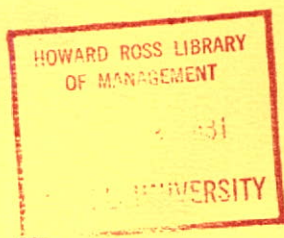


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# KELSEY-HAYES CANADA LIMITED

## ANNUAL REPORT

YEAR ENDED  
DECEMBER 31, 1977







## KELSEY-HAYES CANADA LIMITED

CORPORATE OFFICE  
WINDSOR, ONTARIO

Plants located in:  
Windsor, Woodstock and St. Catharines, Ontario

### BOARD OF DIRECTORS

Frank P. Coyer, Jr.	W. C. McIvor
J. G. Crean	Morgan Reid
W. A. Harrison	James S. Wilkerson

### OFFICERS

W. C. McIvor ..... President & Secretary-Treasurer  
D. O. Remter ..... Vice-President Operations  
Eric H. H. Meyer ..... Assistant Secretary-Treasurer

### TRANSFER AGENT AND REGISTRAR

National Trust Company, Limited  
Toronto, Montreal, Winnipeg & Vancouver

### AUDITORS

Touche Ross & Co., Windsor, Ontario

## FINANCIAL HIGHLIGHTS

YEAR ENDED DECEMBER 31, 1977

NET SALES totaled \$114,462,000. in 1977 compared with \$102,304,000. in 1976.

NET EARNINGS for 1977 were \$5,831,000. compared with \$5,840,000. in 1976.

NET EARNINGS on common stock in 1977 were \$5.30 per share as compared to \$5.31 per share in 1976.

PROPERTY, PLANT AND EQUIPMENT EXPENDITURES in 1977 totaled \$2,457,000. compared with \$2,846,000. in 1976.

WORKING CAPITAL during 1977 increased to \$17,420,000. compared with \$13,548,000. at the end of 1976.

DEPRECIATION OF PLANT AND EQUIPMENT was \$2,462,000. compared with \$2,335,000. in 1976.

LONG-TERM DEBT outstanding including amounts due within one year decreased in 1977 to \$1,000,000. from \$2,000,000. at the end of 1976.

THE EQUITY OF COMMON SHAREHOLDERS at the end of 1977 amounted to \$30,261,000. compared with \$25,585,000. at the end of 1976. Book value per share increased from \$23.26 to \$27.51.



## LETTER TO THE SHAREHOLDERS OF KELSEY-HAYES CANADA LIMITED

Sales were at a record level for the 1977 year and earnings were about equal to the record set in 1976. Sales for 1977 were \$114,462,000. reflecting a 12% increase over the \$102,304,000. achieved in 1976. The increase in sales resulted from another year of high activity in the automotive market.

Net earnings for 1977 were \$5,831,000. or \$5.30 a share which was comparable to the 1976 earnings of \$5,840,000. or \$5.31 per share. The provision for income taxes has been reduced as a result of the application of the 3% inventory tax credit recently announced by the Government. Our production facilities continued to operate at close to capacity during the year.

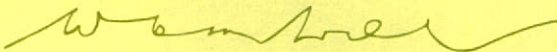
Expenditures for property, plant and equipment were \$2,457,000. compared with \$2,846,000 in 1976. The major expenditure in 1977 was the installation of electro dip painting equipment at our Windsor plant. We expect capital expenditures to be moderately higher in 1978 compared to 1977. We are presently investigating the introduction of automatic moulding equipment to our Woodstock foundry.

Our Conroy Division negotiated a new three-year labour contract during the year. The labour contracts at Woodstock expired January 31, 1978 and negotiations for renewal have not reached new agreements as of the date of this report. Our Windsor Division labour contract expires January 15, 1980.

The \$1,000,000. long-term debt, maturing in 1977 was retired. The balance of \$1,000,000. long-term debt is due October 1, 1978.

The Company will continue to operate, until December 31, 1978, under the Anti-Inflation Act which controls profit margins, prices, dividends and compensation in Canada. The legislation restricts total dividends that can be paid in the year ending October 13, 1978 to \$1,166,000. It has been announced that the controls are removed on dividends subsequent to October 13, 1978.

Auto industry sales have been running lower than expected due, we feel, to the unusual weather conditions in the United States. Despite this, we are confident that 1978 will be another excellent year in sales. A strong cost reduction program and improved plant operations should maintain our profits at a high level. We wish to thank our people for their support in 1977 and look forward with confidence to 1978.



