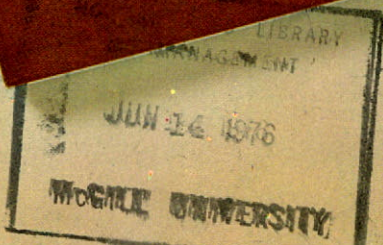
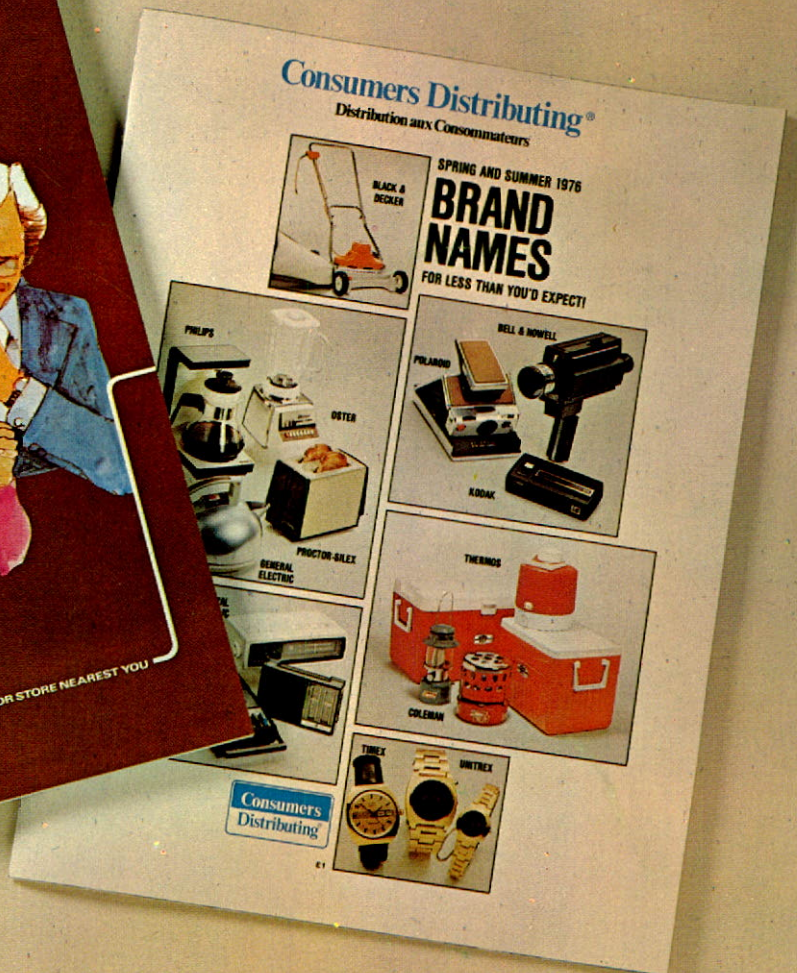
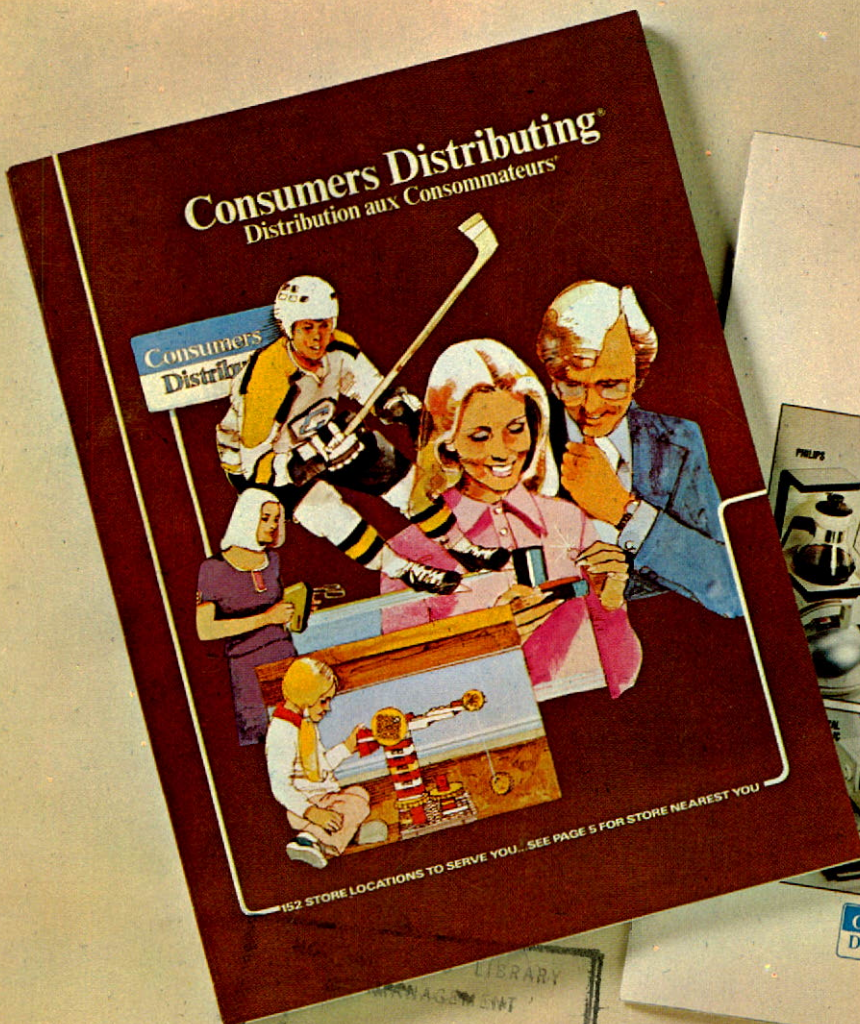


