1985.


Chartered Accountants

DIRECTORS

Douglas T. Bourke
*Business Executive,
Westmount, Quebec*

*Donald E. Dunn, C.A.
*Vice-President/Finance,
Henry Birks & Sons Limited,
Montreal, Quebec*

*George A. Fierheller
*President and Chief Executive Officer,
Cantel Inc.,
Toronto, Ontario*

R. Alexander Hammond-Chambers
*Chairman,
Ivory & Sime plc,
Edinburgh, Scotland*

Neil B. Ivory
*President and Chief Executive Officer,
Pembroke Management Ltd.,
Montreal, Quebec*

*John S. Lane, CFA
*Senior Vice-President and General
Manager for Canada,
Sun Life Assurance
Company of Canada,
Toronto, Ontario*

*David T.M. Ross, F.C.C.A.
*Director,
Ivory & Sime plc,
Edinburgh, Scotland*

Hugh R. Snyder
*Business Executive,
Toronto, Ontario*

**Member of the Audit Committee*

OFFICERS

Neil B. Ivory
President and Chief Executive Officer

Ian A. Soutar, CFA
Vice-President

A. Scott Taylor, CFA
Vice-President

Richard Haller
Secretary-Treasurer

Cyril F. Reid
Assistant Secretary-Treasurer

MANAGERS AND LOCATION OF EXECUTIVE OFFICES

Pembroke Management Ltd.
1018 Sun Life Building,
1155 Metcalfe Street,
Montreal, Quebec
H3B 2W8
Tel. 514 866-2724

LISTED

The Montreal Exchange
The Stock Exchange, London
(common and warrants)

AUDITORS

Touche Ross & Co.,
Chartered Accountants,
1 Place Ville Marie,
Montreal, Quebec
H3B 2A2

TRANSFER AGENTS AND REGISTRARS

Montreal Trust Company,
Montreal, Toronto and Calgary
(also Winnipeg and Vancouver for
Preferred Shares only)
Bank of Scotland, Edinburgh

REGISTERED OFFICE

First Canadian Place, 12th Floor,
100 King Street West,
Toronto, Ontario
M5X 1B3

ANNUAL MEETING

11th December, 1985,
10:15 a.m., at 1018 Sun Life
Building, Montreal, Quebec

