



2008 Annual Report

Industrial & Commercial Enclosures
Datacom/Telecom Cabinets & Racks
Power Distribution Outlet Strips
Small Electronic Cases
Electronic Transformers

Quality Products. Service Excellence.

QUALITY PRODUCTS. SERVICE EXCELLENCE.

We have a broad product offering:

To serve our customers in multiple markets and industries.

Our warehouse holds in excess of ten million dollars in inventory:

To provide our customers with product availability and rapid order delivery.

Ten day back order recovery on standard product:

We work hard to provide you with your required product in a prompt time line.

Value Added Services (Modifications, Assembly and Drop Shipment):

To go above and beyond our competition and provide our customers with the exact solution required.

Hammond Manufacturing Company Limited 2008 Annual Report

OUR VALUES:

We are dedicated to our customers:

To provide quality products and service that create value to our customers.

We are responsible to our shareholders:

To provide an adequate return on their investment over the long term.

We are committed to our employees:

To provide competitive pay, open and frank communication, a safe workplace plus an opportunity to be shareholders of the business.

We recognize the importance of our suppliers:

To assist us in our ability to serve our customers.

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REPORT TO SHAREHOLDERS

Dear fellow shareholders:

Our 2008 results are described in detail on the following pages.

We ended the year in a strong financial position mainly as a result of the large one-time positive impact from the sale of our interest in Moloney Electric Inc. and the fourth quarter decline the value of the Canadian dollar against the US dollar.

We are entering 2009 in a good position to weather the recessionary economy and at the same time, invest in the projects that will benefit the Company in the future.

Our success is due to the combined efforts of many individuals. We are working together with suppliers and employees in order to provide our global customers with high value products. This allows us to build long term value for our shareholders and security for all.

Sincerely,



Robert F. Hammond
Chairman & CEO

MANAGEMENT DISCUSSION AND ANALYSIS

This management discussion and analysis (“MD&A”) comments on the consolidated financial condition and results of operations of Hammond Manufacturing Company Limited (the “Company”) for the year ended December 31, 2008. This discussion should be read in conjunction with the Company’s consolidated financial statements for the year ended December 31, 2008 and related notes. Additional information about the Company can be found on its web site, www.hammg.com, or through the SEDAR web site at www.sedar.com which includes the Company’s Annual Information Form. The information contained herein is dated as of March 11, 2009.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, with the reporting currency in Canadian dollars.

Advisory – This discussion contains some forward-looking statements, which are subject to certain risks, uncertainties and assumptions. Should one or more of these risk factors materialize, or should assumptions prove incorrect, actual results may vary significantly from those expected.

COMPANY PROFILE

Hammond Manufacturing Company Limited manufactures electronic and electrical enclosures, outlet strips and electronic transformers that are used by manufacturers of a wide range of electronic and electrical products. Products are sold both OEM-direct and through a global network of distributors and agents.

Facilities are situated in Canada, the USA, the UK and Australia, and agents and distributors are located worldwide. In 2008 we established a 40% ownership share of RITEC Enclosures Inc. located in Taiwan. RITEC produces plastic and diecast enclosures for sale through the Company sales network and its own existing channels.

ANNUAL MEETING

The meeting of the Shareholders will be held on
May 6, 2009 at the Holiday Inn,
601 Scottsdale Drive, Guelph, Ontario,
commencing at 10:00 a.m.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONS

FOURTH QUARTER RESULTS

SALES

Net sales, for the three months ended December 31, 2008 were \$20,641,000, an increase of 8.4% from net sales of \$19,035,000 in the third quarter of 2008. Net sales for the current quarter were up 20.1% compared to net sales of \$17,193,000 for the three months ended December 31, 2007. The primary driver of the increases compared to the third quarter of 2008 and fourth quarter 2007 was the strengthening of the US dollar. The US dollar in the fourth quarter of 2008 was up 18% over the third quarter of 2008 and 23% over the fourth quarter of 2007.

GROSS MARGINS

The Company has continued its focus on cost reduction and productivity improvements in order to improve product profitability, and overcome the challenges of rising input costs and competitive market pressures. Gross margins for the fourth quarter of 2008 were 36.9% of net sales compared to 23.4% in the fourth quarter of 2007 and 28.2% in the third quarter of 2008. The primary cause of the increased margins compared to the fourth quarter of 2007 and the third quarter of 2008 was from the strengthening US dollar. The US dollar was trading around 99 cents to the Canadian dollar at the end of December 2007 compared to 1.22 at the end of December 2008. This equates to a 23% sales price increase on goods sold in the USA. Similarly the US dollar was trading around 1.03 to the Canadian dollar at the end of September 2008, providing an 18% increase within the fourth quarter of 2008.

EARNINGS FROM OPERATIONS

Fourth quarter selling, general and administration ("SG&A") expenses of \$4,882,000 were 23.7% of net sales for the three months ended December 31, 2008, compared with a spend of \$4,196,000 which was 24.4% of net sales in the same period in 2007.

Overall operational results of \$2,793,000 (13.3% of net sales) is up over the prior quarter \$594,000 (3.1% of net sales) and up substantially from the 2007 fourth quarter operational loss of \$167,000 (-1.0% of net sales).

INTEREST

Fourth quarter interest expense of \$155,000 was up slightly from the third quarter of \$150,000 and significantly down from the comparable prior year fourth quarter of \$262,000. This year over year decrease was driven by the influx of cash from the sale of the Company's interest in Moloney Electric Inc. on January 9, 2008. The cash was used to pay down the operational credit lines.

FOREIGN EXCHANGE TRANSLATION

A \$549,000 foreign exchange balance sheet translation gain was reported in the current quarter, compared to a loss of \$197,000 in the fourth quarter of 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

FULL YEAR RESULTS

SALES

Net sales of \$78,160,000 in 2008 were up 7.0% from net sales of \$73,050,000 reported in 2007. All our geographical markets have experienced year over year sales growth. The growth has been fostered through addition of new products in both our Electrical and Electronic markets, our push to provide modified product within competitive lead times and expanded listings with global distributors. The Company is pleased to have achieved this sales growth against a backdrop of a difficult industrial market place for our products in all our markets.

Canadian sales growth continued in 2008, up 9.2% from 2007, sustaining our market share.

U.S. sales, as reported in Canadian dollars, increased 5.5% in 2008 compared to 2007. US sales in US dollars have maintained a constant growth of 5% to 6% since 2006.

International sales (other than Canada & USA) increased 5.1% in 2008 compared to 2007 as reported in Canadian dollars, and account for 9.7% of Company sales (9.1% in 2007). A relatively stronger Canadian dollar reduced these revenues reported in Canadian dollars by \$1,198,000 compared to what would have been reported using 2007 foreign currency exchange rates.

GROSS MARGINS

The Company has continued its focus on cost reduction and productivity improvements in order to improve product profitability, and overcome the challenges of rising input costs and competitive market pressures. In 2008, average gross margins increased by 3.4% to 29.6% of net sales from 26.2% reported in 2007. This combined with volume increases, increased gross margin dollars by \$3,985,000 in 2008. The 2008 gross margin is back in line with the business requirements. In 2007 we had seen a drop in gross margins as substantial price increases were seen in our raw materials along with the strengthening Canadian dollar. In 2008 raw material prices stabilized and in some cases decreased and in the fourth quarter the Canadian dollar weakened substantially against the US dollar.

EARNINGS FROM OPERATIONS

Overall operational results showed an increase in earnings from operations of \$3,128,000 in 2008 over 2007.

