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GSW Limited – GSW Limitée

BOARD OF DIRECTORS

R. M. Barford	Miss M. P. Hyndman, Q.C.
P. de Gaspé Beaubien	F. R. Johnson
G. M. Farquharson, Q.C.	D. S. R. Leighton
G. R. Gardiner	J. K. Louden
M. S. Hartley	R. A. Stevens

Ben Wosk

OFFICERS

G. R. Gardiner, *Chairman*
R. M. Barford, *President and Chief Executive Officer*
F. R. Johnson, *Executive Vice-President*
R. A. Stevens, *Group Vice-President*
G. S. MacDonell, *Group Vice-President*
F. O. Price, *Vice-President – Manufacturing and Engineering*
W. H. Hogg, *Vice-President – Industrial Relations*
G. M. Farquharson, Q.C., *Secretary*

SHARE TRANSFER AGENTS

Preferred Shares, The Canada Trust Company
Common Shares, National Trust Company Limited

BANKERS The Bank of Nova Scotia

AUDITORS Clarkson, Gordon & Co.

GSW LIMITED-GSW LIMITÉE Head Office—
45 St. Clair Ave. West, Toronto 195, Ontario

Report of the Board of Directors

TO THE SHAREHOLDERS

Sales increased 2.4% from \$63,160,000 in 1969 to \$64,675,000 in 1970. Profits after tax declined from \$1,012,000 to \$653,000 in 1970.

After provision of preferred dividends earnings per share were 27¢ in 1970 compared to 44¢ per share in 1969 (after extraordinary items). Earnings per share have been recasted for 1969 to reflect the new corporate share structure of the Company as of July 1, 1970.

Sales continued to reflect even softer market conditions in the fourth quarter of 1970. Despite the soft market conditions in our industries we increased our market share in the majority of our product lines and this allowed us to have sales slightly ahead of 1969.

Profits declined in 1970 over 1969 and particularly in the fourth quarter of 1970. We experienced considerable increases in our costs of materials and other services in the latter half of 1970 well in excess of any price changes that we could implement. We came into 1970 with an inventory position of \$17,265,000 and we reduced it to \$13,706,000, an amount that we feel is quite satisfactory for our needs. This action, of course, slowed down our manufacturing activity and reduced profits. We feel that this was a beneficial programme for your Company and the improvement in our working capital position reflects the impact of it on our balance sheet.

In 1970 we invested heavily in tooling for new products that will appear on the market in 1971. In accordance with our normal practice this expense has been written off as it occurred. We also incurred substantial non-recurring costs in our Metalwares plant in Hamilton and in our new Housewares plant in Montreal. These costs were written off against the gain realized on the sale of our Montreal plant.

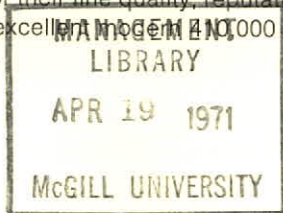
We feel that all of the above projects, although depressing to our 1970 profits, certainly are investments for the future and should position us well for 1971.

CORPORATE STRUCTURE: As we announced in our 1969 annual report we have amalgamated GSW Limited-GSW Limitée and Beatty Bros. Limited (whose assets consisted of approximately 69% of the outstanding shares of GSW and \$280,000 of net current assets) on July 1, 1970. We believe that this simplification of corporate structure into one "A" share and two "B" shares will facilitate the expansion of your Company's capital base and its ability to acquire other companies through the issuance of "B" securities.

ACQUISITIONS: During 1970 your Company made two significant acquisitions.

In April 1970 we entered into a long term technical assistance agreement with Sta-Rite Industries of Delavan, Wisconsin (the world's largest manufacturer of domestic water systems) and acquired its Canadian subsidiary Sta-Rite Industries of Ajax, Ontario. This acquisition along with the considerable volume of business being done by our Beatty and MacDougall pump divisions places your Company in the forefront of water systems and related equipment in Canada.