Consumers Distributing[®]

ANNUAL REPORT 1975



Corporate Directory January 31, 1976

Directors

JACK STUPP, Chairman of the Board
and Chief Executive Officer, Toronto
ALBERT C. PLANT, President and Chief Operating Officer,
Toronto
MICHAEL APPLETON, Barrister and Solicitor, Toronto
RICHARD BAIN, Barrister and Solicitor, Toronto
L.S.D. FOGLER, Q.C., Barrister and Solicitor, Toronto
A.J. LATNER, President, Greenwin Construction Company,
Toronto
LILLIAN STUPP, Toronto
RAY D. WOLFE, Chairman of the Board and Chief
Executive Officer, The Oshawa Group Limited, Toronto

Officers

JACK STUPP, Chairman and Chief Executive Officer
ALBERT C. PLANT, President and Chief Operating Officer
GEORGE GRAFF, Vice President, Distribution
ROBERT J. MANNING, Vice President, Merchandising and
Marketing
PETER M.C. ONIONS, Vice President, Finance and
Administration
REGINALD J. ROBERTSON, Vice President, Development
ALAN D. START, Vice President, Sales and Store Operations
PETER M. SULLIVAN, Controller
RICHARD E. ZEMP, Treasurer
L.S.D. FOGLER, Q.C., Secretary

Contents

Chairman's Report	2
Financial Statements	4
Auditors' Report	6
Financial Notes	7
Showroom Locations	9

Financial Highlights

	13 MONTHS ENDED JAN. 31/76	12 MONTHS* ENDED JAN. 31/76	12 MONTHS* ENDED JAN. 31/75	1974
Sales				
Ontario	\$ 85,618,000	\$ 82,378,000	\$ 74,693,000	\$ 74,448,000
National	<u>83,041,000</u>	<u>79,787,000</u>	<u>65,047,000</u>	<u>63,912,000</u>
	168,659,000	162,165,000	139,740,000	138,360,000
Net profit	\$ 144,000	\$ 493,000	\$ 1,617,000	\$ 1,905,000
Earnings per share	3¢	11¢	36¢	43¢
Tax-paid dividends per share	3¢	3¢	11.5¢	11.5¢
Shares outstanding—average	4,456,196	4,456,196	4,456,196	4,456,196
Working capital	\$ 8,421,000	\$ 8,421,000	\$ 7,763,000	\$ 7,838,000
Showrooms				
Ontario	83	83	82	82
National	<u>72</u>	<u>72</u>	<u>65</u>	<u>65</u>
	<u>155</u>	<u>155</u>	<u>147</u>	<u>147</u>

