



Q2

Quarterly Report
Quarter Ended June 30, 2003



Davis + Henderson
Income Fund



Davis + Henderson Income Fund

Davis + Henderson Income Fund owns 100% of the business of Davis + Henderson, Limited Partnership.

Davis + Henderson and its predecessors have been serving Canadian financial institutions and their account holders since 1875. Through an integrated service offering, Davis + Henderson is the market leading company in Canada assisting financial institutions with the operation of their cheque supply programs.

The Fund intends to provide unitholders with monthly distributions based upon the distributable cash flow of Davis + Henderson. The Fund's units are listed on the Toronto Stock Exchange under the symbol "DHF.UN."

Report to Unitholders

Davis + Henderson Income Fund recorded increases in sales, net income, operating income and distributable cash for the second quarter and six months ended June 30, 2003 as we continued to benefit from recent product launches and ongoing consumer migration to our more efficient and effective ordering solutions.

The MD&A and consolidated financial statements provide full details, however, among the notable financial highlights are:

- On sales of \$62.7 million and net income of \$12.0 million, the Fund generated distributable cash of \$0.3956 per unit and distributions of \$0.3399 per unit in the second quarter of 2003.
- Distributions per unit of \$0.6750 for the six months ended June 30, 2003 were up 3.9% over the comparable period last year, excluding the twelve days from the time of the Fund's listing on December 20 to December 31, 2001.
- During the second quarter, as previously announced, we increased monthly distributions to \$0.1133 per unit (the annual equivalent of \$1.36) from \$0.1117 (annual equivalent \$1.34), effective for unitholders of record on April 30, 2003.

Operationally, Davis + Henderson continues to benefit from several factors, including ongoing consumer migration to *ChequeAdvisor* and *ChequeCentral*, our call centre and web-based ordering systems. Over the past year, we have increased our ability to support direct consumer contact and ordering through these services. This change improves convenience for consumers, increases their knowledge of our product portfolio and saves costs for our customers. For these important reasons, we expect to continue investing in improving our capabilities in this area. Additionally:

- Within our core cheque supply programs, the launch last fall of new security features and new designs has resulted in an increase in average order value.
- The extension of our deposit bag program has also provided complementary growth.

Overall, the performance of Davis + Henderson reflects the value we derive from our long-term relationships with Canada's financial institutions and on their behalf, Canadian consumers, and the value we're creating by enhancing our programs. We're pleased with results to date because they've allowed us to meet our financial objectives and fully support the aforementioned increase in distributions.

CONCLUSION

Davis + Henderson's ongoing financial objective is to provide stable and growing distributions by maintaining our operating margins and capital requirements at traditional levels and targeting annual sales growth of 3% to 5%. We will grow sales at this pace by enhancing the value of our core cheque program and by expanding the services we offer to Canadian financial institutions. Our performance to date indicates we are operating in accordance with our stated strategy.

As we look ahead to the remainder of 2003, we remain confident of the sustainability and stability of Davis + Henderson Income Fund and our ability to fulfill our objectives. Most of all, we look forward to delivering new and enhanced programs to better serve all of our stakeholders.

Sincerely

(SIGNED)
Sanford McFarlane
Chief Executive Officer
Davis + Henderson G.P. Inc.

(SIGNED)
Robert Cronin
President and Chief Operating Officer
Davis + Henderson G.P. Inc.

July 31, 2003

Management's Discussion and Analysis

The Management's Discussion and Analysis ("MD&A") for the second quarter of 2003 should be read in conjunction with the MD&A in the Fund's Annual Report for the year ended December 31, 2002 and the attached interim unaudited consolidated financial statements. External economic and industry factors remain substantially unchanged, unless otherwise stated.

OPERATING RESULTS

For the Three Months and Six Months ended June 30, 2003

(\$000s, except per unit amounts, unaudited)	Three months ended		Six months ended	
	June 30, 2003	June 30, 2002	June 30, 2003	June 30, 2002*
Operations				
Sales	\$ 62,676	\$ 56,689	\$ 124,743	\$ 116,580
Cost of goods sold	36,363	31,629	72,386	66,408
Gross profit	26,313	25,060	52,357	50,172
	42.0%	44.2%	42.0%	43.0%
Operating expenses	7,945	7,525	15,787	15,230
	12.7%	13.3%	12.7%	13.1%
Operating income	18,368	17,535	36,570	34,942
	29.3%	30.9%	29.3%	30.0%
Interest expense	1,171	1,212	2,322	2,330
Amortization	4,188	4,047	8,342	8,599
Income tax	974	690	2,043	1,379
Non-controlling interest	—	—	—	7,432
Net income for the period	\$ 12,035	\$ 11,586	\$ 23,863	\$ 15,202
Net income per unit, basic and fully diluted	\$ 0.3174	\$ 0.3055	\$ 0.6293	\$ 0.4914

* Six months ended June 30, 2002 includes the results of the twelve-day period December 20, 2001 to December 31, 2001.

For the three-month period ended June 30, 2003, the Company recorded sales of \$62.7 million, an increase of \$6.0 million, or 10.6%, over the prior year's second quarter sales of \$56.7 million. For the six-month period ended June 30, 2003, sales were \$124.7 million, up \$8.1 million compared to previous year sales of \$116.6 million. Excluding \$4.0 million of sales attributable to the twelve-day 2001 period included in 2002, sales increased by \$12.1 million or 10.8%. Increases in both periods were attributable to two main factors. The first was a change in the structure of one of the Company's customer contracts, which for the first and second quarter of 2003 increased sales and cost of sales with minimal impact on gross profit. The second factor was the growth in order values received. This growth was primarily related to the launch of new products in the fall of 2002, increasing revenues from new products (such as deposit bags) and an increase in the number of orders received directly by the Company from consumers. The Company's experience indicates that when consumers order directly from the Company, rather than through the branch of their financial institution, they are more aware of product choices and choose additional products and premium features.

