HARVEY WOODS LIMITED ANNUAL REPORT 1980

Harvey Woods

TO THE SHAREHOLDERS

EARNINGS Your directors submit herewith the Annual Report of the Consolidated Operations of your Company for the year ended December 31, 1980. Net income for the year was $315,000, compared to $752,000 for 1979. Earnings were adversely affected by lower production levels and higher interest costs. Interest expense for 1980 was $972,000, compared to $687,000 in 1979. Income taxes have been reduced by the 3% inventory allowance. Income per share was 12¢ (28¢ in 1979).

1980 REVIEW A mill shutdown, reduced manufacturing activity, higher material costs, and high interest rates, in addition to start up costs of the new sportswear manufacturing operation, contributed significantly to the Company's reduced earnings in 1980.

1981 PROSPECTS Unlike 1980, low finished goods inventories will necessitate an increase in production levels of underwear and hosiery. Our sportswear operation will experience expansion and a full year of operation, and despite the competitive conditions in today's marketplace, improvement in the Company's performance is expected in 1981.

The sale of sportswear, underwear and hosiery of both the Harvey Woods and Jockey Marketing Divisions will be supported by national advertising and the promotion of "John Newcombe", "Lady Newcombe", and "Man In Motion" labels.

OTHER MATTERS The Textile and Clothing Board was established by the Federal Government to provide advice and recommendations on matters affecting the textile and clothing industry. Last August, the Board publicized its most recent report with respect to the need to continue existing bilateral restraint agreements with low wage countries beyond the expiration date of December 31, 1981. The report of the Board states in part:

> "Canada cannot continue to accept increasing quantities of textiles and clothing from 'low-cost' and state-trading sources."

The Board recommended that the bilateral restraint agreements currently in effect be extended for a nine-year period to the end of 1990.

Capital expenditures totalled $587,000, compared to $822,000 in 1979. (Five years - $2,832,000) In keeping with our capital spending programme, the expenditures continue to be allocated to increase capacity or improve and update existing manufacturing facilities.

Working capital at December 31, 1980 of $7,175,000 shows an increase of $1,876,000, largely due to an arrangement made with our bankers for a term loan repayable over five years. Details of the source and application of funds are shown in the Consolidated Statement of Changes in Financial Position.

ASSOCIATED COMPANIES

THOMSON RESEARCH ASSOCIATES LIMITED

On December 31, 1980, the Company purchased the 25% minority interest of Thomson Research Associates by exchanging therefor 40,000 treasury shares of the Company.

Domestic and export sales of products and services of this Company continue to increase. Germicides, and in particular those sold under the name "Ultra-Fresh", are of growing importance.

DINOVAL CHEMICALS LIMITED

This Company, in which Thomson Research Associates holds a 30% interest, had a disappointing year, reflecting the depressed conditions in the industrial sector of the United Kingdom.

KROY UNSHRINKABLE WOOLS LIMITED

Domestic demand for the treatment of wool was down substantially due to high inventory in the trade carried over from 1979.

By the end of 1980, two Kroy processing machines were operating successfully outside of Canada, and three additional machines are expected to be commissioned during the first quarter of 1981.

ACKNOWLEDGEMENT

The dedicated efforts of all Harvey Woods and associated companies' employees are deeply appreciated by the directors and officers, as is the support of customers, suppliers and shareholders.

On Behalf of the Board of Directors
J. D. Woods, Chairman
R. W. Meeke, President

March 12, 1981
Toronto, Ontario

AUDITORS' REPORT

To the Shareholders of Harvey Woods Limited

We have examined the consolidated balance sheet of Harvey Woods Limited as at December 31, 1980 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1980 and the result of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson Gordon
Chartered Accountants

London, Canada.
February 23, 1981.

