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ENAMEL & HEATING PRODUCTS LIMITED

**ANNUAL
REPORT**
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Board of Directors

M. BOURGET
J. N. COLE
S. R. DONALDSON
D. R. DOWNING
K. DINHAM
J. E. MURPHY
P. WARREN
J. P. WARREN

Officers

PIERRE WARREN
President

D. R. DOWNING
Vice President & General Manager

D. J. CHIPMAN
Secretary-Treasurer

JOHN HOLLOWAY
Asst. Treasurer

L. A. WILSON
Manager - Eastern Sales Division

KEN DINHAM
Manager - Western Sales Division

Auditors

Touche, Ross, Bailey & Smart

Transfer Agents

*Montreal Trust Company, Montreal, Que.
The Central Trust Co. of Canada,
Moncton, N. B., Amherst, N. S.*

Registrars

*Canadian Trust Company, Montreal, Que.
The Central Trust Co. of Canada,
Moncton, N. B., Amherst, N. S.*

ANNUAL REPORT 1970

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1970



**ENAMEL & HEATING PRODUCTS, LIMITED
AND SUBSIDIARY COMPANIES**

ENAMEL & HEATING PRODUCTS, LIMITED and Subsidiary Companies

To the Shareholders

Your Directors are pleased to present the consolidated financial statements for the year ended December 31, 1970. The year 1970 was a year of adjustment for your Company. A great deal of attention was placed in 1970 on reducing investments in inventories and accounts receivable. These efforts resulted in a reduction of \$1,182,023 in inventories and of \$1,055,995 in net accounts receivable. A reduction of \$1,136,742 in consolidated bank loan was thus accomplished. It was also necessary during the year to curtail sales efforts in Quebec and this resulted in reduced sales and reduced expenses.

Operations for 1970 show a loss of \$37,461 which is a substantial improvement over the operating loss of \$363,517 shown in 1969. In addition to the above, it was necessary to make adjustment related to periods prior to 1970 of \$315,445 (reference note 6 to financial statements). Your Directors felt that the adjustments should be shown after operating loss for 1970 and have presented it as such. This presentation is not in accordance with the generally accepted accounting principles, and the auditors have indicated this in their audit report.

Factors such as the cutback in operations in Quebec, the general downturn in the economy and the unstable situation in the local construction industry have necessitated a very high allowance for bad debt losses at December 31, 1970. To increase this allowance, an amount of \$68,143 was charged to 1970 operations and \$105,625 was included in the adjustment related to prior periods (see note 6). Included in the prior period inventory adjustments of \$209,820 is a general provision for obsolete stores items in the aircraft and appliance divisions of \$70,000, as well as a revision of \$93,689 to the value of certain work in process inventories in the aircraft inventories.

Operations in the Aircraft Division of your Company fell short of expectation for 1970 because of a shortfall in work available. Prospects for 1971 are excellent and the work load indication for 1971 is very good. Your Company is pleased to be able to say that it has negotiated a contract with Douglas Aircraft Corporation for work on the D.C. 10 aircraft and this work should carry on through 1972.

The Steel Division showed vast improvement over 1969 operations and would have been very profitable had it not been for a downturn in construction in the fall of 1970. Production capacity increased during 1970 and expected increases in our capacity during 1971 should produce significant cost advantages for the future. Our prospects for 1971 are dependant on an upturn in the level of construction in the Maritime area.

The Appliance Division was disappointing in 1970. Several factors contributed to the poor results. These factors include the general unhealthy state of the appliance industry, the expenses associated with curtailing operations in Quebec and low production levels because of the combination of higher than normal inventories at the end of 1969 and our attempt to minimize inventory investment. Closer attention will be paid to the problems of this division and every attempt will be made to improve operations. Your Directors anticipate significant improvement here during 1971.

Your wholly-owned subsidiary, Airco Products Ltd., based in Vancouver, continued to contribute significantly to corporate profitability. Prospects for this division in 1971 are excellent.

Your Directors have decided to omit the regular dividend payable for the first quarter of 1971 on Class "A" stock and will reinstate the regular dividend as soon as profits permit.

The Directors join with me in expressing their gratitude to all company personnel for their co-operation and loyalty during the past year.

Approved on behalf of the Board of Directors,



Pierre Warren - President.

Sackville, N. B.
May 4, 1971.

Auditors' Report

To the Shareholders,
Enamel & Heating Products Limited.

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

The operating loss for the year of \$37,461 does not include an amount of \$315,445 as set out in note 6. In our opinion this is not in accordance with the generally accepted accounting principles as applied in the preceding year and the operating loss for the year should be increased to \$352,906.

In our opinion, except for the qualification set out in the preceding paragraph, 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.

TOUCHE ROSS & CO.
Chartered Accountants.

Saint John, N. B.
May 4, 1971.