For the three-month and six-month periods ended June 30, 2003, gross profit increased \$1.3 million and \$2.2 million (including the twelve-day period December 20 to 31, 2001), an increase of 5.0% and 4.4%, respectively, from the prior comparable periods. These increases were primarily attributed to the growth in sales described above. Gross profit margin of 42% for the second quarter of 2003 was below that recorded in the second quarter last year as a result of the customer contract change previously described.

Operating expense of \$7.9 million for the three-month period ended June 30, 2003 increased from the prior year's second quarter by \$0.4 million, or 5.6%. For the first six months of 2003, operating expense was \$15.8 million compared to \$15.2 million for the prior year's comparable period including the twelve days of December 2001. Excluding those twelve days, operating expenses increased year-over-year by 8.7%. Increased spending in information technology and an increase in costs associated with being a public company resulted in operating expenses increasing year over year. Higher spending in the area of information technology primarily relates to activities associated with *ChequeCentral*, the Company's on-line web based ordering system.

Operating income of \$18.4 million for the second quarter of 2003 increased \$0.8 million, or 4.8%, over the prior year's second quarter, largely due to the current year's increase in sales as described above. For the first six months of 2003, operating income was \$36.6 million compared to \$34.9 million for the prior year's six-month (and twelve-day) period ended June 30, 2002, an increase of 4.7%. Excluding those twelve days recorded in 2002 the increase was 6.9%. This growth was attributable primarily to the increase in sales over the comparable periods.

Amortization of \$4.2 million for the three-month period ended June 30, 2003 increased \$0.1 million, or 3.5%, compared with the same quarter last year. Excluding the amortization expense for the twelve days of 2001 included in 2002, a similar year-over-year increase in amortization was recorded for the six months of 2003. The net increase resulted from increased amortization related to significant investments made throughout 2002 in digital printing technology, development of the *ChequeCentral* cheque ordering application, as well as investments in infrastructure to support the Company's U.S. initiative.

Interest expense of \$1.2 million and \$2.3 million, respectively, for the three-month and six-month periods ended June 30, 2003, was consistent with that recorded in the previous year. In the first quarter of 2002, higher interest expense due to the inclusion of the twelve days of 2001 offset lower interest expense as the Company funded its debt on a floating-rate basis during that period. In the second quarter of 2002, the Company implemented a hedging program, fixing interest rates on 60% of its debt for periods ranging from 2 to 4 years.

Income earned by the Fund that is distributed annually to unitholders is not subject to taxation in the Fund but is taxed at the individual unitholder level. The Fund's subsidiary is subject to taxation on its income at the statutory rates. Income tax expense of \$1.0 million increased \$0.3 million for the three-month period ended June 30, 2003 when compared to the prior year's quarter. Income tax expense for the six-month period of 2003 was \$2.0 million, an increase of \$0.7 million over the prior year's comparable period. The increase, which related to future income taxes, resulted from higher net income.

During the six months ended June 30, 2002, the Company expensed \$7.4 million of paid and accrued distributions to its previous owner, MDC. This was reflected as a charge against income for the period. As a result of the Fund's purchase of the balance of the Davis + Henderson business from MDC on April 2, 2002, there were no further distributions of this nature and, therefore, there was no comparable charge to income in 2003.

Net income of \$12.0 million for the three months ended June 30, 2003 increased \$0.4 million or 3.9% over the comparable period in the prior year. For the six months ended June 30, 2003, net income totalled \$23.9 million and was \$8.7 million higher than the same period last year. Excluding the non-controlling interest, the six-month growth in income was \$1.2 million.

CASH FLOW & LIQUIDITY

Cash Flow from Operations During the three-month period ended June 30, 2003, the Company generated \$16.9 million in cash flow from operations, a \$0.9 million increase above the same period last year. The Company's non-cash working capital balances decreased during the second quarter by \$2.0 million as a result of an increase in certain payables balances and a decrease in accounts receivable. These changes reversed last quarter's increase in non-cash working capital items. Cash flow from operations for the six months ended June 30, 2003 was \$33.7 million, a 5.1% increase over the reported period last year. Cash flow from changes in non-cash working capital balances was slightly negative in 2003 as compared with the same period last year when changes in these balances contributed \$7.8 million. In 2002, the Company generated increased cash from growth in payables and improved receivables balances, improvements which are not expected to recur in future periods.

Cash Used for Investments For the three-month period ended June 30, 2003, the Company had capital disbursements of \$2.8 million, of which \$1.9 million was considered maintenance and \$0.9 million was non-maintenance (on the basis that they are non-recurring). Included in maintenance expenditures were committed payments in respect of the Company's financial institution customer contracts of \$0.6 million. The balance of maintenance expenditures reflected the Company's continued investment in its key platforms in the form of systems development and hardware, and expenditures to upgrade the Company's telephony infrastructure, which support its emphasis on promoting direct consumer ordering.

Non-maintenance capital expenditures of \$0.9 million were related primarily to committed non-recurring customer contract payments. As at June 30, 2003, the Company had not drawn upon any of its \$18 million capital expenditure credit facility, which is available to fund both historic and future non-maintenance capital items.

Initial Public Offering The Fund completed an IPO on December 20, 2001 and sold 17.2 million units to the public for net proceeds of \$160.4 million. These proceeds, together with the \$80 million term loan provided under the Company's credit facilities, were used to purchase a 45.4% limited partnership interest in Davis + Henderson L.P. On January 10, 2002, the Fund issued an additional 1.7 million units to the public, upon the exercise of the underwriters' over-allotment option, for net proceeds to the Fund of \$16.2 million. These proceeds were used to acquire an additional limited partnership interest of 4.5% in Davis + Henderson L.P. On April 2, 2002, the Fund used net proceeds from the sale of units to the public of \$188.7 million to acquire the remaining partnership interest in Davis + Henderson L.P. There have been no public unit offerings during 2003.