Selling, general and administration ("SG&A") expenses were 24.2% of net sales in 2008, compared with 24.8% in 2007.

INTEREST

Interest expense decreased \$520,000 (44%) from the 2007 expense level to \$658,000 in 2008. Interest expense dropped significantly in 2008 as a direct result of the cash influx from the January 2008 sale of the equity investment in Moloney and associated properties. The net proceeds from the Moloney sale were approximately \$7,295,000. The average utilization of our credit facility fell from \$12,100,000 in 2007 to \$7,000,000 in 2008. Interest rates fell in 2008 as the market adjusted to the current economic conditions.

MANAGEMENT DISCUSSION AND ANALYSIS

FULL YEAR RESULTS - CONTINUED

FOREIGN EXCHANGE TRANSLATION

A \$609,000 foreign exchange translation gain was reported in 2008, compared to a loss of \$777,000 in 2007. This was primarily driven by the appreciation trend of the US dollar in the last quarter of 2008, closing at 1.218 to the Canadian dollar compared to 0.9881 at the close of 2007. Sterling was valued at 1.775 Canadian, compared to 1.96 at the close of 2007.

SELECTED ANNUAL INFORMATION

	(In thousands of dollars except earnings per share)		
	2008	2007	2006
Net sales	\$78,160	\$73,050	\$71,005
Earnings from operations	4,155	1,027	2,566
Net earnings (loss)	4,889	172	1,174
Earnings (loss) per share - Basic & diluted	\$0.43	\$0.02	\$0.10
Balance Sheet Data			
Total assets	\$48,501	\$49,170	\$50,105
Total long-term debt	6,950	6,884	6,980

MOLONEY ELECTRIC INC. (45% EQUITY OWNERSHIP AND SALE)

On January 9, 2008 we sold our interest in Moloney Electric Inc. ("MEI") as well as two of the three related properties (properties were held in 1159714 Ontario Inc.).

There were no reported earnings for MEI in 2008. Earnings in 2007 were \$2,990,000 of which HMCL's 45% equity share in this investment resulted in a non-cash income of \$1,346,000.

The net proceeds from the sale of the business and related real estate were approximately \$7.3 million and resulted in a book gain of approximately \$2.2 million. The note receivable from MEI was paid in full as part of the sale.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL RESOURCES AND LIQUIDITY

Cash generated from operations, before changes in non-cash operating working capital for 2008 is \$6,455,000 (2007 - \$1,853,000). Change in non-cash operating working capital resulted in a net cash outflow of \$3,595,000 in 2008, up from a \$694,000 outflow in 2007. Inventory growth was a primary driver in the change of non-cash operating working capital in 2008.

Accounts receivable increased 9.3% at December 31, 2008 compared to the 2007 year-end. Days sales outstanding (DSO) calculated on net sales was 47 days, down 4 days from 2007. The quality of accounts receivable remains high. We expect DSO to continue in the current range for 2009.

Investment in inventory increased in the year by 21.6%. Inventory turnover remained the same as in 2007 at 3.0 (cost of sales divided by average inventory). Inventory levels have been increased to ensure our customer order fill rates are maintained or improved.

Accounts payable and accrued charges increased by \$420,000. The ratio of accounts payable and accrued charges to net sales, ended at 11.9% of net sales in 2008, compared to 11.3% in 2007. Timing issues impacted the level of payables at year-end. We generally expect accounts payable and accrued charges to average approximately 10% of net sales. We value our suppliers and strive to maintain acceptable payment terms.

Our total debt (long-term debt and bank indebtedness) decreased by \$6,258,000 over the year to \$12,250,000. Our debt-to-equity ratio at year-end was approximately 0.46:1 (2007 - 0.85:1).

Capital spending for 2008 was \$1,591,000 up from \$1,120,000 in 2007. 2008 expenditures included \$652,000 toward upgrading and replacing machinery and equipment, \$558,000 toward machinery and equipment for product growth, \$242,000 toward tooling and the remaining \$139,000 toward computer hardware, software and leasehold improvements.

The contractual obligations of the Company are detailed in the following table.

Contractual obligations (In thousands)	Total	2009	2010	2011	2012	2013	Thereafter
Long-term debt	5,034	2,439	1,086	963	518	28	0
Capital lease obligations	1,916	308	328	350	280	244	406
Operating leases	2,980	1,003	843	457	259	203	215
Total contractual obligations	9,930	3,750	2,257	1,770	1,057	475	621

In addition to the contractual obligations above, the Company has current obligations of \$1,032,000 against open purchase orders for outstanding capital expenditures. These expenditures should be complete in the first half of 2009.

SHARE CAPITAL

As of March 11, 2009, 8,556,000 Class A subordinate voting shares and 2,778,300 Class B common shares were issued and outstanding. The Company also has a management share option plan, with 5,000 options outstanding with an average price of \$1.26 per share.

MANAGEMENT DISCUSSION AND ANALYSIS

QUARTERLY INFORMATION

(In thousands of dollars except earnings per share)

	2007				2008			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Income Statement Data								
Net sales	\$18,259	\$19,357	\$18,241	\$17,193	\$18,508	\$19,976	\$19,035	\$20,641
Earnings from operations	348	984	(190)	(115)	382	440	593	2,740
Net earnings (loss)	174	432	15	(449)	2,034	104	306	2,445
Earnings (loss) per share - Basic & diluted	\$0.02	\$0.04	\$0.00	(\$0.04)	\$0.18	\$0.01	\$0.03	\$0.21

ENVIRONMENTAL ISSUES

As described in the notes to the financial statements (notes 15(a) and 15(b)), we have two sites for which there are environmental issues.

The Sterling Road, Toronto site (note 15(a)) is a property owned by Moloney Properties (1159714 Ontario Inc.). Moloney Properties (a 50% investment of HMCL) leased the Sterling Road site to MEI until the end of December 2008. The property is currently vacant. The Sterling Road property has mineral oil contamination as well as some PCB contamination. Except for a reported spill of mineral oil by Moloney Electric Inc. in 1993, the source of such contamination has not been determined. The contamination does not result from the normal operations of the Company. It appears that the contamination predates the Company's ownership and the source or sources may include adjoining properties.

In 1994, Toronto Hydro (TH), the owner of an adjoining property, complained that mineral oil (including, possibly, PCB's) had migrated onto the TH lands from the Sterling Road site. The TH property is an inactive transformer substation and former storage depot.

In 2004, environmental reports were exchanged between Moloney Properties and TH, and a joint meeting of the parties was held with the Ontario Ministry of the Environment (MOE). From this meeting, it was determined that further sampling was needed, and a joint order was developed with the parties to this effect. MEI and 1159714 Ontario Inc. prepared a field-sampling plan that was accepted by the MOE and this additional work was completed in 2005. The results from this sampling were consistent with previous investigations, and a report has been submitted to the MOE. The Company continues to negotiate with TH alternatives related to appropriate courses of action with respect to future remediation efforts. No determination as to the specific costs of future long-term remediation has been made.

Ongoing costs for legal, consulting and remediation of the Sterling Road site incurred during the year totaled \$70,000, of which HMCL's share of these costs was \$35,000 (2007 - \$28,000). These costs were funded within Moloney Properties through the rental income received from Moloney Electric Inc.