In January 1971, your Company purchased the Moffat Company in Canada from the AVCO Corporation of Greenwich, Conn. This substantial acquisition adds to your Company an organization whose products are a household name in Canada and whose ranges are clearly recognized for their fine quality, reputation and performance. The Moffat acquisition also provides your Company with an excellent 400,000 sq. ft. range manufacturing facility on 19½ acres of land located in Weston, Ontario.



Report of the Board of Directors - continued

The combination of the Moffat domestic appliance business and the GSW Appliance business now makes GSW the largest manufacturer of domestic "White Goods" appliances in Canada.

ORGANIZATION & PERSONNEL: In order to accommodate the substantial expansion that has taken place in your Company we have made several important personnel changes.

In June 1970, Mr. Frank O. Price joined us as Vice-President of Manufacturing & Engineering for the Company.

In October 1970, Mr. George S. MacDonell joined the Company as its Group Vice-President in charge of all appliance operations.

During November 1970, Mr. George S. Dickson, who is General Manager of the GSW Appliance Division was appointed a Vice-President in addition to his present responsibilities. Mr. Dickson has been associated with GSW since 1959 and has held several senior executive positions in the Company during the past 11 years.

In addition, we also have continued to recruit University graduates both in the United States and Canada to ensure that we have an adequate supply of future management manpower developing within the Company.

MARKETING: As previously mentioned despite the soft market conditions that we experienced in 1970, we were able to improve marginally our 1970 sales performance over 1969 through overall improvements in our various market shares.

In addition to our domestic programme of developing new products, several long term agreements were concluded in 1970 that will provide your Company with an additional supply of new products for 1971 and the years to come. Of significance were: an agreement with Stima AG Switzerland to provide heavy duty coin operated automatic laundry for our U.K. operation; an agreement with Aubecq-Auxi of France to provide a line of high quality porcelain enamelware; an agreement to import from British Hong Kong a line of popular priced enamelware; an agreement with Industrie A. Zanussi of Italy to provide small capacity refrigerators and a licensing agreement with Mirro Aluminum of Manitowac, Wisconsin (the largest manufacturer of aluminum cookware in the world) to produce and distribute Mirro Aluminum cookware products in Canada.

We also went into full production on our new Beautyware line of pantryware in our Housewares plant in the Province of Quebec.

WORKING CAPITAL: The working capital position of the Company improved during 1970 through reinvestment of profits earned and the reduction achieved in finished product and plant inventories. Substantial increased expenditures on capital equipment were more than covered by the proceeds on disposal of fixed assets and depreciation.

BOARD OF DIRECTORS: On May 4th, 1970, your director, Dr. R. C. Berkinshaw, Q.C., LL.D., died. Dr. Berkinshaw had been a director of your Company since 1959 and before that had served for several years as a director of The Easy Washing Machine Company Limited, now a subsidiary of GSW. His wise counsel, patience and insight will be missed.

In August 1970, Philippe de Gaspé Beaubien-S.M., was elected a director of GSW. He is President of Telemedia (Quebec)Ltée. and is also a director of several other Canadian companies. Mr. Beaubien has had a fine record both in business and in public service and we are very pleased to have this outstanding Canadian as a member of your Board.

FACILITIES & CAPITAL EXPENDITURES: 1970 saw the greatest year of expansion of plant and facilities for your Company in its history. In excess of one million dollars was spent on capital and substantial additional amounts on tooling and re-arrangement during the year. Over and above this was the acquisition of the Moffat facilities in Toronto and the Sta-Rite facilities in Ajax, Ontario.

Of particular significance were the following: the opening of a new 34,000 sq. ft. plant for the Building Products Division in London, Ontario; the completion of the Metalwares Division facility in Hamilton; the opening of the new 85,000 sq. ft. Housewares plant in Montreal; the acquisition of a 35,000 sq. ft. GSW Appliance Parts facility in London, Ontario and a major re-arrangement and expansion of the London, Ontario Appliance facility to allow for the large increase in the volume of goods that will be manufactured there in 1971 and beyond.

Your Company now operates eleven manufacturing plants and two major appliance parts facilities, occupying more than two million square feet.