Financing On June 30, 2003, Davis + Henderson L.P. extended the maturity date of its credit facilities from December 20, 2004 to June 30, 2006. In addition, the facilities were amended to permit the Company to revolve, for general corporate purposes, up to \$38 million of its total \$98 million credit facilities. The Company expects, from time to time, to apply certain of its cash balances to reduce its revolving credit facility in order to more effectively manage its capital.

In July 2003, the Company entered into two additional interest-rate swaps. The Company has effectively fixed interest rates on all of its outstanding debt at rates of between 5.89% and 7.33% for terms ending between March 15, 2004 and June 30, 2008.

Distributable Cash

(\$000s, except per unit amounts, unaudited)	June 30, 2003	Three months ended June 30, 2002	June 30, 2003	Six months ended June 30, 2002*
Distributable Cash and Distributions				
Net income for the period	\$ 12,035	\$ 11,586	\$ 23,863	\$ 15,202
Add: Non-cash items	4,905	4,484	9,878	16,889
Less:				
Distributions to non-controlling interest	—	—	—	7,432
Maintenance capital expenditures:				
Capital and other assets	1,312	1,590	2,532	2,128
Contract payments	625	625	1,875	1,875
Distributable cash	\$ 15,003	\$ 13,855	\$ 29,334	\$ 20,656
Distributions, paid or payable	\$ 12,888	\$ 12,321	\$ 25,596	\$ 19,215
Distributable cash per unit	\$ 0.3956	\$ 0.3654	\$ 0.7735	\$ 0.7222
Distributions per unit	\$ 0.3399	\$ 0.3249	\$ 0.6750	\$ 0.6925

* Six months ended June 30, 2002 includes the results of the twelve-day period December 20, 2001 to December 31, 2001.

Distributable cash is not a defined term under Canadian generally accepted accounting principles but is determined by the Fund as net income for the period adjusted to remove non-cash expenses, including amortization and future income taxes, and reduced by maintenance capital expenditures. Non-maintenance capital expenditures are not recorded as a reduction from distributable cash as these expenditures are eligible for funding under the Company's committed term-credit facilities. Management believes that this earnings measure is a useful supplemental measure of performance as it provides investors with an indication of the amount of cash available for distribution to unitholders. Investors are cautioned, however, that distributable cash should not be construed as an alternative to using net earnings as a measure of profitability or the statement of cash flows. Further, the Fund's method of calculating distributable cash may not be comparable to similarly titled amounts reported by other issuers.

Distributable cash increased 8.3% for the three-month period ended June 30, 2003, compared with the same period last year. This significant increase was a result of both increased earnings and a decrease in maintenance capital investing in this quarter, as previously described. Distributable cash will vary from quarter to quarter with the timing of maintenance capital expenditures.

For the year-to-date period ended June 30, 2003, distributable cash at \$29.3 million increased 4.4% over the comparable period last year, excluding the non-controlling interest deducted from net income in quarter one of 2002.

Distributions On April 18, 2003, the Fund announced that its distributions would be increased from \$0.1117 per unit (equivalent to \$1.34 per annum) to \$0.1133 per unit (equivalent to \$1.36 per annum) effective for unitholders of record on April 30, 2003, to be paid on May 30, 2003. Distributions throughout the second quarter have been at the annualized rate of \$1.36 per unit, an increase of 4.6% when compared to the previous year's quarter.

Cash Balances At June 30, 2003 cash and cash equivalents totalled \$14.6 million, compared to \$12.0 million at December 31, 2002. The increase in cash and cash equivalents reflected the fact that operating income, after funding both maintenance capital and non-maintenance capital expenditures, exceeded distributions paid to public unitholders.

The Company expects, from time to time, to apply portions of its cash balances going forward to reduce the revolving balance of its loan facility in order to more effectively manage its capital.

Cash flow from operations, together with cash balances on hand and unutilized term credit facilities, are expected to be sufficient to fund the Company's operating requirements, capital expenditures and anticipated distributions.

OUTLOOK

Based on Davis + Henderson L.P.'s targeted objectives of 3% to 5% annual sales growth and the maintenance of operating margins and capital spending for maintenance capital at current levels, the Fund's objective is to modestly grow distributions to unitholders.

Certain information included in this report is forward looking and based upon assumptions and anticipated results that are subject to risks and uncertainties associated with Davis + Henderson L.P.'s business and the economic environment in which the business operates. Should one or more of these uncertainties materialize or should the underlying assumptions prove incorrect, actual results may vary significantly from those expected. Risks and uncertainties are discussed in detail in the Fund's most recently filed Annual Information Form.

Consolidated Balance Sheet

(in thousands of Canadian dollars, unaudited)

As at

June 30, 2003 December 31, 2002

ASSETS

Current Assets:

Cash and cash equivalents	\$ 14,573	\$ 12,046
Accounts receivable	8,385	7,943
Inventory	6,471	6,866
Prepaid expenses	1,144	1,333
	30,573	28,188
Future income taxes (note 3)	33,762	35,298
Capital assets (note 4)	25,182	26,413
Other assets (note 5)	12,892	13,201
Intangible assets (note 6)	12,754	13,920
Goodwill (note 2)	359,385	359,385
	\$ 474,548	\$ 476,405

LIABILITIES AND UNITHOLDERS' EQUITY

Current Liabilities:

Accounts payable and accrued liabilities	\$ 23,782	\$ 24,047
Current portion of disbursement obligations on customer contracts (note 7)	3,145	4,495
Distributions payable to unitholders	4,296	4,236
	31,223	32,778
Disbursement obligations on customer contracts (note 7)	4,875	3,500
Obligations relating to employee future benefits (note 8)	1,345	1,289
Long-term indebtedness (note 9)	80,000	80,000
	117,443	117,567
Unitholders' equity	357,105	358,838
	\$ 474,548	\$ 476,405