1980	1979
(in thousands of dollars)	
$ 3	$ 3
4,426	3,844
9,943	10,173
324	136
54	
14,750	14,156
220	
101	111
321	111
6,499	6,106
4,144	3,906
2,355	2,200
$17,426	$16,467

John A. Young, Director

ying notes)

LIABILITIES AND SHAREHOLDERS' EQUITY	1980	1979
	(in thousands of dollars)	
Current:		
Due to bankers - demand loan (note 5)	$ 3,914	$ 5,235
Accounts payable and accrued charges	2,759	2,774
Deferred revenue	34	41
Taxes payable	224	598
Portion of long-term debt due within one year	644	209
Total current liabilities	7,575	8,857
Long-term debt (notes 5 and 6)	2,400	382
Deferred income taxes	248	223
Minority shareholders' interest (note 7)		13
Shareholders' equity:		
Capital —		
Authorized:		
3,500,000 common shares without par value		
Issued and fully paid:		
2,717,072 common shares (2,677,072 in 1979) (note 7)	1,994	1,938
Retained earnings	5,209	5,054
	7,203	6,992
Total	$17,426	$16,467

CONSOLIDATED STATEMENT OF RETAINED EARNINGS (year ended December 31)

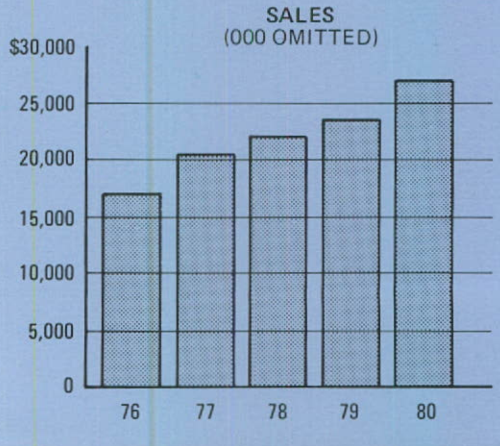
	1980	1979
	(in thousands of dollars)	
Balance, beginning of year	$5,054	$4,302
Net income for year	315	752
Dividends paid ($0.06 per share)	(160)	
Balance, end of year	$5,209	$5,054

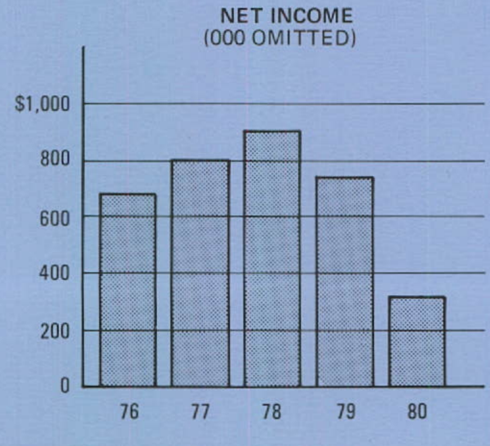
(See accompanying notes)

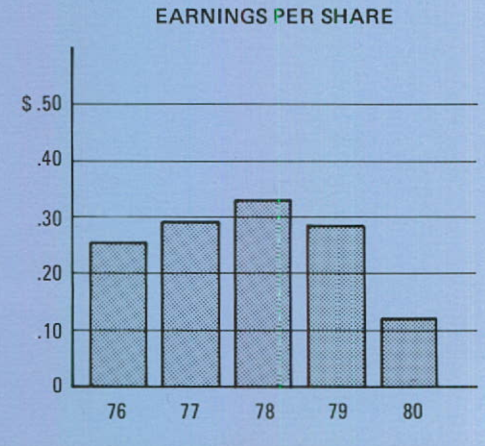
CONSOLIDATED STATEMENT OF INCOME (year ended December 31)

	1980	1979
	(in thousands of dollars)	
Sales	$26,865	$23,392
Expenses:		
Cost of sales	19,956	16,119
Marketing, general administration and shipping expenses	5,188	4,886
Depreciation	400	372
Interest - long-term debt	35	80
- other	937	607
	26,516	22,064
Operating income	349	1,328
Minority interest in income of subisidary company		13
Income before income taxes	349	1,315
Income taxes - current (note 8)	9	497
- deferred	25	66
	34	563
Net income for year	$ 315	$ 752
Income per share	$ .12	$ .28

(See accompanying notes)







CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION (year ended December 31)