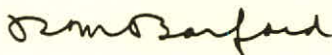
OUTLOOK: 1970 was marked as a year of extraordinary expansion for your Company both in terms of facilities, new product lines and acquisitions. These new product lines and acquisitions fit the criteria established by your Board of Directors for the profitable growth of your Company. GSW is now the largest manufacturer in Canada of white goods, domestic water systems, farmstead equipment and metalwares and occupies an important position in many of its other lines. During 1971 we will concentrate on operating at a substantially expanded volume and we will concentrate on developing techniques to handle the current cost-price squeeze that most Canadian businesses are experiencing to-day.

The Moffat operation incurred a loss in 1970 and our first priority is to return it to a profitable basis.

In terms of the general market outlook, we expect 1971 to be very much like 1970. There is some optimism for the second half of 1971 due to the impact of many of the government's current programs. It is difficult to assess at this time the impact of these programs on the consumer durables segment of the market which makes up the majority of our business.

There are now in excess of 3,000 people at GSW. The progress that we made in 1970 and our projected growth in 1971 is due to their efforts and the Board extends to all of them its warm appreciation.

On behalf of the Board,



R. M. Barford,
President.

Facts in Brief

GSW LIMITED-GSW LIMITÉE AND SUBSIDIARIES

	<u>1970</u>	<u>1969</u>
	(in thousands except per share data)	
Sales	\$64,675	\$63,160
Net profit for year	653	1,012
Dividends on preferred shares	131	139
Earnings per common share:		
before extraordinary items21	.48
after extraordinary items27	.44
Bank and short term loans	3,974	6,687
Current assets	23,767	28,080
Current liabilities	14,792	19,330
Current ratio	1.6 to 1	1.5 to 1
Working capital	8,975	8,750
Purchase of fixed assets	\$ 1,169	\$ 372

Consolidated Statement of Profit and Loss — (note 4)

YEAR ENDED DECEMBER 31, 1970 (with comparative figures for 1969)

GSW LIMITED-GSW LIMITÉE and its subsidiary companies	1970	1969
	(in thousands)	
Net sales	\$64,675	\$63,160
Less cost of sales, selling and administrative expenses before providing for the undernoted items	<u>62,269</u>	<u>59,826</u>
	2,406	3,334
Interest on funded debt	76	117
Interest on other loans	726	608
Depreciation and amortization	<u>469</u>	<u>418</u>
	1,271	1,143
Operating profit before income taxes and extraordinary items	1,135	2,191
Provision for income taxes	<u>590</u>	<u>1,105</u>
Net profit before extraordinary items	545	1,086
Extraordinary income (expense):		
Gain on fixed asset disposals — less relocation and moving costs, net of applicable income taxes	108	—
Plant relocation costs — less applicable income taxes	—	(100)
Recovery of income taxes resulting from the carry-forward of prior years' losses ..	<u>—</u>	<u>26</u>
Net profit for the year	<u>\$ 653</u>	<u>\$ 1,012</u>
Earnings per common share, before extraordinary items	<u>\$.21</u>	<u>\$.48</u>
Earnings per common share, after extraordinary items	<u>\$.27</u>	<u>\$.44</u>

(See accompanying notes)

Consolidated Balance Sheet

December 31, 1970

(with comparative figures for 1969 — note 3)

GSW LIMITED-GSW LIMITÉE and its subsidiary companies
(Incorporated under the laws of Canada — note 1)

	1970	1969
	(in thousands)	
ASSETS		
Current assets:		
Cash	\$ 176	\$ 597
Accounts receivable	9,599	9,809
Inventories, valued at the lower of cost and market	13,706	17,265
Prepaid expenses and manufacturing supplies	286	409
Total current assets	<u>23,767</u>	<u>28,080</u>
Fixed assets:		
Land, buildings and equipment, at cost	14,780	16,597
Less accumulated depreciation	11,885	13,661
Total fixed assets	<u>2,895</u>	<u>2,936</u>
Other assets:		
Prepaid income taxes	538	465
Engineering, tooling and patent costs, less amounts written off	1	1
Total other assets	539	466
On behalf of the Board:		
R. M. BARFORD, Director		
R. A. STEVENS, Director		
Total assets	<u>\$27,201</u>	<u>\$31,482</u>

