

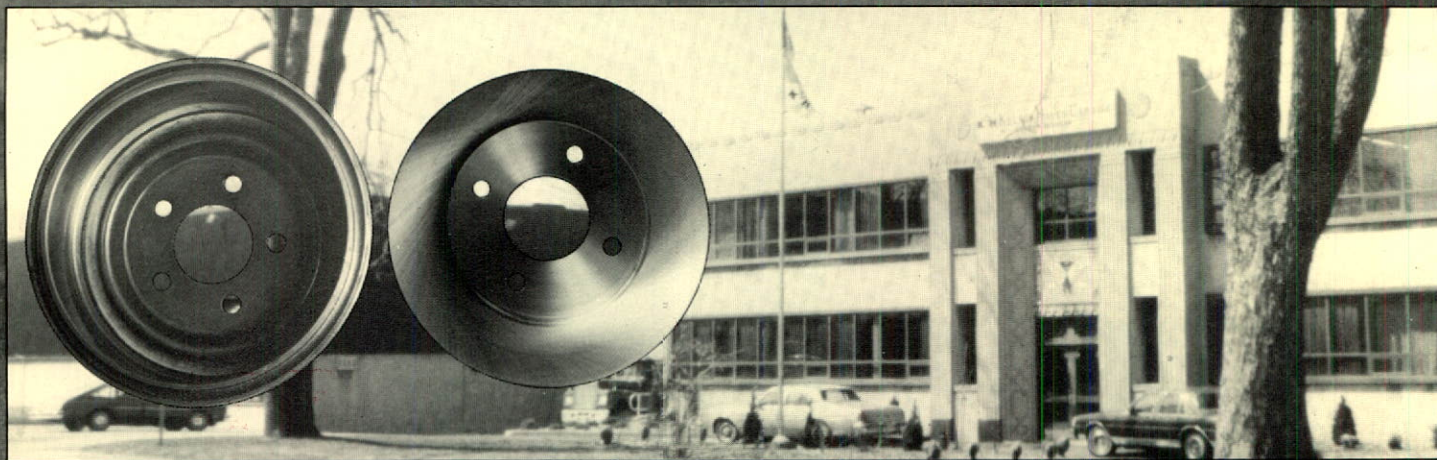
1985
ANNUAL REPORT
YEAR ENDING DECEMBER 31, 1985



The Company was founded in 1913 as Kelsey Wheel Company Limited. In 1961, Eureka Foundry and Manufacturing Company Limited, Woodstock, Ontario, was acquired. In 1966, Conroy Manufacturing Company Limited, St. Catharines, Ontario, was acquired. Effective February 1, 1967, a statutory merger of the three companies was carried out and the name of the successor Company became Kelsey-Hayes Canada Limited.

Products of the Company

• Passenger car and light truck wheels • Cast steel type wheels for heavy trucks and trailers • Rotors for disc brakes for passenger cars and light trucks • Brake drums for passenger cars and trucks.



Letter to Shareholders

OF KELSEY-HAYES CANADA LIMITED

The strong business cycle which began in 1983 continued through calendar year 1985 only with the assistance of sales incentives allowed by all the domestic vehicle manufacturers. Because of automotive components made by our company, Kelsey-Hayes Canada Limited was able to benefit from high production schedules and, as a result, enjoyed high sales.

In 1985, sales of Kelsey-Hayes Canada Limited declined slightly to \$209,161,057 from \$222,248,552 in 1984. Net earnings in 1985 were \$20,563,768 or \$6.23 per share, an improvement over the \$19,073,429 or \$5.78 per share achieved in 1984. This was a new record for earnings for the third consecutive year.

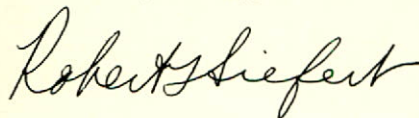
Investment in capital improvements was \$5,973,000 for 1985. The major capital additions were for coil feed improvements to the rim lines in our Windsor wheel plant and continued building improvements to our foundry in Woodstock. Investment in quality and productivity improvements is critical in our industry to meet ever-increasing competition from domestic and off-shore manufacturers. Projected capital expenditures in 1986 are \$9,000,000.