*Unaudited

Five Year Comparative Summary (\$'000's)

	12 MOS.* ENDED JAN. 31/76	12 MOS.* ENDED JAN. 31/75	1974	1973	1972	1971
Sales						
Ontario	\$ 82,378	\$ 74,693	\$ 74,448	\$ 62,516	\$ 55,785	\$ 42,918
National	<u>79,787</u>	<u>65,047</u>	<u>63,912</u>	<u>37,551</u>	<u>17,704</u>	<u>5,228</u>
	162,165	139,740	138,360	100,067	73,489	48,146
Share of net earnings of Consumers 'National' ...	57	449	518	701	451	165
Earnings before taxes	872	3,024	3,539	6,302	5,751	4,276
Income taxes	379	1,407	1,634	2,845	2,550	2,055
Net income	493	1,617	1,905	3,456	3,201	2,222
Tax-paid dividends	134	512	512	445	430	—
Working capital	\$ 8,421	\$ 7,763	\$ 7,838	\$ 9,118	\$ 8,445	\$ 6,939
Total assets	43,656	45,866	48,417	32,801	27,601	19,955
Shareholders' equity	16,988	16,259	16,601	15,299	12,337	6,693
Shares outstanding						
actual**	4,456,196	4,456,196	4,456,196	4,456,196	4,453,056	4,060,250
average**	4,456,196	4,456,196	4,456,196	4,454,747	4,260,088	4,059,266
Earnings per share**	11¢	36¢	43¢	78¢	75¢	55¢
Tax-paid dividends per share**	3¢	11.5	11.5¢	10¢	10¢	—
Showrooms						
Ontario	83	82	82	69	56	49
National	<u>72</u>	<u>65</u>	<u>65</u>	<u>45</u>	<u>26</u>	<u>9</u>
	<u>155</u>	<u>147</u>	147	114	82	58

*Unaudited

**Share data is adjusted for the two-for-one stock split of August 14, 1972



Jack Stupp (left), Chairman and Albert C. Plant, President

To our Shareholders

We are pleased to report that your company has remained profitable while experiencing the most difficult year in its history. Management faced many problems which had accumulated after eight years of expansion. We can now look ahead to future growth and prosperity with a good measure of confidence based on the actions taken during the past year.

Our report this year covers the 13-month period ended January 31, 1976. Because future years will be typical 12-month periods ending on the Saturday closest to January 31, we have provided some comparisons of 1974 and 1975 on this basis.

Sales for the 12-months ended January 31, 1976 for the combined companies rose to \$162,200,000, up 17 percent from 1974. Based on the results of our showrooms during the 12-months, we are pleased to report that "sales-per-store" on a weighted average basis rose to \$1,060,000, a return to previous levels of store volume.

Profits, however, were minimal. Necessary actions were taken to improve liquidity for example by reducing inventories. While the results of these actions were successful, smaller profit margins on the cost of goods sold produced earnings of \$144,000 or three cents per share. These earnings increased to \$544,000 or 12 cents per share as a result of the sale of the company's 50 percent interest in Consumers Distributing "U.S." to the May Department Stores Company, our partners in this joint venture from August 1972 until May 1975.

The 13-months results include the figures for two Januaries, normally the weakest month of the year for most retailers. A more accurate comparison with the previous year will show that for the 12-months ended January 31, 1976, profits were \$493,000 or 11 cents per share before the extraordinary gain, compared to \$1,617,000 or 36 cents per share for the 12-month period ended January 31, 1975.