MANAGEMENT DISCUSSION AND ANALYSIS

ENVIRONMENTAL ISSUES - CONTINUED

Glen Ewing Properties is a 50% co-tenancy with Hammond Power Solutions Inc. ("HPSI") of the vacant property located at 2 Glen Road, Georgetown. A quantity of diesel oil, which is believed to be related to site operations of prior owners, was discovered in 2000 and has been the focus of investigations by our environmental consultant. The contamination does not result from the normal operations of the Company. In December 2001, the adjoining property owner (whose lands were at one time part of the same historical operation as 2 Glen Road) issued a statement of claim claiming damages from HMCL and HPSI for the historical contamination found on its property (note 15(b)). An interim agreement is in place with this party and the claim is currently in abeyance. HMCL and HPSI, as co-tenants, have been working co-operatively with the adjacent property owner and its environmental consultant, under the direction of the MOE, in order to evaluate the extent of the contamination and develop an appropriate joint remediation plan for both sites. Ongoing investigations have also indicated that both the co-tenancy's and the adjacent owner's sites have been impacted by historical solvent usage. These impacts are being incorporated into the joint remediation plan. HMCL's share of the costs for legal and consulting work for the year 2008 related to this property was \$114,000 (2007 - \$117,000). In 2007, the Company undertook a detailed selection process for the engagement of environmental remediation consultants and finalizing a remediation plan and is now just entering the first phase of the plan. The Company is satisfied that the best estimate available for the Company's portion of the environmental remediation costs for this site remains at \$383,000 (December 31, 2007 - \$383,000).

Other than the above sites, Management is not aware of any unusual or significant issues.

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2008, the Company adopted CICA Handbook section 3031, Inventories. The section provides more guidance on the measurement and disclosure requirements for inventories than the previous CICA Handbook Section 3030. This disclosure is found under notes 1(d) and 4. The adoption had no effect on inventory balances or cost of goods sold.

CRITICAL ACCOUNTING ESTIMATES

In the preparation of the consolidated financial statements, it is necessary for management to make some estimates and judgments that affect reported amounts in the financial statements and related disclosure of contingencies. Management bases these estimates using historical experience, assumptions and rationale that are believed to be reasonable in the circumstances. The Company evaluates these on an ongoing basis in order to form the judgment for the carrying value of certain assets and liabilities.

Specifically, the Company has assessed the property valuations related to the sites noted under "Environmental Issues" in this MD&A and in the notes to the financial statements (notes 15(a) and 15(b)). Based on this analysis, it is management's judgment that the reported carrying values of these properties are reasonable.

The value of Goodwill related to the Company's U.K. operations was reviewed by Management and tested for impairment in accordance with the guidelines set out in the CICA Handbook section 3064. Based on this analysis, it is management's judgment that the reported carrying value for Goodwill is not impaired.

MANAGEMENT DISCUSSION AND ANALYSIS

CRITICAL ACCOUNTING ESTIMATES - CONTINUED

The environmental liability (note 15(b)) has been established based on an analysis of cost estimates related to expected activities required for active remediation for Glen Ewing Properties. It is management's judgment that the reported carrying value for this liability, based on discounted cash flows over five years, is a reasonable estimate of the Company's share of these costs given information available at this time, but acknowledges that this estimate is subject to future uncertainties.

Although these estimates, which form the basis for carrying values of, reported assets, liabilities, revenues and expenses, are based on reasonable assumptions, it should be noted that actual results may differ from these estimates under different assumptions or conditions.

CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management on a timely basis so that appropriate decisions can be made regarding public disclosure.

The purpose of internal controls over financial reporting as defined by the Canadian Securities Administrators is to provide reasonable assurance that:

- (i) financial statements prepared for external purposes are in accordance with the Company's Generally Accepted Accounting Principles,
- (ii) transactions are recorded as necessary to permit the preparation of financial statements, and records are maintained in reasonable detail,
- (iii) receipts and expenditures of the Company are made only in accordance with authorizations of the Company's management and directors, and
- (iv) unauthorized acquisitions, uses or dispositions of the Company's assets that could have a material effect on the financial statements will be prevented or detected in order to prevent material error in financial statements.

The Chief Executive Officer and the Chief Financial Officer have caused management and other employees to design, document and evaluate our disclosure controls and procedures and our internal controls over financial reporting. An evaluation of the design and operating effectiveness of the disclosure controls and internal controls over financial reporting was conducted as at December 31, 2008. The design and evaluation of internal controls was completed using the framework and criteria established in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the evaluation, we have concluded that our disclosure controls and procedures and our internal controls over financial reporting were effective to provide reasonable assurance that information related to our consolidated results and decisions to be made based on those results were appropriate.

MANAGEMENT DISCUSSION AND ANALYSIS

RISKS AND UNCERTAINTIES

As with most businesses, the Company is subject to a number of marketplace, industry and economic related business risks, which could have some material impact on our operating results.

These risks include:

- The cyclical effects, unpredictability and volatility of market driven commodity costs, raw materials such as copper and steel pricing and supply and demand;
- A significant, unexpected change in the global demand for resources;
- The variability of the Canadian dollar versus the U.S. dollar;
- Economic slowdown in the U.S. and Canada;
- Rising interest rates;
- Trade restrictions;
- Labour costs and labour relations;
- Competition; and
- Global political unrest.

The Company continuously works to minimize the negative impact of these risks and strengthen its position through diversification of its core business, market channel expansion, geographic diversity of its operations and business hedging strategies. There are, however, several risks that deserve particular attention.

Key Personnel

The Company is dependent on the experience and industry knowledge of its executive officers and other key employees to execute its business plan. If the Company were to experience a substantial turnover in its leadership or other key employees, business results from operations and financial condition could be materially adversely affected.

Commodity Prices

An area that has had a definite effect on the Company's costs and earnings is the cyclical effects and unprecedented market cost pressures of copper and steel pricing in the global market. Due to this unpredictability and volatility, particularly with copper pricing, the Company does not currently utilize future contracts. Strategic supply line agreements and alliances are in place with our major steel suppliers to ensure adequate supply and competitive market pricing.

Foreign Exchange

The Company's operating results are reported in Canadian dollars. A significant portion of our sales are denominated in U.S. dollars. A change in the value of the Canadian dollar against the U.S. dollar will impact earnings. We have created a natural hedge as this is partially offset by a corresponding change in the cost of materials purchased from the U.S. and commodities tied to U.S. dollar pricing. In general, a lower value for the Canadian dollar compared to the U.S. dollar will have a beneficial impact on the Company's results; or inversely a higher value for the Canadian dollar compared to the U.S. dollar will have a negative impact on the Company's profitability. The Company also has a U.S. operating subsidiary and U.S. dollar assets. Resulting in a corresponding positive or negative impact to the Company's Statement of Earnings solely related to the foreign exchange translation of its U.S. subsidiary Balance Sheet. We have partially reduced the impact of foreign exchange fluctuations through increasing our U.S. dollar driven manufacturing output. Finally, the Company periodically institutes price increases to help offset the negative impact of changes in foreign exchange and product cost increases.

MANAGEMENT DISCUSSION AND ANALYSIS

RISKS AND UNCERTAINTIES - CONTINUED

Interest Rates

The Company has structured its debt financing to take advantage of the current lower interest rates, but is cognizant that a rise in interest rates will negatively impact the financial results of the Company. The Company continuously reviews this strategy of hedging this risk by fixing interest rates on part of its total debt.