W. C. McIvor  
President &  
Secretary-Treasurer

Windsor, Ontario  
March 20, 1978



# BALANCE SHEET AS AT DECEMBER 31, 1977

## ASSETS

December 31

### CURRENT ASSETS

	1977	1976
Cash.....	\$ 5,175,012	\$ 6,385,384
Accounts receivable.....	11,420,745	9,736,423
Due from affiliated company.....	2,183,882	817,134
Income taxes recoverable.....	131,786	—
Inventories at the lower of cost (first-in, first-out method) or market.....	10,290,818	9,901,154
Special tooling for current production.....	21,573	123,933
Prepaid taxes, insurance and other expenses.....	61,547	43,300
TOTAL CURRENT ASSETS	29,285,363	27,007,328

### PROPERTY, PLANT AND EQUIPMENT — at cost

Land.....	444,329	444,329
Buildings and land improvements.....	8,586,628	8,213,809
Machinery and equipment.....	34,813,791	33,112,401
	43,844,748	41,770,539
Less accumulated depreciation.....	26,101,456	23,927,398
NET PROPERTY, PLANT AND EQUIPMENT	17,743,292	17,843,141

ON BEHALF OF THE BOARD  
 Frank P. Coyer, Jr., Director  
 J. G. Crean, Director

### TOTAL ASSETS

\$47,028,655      \$44,850,469

## STATEMENT OF NET EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1977

Year Ended December 31

	1977	1976
Net sales.....	\$114,462,155	\$102,304,307
Net earnings before providing for the following.....	14,506,589	14,692,409
Deduct:		
Depreciation of plant and equipment.....	2,461,538	2,335,270
Employees' pension plans.....	1,849,769	1,779,104
Interest on long-term debt.....	114,125	288,500
	4,425,432	4,402,874
Net earnings before income taxes.....	10,081,157	10,289,535
Income taxes.....	4,250,000	4,450,000
Net earnings for the year.....	\$ 5,831,157	\$ 5,839,535
Net earnings per share of Capital stock (based on the average number of shares outstanding during the year).....	\$ 5.30	\$ 5.31





# KELSEY-HAYES CANADA LIMITED

(Incorporated under The Business Corporations Act — Ontario)



## LIABILITIES AND SHAREHOLDERS' INVESTMENT

December 31

	<u>1977</u>	<u>1976</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable .....	\$ 5,525,698	\$ 4,144,304
Payroll and taxes withheld from employees .....	1,824,382	1,817,210
Dividends payable.....	495,000	440,000
Other accrued expenses .....	3,019,854	3,437,534
Income taxes .....	—	2,619,857
Current portion of long-term debt.....	1,000,000	1,000,000
<b>TOTAL CURRENT LIABILITIES</b>	<u>11,864,934</u>	<u>13,458,905</u>
<b>LONG-TERM LIABILITIES</b>		
Deferred income taxes .....	4,900,000	4,800,000
Long-term debt .....	—	1,000,000
Other.....	3,000	7,000
<b>TOTAL LONG-TERM LIABILITIES</b>	<u>4,903,000</u>	<u>5,807,000</u>
<b>SHAREHOLDERS' INVESTMENT</b>		
Capital stock .....		
Authorized 1,500,000 shares without par value.....		
Issued 1,100,000 shares .....	1,125,000	1,125,000
Earnings retained for use in the business.....	29,135,721	24,459,564
<b>TOTAL SHAREHOLDERS' INVESTMENT</b>	<u>30,260,721</u>	<u>25,584,564</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' INVESTMENT</b>	<u>\$47,028,655</u>	<u>\$44,850,469</u>

## STATEMENT OF EARNINGS RETAINED FOR USE IN THE BUSINESS

FOR THE YEAR ENDED DECEMBER 31, 1977

Year Ended December 31

	<u>1977</u>	<u>1976</u>
Balance, January 1 .....	\$24,459,564	\$19,665,029
Net earnings for the year.....	5,831,157	5,839,535
	<u>30,290,721</u>	<u>25,504,564</u>
Dividends .....	1,155,000	1,045,000
Balance, December 31 .....	<u>\$29,135,721</u>	<u>\$24,459,564</u>



# STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 1977



## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1977

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Foreign currency conversion

Assets and liabilities of the Company in United States dollars are converted into Canadian dollars at the year-end exchange rate.

#### Depreciation and tool amortization

Property, plant and equipment are carried at cost less accumulated depreciation. Depreciation is provided on a basis which amortizes the cost of the asset over its estimated useful life.

#### Pension and other retirement benefits

Current service costs of pension plans are accrued and funded on a current basis. Prior service costs are amortized and funded over a period not exceeding fifteen years.

#### Income Taxes

Income taxes are determined in a manner that recognizes the tax effect of all transactions included in the determination of pre-tax accounting income even though a transaction may affect taxable income in another period.

#### Inventories

Inventories are stated at the lower of cost or market with cost determined substantially on a first-in, first-out basis.

### 2. ANTI-INFLATION LEGISLATION

Effective October 14, 1975 the Canadian Federal Government passed the Anti-Inflation Act and subsequently issued regulations which are presently in force until December 31, 1978. Under this legislation, the Government has established guidelines to control prices, profit margins, employee compensation and dividends. Accordingly, the ability of the Company to increase prices, profit margins and dividends may be restricted during the period in which the Act and regulations are in effect.