During 1985, the Woodstock Division earned the first annual Chrysler Pentastar Award which was awarded to only 32 supplier plants out of the 6,500 currently supplying Chrysler Corporation. This award was based on quality, price, timely delivery, and technical expertise. Both Woodstock and Windsor Divisions earned a quality achievement award from Chrysler. The Windsor Division already has the Ford Q-1 award, and the General Motors Spear II award. Early in 1985, Woodstock division should receive the Ford Q-1 award. Our goal is to have the top awards for quality from all of our customers, and your company is entering 1986 with the momentum to achieve this goal.


The labour scene was quiet in 1985 as no contracts expired during the year. The contract at Windsor Division expired in January 1986 and after a short strike a three year contract was signed in February 1986. The Conroy Division contract expires in August 1986.

We project 1986 will be a year of declining sales for your company as new car lines are being tooled for the 1988 model year. In the interim, current model sales are expected to decline slightly. This will mean that management emphasis will be placed on cost control and productivity enhancement to prevent profit erosion.

Your Directors appreciate the considerable effort put forth by our employees in achieving such rewarding results in 1985. The continued support of our customers and suppliers during the year was also very much appreciated.

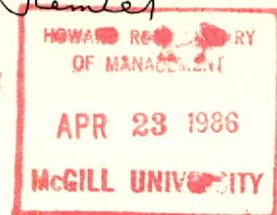


R. Siefert
Chairman of the Board



D. O. Remter
President

Windsor, Ontario
March 17, 1986



FINANCIAL STATEMENTS

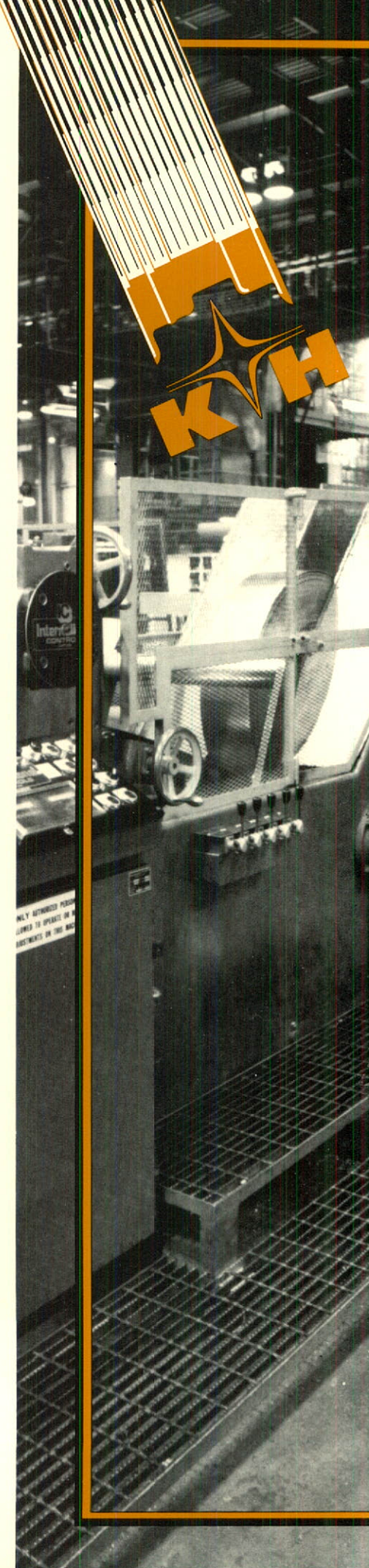
1985 FINANCIAL HIGHLIGHTS

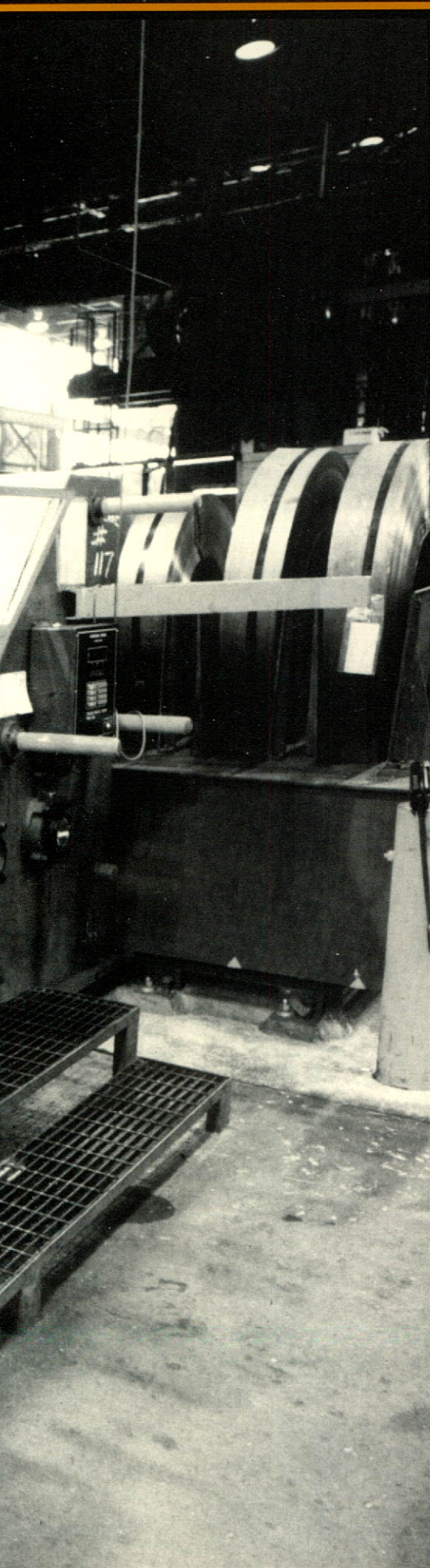