North American Economy

Given the growing uncertainty about the North American economy, the Company is focusing its efforts over the next 12 months on projects that will reduce costs and improve its manufacturing flexibility. The Company believes that being nimble as an organization will become increasingly important in order to respond quickly to both unexpected opportunities as well as challenges. The Company also believes that growing access to a variety of markets both global and domestic through OEM and distributor channels will help the Company expand market share during an economic slowdown.

OUTLOOK FACTORS FOR 2009

The world economy is undergoing a severe contraction in economic activity brought about by a myriad of reasons, beyond our control. The Company is taking action to preserve capital and position itself to be in a strong financial position when the recovery occurs.

The Company's forecast for 2009 core business foresees a decline of 10%, this is consistent with general forecasts of lower economic growth globally. Through continued expansion of lines, new product introduction and marketing initiatives, continued expansion of market share in the international market is expected, but will face the same uncertainties with respect to the level of overall economic activity.

Capital spending will be focused on high impact projects as accommodated by cash flows.

The Company's primary focus continues to be on productivity and margin improvement attained through the efforts of the employees in order to manage these business risks and continue our track record of long-term growth, profitability and security.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements are the responsibility of the management of Hammond Manufacturing Company Limited. These statements have been prepared in accordance with Canadian generally accepted accounting principles, using management's best estimates and judgments, where appropriate.

Management is responsible for the reliability and integrity of the consolidated financial statements, the notes to the consolidated financial statements and other financial information contained in the report. In the preparation of these statements, estimates are sometimes necessary because a precise determination of certain assets and liabilities is dependent on future events. Management believes such estimates have been based on careful judgment and have been properly reflected in the accompanying consolidated financial statements.

Management is responsible for the maintenance of a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that accounting systems provide timely, accurate and reliable financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Directors is assisted in exercising its responsibilities through the Audit Committee of the Board, which is composed of four non-management directors. The Audit Committee meets periodically with management and the auditors to satisfy itself that management's responsibilities are properly discharged, to review the consolidated financial statements and to recommend approval of the consolidated financial statements to the Board of Directors.

KPMG LLP, the independent auditors appointed by the shareholders, have audited the Company's consolidated financial statements in accordance with Canadian generally accepted auditing standards and their report follows. The independent auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings as to the integrity of the financial reporting process.

R. F. Hammond
Chairman & CEO

A. Stirling
Secretary & CFO

Guelph, Ontario
February 9, 2009

AUDITORS' REPORT

To the shareholders of Hammond Manufacturing Company Limited

We have audited the consolidated balance sheets of Hammond Manufacturing Company Limited as at December 31, 2008 and 2007, and the consolidated statements of earnings, comprehensive earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007, and the results of its operations and its cash flows for the two years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants, Licensed Public Accountants

Waterloo, Canada
February 6, 2009

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2008 AND 2007 (IN THOUSANDS OF DOLLARS)

	2008	2007
Assets		
Current assets:		
Cash	\$ 3,446	\$ 2,503
Accounts receivable	9,708	8,886
Income taxes recoverable	-	208
Inventories (note 4)	20,642	16,969
Note receivable (notes 5 & 22)	-	1,574
Prepaid expenses	723	766
Future income taxes (note 14)	285	212
	<u>34,804</u>	<u>31,118</u>
Property plant and equipment (note 6)	11,053	12,156
Equity investment (note 22 & 23)	121	3,000
Investments in properties	2,346	1,663
Future income taxes (note 14)	4	1,060
Goodwill	173	173
	<u>13,697</u>	<u>18,052</u>
	<u>\$ 48,501</u>	<u>\$ 49,170</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 7)	\$ 5,300	\$ 11,624
Accounts payable and accrued charges	8,696	8,276
Income taxes payable	255	26
Current portion of environmental liability (note 15(b))	159	159
Current portion of long-term debt (note 8)	2,747	1,477
	<u>17,157</u>	<u>21,562</u>
Long-term debt (note 8)	4,203	5,407
Environmental liability (note 15(b))	224	224
Future income taxes (note 14)	176	125
Shareholders' equity:		
Share capital (note 10)	10,249	10,249
Contributed surplus	290	290
Retained earnings	16,202	11,313
	<u>26,741</u>	<u>21,852</u>
Commitments and contingencies (notes 8, 9 and 15)		
	<u>\$ 48,501</u>	<u>\$ 49,170</u>

See accompanying notes to consolidated financial statements.
On behalf of the board:

Robert F. Hammond
Director

Michael J. Lawrie
Director

**CONSOLIDATED STATEMENTS OF EARNINGS,
COMPREHENSIVE EARNINGS, AND RETAINED EARNINGS**
YEARS ENDED DECEMBER 31, 2008 AND 2007 (IN THOUSANDS OF DOLLARS EXCEPT EARNINGS PER SHARE)

	2008	2007
Net sales	\$ 78,160	\$ 73,050
Costs and expenses:		
Cost of sales	55,060	53,935
Selling, general and administrative	18,945	18,088
	74,005	72,023
Earnings from operations – before the undernoted	4,155	1,027
Interest expense (note 8)	(658)	(1,178)
Foreign exchange gain (loss)	609	(777)
Share of net income in equity interest and other expenses (note 13)	2,049	1,288
Earnings before income taxes	6,155	360
Income taxes (note 14)	1,266	188
Net earnings and comprehensive earnings	4,889	172
Retained earnings, beginning of year	11,313	11,079
Transitional adjustment on adoption of new accounting standards (note 2)	-	62
Retained earnings, beginning of year (restated)	11,313	11,141
Retained earnings, end of year	\$ 16,202	\$ 11,313
Basic and diluted earnings per share (note 12)	\$ 0.43	\$ 0.02

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
DECEMBER 31, 2008 AND 2007 (IN THOUSANDS OF DOLLARS)

	2008	2007
Cash provided by (used in):		
Operations:		
Net earnings	\$ 4,889	\$ 172
Add (deduct) items not involving cash:		
Amortization of property plant and equipment	2,694	2,798
Future income taxes	1,015	131
Share of income in equity interest and property investments	(2,162)	(1,248)
	6,436	1,853
Change in non-cash operating working capital	(3,576)	(694)
Cash provided by operations	2,860	1,159
Financing:		
Increase (Decrease) in bank indebtedness	(6,324)	285
Increase long-term debt	1,347	1,826
Repayment of long-term debt	(1,281)	(1,922)
Stock options exercised	-	16
Cash provided by (used in) financing activities	(6,258)	205
Investments:		
Purchase of property plant and equipment	(1,591)	(1,120)
Proceeds from disposition of property plant and equipment	-	105
Disposition of MEI and associated properties (note 22)	6,033	-
Other investments	(101)	240
Cash used in investment activities	4,341	(775)
Increase in cash	943	589
Cash, beginning of year	2,503	1,914
Cash, end of year	\$ 3,446	\$ 2,503

See note 19 for supplemental cash flow information.

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2008 AND 2007 (TABULAR AMOUNTS IN THOUSANDS OF DOLLARS)

Hammond Manufacturing Company Limited (the "Company") is a public company, traded on the Toronto Stock Exchange and is incorporated under the Ontario Business Corporations Act.

The Company is primarily involved in the manufacture and sale of electrical and electronic components.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following policies:

(a) Basis of presentation:

The consolidated financial statements include the accounts of Hammond Manufacturing Company Limited, its wholly owned subsidiaries, its proportionate share of 1159714 Ontario Inc. (50%), its share of an equity investment in RITEC Enclosures Inc. ("RITEC") (40%) (2008 only) and Moloney Electric Inc. ("MEI") (45%) (2007 only). Wholly owned subsidiaries include Hammond Manufacturing Company Inc., Hammond Electronics Limited, Hammond Electronics PTY Ltd., and Les Fabrications Hammond (Quebec) Inc. All significant intercompany balances and transactions have been eliminated on consolidation.