	1980	1979
	(in thousands of dollars)	
Source of working capital:		
Operations —		
Net income	$ 315	$ 752
Add (deduct) items not involving an outlay (inflow) of working capital:		
Depreciation	400	372
Gain on disposal of fixed assets	(3)	(3)
Minority interest in earnings of subsidiary	(3)	13
Provision for deferred income taxes	25	66
	734	1,200
Increase in long-term debt	2,018	
Decrease in investment in Dinoval Chemicals Limited	10	
Issue of share capital (note 7)	56	
Proceeds from disposal of fixed assets	35	31
	2,853	1,231
Application of working capital:		
Reduction in long-term debt		209
Purchase of fixed assets	587	822
Increase of investment in Dinoval Chemicals Limited		89
Dividends paid to minority shareholders	10	10
Issue of long-term note receivable	220	
Dividends paid	160	
	977	1,130
Increase in working capital	1,876	101
Working capital, beginning of year	5,299	5,198
Working capital, end of year	$ 7,175	$ 5,299
Represented by:		
Current assets	$14,750	$14,156
Current liabilities	7,575	8,857
	$ 7,175	$ 5,299

(See accompanying notes)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of significant accounting policies

The financial statements of the Company have been prepared by management in accordance with generally accepted accounting principles consistently applied. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgement and in the light of information available. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below:

(a) Principles of consolidation —

The consolidated financial statements include the accounts of the company and its subsidiaries, Thomson Research Associates Limited, Kroy Unshrinkable Wools Limited, Kroy Inc. and York Knitting Mills (1966) Limited. The equity method has been used to account for the 30% investment in Dinoval Chemicals Limited. All material intercompany accounts and transactions have been eliminated.

(b) Revenue recognition and accounts receivable —

Revenue from sales of products is recognized when goods are shipped to customers. Provision is made for collection losses based on the company's experience.

(c) Inventories —

Inventories are stated at the lower of cost and market. Cost is computed using currently adjusted standards which approximate actual cost on a first-in, first-out basis. Market value is defined as follows:

Raw material — replacement cost
Work in process and finished goods — net realizable value

(d) Fixed assets —

Fixed assets are stated at historical cost. Normal maintenance and repair expenditures are expensed as incurred. Disposals of assets are recorded on a pool basis except for assets acquired prior to 1948, the cost of which, and related accumulated depreciation, are removed from the accounts and the resulting gain or loss is included in income.

Depreciation is provided on the declining balance basis at rates which amortize the cost over its estimated useful life, as follows:

Buildings	— 5%
Equipment	— 20%

(e) Deferred income taxes —

Income taxes charged to income represent both the portion currently payable and the portion which is deferred due to claiming capital cost allowance for tax purposes in amounts which exceed depreciation recorded in the accounts. The resultant deferrals of income tax are reflected on the balance sheet as deferred income taxes.

2. Inventories

	1980	1979
	(in thousands of dollars)	
Finished goods	$5,087	$ 6,185
Work in process	2,536	2,042
Raw materials and supplies	2,320	1,946
	$9,943	$10,173

3. Investment in Dinoval Chemicals Limited

Details of the company's investment in Dinoval Chemicals Limited are as follows:

	1980	1979
	(in thousands of dollars)	
Shares - at cost	$ 82	$ 82
Add the company's share of income since acquisition	7	7
Advances	12	22
	$101	$111

4. Fixed assets

Set out below are details of fixed assets by major category:

	1980			1979
	Assets at cost	Accumulated depreciation	Net book value	Net book value
	(in thousands of dollars)			
Land	$ 40		$ 40	$ 40
Buildings	1,792	$ 742	1,050	982
Equipment	4,667	3,402	1,265	1,178
	$6,499	$4,144	$2,355	$2,200

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

5. Bank indebtedness

As at December 31, 1980, bank indebtedness consisted of $3,914,000 in demand loans and $3,000,000 in term loans as described in note 6. The company has pledged its accounts receivable and inventories as collateral and has also issued to the bank fixed and floating charge demand debentures totalling $4,500,000 ranking subsequent to the security given under the mortgage described in note 6.