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Income and Unitholders' Equity

(in thousands of Canadian dollars except per unit amounts, unaudited)

For the	Three months ended		Six months ended	
	June 30, 2003	June 30, 2002	June 30, 2003	June 30, 2002*
Sales	\$ 62,676	\$ 56,689	\$ 124,743	\$ 116,580
Cost of goods sold	36,363	31,629	72,386	66,408
Gross profit	26,313	25,060	52,357	50,172
Operating expenses	7,945	7,525	15,787	15,230
Operating income	18,368	17,535	36,570	34,942
Interest expense	1,171	1,212	2,322	2,330
Amortization expense	4,188	4,047	8,342	8,599
Income before income taxes and non-controlling interest	13,009	12,276	25,906	24,013
Income taxes (note 3):				
Current	257	253	507	521
Future	717	437	1,536	858
	974	690	2,043	1,379
Income before non-controlling interest	12,035	11,586	23,863	22,634
Non-controlling interest (note 1)	—	—	—	7,432
Net income for the period	12,035	11,586	23,863	15,202
Unitholders' equity, beginning of period	357,958	173,373	358,838	—
Net proceeds from issuance of trust units (note 10)	—	188,734	—	365,385
Distributions paid and accrued to unitholders (note 12)	(12,888)	(12,321)	(25,596)	(19,215)
Unitholders' equity, end of period	\$ 357,105	\$ 361,372	\$ 357,105	\$ 361,372
Net income per trust unit, basic and fully diluted	\$ 0.3174	\$ 0.3055	\$ 0.6293	\$ 0.4914

* Six months ended June 30, 2002 includes the results of the twelve-day period December 20, 2001 to December 31, 2001.

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Cash Flows

(in thousands of Canadian dollars, unaudited)

For the	Three months ended		Six months ended	
	June 30, 2003	June 30, 2002	June 30, 2003	June 30, 2002*
Cash and cash equivalents provided by (used in):				
OPERATING ACTIVITIES				
Net income	\$ 12,035	\$ 11,586	\$ 23,863	\$ 15,202
Add:				
Amortization expense	4,188	4,047	8,342	8,599
Non-controlling interest	—	—	—	7,432
Future income taxes	717	437	1,536	858
Cash flow from operations	16,940	16,070	33,741	32,091
Changes in non-cash working capital items	2,005	2,964	(67)	7,779
	18,945	19,034	33,674	39,870
FINANCING ACTIVITIES				
Gross proceeds from issuance of trust units	—	199,141	—	388,691
Issuance costs	—	(10,407)	—	(23,306)
Proceeds from long-term indebtedness	—	—	—	80,000
Distributions paid to public unitholders	(12,828)	(10,267)	(25,536)	(15,108)
Distributions paid to non-controlling interest	—	(2,167)	—	(7,432)
	(12,828)	176,300	(25,536)	422,845
INVESTING ACTIVITIES				
Expenditures on capital and other assets	(2,799)	(3,416)	(5,611)	(6,078)
Acquisition of business (note 2)	—	(189,144)	—	(445,434)
	(2,799)	(192,560)	(5,611)	(451,512)
Increase in cash and cash equivalents for the period	3,318	2,774	2,527	11,203
Cash and cash equivalents, beginning of period	11,255	8,429	12,046	—
Cash and cash equivalents, end of period	\$ 14,573	\$ 11,203	\$ 14,573	\$ 11,203
Supplementary information:				
Cash paid for interest	\$ 1,674	\$ 1,126	\$ 2,762	\$ 2,830
Cash paid for income taxes	\$ 253	\$ 250	\$ 505	\$ 372

* Six months ended June 30, 2002 includes the results of the twelve-day period December 20, 2001 to December 31, 2001.

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

(in thousands of Canadian dollars except unit and per unit amounts, unaudited)

NATURE OF BUSINESS

Davis + Henderson Income Fund (the "Fund") is a limited purpose trust, formed under the laws of the Province of Ontario by declaration of trust dated November 6, 2001. The Fund was formed to indirectly acquire the partnership units of Davis + Henderson, Limited Partnership ("Davis + Henderson L.P.").

Davis + Henderson L.P. is engaged primarily in the cheque supply outsourcing business for financial institutions in Canada. Davis + Henderson L.P. commenced operations on December 20, 2001, when it acquired the Davis + Henderson business (the "Business" or the "Company"). Simultaneously on December 20, 2001, the Fund completed an initial public offering and acquired a 45.4% interest in Davis + Henderson L.P. On January 10, 2002, under an over-allotment option, the Fund acquired an additional 4.5% interest in Davis + Henderson L.P. On April 2, 2002, the Fund acquired the remaining 50.1% of Davis + Henderson L.P. and now holds 100% of the Business.

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared following accounting policies generally accepted in Canada. They do not conform in all respects with disclosures required for annual financial statements and should be read in conjunction with the audited consolidated financial statements of the Fund for the period ended December 31, 2002.

The preparation of financial statements requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and sales and expenses during the reporting period. Actual results could differ from these estimates.

Principles of Consolidation

The consolidated financial statements include the accounts of the Fund, its wholly owned subsidiaries, D + H Holdings Corp. ("D + H Holdings"), Davis + Henderson G.P. Inc., and Davis + Henderson L.P. All inter-company transactions and accounts have been eliminated upon consolidation.

Financial Instruments

The Fund's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, disbursement obligations on customer contracts, interest-rate swaps and long-term indebtedness. The Fund does not enter into financial instruments for trading or speculative purposes.

Credit Risk The Fund's financial assets that are exposed to credit risk consist primarily of cash and cash equivalents, accounts receivable and interest-rate swaps. The Fund, in its normal course of business, is exposed to credit risk from the customers of the Company. The Company is exposed to credit loss in the event of non-performance by counterparties to the interest-rate swaps but does not anticipate non-performance by these counterparties. Concentrations of credit risk with respect to accounts receivable are limited due to the credit rating of customers serviced by the Company and the generally short payment terms.