(b) Revenue recognition:

The Company recognizes revenue on product sales and services at the time the products are shipped or services rendered to customers, when the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. A provision for potential warranty claims is provided for at time of sale based on warranty terms and prior claims experience.

(c) Translation of foreign currencies:

The Company's operations located in the United States, Australia and the United Kingdom are considered to be integrated foreign operations and, therefore, their financial statements are translated using the temporal method. Under this method, all asset, liability, revenue and expense items are translated at the exchange rate in effect at the transaction date. At the balance sheet dates, monetary assets and liabilities are adjusted to reflect the year-end exchange rate. The gain or loss resulting from translation is included in the determination of net earnings for the current period.

(d) Inventories:

Inventories are valued at the lower of first-in, first-out cost and net realizable value.

(e) Investment in properties:

Investment in properties is stated at the lower of cost and estimated net realizable value.

(f) Property plant and equipment:

Property plant and equipment are stated at cost less accumulated amortization. Property plant and equipment are amortized using the straight-line method at rates calculated to amortize the cost of these assets over their estimated useful lives. Amortization rates are as follows: buildings 2.5 - 5%, machinery and equipment 10 - 25%, office equipment 10 - 25%. Property and equipment under capital lease is initially recorded at the present value of minimum lease payments at the inception of the lease.

(g) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

(h) Goodwill:

Goodwill represents the difference between the purchase price, including acquisition costs, of businesses acquired and the fair value of the identifiable net assets acquired. Goodwill is not amortized, and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired, and goodwill would be written down only if the carrying value is in excess of implied fair value determined in the impairment test.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2008 AND 2007 (TABULAR AMOUNTS IN THOUSANDS OF DOLLARS)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

(i) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the years. Significant items subject to such estimates and assumptions include the carrying amount of property plant and equipment, investment in properties and goodwill; valuation allowances for receivables, inventories, note receivable and future income taxes, environmental liability, stock based compensation costs and contingency disclosures. Actual results could differ from those estimates.

(j) Stock based compensation:

The Company has a stock-based compensation plan as described in note 11. The Company accounts for all stock based payments granted on or after January 1, 2003, using the fair value based method. Consideration paid by employees on the exercise of stock options is recorded as share capital along with the related amount of contributed surplus.

Under the fair value based method, compensation cost is measured at fair value at the grant date and recognized over the vesting period in contributed surplus. Compensation cost attributable to awards to employees that call for settlement in cash or other assets is measured at intrinsic value and recognized over the vesting period. Changes in intrinsic value between the grant date and the measurement date result in a change in the measure of compensation cost. For awards that vest at the end of the vesting period, compensation cost is recognized on a straight-line basis; for awards that vest on a graded basis, compensation cost is recognized on a pro rata basis over the vesting period in contributed surplus.

(k) Earnings per share:

Basic earnings per share are computed by dividing net earnings by the weighted average shares outstanding during the reporting period. Diluted earnings per share are computed similar to basic earnings per share except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock options, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options were exercised and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the reporting period.

(l) Impairment of long-lived assets:

Long-lived assets, including property plant and equipment and certain other long-lived assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The asset and liabilities of a disposed group classified as held-for-sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007 (TABULAR AMOUNTS IN THOUSANDS OF DOLLARS)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

(m) Financial instruments:

The Company has classified its financial instruments as follows:

- Cash and cash equivalents are classified as held-for-trading;
- Accounts receivable and note receivable are classified as loans and receivables;
- Bank indebtedness is classified as held-for-trading; and
- Account payable and accrued charges, notes payable, long-term debt and environmental liabilities are classified as other liabilities; and

All financial assets and financial liabilities are initially recognized at fair value. Subsequent measurement is dependent on their initial classification, as follows:

- Financial assets and financial liabilities classified as held-for-trading are measured at fair value with changes in fair value recorded in the consolidated statements of earnings and comprehensive income; and financial assets classified as loans and receivables and financial liabilities classified as other liabilities are measured at amortized cost using the effective interest method.
- The Company expenses transaction costs related to financial instruments classified as other than held-for-trading.
- The Company uses trade date accounting for regular-way purchases and sales of financial assets.
- The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair value of a financial instrument on initial recognition is the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, the fair values of financial instruments that are quoted in active markets are based on bid prices for financial assets held and offer prices for financial liabilities. When independent prices are not available, fair values are determined by using valuation techniques that refer to observable market data.

2. CHANGE IN ACCOUNTING POLICIES:

Effective January 1, 2008, the Company adopted CICA Handbook section 3031, Inventories. The section provides more guidance on the measurement and disclosure requirements for inventories than the previous CICA Handbook Section 3030. This disclosure is found under notes 1(d) and 4. The adoption had no effect on inventory balances or cost of goods sold.

3. FUTURE ACCOUNTING CHANGES:

Goodwill and intangible assets

In February 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets, which will be effective on January 1, 2009 for the Company. The standard provides new guidelines for recognition, measurement, presentation and disclosure of goodwill and intangible assets and eliminates the practice of recognizing as an asset startup, pre-production and similar costs that do not meet the definition and recognition criteria of an asset. The Company is currently evaluating the impact of the adoption of this standard.

International Financial Reporting Standards

Accounting standards in Canada are to converge with International Financial Reporting Standards ("IFRS"). The Company is required to begin reporting under IFRS by the first quarter of 2011 with comparative data also reported under IFRS. While IFRS has similarities to Canadian GAAP, there are significant differences with respect to recognition, measurement and disclosures. The Company is assessing the impact on accounting policies, data systems, internal controls over financial reporting, and business activities, such as financing and compensation arrangements during the period to the transition date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007 (TABULAR AMOUNTS IN THOUSANDS OF DOLLARS)

4. INVENTORIES:

	2008	2007
Raw materials and work-in-process	\$ 6,769	\$ 5,901
Finished goods	13,873	11,068
	<u>\$ 20,642</u>	<u>\$ 16,969</u>

\$508,445 (2007 – \$0) of the inventory included above has been adjusted to net realizable value. During the year \$237,360 (2007 - \$0) was recognized as expense to adjust inventory to its net realizable value. All cost of sales expense relate to inventory items.

5. NOTE RECEIVABLE:

The note receivable in 2007 was from MEI. Full repayment was made January 9, 2008 as part of the sale agreement for the equity investment in MEI (note 22).