6. Long-term debt

	1980	1979
Bank term loans —	(in thousands of dollars)	
(i) Bearing interest at a rate of 1½% above the bank's prime rate, repayable in equal monthly principal instalments of $7,060, to April, 1982, and insured as to the repayment to the extent of 90% by the General Adjustment Assistance Board (GAAB)		$198
(ii) Bearing interest at a rate of 1½% above the bank's prime rate, repayable in equal monthly instalments of $1,605, to May, 1983, insured by GAAB as to repayment to the extent of 90%, and secured by a chattel mortgage on certain equipment.		66
(iii) Bearing interest at 11½%, repayable after the other term loans have been fully repaid		160
(iv) Bearing interest at ½% above the bank's prime rate, repayable in quarterly principal payments of $150,000 to December 1985	$3,000	
	3,000	424
Other —		
(i) 8½% first mortgage bonds, issued to the company's bankers, secured by a first mortgage on the company's lands, buildings, machinery and equipment and a first floating charge on its other assets, repayable by monthly instalments of $2,900 plus interest, maturing July, 1981		53
(ii) 8½% second mortgage, issued to the Ontario Development Corporation, secured by a second mortgage on the company's lands, buildings, machinery and equipment and a second floating charge on its other assets, repayable by monthly blended payments of principal and interest of approximately $6,400, maturing July, 1981	44	114
	3,044	591
Less portion due within one year included in current liabilities	644	209
	$2,400	$382

Principal repayments over the next five years are as follows:

1981	$644,000
1982	600,000
1983	600,000
1984	600,000
1985	600,000

7. Issue of share capital

During the year the company issued 40,000 common shares, valued at $1.40 per share, in exchange for those shares of Thomson Research Associates Limited which it previously did not own.

8. Income taxes

Taxes on income for the year ended December 31, 1980 have been reduced by approximately $131,000 as a result of claiming the 3% allowance on opening inventory.

9. Commitments

The company is committed to fixed asset purchases amounting to approximately $177,000.

In addition, the company leases office space and certain equipment over remaining periods of one to five years. Under the terms of existing leases, rental payments to be charged to operations in the years 1981 to 1985 are $190,000, $159,000, $142,000, $133,000 and $65,000 respectively.

10. Segmented information

The company has substantially all of its operations in the textiles industry.

11. Comparative information

Certain of the 1979 figures have been changed to conform with the presentation adopted for 1980.

FIVE YEAR FINANCIAL REVIEW

	1980	1979	1978	1977	1976
Operating results:			(in thousands of dollars)		
Sales	**$26,865**	$23,392	$22,086	$20,748	$17,291
Net income	**315**	752	895	780	675
Financial position:					
Working capital	**7,175**	5,299	5,198	4,681	4,087
Total assets	**17,426**	16,467	13,084	11,238	11,001
Long-term debt	**3,044**	591	794	993	1,187
Shareholders' equity	**7,203**	6,992	6,240	5,345	4,565
Capital expenditures	**587**	822	531	355	537
Income per share:	**12¢**	28¢	33¢	29¢	25¢

TRADE MARKS

HARVEY WOODS

JOCKEY®

kroy*

Ultra-Fresh

John Newcombe
REGISTERED TRADE MARK
by/par HARVEY WOODS

Directors

* W. D. Bean
† P. G. Beattie Q.C.
† G. D. Birks
N. H. Cruickshank
*† A. Davidson
* R. W. Meeke
* G. E. Renison
T. F. Snelgrove
J. D. Woods
John A. Young

* Member of the Executive Committee
† Member of the Audit Committee

Officers

J. D. Woods
Chairman of the Board
R. W. Meeke
President
John A. Young
Vice-President and Secretary-Treasurer
N. H. Cruickshank
Vice-President

Head Office

18 Vansittart Avenue, Woodstock, Ontario

Sales Executive Offices

Harvey Woods Division - 74 Victoria Street, Suite 625, Toronto, Ontario
Jockey Division - 74 Victoria Street, Suite 621, Toronto, Ontario

Transfer Agents

The Royal Trust Company

Auditors

Clarkson Gordon

Bankers

The Toronto-Dominion Bank

Counsel

McCarthy & McCarthy

Operating Locations

Toronto: Kroy Unshrinkable Wools Limited
Thomson Research Associates Limited
Sportswear Manufacturing Division
Woodstock: Underwear & Hosiery Manufacturing Divisions

Branch Sales Offices

Vancouver — Edmonton — Winnipeg — Toronto — Montreal — Quebec

Products

Hosiery — Underwear — Sweaters — Sportswear

HARVEY WOODS LIMITED
WOODSTOCK, ONTARIO