LIABILITIES AND SHAREHOLDERS' EQUITY	1970	1969
	(in thousands)	
Current liabilities:		
Bank indebtedness	\$ 1,074	\$ 1,587
Short term notes	2,900	5,100
Accounts payable	10,008	9,398
Income and other taxes payable	625	1,473
Dividends payable	32	34
Funded debt due within one year	153	1,738
Total current liabilities	<u>14,792</u>	<u>19,330</u>
Provision for warranties	800	800
5% Series "B" first mortgage bonds, due April 15, 1973 — less amount due within one year	912	1,074
Total liabilities	<u>16,504</u>	<u>21,204</u>
Shareholders' equity (note 1):		
5% cumulative preferred shares of \$100 each redeemable at \$105 (note 5) —		
Authorized, less redeemed: 25,766 shares		
Outstanding: 25,766 shares	2,577	2,751
Common shares without par value (note 5) —		
Authorized	<u>700,000</u>	
Issued	<u>658,676</u>	
Class A	714	708
Class B	1,427	1,417
Total	<u>2,141</u>	<u>2,125</u>
Contributed surplus	270	215
Earned surplus	5,709	5,187
Total shareholders' equity	<u>10,697</u>	<u>10,278</u>
Total liabilities and shareholders' equity	<u>\$27,201</u>	<u>\$31,482</u>

(See accompanying notes)

Consolidated Statements of Earned Surplus and Contributed Surplus

YEAR ENDED DECEMBER 31, 1970 (with comparative figures for 1969)

GSW LIMITED-GSW LIMITÉE and its subsidiary companies

	1970	1969
	(in thousands)	
EARNED SURPLUS		
Balance, beginning of year	\$ 5,187	\$ 4,314
Add:		
Net profit for the year	653	1,012
	5,840	5,326
Deduct:		
Dividends on preferred shares	131	139
Balance, end of year	<u>\$ 5,709</u>	<u>\$ 5,187</u>
CONTRIBUTED SURPLUS		
Balance, beginning of year	\$ 215	\$ 174
Add profit on purchase of preferred shares	55	41
Balance, end of year	<u>\$ 270</u>	<u>\$ 215</u>

(See accompanying notes)

Consolidated Statement of Source and Application of Funds

YEAR ENDED DECEMBER 31, 1970 (with comparative figures for 1969)

GSW LIMITED-GSW LIMITÉE and its subsidiary companies

	<u>1970</u>	<u>1969</u>
	(in thousands)	
Funds were derived from:		
Operations —		
Net profit for the year	\$ 653	\$ 1,012
Add (deduct):		
Depreciation and amortization	469	418
Increase in prepaid income taxes	(73)	(71)
	<u>1,049</u>	<u>1,359</u>
Proceeds on disposal of fixed assets (less portion included in net profit)	741	33
Issue of common shares	16	24
Working capital of subsidiaries acquired during the year	—	34
	<u>1,806</u>	<u>1,450</u>
Funds were applied to:		
Purchase of fixed assets	1,169	372
Redemption of preferred shares — net	119	90
Preferred share dividends	131	139
Provision for reduction of funded debt	162	1,749
	<u>1,581</u>	<u>2,350</u>
Resulting in an increase (decrease) in working capital of	<u>\$ 225</u>	<u>\$ (900)</u>

Notes to Consolidated Financial Statements

GSW LIMITED-GSW LIMITÉE

DECEMBER 31, 1970

1. AMALGAMATION AND CAPITAL STOCK

GSW Limited-GSW Limitée (the amalgamated company) was formed on June 30, 1970 by a statutory amalgamation of Beatty Bros. Limited and GSW Limited-GSW Limitée.