The rapid growth of your company over the past few years, however, has dramatically increased the complexity of the business. The supervision demanded by this vast network of stores; the planning needed to ensure that adequate supplies of high quality products reach all stores; and the data processing systems to report on the diverse details of activity; all require sophisticated analysis and an organized approach, in order to attain the company goals.

To ensure that these, and many other elements of this large enterprise are properly handled, we have taken three significant steps:

1. We have attracted to the company a number of senior executives who have a depth of experience in managing large and complex retail organizations.
2. We have instituted a "business planning process" whereby the entire management of the company can participate in long-range planning as well as operational planning.
3. We have introduced a control process which reports results at all levels of management against targetted results set by individuals who are accountable for specific segments of the business.

Your company can be classified as a "threshold" company. Consumers Distributing is the leader in its field but it is on the threshold typical of a company which has grown too fast; it is passing through its purely entrepreneurial stage to a position of dominance in its market.

It is rapidly assuming leadership in providing unbeatable value to the consumer in such commodities as portable appliances, home entertainment merchandise, toys and sporting goods, infant's and children's furniture and equipment, and photographic equipment. We believe that Consumers Distributing will maintain its leadership position in this highly specialized industry because it now enjoys the combined strengths

of proven entrepreneurial ability and an efficiently systematized approach to management.

During the 13-months ended January 31, 1976, the company carried out a modest expansion program and ended the period with 155 showrooms. By the end of the fiscal year, four showrooms were closed in keeping with management's plan to increase sales by maximizing the productivity of existing units. The program for 1976 calls for opening approximately 10 new showrooms.

Since October 14, 1975, your company has been subject to the Federal Anti-inflation Guidelines. We have interpreted the regulations and complied with them as they have been introduced. We support the spirit and intent of these guidelines because they represent a concerted effort to bring some degree of moderation to our present inflationary spiral. The marketing concept of Consumers has always been anti-inflationary. Our operating costs are maintained at minimum levels and the resultant savings have been passed on to the consumer in the form of lower prices the year round.

We have recognized that growing pains demanded a significant change in the way we conduct our affairs and today, we are encouraged by the early indications that our management process has been greatly enhanced and a climate established for major improvements in productivity and profitability in the future.

On behalf of the Board of Directors we thank our officers and staff, and our suppliers, for their support during a most difficult year.



Jack Stupp
Chairman of the Board and
Chief Executive Officer



Albert C. Plant
President and
Chief Operating Officer

Toronto
May 28, 1976

Consolidated Statement of Income and Retained Earnings

	Thirteen months ended January 31, 1976	Twelve months ended December 31, 1974
Income:		
Sales	\$85,617,694	\$74,447,947
Share of net earnings (loss) of Consumers Distributing Company (National) Limited (Note 1 (b))	<u>(34,740)</u>	<u>517,794</u>
	<u>85,582,954</u>	<u>74,965,741</u>
Costs and expenses:		
Cost of sales and operating expenses (Note 5)	82,702,191	69,155,547
Amortization of financing expenses	13,000	12,000
Interest expense	1,622,502	1,599,573
Depreciation and amortization of equipment and leasehold improvements	<u>980,885</u>	<u>659,507</u>
	<u>85,318,578</u>	<u>71,426,627</u>
Income before income taxes and extraordinary gain	264,376	3,539,114
Income taxes	<u>119,904</u>	<u>1,634,281</u>
Income before extraordinary gain	144,472	1,904,833
Gain on disposition of investment in Consumers Distributing Company (U.S.), net of related income taxes of \$235,894	<u>399,945</u>	<u>—</u>
Net income	544,417	1,904,833
Retained earnings, beginning of period	<u>12,826,236</u>	<u>11,524,474</u>
	13,370,653	13,429,307
Tax paid to create tax-paid undistributed surplus on hand	(23,592)	(90,635)
Tax-paid dividends	<u>(133,686)</u>	<u>(512,436)</u>
Retained earnings, end of period	<u>\$13,213,375</u>	<u>\$12,826,236</u>
Earnings per share before extraordinary gain	<u>\$.03</u>	<u>\$.43</u>
Earnings per share	<u>\$.12</u>	<u>\$.43</u>