ENAMEL & HEATING PRODUCTS, LIMITED

AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet as at December 31, 1970

ASSETS

CURRENT	<u>1970</u>	<u>1969</u>
Accounts receivable — NOTE 2	\$2,072,863	\$ 3,128,858
Inventories — valued at the lower of cost and net realizable value — NOTE 3	2,246,422	3,428,445
Income taxes recoverable	2,994	—
Prepaid expenses	16,703	21,738
	<u>4,338,982</u>	<u>6,579,041</u>
FIXED — NOTE 4		
Land, buildings, machinery and equipment	6,628,777	6,581,576
Less accumulated depreciation	<u>2,456,580</u>	<u>2,300,556</u>
	<u>4,172,197</u>	<u>4,281,020</u>
Deferred operating costs	70,032	100,803
	<u>\$8,581,211</u>	<u>\$10,960,864</u>

On behalf of the Board:

Pierre Warren, *Director*.

D. R. Downing, *Director*.

LIABILITIES

CURRENT	1970	1969
Bank indebtedness — secured	\$2,425,159	\$ 3,561,901
Accounts payable	704,661	1,448,083
Taxes on income	—	4,149
Dividends on Class A shares	4,425	4,425
Current portion of long-term debt	116,726	124,226
	3,250,971	5,142,784
LONG-TERM DEBT — NOTE 5	1,741,178	1,890,405
	4,992,149	7,033,189

SHAREHOLDERS' EQUITY

CAPITAL STOCK		
Authorized		
Class A — 250,000 shares without par value		
Class B — 250,000 shares without par value		
Issued and fully paid		
Class A — 177,000 shares	809,885	809,885
Class B — 118,000 shares	219,884	219,884
	1,029,769	1,029,769
SURPLUS		
Contributed	70,477	32,179
Retained earnings	325,189	702,100
	395,666	734,279
Excess of appraised value of fixed assets over depreciated cost — NOTE 4	2,163,627	2,163,627
	3,589,062	3,927,675
	\$8,581,211	\$10,960,864

ENAMEL & HEATING PRODUCTS, LIMITED

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1970

	<u>1970</u>	<u>1969</u>
Contributed		
Balance at beginning of year	\$32,179	\$ —
Area Development Incentives Act grant	38,298	32,179
Balance at end of year	<u>\$70,477</u>	<u>\$32,179</u>
Retained earnings		
Balance at beginning of year	\$702,100	\$1,118,717
Adjustment of prior years' expenses and taxes	6,305	—
As restated	<u>695,795</u>	<u>1,118,717</u>
Loss for the year	352,906	363,517
Dividends on Class A shares	17,700	53,100
	<u>370,606</u>	<u>416,617</u>
Balance at end of year	<u>\$325,189</u>	<u>\$ 702,100</u>

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 1970

	<u>1970</u>	<u>1969</u>
Sales	\$9,660,043	\$10,914,473
Operating costs	9,590,049	11,405,586
Interest on long-term debt	105,485	113,177
	<u>9,695,534</u>	<u>11,518,763</u>
Loss before income taxes	35,491	604,290
Income taxes	1,970	(240,773)
Operating loss for the year — NOTE 6	37,461	363,517
Adjustment relating to prior periods — NOTE 6	315,445	—
Loss for the year	<u>\$ 352,906</u>	<u>\$ 363,517</u>
Loss per Class A share	<u>\$1.20</u>	<u>\$1.23</u>
Loss per Class B share	<u>\$1.20</u>	<u>\$1.23</u>

ENAMEL & HEATING PRODUCTS, LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR THE YEAR ENDED DECEMBER 31, 1970

	<u>1970</u>	<u>1969</u>
<i>Source of Funds</i>		
Proceeds from sale of subsidiary company	\$ 20,419	\$ —
Proceeds from sale of equipment	10,037	—
Area Development Incentives Act grant	38,298	32,179
Proceeds from the issuance of long-term debt	—	125,035
Total funds provided	68,754	157,214
 <i>Application of Funds</i>		
Loss for the year and charges not requiring cash outlay	136,667	445,218
Dividends on Class A shares	17,700	53,100
Payment of prior year's taxes	6,305	—
Retirement of long-term debt	117,227	106,000
Increase in deferred operating costs	8,117	64,864
Additions to buildings and equipment	130,984	442,933
Total funds applied	417,000	1,112,115
Decrease in working capital	348,246	954,901
Working capital at beginning of year	1,436,257	2,391,158
Working capital at end of year	<u>\$1,088,011</u>	<u>\$1,436,257</u>

ENAMEL & HEATING PRODUCTS, LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1970

1. *Principles of consolidation*

The consolidated financial statements include the accounts of the company and those of its wholly owned subsidiaries, Mitchell Manufacturing Ltd. and Airco Products Ltd.