Under the terms of the amalgamation, shares were converted on the following basis:

- (i) For each common share of GSW Limited-GSW Limitée, except the 433,988 common shares owned by Beatty Bros. Limited, one class "A" and two class "B" common shares in the amalgamated company.
- (ii) For each ten common shares of Beatty Bros. Limited, eleven Class "A" and twenty-two Class "B" common shares in the amalgamated company.
- (iii) For each 5% cumulative preferred share, par value \$100 each, redeemable at \$105, of GSW Limited-GSW Limitée, one 5% cumulative preference share, par value \$100 each, redeemable at \$105 in the amalgamated company.

The class "A" and class "B" common shares are equal in all respects except that the class "A" common shares have 100 votes per share and the class "B" common shares have one vote per share. A holder of class "A" common shares, at any time may convert them into an equal number of class "B" common shares.

2. BASIS OF CONSOLIDATION

The consolidated financial statements reflect a consolidation of GSW Limited-GSW Limitée, (the amalgamated company), The Easy Washing Machine Company Limited, Duro Aluminum Limited, Knight Industries Limited, GSW Limited (U.K.), Sta-Rite Industries Limited, (acquired February 28, 1970) and several small subsidiaries. The consolidated balance sheet reflects the translation of pounds sterling into Canadian dollars at £1 equals \$2.40.

3. COMPARATIVE FIGURES

The comparative consolidated balance sheet reflects the financial position of the amalgamated company GSW Limited-GSW Limitée as reported on a pro forma basis as at December 31, 1969 in the Information Circular dated March 12, 1970. The comparative results of operations as reported in the consolidated statements of profit and loss and earned surplus and contributed surplus reflect the results of consolidated operations of Beatty Bros. Limited (which included those of GSW Limited-GSW Limitée) for the year ended December 31, 1969, adjusted to give retroactive effect to the amalgamation as follows:

- (i) a profit of \$41,000 on the redemption of preferred shares, which was previously reflected as a reduction of expenses in the consolidated statement of profit and loss of Beatty Bros. Limited, is reclassified as contributed surplus.
- (ii) the interest of minority shareholders in profits of subsidiaries is eliminated.

4. OPERATING RESULTS

The consolidated statement of profit and loss reflects the consolidated operations of Beatty Bros. Limited to June 30, 1970 and the consolidated operations of the amalgamated company from July 1, 1970 to December 31, 1970.

5. PREFERRED SHARE REDEMPTIONS

During the year 1,745 preferred shares having a par value of \$174,500 were purchased for cancellation at a total consideration of \$120,000. The \$55,000 excess of par value over the purchase price is reflected as an increase in contributed surplus.

6. STOCK OPTIONS

During 1970, the company issued 2,000 class A and 4,000 class B common shares for a total consideration of \$16,000 to employees who had been granted options to purchase these shares under an approved stock option plan. Under the terms of the plan, stock options have been granted on units of one class "A" and two

class "B" common shares, at prices of \$8.00 and \$15.25 per unit. During the year options on 4,000 class "A" and 8,000 class "B" common shares were cancelled. As at December 31, 1970 options on 21,000 class "A" and 42,000 class "B" common shares had been granted but not exercised. There are no further shares reserved for issue under the stock option plan other than those covered by options granted. The exercise of these options would not materially dilute earnings per share.

7. PENSION PLANS

There are a number of pension plans for present and retired employees of the company. Based upon the last actuarial valuation (December 31, 1967) the total estimated unfunded liabilities as at December 31, 1970 amount to approximately \$1,300,000, which amount is being amortized over a period ending December 31, 1989.