See accompanying notes

Consolidated Balance Sheet

Assets	January 31, 1976	December 31, 1974
Current:		
Accounts receivable	\$ 1,131,640	\$ 1,169,692
Current portion of amount due from The May Department Stores Company (Note 3)	160,336	—
Income taxes refundable	8,361	448,818
Due from Consumers Distributing Company (National) Limited	6,148,899	6,224,784
Inventory	24,532,733	29,195,085
Prepaid expenses and sundry assets	1,787,507	1,405,564
Total current assets	33,769,476	38,443,943
Due from The May Department Stores Company, less current portion (Note 3)	627,814	—
Investment in Consumers Distributing Company (National) Limited	1,800,529	1,835,269
Investment in Consumers Distributing Company (U.S.)	—	124,876
Equipment and leasehold improvements (Note 4)	6,890,946	7,193,920
Other assets (Note 5)	567,220	818,909
	\$43,655,985	\$48,416,917
Liabilities		
Current:		
Bank indebtedness (Note 6)	\$ 4,456,953	\$12,432,858
Accounts payable and accrued liabilities	20,108,198	17,518,490
Dividends payable	—	133,686
Deferred income taxes	783,731	520,603
Total current liabilities	25,348,882	30,605,637
Deferred income taxes	1,318,974	1,210,290
Shareholders' Equity		
Capital Stock (Note 7):		
Authorized:		
12,000,000 Common shares, without par value		
Issued:		
4,456,196 Common shares	3,774,754	3,774,754
Retained earnings	13,213,375	12,826,236
	16,988,129	16,600,990
	\$43,655,985	\$48,416,917

See accompanying notes

On behalf of the Board: JACK STUPP Director
ALBERT C. PLANT Director

Consolidated Statement of Changes in Financial Position

	Thirteen months ended January 31, 1976	Twelve months ended December 31, 1974
Financial resources were provided by:		
Income before extraordinary gain	\$ 144,472	\$1,904,833
Add (deduct) charges (credits) to income not requiring a current outlay (receipt) of funds:		
Depreciation and amortization of equipment and leasehold improvements	980,885	659,507
Amortization of deferred charges	389,653	434,174
Amortization of financing expenses	13,000	12,000
Deferred income taxes	(70,631)	216,678
Share of net (earnings) loss of Consumers Distributing Company (National) Limited	34,740	(517,794)
Working capital provided from operations, exclusive of extraordinary gain	1,492,119	2,709,398
Working capital provided from disposition of partnership interest	76,322	—
	<u>1,568,441</u>	<u>2,709,398</u>
Financial resources were used for:		
Deferred charges	132,364	294,921
Tax paid to create tax-paid undistributed surplus on hand	23,592	90,635
Dividends	133,686	512,436
Equipment and leasehold improvements	677,911	3,083,955
Other assets	18,600	7,543
	<u>986,153</u>	<u>3,989,490</u>
Increase (decrease) in working capital	582,288	(1,280,092)
Working capital, beginning of period	7,838,306	9,118,398
Working capital, end of period	<u>\$8,420,594</u>	<u>\$7,838,306</u>

See accompanying notes

Auditors' Report

To the Shareholders of Consumers Distributing Company Limited

We have examined the consolidated balance sheet of Consumers Distributing Company Limited and its subsidiaries as at January 31, 1976 and the consolidated statements of income and retained earnings and changes in financial position for the thirteen months then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at January 31, 1976 and the results of their operations and the changes in their financial position for the thirteen months then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario
April 9, 1976

Laventhol & Horwath
Chartered Accountants

Notes to Financial Statements January 31, 1976

1. Summary of significant accounting policies:

Principles of consolidation:

- The consolidated financial statements include the accounts of the company and its subsidiary companies, all of which are wholly-owned.
- The investment in 50% of the common shares of Consumers Distributing Company (National) Limited is carried at cost plus the company's equity in undistributed net earnings. The company's share of net earnings is included in the consolidated statement of income and retained earnings.