### 3. LONG-TERM DEBT — SECURED

	1977	1976
6-3/4% First Mortgage Bonds maturing \$1,000,000 on October 1, 1978 .....	\$1,000,000	\$2,000,000
Less portion of long-term debt due in one year .....	1,000,000	1,000,000
	<u>\$ nil</u>	<u>\$1,000,000</u>

### 4. PENSIONS

Unfunded past service costs under pension plans for employees are being amortized over a period of years and are estimated at approximately \$6,750,000 at December 31, 1977 (1976 — \$6,975,000).

### 5. INCOME TAXES

	1977	1976
Currently payable .....	\$4,150,000	\$4,750,000
Deferred .....	100,000	(300,000)
	<u>\$4,250,000</u>	<u>\$4,450,000</u>

During the year, the Company received Federal Income Tax reassessments for the fiscal periods ending in 1973 and 1974. Notices of objection have been filed by the Company in respect of these assessments. In the opinion of legal counsel the Company should be successful in their objection.

### 6. DIRECTORS AND OFFICERS

Remuneration paid by the Company during the year to directors and senior officers of the Company amounted at \$234,000, (1976 — \$226,000).



1977 1976

#### Source of working capital

##### From operations

Net earnings for the year .....	\$ 5,831,157	\$ 5,839,535
Depreciation .....	2,461,538	2,335,270
Increase (decrease) deferred income taxes .....	100,000	(300,000)
	<u>8,392,695</u>	<u>7,874,805</u>

#### Application of working capital

Additions to property, plant and equipment less net carrying value of disposals .....	2,361,689	2,828,744
Applied on reduction of long-term debt .....	1,000,000	2,000,000
Dividends .....	1,155,000	1,045,000
Other .....	4,000	4,000
	<u>4,520,689</u>	<u>5,877,744</u>
Increase in working capital .....	<u>\$ 3,872,006</u>	<u>\$ 1,997,061</u>

#### Working capital changes:

##### Increase (decrease\*) in current assets:

Cash .....	\$ 1,210,372*	\$ 552,043
Accounts receivable .....	1,684,322	1,270,841
Due from affiliated company .....	1,366,748	92,088
Income taxes recoverable .....	131,786	—
Inventories .....	389,664	1,676,403
Special tooling for current production .....	102,360*	73,450*
Prepaid taxes, insurance and other expenses .....	18,247	49,800*
Net change in current assets .....	<u>2,278,035</u>	<u>3,468,125</u>

##### Increase (decrease\*) in current liabilities:

Accounts payable .....	1,381,394	1,302,917*
Payroll and taxes withheld .....	7,172	108,283
Dividends payable .....	55,000	—
Other accrued expenses .....	417,680*	1,434,166
Income taxes .....	2,619,857*	1,731,532
Increase in current portion of long-term debt .....	—	500,000*

Net change in current liabilities .... 1,593,971\* 1,471,064

Increase in working capital .....

Working capital January 1, .....

Working capital December 31, .....



# AUDITORS' REPORT

To Shareholders,  
Kelsey-Hayes Canada Limited.

We have examined the balance sheet of Kelsey-Hayes Canada Limited as at December 31, 1977 and the statements of net earnings, earnings retained for use in the business 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 financial statements present fairly the financial position of the Company as at December 31, 1977 and the results 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.

Windsor, Ontario.  
January 31, 1978.

*Touché Ross & Co.*  
Chartered Accountants

## FINANCIAL INFORMATION FIVE YEAR REVIEW

	DECEMBER 31				
	1977	1976	1975	1974	1973
	(Dollar Amounts in Thousands)				
<b>OPERATING RESULTS:</b>					
Net Sales.....	\$114,462	\$102,304	\$71,041	\$79,175	\$78,131
Earnings before taxes on income.....	10,081	10,290	5,912	7,313	6,702
Provisions for taxes on income.....	4,250	4,450	2,550	3,150	2,834
Net earnings.....	5,831	5,840	3,362	4,163	3,868
Cash dividends.....	1,155	1,045	935	1,045	550
Net earnings retained for use in the business.....	4,676	4,795	2,427	3,118	3,318
Expenditures for property, plant and equipment.....	2,457	2,846	824	4,203	2,294
Depreciation.....	2,462	2,335	2,207	2,185	1,849
Per share of Common stock:					
Net earnings.....	\$ 5.30	\$ 5.31	\$ 3.06	\$ 3.78	\$ 3.52
Dividends paid.....	\$ 1.05	\$ .95	\$ .85	\$ .95	\$ .50
<b>FINANCIAL POSITION:</b>					
Current assets.....	\$ 29,285	\$ 27,007	\$ 23,539	\$20,426	\$15,521
Current liabilities.....	11,865	13,459	11,988	11,655	7,421
Working capital.....	17,420	13,548	11,551	8,771	8,100
Property, plant and equipment (net).....	17,743	17,843	17,350	18,757	16,775
Long-term debt.....	—	1,000	3,000	4,500	5,500
Shareholders' investment.....	30,261	25,585	20,790	18,363	15,245
Per share of Common stock.....	\$ 27.51	\$ 23.26	\$ 18.90	\$ 16.69	\$ 13.86





**KELSEY-HAYES CANADA LIMITED**

309 ELLIS AVENUE EAST • WINDSOR, ONTARIO