8. REMUNERATION OF DIRECTORS AND OFFICERS

In accordance with the requirements of section 120B of the Canada Corporations Act as amended in 1970, the following information is reported:

	GSW Limited GSW Limitée*	Easy Washing Machine Co. Ltd.	Duro Aluminum Limited	Knight Industries Limited	Sta-Rite Industries Limited	GSW Limited (UK)
a) The number of persons who served as directors at any time in 1970	16	5	3	3	5	4
Their aggregate remuneration as directors	\$ 25,000	Nil	Nil	Nil	Nil	Nil
b) The number of persons who served as officers at any time in 1970	13	3	3	3	3	3
Their aggregate remuneration as officers	\$347,000	Nil	\$30,000	Nil	\$39,000	\$23,000
c) The number of officers who were also directors in 1970	7	3	3	3	3	3

*Remuneration includes amounts paid by the amalgamated company and the predecessor companies. Numbers include, in addition to directors and officers of the amalgamated company, the officers and directors of the predecessor companies, who are not directors or officers of the amalgamated company.

9. SUBSEQUENT EVENTS

As at January 4, 1971 the company acquired Moffats Limited on the following basis:

- (i) All the common shares were purchased for cash consideration in the amount of \$224,000.
- (ii) The property, plant and equipment were purchased for \$3,400,000 financed by a ten year mortgage loan provided by the vendor.
- (iii) Net current assets were financed by a bank loan of \$4,500,000 and an account payable due to the vendor. The amount of the debt due to the vendor is estimated to be between \$500,000 and \$1,300,000; the exact amount will not be determined until a statement of the financial position of Moffats Limited, as at December 31, 1970, drawn up in accordance with the terms of the purchase agreement, has been finalized. When it has been determined, the debt will be paid through the proceeds of further bank financing.

These and other bank borrowings are to be covered by issuing a simple debenture to the company's bankers.

10. LEASE AGREEMENTS

During the year the company occupied new leased manufacturing and service facilities. Annual rental payments under these and other long term leases amount to \$213,000.

Auditors' Report

To the Shareholders of

GSW Limited-GSW Limitée:

We have examined the consolidated balance sheet of GSW Limited-GSW Limitée and its subsidiary companies as at December 31, 1970 and the consolidated statements of profit and loss, earned surplus, contributed surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1970, and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
February 25, 1971.

Clarkson, Gordon & Co.

Chartered Accountants

Divisions of the Company and the products they market

Robert A. Stevens — Group Vice-President — General Products Group

HOUSEWARES DIVISION

Gene Webber, General Manager
Montreal, P.Q.

stainless steel cookware
aluminum cookware
pantryware
enamel cookware

METALWARES DIVISION

Keith Pifer, General Manager
Hamilton, Ont. (Duro)

galvanized ware
dairy pails
stove pipe and elbows
roof drainage
waste paper baskets
sheet iron cookware

BEATTY DIVISION & STA-RITE

Lou Hollander, General Manager
Fergus, Ont. and Ajax, Ont.

mechanical feeding equipment
silo unloaders
gutter cleaners
liquid manure spreaders and equipment
steel pens and stalls
vitreous enamel steel silos
domestic water pumps, tanks
and accessories
boat and snowmobile trailers
wringer washers
wringers for laundry equipment

BUILDING PRODUCTS DIVISION

Keith Pifer, General Manager
London, Ont.

toilet partitions and shower cabinets
custom steel doors
standard doors and frames
lockers
fire doors

SERVICE DIVISION

Jim Alexander, General Manager
GSW, London, Ont.

Fred Molyneaux, Manager
Moffats, Weston, Ont.

replacement parts for appliances
servicing appliances

UK DIVISION

Hatfield, England

warm air gas and electric furnaces
coin-operated gas dryers
coin-operated laundry equipment
gas space-heaters

WATER HEATER DIVISION

Bill Arbutnot, General Manager
London, Ont. and Dundas, Ont.

electric water heaters
gas water heaters
glass-lined range boilers
galvanized range boilers

George S. MacDonell — Group Vice-President — Appliance Group

MOFFAT APPLIANCE DIVISION

George S. MacDonell
Group Vice-President and
General Manager
Weston, Ontario

electric and gas ranges
refrigerators
automatic washers
dryers

GSW APPLIANCE DIVISION

George S. Dickson, Vice-President and
General Manager
London, Ontario

refrigerators,
electric ranges
automatic washers
dryers

wringer washers
twin-tub washers
air conditioners
coin laundry equipment
chest freezers

GSW