Condensed operating results of Consumers Distributing Company (National) Limited are as follows:

	Thirteen months ended January 31, 1976	Twelve months ended December 31, 1974
Sales	<u>\$83,040,849</u>	<u>\$63,911,880</u>
Net earnings (loss)	<u>\$ (69,480)</u>	<u>\$ 1,035,587</u>
Consumers Distributing Company (National) Limited share thereof (50%)	<u>\$ (34,740)</u>	<u>\$ 517,794</u>

Inventory:

Inventory is valued at the lower of cost and net realizable value; cost being determined on a first-in, first-out basis.

Equipment and leasehold improvements:

Equipment and leasehold improvements are recorded at cost. Depreciation is provided on a straight-line basis at rates which are designed to write off the assets over their estimated useful lives as follows:

Office, warehouse and showroom equipment—5% and 10%
Leasehold improvements—Term of lease
Automotive equipment—10% and 20%

Deferred charges:

Pre-opening costs relating to new branches are amortized over 24 months for established Metropolitan areas and over 36 months for other locations, commencing with the month after the date of opening.

Costs for development of new systems and procedures are amortized over varying periods, not exceeding 36 months.

Income taxes:

The company follows the tax allocation principle of providing for income taxes. Under this principle deferred income taxes result from claiming for income tax purposes capital cost allowances in excess of depreciation and amortization recorded in the accounts, and from writing off for income tax purposes financing expenses, deferred charges and other costs in the year incurred.

2. Change of fiscal year end:

The company changed its fiscal year end from December 31 to January 31, and accordingly these financial statements present the results of operations for the thirteen months ended January 31, 1976. The figures for the twelve months ended December 31, 1974 have been presented for purposes of comparison.

3. Due from The May Department Stores Company:

During the current period the company disposed of its partnership interest in Consumers Distributing Company (U.S.) to The May Department Stores Company for an amount of \$1,060,000. As this amount is payable without interest in instalments over five years, it has been discounted for accounting purposes to \$800,839, based upon an imputed interest rate of 10% per annum.

Original amount receivable	\$1,060,000
Less received to date	37,500
	<u>1,022,500</u>
Less unamortized discount based upon imputed interest of 10%	234,350
	<u>788,150</u>
Less current portion	160,336
Non-current balance receivable	<u>\$ 627,814</u>

4. Equipment and leasehold improvements:

	Cost	Accumulated Depreciation and Amortization	Net
Office, warehouse and showroom equipment	\$6,111,862	\$1,795,560	\$4,316,302
Leasehold improve- ments	2,036,621	673,017	1,363,604
Automotive equipment	1,676,048	465,008	1,211,040
	<u>\$9,824,531</u>	<u>\$2,933,585</u>	<u>\$6,890,946</u>

5. Other assets:

	January 31, 1976	December 31, 1974
Deferred charges:		
Pre-opening costs relating to new branches	\$191,165	\$397,807
Costs for development of new systems and procedures	74,563	80,950
Unamortized costs related to Consumers Distributing Company (U.S.)	—	44,258
	<u>265,728</u>	<u>523,015</u>
Financing expenses, less amounts amortized	53,488	66,490
Sundry	<u>248,004</u>	<u>229,404</u>
	<u>\$567,220</u>	<u>\$818,909</u>

Deferred charges amortized during the current period, and included in cost of sales and operating expenses on the consolidated statement of income and retained earnings amount to \$389,653 (12 months ended December 31, 1974—\$434,174).