6. PROPERTY PLANT AND EQUIPMENT:

	2008		
	Cost	Accumulated amortization	Net book Value
Land	\$ 202	\$ -	\$ 202
Buildings	6,470	4,007	2,463
Machinery and equipment	32,063	26,616	5,447
Machinery and equipment under capital lease	2,560	524	2,036
Office equipment	6,248	5,705	543
Capital additions in process	362	-	362
	<u>\$ 47,905</u>	<u>\$ 36,852</u>	<u>\$ 11,053</u>

	2007		
	Cost	Accumulated amortization	Net book Value
Land	\$ 202	\$ -	\$ 202
Buildings	6,433	3,853	2,580
Machinery and equipment	31,086	24,721	6,365
Machinery and equipment under capital lease	2,419	300	2,119
Office equipment	6,149	5,346	803
Capital additions in process	87	-	87
	<u>\$ 46,376</u>	<u>\$ 34,220</u>	<u>\$ 12,156</u>

7. BANK INDEBTEDNESS:

Bank indebtedness is secured by inventories, a general assignment of book debts and a charge on defined assets of the Company. The value of these assets as at December 31, 2008 was \$26,035,000 (2007 – \$21,241,000).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007 (TABULAR AMOUNTS IN THOUSANDS OF DOLLARS)

8. LONG-TERM DEBT:

	2008	2007
Term loans, secured by a debenture on the Company's land and buildings together with a floating charge over all other assets of the Company:		
Portion drawn in Canadian funds at variable interest rates based on the bank's prime lending rate, maturing in 2009 through 2013	\$ 2,994	\$ 3,953
Portion drawn in U.S. funds \$112,714 (2007 - \$150,286) at variable interest rates based on the bank's prime lending rate, maturing in 2012	137	148
Note Payable to 1159714 Ontario Limited, unsecured demand loan at 0% interest rate	1,208	-
Term loan drawn in U.S. funds \$499,997 (2007 - \$666,666) at a fixed rate of 5.36% through November 2009, and 7.36% thereafter until maturity in 2011, secured by the assets of Hammond Manufacturing Company Inc.	609	659
Demand Term loan drawn in GBP Sterling £48,506 (2007 - £76,549) at variable interest rates based on the bank's base rate, secured by a debenture including fixed equitable charge over present and future freehold and leasehold property together with a floating charge over other assets of Hammond Electronics Limited (UK), and an Unlimited Composite Company Guarantee, renewal in July 2009	86	150
Capital leases secured by equipment in Canadian funds	1,493	1,671
Capital Leases secured by equipment, drawn in GBP Sterling £72,836	129	-
Capital leases and term loans, secured by equipment, drawn in U.S. funds \$241,453 (2007 - \$305,697)	294	303
	6,950	6,884
Less current principal portion of long-term debt	2,747	1,477
	\$ 4,203	\$ 5,407

The aggregate amount of principal payments required to meet the existing long-term debt obligations in each of the next five years is as follows:

2009	\$ 2,747
2010	1,414
2011	1,313
2012	798
2013	272
Thereafter	406
	\$ 6,950

Interest expense is comprised as follows:

	2008	2007
Long-term debt, including capital leases	\$ 366	\$ 483
Other	292	695
	\$ 658	\$ 1,178

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007 (TABULAR AMOUNTS IN THOUSANDS OF DOLLARS)

9. CAPITAL LEASE OBLIGATIONS:

The Company leases certain equipment, included in property plant and equipment, under leases that are classified as capital leases. The future minimum annual lease payments, which are included in long-term debt, consist of the following as at December 31:

	2008	2007
2008	\$ -	\$ 358
2009	418	358
2010	418	358
2011	418	358
2012	328	295
2013	276	275
After	411	411
Total minimum payments	2,269	2,413
Less amount representing a variable interest at a rate of 5.3% (2007 - 5.3%)	353	439
	\$ 1,916	\$ 1,974

10. SHARE CAPITAL:

a) Authorized:

Unlimited number of Class A subordinate voting shares.

Unlimited number of Class B common shares with four votes per share, convertible into Class A subordinate voting shares on a one-for-one basis. Annual dividends on the Class B common shares may not exceed the annual dividends on the Class A subordinate voting shares.

Unlimited number of Class YA non-voting, redeemable, retractable shares entitled to non-cumulative discretionary dividends. No dividends shall be declared or paid on the Class YA shares unless the same dividend is simultaneously declared and paid on the Class YB shares.

Unlimited number of Class YB non-voting, redeemable, retractable shares entitled to non-cumulative discretionary dividends. No dividends shall be declared or paid on the Class YB shares unless the same dividend is simultaneously declared and paid on the Class YA shares.

b) Issued:

	2008	2007
8,556,000 Class A shares (2007 - 8,556,000)	\$ 10,242	\$ 10,242
2,778,300 Class B common shares (2007 - 2,778,300)	7	7
	\$ 10,249	\$ 10,249

No Class A shares were issued in 2008. In 2007, 20,000 were issued for proceeds of \$15,750 upon the exercise of stock options.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007 (TABULAR AMOUNTS IN THOUSANDS OF DOLLARS)

11. Management share option plan:

At December 31, 2008, the Company has a stock-based compensation plan, which is described below. No options were granted in 2007 or in 2008, and accordingly no stock-based compensation expense has been incurred in either year.

In 1986, the Company established the management share option plan providing for the granting to directors, officers and key employees of the Company options to purchase the Class A subordinate voting shares of the Company. A maximum number of 540,000 Class A subordinate voting shares are issuable under the plan. The exercise price for purchasing Class A subordinate voting shares may not be less than 100% of the market price of the Class A subordinate voting shares at the date the option is granted.

The following table summarizes the continuity of options issued under the plan:

	2008		2007	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	10,000	\$ 1.11	130,000	\$ 0.59
Granted	-	-	-	-
Exercised	-	-	(20,000)	0.79
Cancelled/forfeited	(5,000)	0.95	(100,000)	0.50
Outstanding, end of year	5,000	1.26	10,000	1.11
Exercisable, end of year	5,000	\$ 1.26	10,000	\$ 1.11

Options to purchase shares outstanding at December 31, 2008 are as follows:

Exercise price (\$)	Number of options outstanding	Weighted average remaining life (years)	Number of options exercisable
1.26	5,000	0.33	5,000
	5,000		5,000

12. Earnings per share:

The computations for basic and diluted earnings per share are as follows:

(in thousands except per share data)	2008	2007
Net earnings	\$ 4,889	\$ 172
Average number of common shares outstanding:		
Basic	11,334	11,331
Effect of stock options	2	15
	11,336	11,346
Earnings per share:		
Basic	\$ 0.43	\$ 0.02
Diluted	0.43	0.02

Share options to purchase 5,000 common shares at \$1.26 per share were outstanding at December 31, 2008 (2007 - 10,000 common shares at \$0.95 to \$1.26 per share).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007 (TABULAR AMOUNTS IN THOUSANDS OF DOLLARS)

13. Share of net income (loss) in equity interest and other expenses:

	2008	2007
Earnings from 45% equity investment in MEI	\$ -	\$ 1,345
Gain on sale of 45% equity investment in MEI	1,085	-
Share of net income from 50% investment in 1159714 Ontario Inc.	1,058	53
Share of expenses from 50% co-tenancy in Glen Ewing Properties	(114)	(110)
Earnings from 40% investment in RITEC	20	-
	\$ 2,049	\$ 1,288

14. Income taxes:

The Company's provision for income taxes is comprised of the following:

	2008	2007
Income taxes based on a combined Canadian federal and provincial income tax rate of 42.0% (2007 - 43.12%)	\$ 2,585	\$ 155
Increase (decrease) in income taxes resulting from:		
Reduced rate for active business and manufacturing and processing	(449)	(55)
Lower income tax rate on earnings of foreign subsidiaries	(60)	(27)
Foreign exchange translation non-taxable	(376)	229
Permanent tax differences	(380)	(242)
Effect of rate changes on future tax assets	(18)	87
Other	(36)	41
Income tax expense	\$ 1,266	\$ 188
Current income tax expense	\$ 251	\$ 57
Future income tax expense	1,015	131
Income tax expense	\$ 1,266	\$ 188

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007 (TABULAR AMOUNTS IN THOUSANDS OF DOLLARS)

14. Income taxes (continued):

The tax effect of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at December 31, 2008 and 2007 are presented below:

	2008	2007
Current future tax asset:		
Accounts receivable, allowance for doubtful accounts	\$ 34	\$ 22
Inventory, provisions	201	140
Environmental, provisions	50	50
	<u>\$ 285</u>	<u>\$ 212</u>
Long-term future tax asset:		
Property plant and equipment - differences in net book value and undepreciated capital cost	\$ (60)	\$ 851
Equity investment and investment in properties – difference in net book value and tax basis	-	(274)
Deferred charges - differences in timing of recognition	64	64
Long-term debt - capital lease obligations not recognized for tax purposes and differences in recognition of foreign exchange gains and losses	-	92
Non-deductible accounting provisions	-	68
Loss carry-forwards	-	259
	<u>\$ 4</u>	<u>\$ 1,060</u>
Long-term future tax liability:		
Property plant and equipment - differences in net book value and undepreciated capital cost	\$ 303	\$ 125
Equity investment and investment in properties – difference in net book value and tax basis	(56)	-
Deferred charges - differences in timing of recognition	(58)	-
Long-term debt - capital lease obligations not recognized for tax purposes and differences in recognition of foreign exchange gains and losses	(13)	-
	<u>\$ 176</u>	<u>\$ 125</u>

The Company has unused tax losses of approximately \$211,000 (2007 - \$857,000), which have no expiry date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007 (TABULAR AMOUNTS IN THOUSANDS OF DOLLARS)

15. Commitments and contingencies:

- a) The Company and Hammond Power Solutions Inc. (HPSI) each own 50% of the shares of 1159714 Ontario Inc., which in turn owns the property at 213 Sterling Road, Toronto. The property was occupied by MEI up to December 31, 2008 and was vacated by MEI at that time. The building is currently vacant and we are attempting to lease or sell the premises. The property has mineral oil contamination as well as some PCB contamination although the source of such contamination (except for a spill in 1993 by MEI) has not been determined. The contamination does not result from the normal operations of the Company. It appears to predate the Company's ownership of the property. The source or sources may include adjoining properties. As indirect owner, the Company and HPSI may, without admitting any liability, have some responsibility to participate in the remediation of the property and adjacent properties. In this regard, the Company received a complaint in 1994 from Toronto Hydro, as an adjoining owner, to the effect that mineral oil and possibly PCB contaminants may have migrated to its property, which is an inactive substation. The Company has worked in conjunction with the Ontario Ministry of the Environment and with Toronto Hydro to remediate the properties. The Company continues to review further remediation activities. No determination as to the specifics of full remediation has been made, but the recovery period is expected to take several years. 1159714 Ontario Inc. had been funding recovery, monitoring, professional fees and reporting, at this site through its rental income received from MEI.
- b) The property at 2 Glen Road, Georgetown, Ontario is owned equally as a co-tenant with HPSI and any expenses or liabilities in respect of the property have been agreed to be shared equally. In January 2002, the two owners were served with a statement of claim by an adjoining industrial property owner, in which the plaintiff has claimed damages in the amount of \$8 million for negligence, breach of warranty and other matters relating to alleged environmental contamination of the property. The Company intends to vigorously defend the action if it proceeds. In 2004, the Company and HPSI served a counter-claim against the plaintiff in the amount of \$8 million. Both claims, by agreement between the parties, are in abeyance. The contamination does not result from the normal operations of the Company. The parties, under the direction of the Ontario Ministry of the Environment, are in the process of undertaking a coordinated and shared investigation of the condition of the property and remediation options. In 2006, the exact approach for active remediation was not finalized, but there was a determination of remediation alternatives and estimates of related costs to the Company. In 2007, the Company undertook a detailed selection process for the engagement of environmental remediation consultants and finalizing a remediation plan and is now just entering the first phase of the plan. The Company is satisfied that the best estimate available for the Company's portion of the environmental remediation costs for this site remains at \$383,000 (December 31, 2007 - \$383,000) with \$159,000 (2007 - \$159,000) presented as a current liability. Excluding the provision, the Company's share of ongoing operational legal and consulting costs incurred during the year pertaining to the Glen Road site incurred during the year, described above, was \$114,000 (2007 - \$117,000).
- c) The Company is committed to payments under operating leases for equipment and buildings in the total amount of approximately \$2,980,000. Annual minimum payments are: 2009 - \$1,003,000; 2010 - \$843,000; 2011 - \$457,000; 2012 - \$259,000; 2013 - \$203,000; subsequent to 2013 - \$215,000.

16. Pension plans:

The Company has defined contribution pension plans that are available to virtually all of its employees with eligible employee contributions based on 2-4% of annual earnings. The Company's contribution of \$602,405 (2007 - \$580,448) matches the employee contribution.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007 (TABULAR AMOUNTS IN THOUSANDS OF DOLLARS)

17. Segment disclosures:

The continuing operations of the Company are in one industry segment, electrical and electronic components.

The Company and its subsidiaries operate in Canada, the United States, the United Kingdom and Australia. Inter-segment sales are made at fair market values.

Geographic Segments	2008	2007
Sales:		
Canada:		
Sales to customers	\$ 33,719	\$ 30,913
Inter-segment sales	35,111	33,352
United States and offshore:		
Sales to customers	44,441	42,137
Inter-segment sales	2,131	1,548
Eliminations	(37,242)	(34,900)
	\$ 78,160	\$ 73,050
Earnings from operations before the undernoted:		
Canada	\$ 3,394	\$ 700
United States and offshore	761	327
	\$ 4,155	\$ 1,027
Property plant and equipment:		
Canada	\$ 9,508	\$ 10,365
United States and offshore	1,545	1,791
	\$ 11,053	\$ 12,156
Goodwill:		
United States and offshore	\$ 173	\$ 173

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007 (TABULAR AMOUNTS IN THOUSANDS OF DOLLARS)

18. Financial instruments:

The carrying values of the Company's financial assets and liabilities, consisting of cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, approximate their fair values due to the relatively short periods to maturity of the instruments. The carrying values of the Company's long-term note receivable and long-term debt are comparable to their fair market value. Fair value has been calculated using the estimated future cash flows of the actual outstanding instruments, discounted at current market rates available to the Company for the same or similar instruments.

(a) Credit risk:

Credit risk arises from the possibility that the entities to which the Company sells products may experience difficulty and be unable to fulfill their obligations. The Company is exposed to financial risk that arises from the credit quality of the entities to which it sells products and services. The Company sells to a variety of companies in a number of different industries. As a result, the requirement for credit risk related reserves for accounts receivable is minimal. The following table reflects the aging of trade receivables as at December 31, 2008 and December 31, 2007. An allowance for doubtful accounts of \$229,000 (2007 - \$122,000) was in place as at December 31, 2008.

	2008	2007
Aging Trade Receivable		
Current	\$ 5,682	\$ 4,523
1-30 days past due	3,094	3,371
31-60 days past due	748	524
Over 60 days past due	156	202
Total	\$ 9,680	\$ 8,620
Allowance for Doubtful Accounts Roll Forward		
Allowance at beginning of year	\$ 122	\$ 130
Actual Accounts written off	(70)	(19)
Increase in Provision	177	11
Allowance at end of year	\$ 229	\$ 122
% of total trade receivable	2.4%	1.4%

(b) Interest rate risk:

Interest rate risk arises from the possibility that the value, or cash flows related to, a financial instrument will fluctuate as a result of changes in market interest rates. The Company is exposed to financial risk that arises from the interest rate differentials between the market interest rate and the rates on its cash, bank indebtedness, and long term debt. Changes in variable interest rates could cause unanticipated fluctuations in the Company's operating results.