Fair Value The fair value of indebtedness that bears interest at fixed rates is based on discounted future cash flows using rates currently available for debt of similar terms and maturities. The carrying value of other financial instruments, cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and current portion of the disbursement obligations on customer contracts approximates fair value due to their short-term maturities.

Derivative Financial Instruments Derivative financial instruments are utilized to reduce interest-rate risk on the Company's debt. The Company's policy is to formally designate each derivative financial instrument as a hedge of a specifically identified debt instrument. The Company believes the derivative financial instruments are effective as hedges, both at inception and over the term of the instrument, as the term to maturity, the (notional) principal amount and the interest-rate basis in the instruments all match the terms of the debt instrument being hedged.

Interest-rate swap agreements are used as part of the Company's program to manage the fixed and floating interest-rate mix of the Company's total debt portfolio and related overall cost of borrowing. The interest-rate swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based, and are recorded as an adjustment of interest expenses on the hedged debt instrument. The related amount payable to or receivable from counterparties is included as an adjustment to accrued interest.

In the event of a termination of an interest-rate swap agreement, gains and losses would be deferred under other current, or non-current, assets or liabilities on the balance sheet and amortized as an adjustment to interest expense related to the obligation over the remaining term of the original contract life of the terminated swap agreement. In the event of early extinguishments of the debt obligation, any realized or unrealized gain or loss from the swap would be recognized in the consolidated statement of income at the time of extinguishment.

Cash and Cash Equivalents

All temporary cash investments with an original maturity of three months or less when purchased are considered to be cash equivalents.

The Fund and its subsidiaries maintain cash balances in bank deposit accounts or investments in amounts that exceed federally insured limits. The Fund has not experienced any losses in such accounts and believes it is not exposed to any significant credit risks on cash and cash equivalents.

Inventory

Inventory is stated at the lower of cost and replacement cost. Cost is determined on a first-in, first-out basis.

Capital Assets

Capital assets are recorded at cost. Amortization is provided annually at rates calculated to write off the assets over their estimated useful lives as follows:

Computer, furniture and fixtures	10% to 30% declining balance
Machinery and equipment	10% to 20% declining balance
Leasehold improvements	straight-line over term of the lease

Deferred Charges

The Company capitalizes direct costs related to the development of new products and services until the commencement of commercial operation, at which time all related costs are amortized on a straight-line basis over their estimated useful life.

Payments associated with certain major customer contracts are amortized over the term of the related long-term supply contracts.

(in thousands of Canadian dollars except unit and per unit amounts, unaudited)

Goodwill

Goodwill reflects the price paid for the Business in excess of the fair market value of net tangible assets and identifiable intangible assets acquired. In accordance with the recommendations of the CICA Handbook Section 3062, goodwill is not amortized but will be tested for impairment annually.

Intangible Assets

Intangible assets represent the fair market value of rights related to the cheque supply outsourcing contracts obtained by the Fund upon the acquisition of the Business. Intangible assets are amortized over seven years. The carrying value of the intangible assets will be tested for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

Revenue Recognition

Revenue is recognized when the service is completed and/or the product is shipped.

Non-Controlling Interest

For the period December 20, 2001 to March 31, 2002, the Fund owned less than 100% of Davis + Henderson L.P. and the remaining interest was recorded in the accompanying financial statements as a non-controlling interest, and amounts equal to its distribution entitlement were expensed.

Net Income per Unit

Consistent with the manner in which distributions are paid, net income per trust unit is calculated monthly based on the number of trust units outstanding on each record date. Net income per trust unit presented is the sum of the monthly earnings per trust unit for the reporting period.

Distributions per Unit

Distributions per unit are monthly cash distributions declared by the Fund for each outstanding trust unit. Per unit balances presented for the period represent the cash distributions entitlement of a single unit that was outstanding throughout the period.

Foreign Currency Translation

Foreign currency assets and liabilities carried at current prices are translated into Canadian dollars using the rate of exchange in effect at the period end. Other foreign currency assets and liabilities are translated using the rates of exchange in effect at the dates of the transaction. Revenue and expense items are translated at the average monthly rate of exchange for the period, except for amortization of capital and other assets, which are translated at the historical rates of the related assets.

Future Income Taxes

Future income taxes of the Fund's subsidiary are determined using the liability method. Under this method of tax allocation, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Employee Future Benefits

The Company provides certain post-retirement benefits for certain employees, which are not funded. These benefits include health care, life insurance and dental benefits. Obligations under the post-retirement benefit plan are actuarially determined and are accrued by the Company.

For the Company's defined contribution pension plan, annual pension expense is based on the Company's contribution to the plan.

2. ACQUISITION

Effective December 20, 2001, the Fund acquired a 45.4% interest in Davis + Henderson L.P. An over-allotment option was exercised by the Fund's underwriters effective January 10, 2002, and an additional 4.5% interest in Davis + Henderson L.P. was acquired by the Fund. On April 2, 2002, the Fund acquired the remaining 50.1% of Davis + Henderson L.P. As a result of these transactions, effective April 2, 2002, the Fund owned indirectly 100% of the outstanding partnership units of Davis + Henderson L.P. The acquisitions of partnership units were accounted for by the purchase method of accounting, and the results of the partnership were consolidated from the date of the initial acquisition of December 20, 2001. The assets acquired and consideration given were as follows:

Assets acquired, at fair value:

Assets, gross	\$ 81,730
Liabilities, gross	33,284
<hr/>	
Net assets acquired, at fair value	48,446
Future income tax assets acquired	37,603
Goodwill	359,385
<hr/>	
Total	\$ 445,434

Consideration:

Net proceeds from issuance of trust units	\$ 365,385
Proceeds from term loan	80,000
Other acquisition related adjustments	49
<hr/>	
Total	\$ 445,434

3. INCOME TAXES

Income tax obligations relating to distributions from the Fund are the obligations of the unitholders and accordingly, no provision for income taxes on the income of the Fund has been made. A provision for income taxes is recognized for the Fund's subsidiary, D + H Holdings, as this subsidiary is subject to tax, including large corporation taxes.