6. Bank indebtedness:

The bank indebtedness is secured by a collateral floating charge on all the assets of the company. The company has also given the bank an assignment of book debts and assignments of life insurance policies in the face amount of \$2,100,000, having a cash surrender value of \$22,100.

7. Stock options and reservation of shares:

In connection with the company's Employee Stock Option Plan, 225,000 common shares have been reserved. At January 31, 1976 there were options outstanding to purchase 164,720 shares exercisable at prices ranging from \$2.75 to \$32.50 over the next ten years.

8. Lease obligations:

Property and equipment rental for the thirteen months ended January 31, 1976 amounted to \$4,226,475. Minimum rentals payable under long-term leases for property and equipment in effect as at January 31, 1976 (excluding insurance, property taxes and certain other occupancy charges) are as follows:

1977	\$ 3,898,395
1978-1982	19,231,105
1983-1987	14,454,727
1988-2000	23,502,220

9. Contingent liability:

The company is jointly and severally liable with The Oshawa Group Limited as guarantor of the leases of Consumers Distributing Company (National) Limited. The annual minimum rentals payable by Consumers Distributing Company (National) Limited under long-term leases in effect as at January 31, 1976 are as follows:

1977	\$ 2,328,442
1978-1982	11,431,206
1983-1987	10,642,740
1988-2000	19,703,758

10. Remuneration of directors and senior officers:

The aggregate direct remuneration paid by the company and its consolidated subsidiaries to directors and senior officers of the company for the thirteen months ended January 31, 1976 was \$616,657 (12 months ended December 31, 1974—\$511,585).

11. Commitment:

The company is committed to expend approximately \$2,000,000 for automated sales devices for its stores and the stores of Consumers Distributing Company (National) Limited in the 1977 fiscal year. Negotiations are currently under way to arrange suitable lease financing for this purchase of equipment.

12. Anti-Inflation legislation:

Under the federal government's anti-inflation programme, which became effective October 14, 1975, the company is subject to controls on prices, profits, compensation and dividends.

159 Catalogue Showrooms in nine Canadian Provinces

Alberta (15)
 Calgary (7)
 Edmonton (7)**
 Lethbridge

Manitoba (9)
 Winnipeg (8)
 Brandon

New Brunswick (5)
 Fredericton
 Moncton (2)
 Saint John (2)

Newfoundland (1)
 St. John's

Nova Scotia (2)
 Dartmouth
 Halifax

Prince Edward Island (1)
 Charlottetown

Quebec (38)
 Montreal (20)
 Charlesbourg*
 Chateauguay
 Chicoutimi
 Drummondville
 Granby
 Hull
 Jonquiere
 Levis
 Quebec City (4)
 Rosemere
 St. Hyacinthe
 St. Jean
 Sherbrooke
 Trois-Rivieres
 Valleyfield

Saskatchewan (5)
 Regina (2)
 Moose Jaw
 Prince Albert
 Saskatoon

Ontario (83)
 Toronto (18)
 Ajax
 Barrie
 Belleville
 Bramalea
 Brampton
 Brantford
 Brockville
 Burlington (2)
 Cambridge
 Chatham
 Cornwall
 Georgetown
 Guelph (2)*
 Hamilton (6)*
 Kingston
 Kitchener
 London (6)
 Mississauga (2)
 Niagara Falls
 North Bay
 Oakville
 Orangeville
 Orillia
 Oshawa (2)
 Ottawa (6)
 Owen Sound
 Peterborough
 Pickering
 Richmond Hill
 St. Catharines (2)
 St. Thomas
 Sarnia
 Sault Ste. Marie
 Stratford
 Streetsville
 Sudbury (2)
 Thunder Bay
 Waterloo
 Welland
 Whitby
 Windsor (3)
 Woodstock

*Stores Opened to date in 1976

Consumers Distributing Company Limited

62 BELFIELD ROAD, REXDALE (TORONTO)
ONTARIO M9W 1G2