Sensitivity Analysis:

A one percent increase in the variable rates charged on our average debt held in 2008 would have increased interest expense by \$70,000. This analysis assumes that all other variables remain constant. Inversely, a one percent decrease in the variable rates charged on our average debt held in 2008 would have had the equal but opposite effect.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007 (TABULAR AMOUNTS IN THOUSANDS OF DOLLARS)

18. Financial instruments - Continued:

(c) Foreign currency risk:

The Company has a substantial number of transactions denominated in the United States dollars and is exposed to risk with respect to fluctuations in exchange rates between Canadian and United States dollars. The Company does not use derivative instruments to reduce its exposure to foreign currency risk. As a result, variations in foreign exchange rates could cause unanticipated fluctuations in the Company's operating result. Accounts receivable include AUD \$83,000, U.S. \$2,468,000 and GBP Sterling £353,000 (2007 – AUD \$102,000, U.S. \$2,604,000 and £348,000). Accounts payable include AUD \$0, U.S. \$1,291,000 and £263,000 (2007 – AUD \$5,000, U.S. \$652,000 and £260,000). Long-term debt includes loans and capital leases denominated in U.S. funds totaling U.S. \$854,000 (2007 - U.S. \$1,123,000) and denominated in GBP Sterling funds totaling £121,000 (2007 - £76,549), which may affect the amount of principal and interest payments ultimately recorded.

Sensitivity Analysis:

A one cent strengthening of the Canadian dollar against the US dollar as at December 31, 2008 would have decreased equity by \$425,000 which is derived from a decrease in net income for the year of \$343,000 and a decrease in balance sheet valuation of \$82,000. This analysis assumes that all other variables remain constant. Inversely, a one cent weakening of the Canadian dollar against the U.S dollar as at December 31, 2008 would have had the equal but opposite effect.

(d) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company requires working capital to meet day-to-day operating activities. The Company expects that the cash flows from operating activities will be sufficient to meet these requirements. The Company also has available unused credit facilities in the amount of \$11,789,000 at December 31, 2008 (2007 - \$6,012,000) to meet fluctuations in working capital requirements.

19. Supplemental cash flow information:

	2008	2007
Cash paid for interest	\$ 658	\$ 1,033
Cash paid for income taxes, net of refunds	(279)	295

20. Related Party Transactions:

The Company purchased \$570,910 of product from RITEC in 2008. (\$148,686 in 2007).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007 (TABULAR AMOUNTS IN THOUSANDS OF DOLLARS)

21. Capital Management:

In order to manage capital, the Company regularly identifies and assesses risks that threaten the ability to meet the Company's capital management objectives, and determines the appropriate strategy to mitigate these risks.

The Company's objectives when managing capital are to:

- a) maintain financial flexibility in order to preserve its ability to meet financial obligations.
- b) deploy capital to provide an appropriate investment return to its shareholders; and
- c) maintain capital structure that allows multiple financing options to the Company should a financing need arise.

The Company defines its capital as follows:

- a) shareholders' equity
- b) long-term debt, including the current portion
- c) cash and cash equivalents; and short-term investments; and
- d) short-term borrowings.

The Company is subject to externally imposed capital requirements through the covenants of its facility arrangements with HSBC. The covenants measure Debt to Total Net worth and Current Ratio's. The Company has been in compliance with its covenants through out 2008.

There were no changes to the Company's approach to capital management during 2008.

22. Sale of Moloney Electric Inc. equity interest:

The Company completed the sale of its 45% interest in the operations (oil filled distribution transformers) of MEI on January 9, 2008 to Universal Power Transformer Private Limited. In addition to the operations, the Company also sold the Sackville, New Brunswick and Spruce Grove, Alberta plants, which had been jointly owned with HPSI through 1159714 Ontario Inc. and had a carrying value of approximately \$460,000. The Sterling Rd., Toronto, Ontario property continues to be held by 1159714 Ontario Inc. and was leased to Universal Power Transformer Private Limited until the end December 31, 2008. The net proceeds from the sale of the business and related real estate were approximately \$7.3 million and resulted in a book gain of approximately \$2.2 million. The note receivable from MEI was paid in full as part of the sale.

23. RITEC Enclosures Inc. equity interest:

The Company purchased a 40% holding of RITEC Enclosures Inc. in 2008. RITEC is located in Taiwan and produces plastic & diecast enclosures for sale through the Company's sales network and its own existing market channels.

24. COMPARATIVE FIGURES:

Certain 2007 comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.

FIVE YEAR FINANCIAL SUMMARY

(IN THOUSANDS OF DOLLARS EXCEPT EARNINGS PER SHARE)

For the years ended December 31

	2008	2007	2006	2005	2004
Income Statement Data					
Net sales - adjusted for EIC 156	\$78,160	\$73,050	\$71,005	\$66,718	\$59,055
Earnings from operations	4,155	1,027	2,566	292	2,201
Net earnings (loss) for the Year	4,889	172	1,174	(430)	201
Per share - Basic & fully diluted					
Net earnings for the Year	\$0.43	\$0.02	\$0.10	(\$0.04)	\$0.02
Balance Sheet Data					
Total Assets	48,501	49,170	50,105	46,166	42,860
Total Funded Debt	12,250	18,508	18,319	19,421	16,153
Working Capital	17,647	9,556	7,084	7,432	7,742
Cash Provided (used) by Operations	2,860	1,159	2,588	(179)	1,860
Dividends declared	0	0	0	0	0
Shareholders' Equity	26,741	21,852	21,602	20,421	20,841

CORPORATE DIRECTORY

Directors

Robert F. Hammond
Chairman and CEO

James Estill *
CEO of Synnex Canada Ltd.
(Distributor of Technology Products)

Michael J. Lawrie *
President
M. J. Lawrie & Associates
(Business and Life Transition Coach)

Marc A. Dubé *
Chairman of the Board
Ranger Metal Products Limited
(Manufacturer of Wire Products)

Edward Sehl *
Senior VP Finance
WC Wood Company
(International Appliance Manufacturer)

Auditors

KPMG LLP
Tenon, UK
Grant Thornton, Australia

Legal Counsel

Borden Ladner Gervais

Stock Listing

Toronto Stock Exchange
Symbol: HMM.A

Bankers

HSBC

Transfer Agent and Registrar

Computershare Investor Services Inc.

Officers/Senior Management

Robert F. Hammond
Chairman and CEO

Cy A. Mahy
Vice-President, Human Resources

Alexander Stirling
Secretary & CFO

Ray Shatzel
Vice-President, Electronic Sales

Sheldon Butts
Canadian Sales & Marketing Manager

Ross N. Hammond
Assistant Secretary

All Directors are members of the Compensation Committee

* Members of the Audit Committee

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using vegetable oil based inks.



Hammond History

- 1917** Established in Guelph, Ontario, Canada manufacturing radios, power amplifiers and battery eliminators.
- 1920's** Focus changed to manufacturing transformers for the broadcast and communications industries.
- 1930's** With an increase in broadcast and communications industries, introduced the relay rack and cabinets.
- 1950's** Demand for electrical products increased and we became more diversified offering a wide range of industrial and commercial enclosures.
- Today** We are a global company with over 500 employees. We have sales and manufacturing locations in Canada, USA, Europe and Australia.



Quality Products. Service Excellence.