Notes to Consolidated Financial Statements

(in thousands of Canadian dollars except unit and per unit amounts, unaudited)

The provision for income taxes in the consolidated statement of income and unitholders' equity represents an effective rate different from the Canadian statutory rate of 35.15%. The differences are as follows:

For the	Three months ended June 30, 2003	Six months ended June 30, 2003
Income before income taxes	\$ 13,009	\$ 25,906
Income of the Fund subject to tax in the hands of recipient	10,477	20,528
Income of subsidiary company	2,532	5,378
Canadian statutory rate	35.15%	35.15%
Income taxes at statutory rate	890	1,891
Increase (decrease) resulting from:		
Manufacturing and processing tax credit	(39)	(83)
Large corporation tax	257	507
Net tax effect of expenses that are deductible for income tax purposes	(134)	(272)
Income tax expense, current and future	\$ 974	\$ 2,043

The tax effect of temporary differences of the Fund's subsidiaries that give rise to significant portions of the future income tax assets are presented below:

	June 30, 2003
Future income tax assets:	
Goodwill	\$ 30,619
Capital assets	378
Loss carryforward	2,604
Other	161
	\$ 33,762

4. CAPITAL ASSETS

			June 30, 2003	December 31, 2002
	Cost	Accumulated amortization	Net	Net
Computer, furniture and fixtures	\$ 21,902	\$ 8,892	\$ 13,010	\$ 13,778
Machinery and equipment	11,696	1,938	9,758	9,822
Leasehold improvements	3,655	1,241	2,414	2,813
	\$ 37,253	\$ 12,071	\$ 25,182	\$ 26,413

5. OTHER ASSETS

			June 30, 2003	December 31, 2002
	Cost	Accumulated amortization	Net	Net
Long-term supply contracts	\$ 18,495	\$ 6,508	\$ 11,987	\$ 11,978
Deferred charges and other	2,482	1,577	905	1,223
	\$ 20,977	\$ 8,085	\$ 12,892	\$ 13,201

6. INTANGIBLE ASSETS

			June 30, 2003	December 31, 2002
	Cost	Accumulated amortization	Net	Net
Intangible assets	\$ 16,328	\$ 3,574	\$ 12,754	\$ 13,920

7. DISBURSEMENT OBLIGATIONS ON CUSTOMER CONTRACTS

	June 30, 2003	December 31, 2002
Current portion	\$ 3,145	\$ 4,495
Long-term portion	4,875	3,500
Total disbursement obligations on customer contracts	\$ 8,020	\$ 7,995

Davis + Henderson L.P. has customer contract disbursement obligations payable as of June 30, 2003 as follows, for the year ended:

December 31, 2003	\$ 2,020
December 31, 2004	2,375
December 31, 2005	2,375
December 31, 2006	1,250
	\$ 8,020

During the second quarter of 2003, the Company extended one of its customer contracts and accordingly recorded an increase in the obligation on customer contracts and other assets.

8. EMPLOYEE FUTURE BENEFITS

The Company's principal pension plan is the "Defined Contribution Pension Plan for the Employees of Davis + Henderson," a defined contribution pension plan that provides pensions to substantially all employees with greater than two years of service. Total expense for the Company's defined contribution pension plan for the quarter ended June 30, 2003 was \$0.2 million.

Notes to Consolidated Financial Statements

(in thousands of Canadian dollars except unit and per unit amounts, unaudited)

The Company is currently in the process of merging two defined benefit pension plans, acquired with the purchase of the Business, with its defined contribution pension plan. The purpose of the proposed merger is to consolidate the pension entitlements for the employees of Davis + Henderson under one pension plan. Another defined benefit pension plan acquired during the purchase is in the process of being wound up. Employees under all three defined benefit pension plans ceased to accrue benefits prior to the acquisition of the Business and all became members of the Company's defined contribution pension plan. The assets of these three defined benefit pension plans are currently sufficient to cover the actuarial liabilities of the plans.

In addition to the Company's pension plans, the Company also provides certain health care, life insurance and dental benefits to certain employees under a non-pension post-retirement benefit plan.

9. LONG-TERM INDEBTEDNESS

The Company has \$98 million of term credit facilities due June 30, 2006, consisting of a \$60 million non-revolving term loan and a \$38 million revolving credit facility. As at June 30, 2003, the Company had drawn \$80 million under these term credit facilities. The facilities bear interest at rates that depend on certain financial ratios of the Company and vary in accordance with borrowing rates in Canada and the United States. The credit facilities, including any hedge contracts with the lenders, are secured in first priority by a pledge of substantially all of the Company's assets and by a pledge of the Fund's indirect ownership interests in the Company.

As of June 30, 2003, the Company has entered into interest-rate swap hedge contracts with one of its lenders, such that the borrowing rates on \$48 million of its term indebtedness is effectively fixed at interest rates of between 6.12% and 7.33% per annum for terms ending between March 15, 2004 and March 27, 2006. The balance of the term indebtedness is subject to interest on a floating-rate basis. As of June 30, 2003, the fair value of outstanding interest-rate swaps was approximately \$1.3 million, which the Company would be required to pay if it were to close out the contracts.