2. *Accounts receivable*

	1970	1969
Trade	\$2,034,565	\$2,939,484
Special refundable tax	—	3,046
Area Development Incentives Act Grant	38,298	—
Insurance claim	—	186,328
	\$2,072,863	\$3,128,858

3. *Inventories*

	1970	1969
Raw materials	\$1,026,401	\$1,402,389
Work in process	294,915	585,652
Finished goods	925,106	1,440,404
	\$2,246,422	\$3,428,445

4. *Fixed Assets*

Fixed assets and the related accumulated depreciation are classified as follows:

	1970			1969
	Cost and Appraised Value	Accumulated Depreciation	Net	Net
Land	\$ 102,718	\$ —	\$ 102,718	\$ 102,718
Buildings	2,779,429	593,540	2,185,889	2,192,072
Machinery and other equipment	3,656,263	1,797,931	1,858,332	1,904,145
Automotive equipment	90,367	65,109	25,258	82,085
	\$6,628,777	\$2,456,580	\$4,172,197	\$4,281,020

ENAMEL & HEATING PRODUCTS, LIMITED

AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1970

Fixed assets are shown as appraised by Canadian Appraisal Company Limited on the basis of depreciation replacement value as at December 31, 1954, plus subsequent additions at cost, less disposals. The appraisal increment is broken down as follows:

	1970			1969
	Cost	Appraisal Increment	Total	Total
Land	\$ 64,215	\$ 38,503	\$ 102,718	\$ 102,718
Buildings	1,183,816	1,595,613	2,779,429	2,755,920
Machinery and other equipment	3,126,752	529,511	3,656,263	3,541,098
Automotive equipment	90,367	—	90,367	181,840
	\$4,465,150	\$2,163,627	\$6,628,777	\$6,581,576

During the year 1968, the Company entered into a capital assistance agreement whereby the Canadian Government financed the acquisition of plant machinery costing \$72,261. Of this, 50 per cent represents a reduction in the capital cost of the purchased machinery. The balance is to be repaid in five equal annual instalments. Title to the assets will pass to the Company on payment of the final instalment.

ENAMEL & HEATING PRODUCTS, LIMITED

AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1970

5. *Long-term debt*

	<u>1970</u>	<u>1969</u>
4¾% Sinking Fund Debentures, Series A, maturing April 1, 1976 Authorized and issued \$1,250,000 less purchased for redemption	\$ 509,000	\$ 559,000
Sinking fund payments of \$49,500 are due April 1 in each of the years 1971 to 1975		
5½% Serial Debentures, Series B, maturing September 1, 1971 Authorized and issued \$250,000 less purchased for redemption	50,000	100,000
Serial payment of \$50,000 is due September 1, 1971		
6% Sinking Fund Debentures, Series B, maturing September 1, 1984 Authorized and issued	1,250,000	1,250,000
Sinking fund payments of \$50,000 are due September 1 in each of the years 1972 to 1977 and of \$100,000 in each of the years 1978 to 1983		
6% promissory note, payable in annual instalments of \$10,000	20,000	30,000
Government of Canada — Capital assistance agreement payable in annual instalments of \$7,226	28,904	36,131
	1,857,904	1,975,131
Less: current portion	116,726	116,726
	\$1,741,178	\$1,858,405

ENAMEL & HEATING PRODUCTS, LIMITED

AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1970

6. The adjustment relating to prior periods is comprised of the following charges which in the opinion of management should not be charged to 1970 operations.

Increase in allowance for doubtful accounts	\$105,625
Write down in inventory values	209,820
	\$315,445

7. *Income Taxes*

The company has available the following potential income tax benefit.

Tax losses carried forward	\$954,681
Less: Excess of net book value of fixed assets over undepreciated capital cost	640,320
	\$314,361

No recognition has been made of this benefit in the books of account as the date of its utilization through future taxable earnings cannot be determined. The benefit of the tax losses is subject to earnings being available before expiry of the period stipulated by income tax regulations.

8. *Statutory Information*

Depreciation recorded in the accounts for the year was \$177,536 (1969 - \$170,277). The board of directors consisted of eight members. Their aggregate remuneration as directors was \$700.

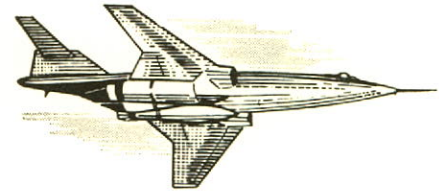
The board appointed three officers to serve during the year. Their aggregate remuneration was \$48,360.

9. Airco Products Ltd. has outstanding lease obligations expiring in 1985 requiring annual payments of \$69,440 before taxes.

PRODUCTS OF YOUR COMPANY

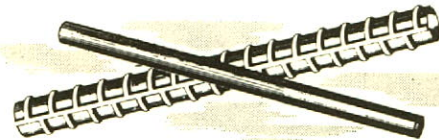
AIRCRAFT

Advanced facilities for the manufacture of components and the maintenance of aircraft for National Defence.



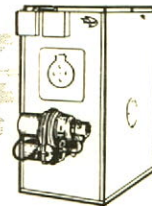
CONSTRUCTION

The fabrication of concrete reinforcing steel, to custom specifications, for immediate delivery.



HEATING UNITS

Oil, gas, electric and solid fuel furnaces and heaters for home and business, engineered for top efficiency with utmost economy.



COOKING APPLIANCES

Electric, gas, oil and solid fuel ranges . . . known and preferred by generations of Canadian women.



WATER HEATERS

Electric or oil-fired glass lined water heaters provide a constant supply of crystal-clear hot water.



FAWCETT . . . growing with Canada . . . anticipating the needs and desires of the people . . . establishing the standards of quality . . . serving the homes and industries of the Nation for more than a century.



FAWCETT INDUSTRIES