10. TRUST UNITS

An unlimited number of trust units may be issued by the Fund pursuant to the Fund's declaration of trust. Each unit is transferable and represents an equal, undivided beneficial interest in any distributions from the Fund and in the net assets of the Fund. All units are of the same class with equal rights and privileges and are not subject to future calls or assessments. Each unit entitles the holder to one vote at all meetings of unitholders. Trust unit transactions from inception of the Fund were as follows:

	Number of units	Gross proceeds	Issuance costs	Net proceeds
Initial issuance of trust units, December 20, 2001	17,235,000	\$ 172,350	\$ 11,910	\$ 160,440
Units issued January 10, 2002	1,720,000	17,200	989	16,211
Units issued April 2, 2002	18,965,792	199,141	10,407	188,734
	37,920,792	\$ 388,691	\$ 23,306	\$ 365,385

11. DISTRIBUTABLE CASH

The Fund distributes its cash each month excluding any reserve deemed prudent by the Trustees of the Fund and by the Board of Directors of Davis + Henderson G.P. Inc. Distributable cash is not a defined term under Canadian generally accepted accounting principles but is determined by the Fund as net income for the period, adjusted to remove non-cash expenses including amortization and future income taxes and reduced by maintenance capital expenditures. Non-maintenance capital expenditures are not recorded as a reduction from distributable cash flow as these expenditures are eligible for funding under the Company's committed term-credit facilities. Distributable cash for the quarter ended June 30, 2003 and period ended June 30, 2002 were calculated as follows:

For the	June 30, 2003	Three months ended June 30, 2002	June 30, 2003	Six months ended June 30, 2002*
Net income	\$ 12,035	\$ 11,586	\$ 23,863	\$ 15,202
Add:				
Amortization	4,188	4,047	8,342	8,599
Non-controlling interest	—	—	—	7,432
Future income taxes	717	437	1,536	858
Operating cash flow	16,940	16,070	33,741	32,091
Less:				
Distributions to non-controlling interest	—	—	—	7,432
Maintenance capital expenditures:				
Capital and other assets	1,312	1,590	2,532	2,128
Contract payments	625	625	1,875	1,875
Distributable cash	\$ 15,003	\$ 13,855	\$ 29,334	\$ 20,656
Distributions, paid or payable	\$ 12,888	\$ 12,321	\$ 25,596	\$ 19,215
Distributable cash per unit	\$ 0.3956	\$ 0.3654	\$ 0.7735	\$ 0.7222
Distributions per unit	\$ 0.3399	\$ 0.3249	\$ 0.6750	\$ 0.6925

* Six months ended June 30, 2002 includes the results of the twelve-day period December 20, 2001 to December 31, 2001.

12. DISTRIBUTIONS TO UNITHOLDERS

The Fund announced distributions during the period January 1, 2003 to June 30, 2003 as follows:

Unitholder record date	Total	Per unit	Paid or payable
January 31, 2003	\$ 4,236	\$ 0.1117	Feb. 28, 2003
February 28, 2003	4,236	0.1117	Mar. 31, 2003
March 31, 2003	4,236	0.1117	Apr. 30, 2003
April 30, 2003	4,296	0.1133	May 30, 2003
May 30, 2003	4,296	0.1133	June 30, 2003
June 30, 2003	4,296	0.1133	July 31, 2003
Total distributions for the period	\$ 25,596	\$ 0.6750	

Notes to Consolidated Financial Statements

(in thousands of Canadian dollars except unit and per unit amounts, unaudited)

The distributions declared have been estimated as follows for income tax purposes. The actual tax allocations for the year ending December 31, 2003 may differ from the amounts shown:

For the three months ended	June 30, 2003
Dividend income	19.5%
Interest income	69.4%
Return of capital	11.1%
Total distributions for the period	100.0%

Return of capital represents issuance costs incurred by the Fund, which are deductible for tax purposes on a straight-line basis over five years.

13. COMMITMENTS

As of June 30, 2003, the Company has annual lease obligations with respect to real estate, vehicles and equipment as follows for the year ending:

December 31, 2003	\$ 1,603
December 31, 2004	2,921
December 31, 2005	2,347
December 31, 2006	1,177
December 31, 2007	521
December 31, 2008	365
Thereafter	729
	<hr/>
	\$ 9,663

In addition, the Company has a commitment to purchase digital presses in the amount of \$1.4 million during the year ending December 31, 2003.

14. SIGNIFICANT CUSTOMERS

Distributions by the Fund are dependent upon receipt of cash flow distributed from the operating entity, Davis + Henderson L.P. In turn, Davis + Henderson L.P.'s cash flow is dependent upon, among other things, providing services to financial institutions and their account holders. Services and products provided by the Davis + Henderson business to its six largest customers accounted for approximately 69% of its 2002 sales.

Supplementary Information

Pro Forma Distributable Cash by Period

(see notes below)

(\$000s except per unit amounts, unaudited)	Twelve days ended December 31, 2001 (pro forma)	Three months ended March 31, 2002 (pro forma)	Three months ended June 30, 2002 (reported)	Three months ended September 30, 2002 (reported)	Three months ended December 31, 2002 (reported)	Three months ended March 31, 2003 (reported)	Three months ended June 30, 2003 (reported)
Sales	\$ 4,029	\$ 55,862	\$ 56,689	\$ 56,770	\$ 58,938	\$ 62,067	\$ 62,676
Cost of goods sold	2,590	32,189	31,629	31,408	33,020	36,023	36,363
Operating expenses	702	7,003	7,525	7,485	8,028	7,842	7,945
Operating income	737	16,670	17,535	17,877	17,890	18,202	18,368
Interest expense	124	994	1,212	1,183	1,138	1,151	1,171
Amortization and income taxes	608	4,633	4,737	5,054	5,510	5,223	5,162
Net income for the period	5	11,043	11,586	11,640	11,242	11,828	12,035
Add:							
Amortization	591	3,961	4,047	4,186	4,426	4,154	4,188
Future income taxes	—	421	437	616	831	819	717
Cash flow from operations	596	15,425	16,070	16,442	16,499	16,801	16,940
Less:							
Maintenance capital expenditures:							
Capital and other assets	50	488	1,590	1,683	1,245	1,220	1,312
Contract payments	—	1,250	625	625	645	1,250	625
Distributable cash (note 2) \$	546	\$ 13,687	\$ 13,855	\$ 14,134	\$ 14,609	\$ 14,331	\$ 15,003
Distributable cash per unit \$	0.0144	\$ 0.3609	\$ 0.3654	\$ 0.3727	\$ 0.3853	\$ 0.3779	\$ 0.3956
Distributions per unit \$	0.0427	\$ 0.3249	\$ 0.3249	\$ 0.3351	\$ 0.3351	\$ 0.3351	\$ 0.3399
Net income per unit, basic and fully diluted \$	0.0001	\$ 0.2912	\$ 0.3055	\$ 0.3070	\$ 0.2964	\$ 0.3119	\$ 0.3174

Note 1: The above information sets forth unaudited quarterly information and has been prepared on a pro forma basis as if the Davis + Henderson business was 100% owned by Davis + Henderson Income Fund since December 20, 2001 (as compared to 45.4% and 49.9% ownership for the periods ending December 31, 2001, and March 31, 2002, respectively). The pro forma balances presented for the twelve-day period ending December 31, 2001 and for the three-month period ending March 31, 2002 are based on the actual statements of the Fund adjusted to remove the expense related to distributions paid to the non-controlling owner and to increase the number of units outstanding to 37,920,792 as at December 20, 2001 (versus the 17,235,000 units outstanding from December 20, 2001 to January 9, 2002, 18,955,000 units outstanding from January 10, 2002 to April 1, 2002, and 37,920,792 units outstanding subsequent to April 1, 2002).

Note 2: Distributable cash is not a defined term under Canadian generally accepted accounting principles but is determined by the Fund as net income for the period adjusted to remove non-cash expenses, including amortization and future income taxes, and reduced by maintenance capital expenditures. Non-maintenance capital expenditures are not recorded as a reduction from distributable cash as these expenditures are eligible for funding under the Company's committed term-credit facilities. Management believes that this earning measure is a useful supplemental measure of performance as it provides investors with an indication of the amount of cash available for distribution to unitholders. Investors are cautioned, however, that distributable cash should not be construed as an alternative to using net earnings as a measure of profitability or the statement of cash flows. Further, the Fund's method of calculating distributable cash may not be comparable to similarly titled amounts reported by other issuers.

Consolidated Balance Sheet

(\$000s, unaudited)	December 31, 2001	March 31, 2002	June 30, 2002	September 30, 2002	December 31, 2002	March 31, 2003	June 30, 2003
Cash and cash equivalents \$	8,730	8,429	11,203	11,876	12,046	11,255	14,573
Other current assets	15,972	17,256	14,749	15,775	16,142	16,531	16,000
Future income taxes	37,603	37,182	36,745	36,129	35,298	34,479	33,762
Capital and other assets	45,175	43,853	42,981	41,196	39,614	37,605	38,074
Goodwill and other intangible assets	169,648	185,911	374,472	373,889	373,305	372,722	372,139
	\$ 277,128	\$ 292,631	\$ 480,150	\$ 478,865	\$ 476,405	\$ 472,592	\$ 474,548
Payables and other current liabilities	\$ 31,684	\$ 33,845	\$ 33,374	\$ 34,407	\$ 32,778	\$ 30,311	\$ 31,223
Other long-term liabilities	6,663	5,413	5,404	4,154	4,789	4,323	6,220
Long-term indebtedness	80,000	80,000	80,000	80,000	80,000	80,000	80,000
Unitholders' equity	158,781	173,373	361,372	360,304	358,838	357,958	357,105
	\$ 277,128	\$ 292,631	\$ 480,150	\$ 478,865	\$ 476,405	\$ 472,592	\$ 474,548

Other Statistics

(000s except per unit amounts)	Twelve days ended December 31, 2001	Three months ended March 31, 2002	Three months ended June 30, 2002	Three months ended September 30, 2002	Three months ended December 31, 2002	Three months ended March 31, 2003	Three months ended June 30, 2003
Trading price range of units (TSX: "DHF.UN")							
High	\$ 10.64	\$ 11.20	\$ 11.25	\$ 12.13	\$ 13.25	\$ 13.69	\$ 15.20
Low	\$ 9.90	\$ 10.11	\$ 10.00	\$ 10.45	\$ 11.22	\$ 12.48	\$ 12.91
Close	\$ 10.64	\$ 10.51	\$ 10.95	\$ 12.10	\$ 12.86	\$ 12.94	\$ 15.00
Average daily volume	266	149	176	165	139	92	82
Number of units outstanding at period end	17,235	18,955	37,921	37,921	37,921	37,921	37,921
Market capitalization at period end	\$ 183,380	\$ 199,217	\$ 415,233	\$ 458,842	\$ 487,661	\$ 490,695	\$ 568,812

Davis + Henderson Income Fund

Directors, Trustees and Officers:

Paul Damp ⁽¹⁾ ⁽²⁾

Chairman, Director and Trustee
Managing Partner, Kestrel Capital

Allan Gotlieb ⁽²⁾

Director and Trustee
Chairman, Sotheby's Canada

Brad Nullmeyer ⁽¹⁾

Director and Trustee
President and CEO, A&A Capital

Helen K. Sinclair ⁽²⁾

Director
CEO, BankWorks Trading Inc.

Gordon J. Feeney ⁽¹⁾

Director
Corporate Director

C. Sanford McFarlane,

Director and Officer
*Chief Executive Officer,
Davis + Henderson, Limited Partnership*

Robert Cronin,

Director and Officer
*President and Chief Operating Officer,
Davis + Henderson, Limited Partnership*

Catherine Martin,

Officer
*Chief Financial Officer,
Davis + Henderson, Limited Partnership*

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⁽¹⁾ Member, Audit Committee (Chairperson is Gordon J. Feeney)

⁽²⁾ Member, Compensation and Corporate Governance Committee
(Chairperson is Helen K. Sinclair)



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Davis + Henderson
Income Fund