	1985	1984
Net Sales	\$209,161,000	\$222,249,000
Net Earnings	20,564,000	19,073,000
Net Earnings per Share	6.23	5.78
Working Capital	77,673,000	62,668,000
Property, Plant and Equipment		
Expenditures	5,973,000	7,949,000
Depreciation	4,129,000	3,588,000
Book Value per Share of Common Stock	30.16	25.48

STATEMENT OF NET EARNINGS AND RETAINED EARNINGS

For the year ended December 31, 1985	1985	1984
Net sales	\$209,161,057	\$222,248,552
Interest income	5,395,620	4,570,724
	<u>\$214,556,677</u>	<u>\$226,819,276</u>
Net earnings before providing for the following	<u>\$ 44,281,797</u>	<u>\$ 39,864,303</u>
Deduct		
Depreciation of plant and equipment	4,129,307	3,587,759
Employees' pension plans	1,588,722	1,503,115
	<u>5,718,029</u>	<u>5,090,874</u>
Net earnings before income taxes	38,563,768	34,773,429
Income taxes (Note 4)	18,000,000	15,700,000
Net earnings for the year	20,563,768	19,073,429
Retained earnings, January 1	82,969,654	68,351,225
	<u>103,533,422</u>	<u>87,424,654</u>
Dividends	5,115,000	4,455,000
Retained earnings, December 31	<u>\$ 98,418,422</u>	<u>\$ 82,969,654</u>
Net earnings per share (based on the average number of shares outstanding during the year)	\$ 6.23	\$ 5.78

(See Accompanying Notes to the Financial Statements)





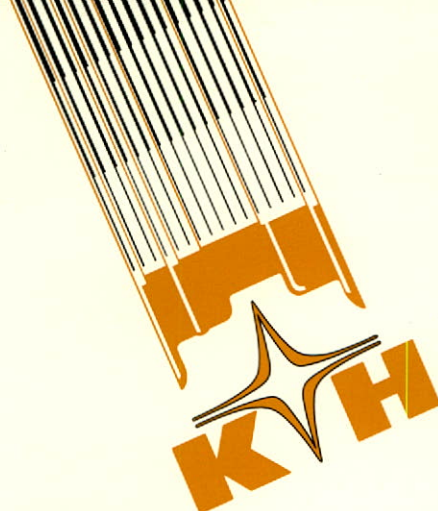
Kelsey-Hayes Canada Limited

(INCORPORATED UNDER THE BUSINESS CORPORATIONS ACT — ONTARIO)

BALANCE SHEET as at December 31, 1985

ASSETS	1985	1984
Current		
Cash and short-term deposits	\$ 67,730,667	\$58,520,713
Accounts receivable	14,521,591	15,290,367
Due from affiliated companies	477,132	319,441
Inventories	16,533,094	13,645,313
Special tooling for current production	1,080,813	822,526
Prepaid taxes, insurance and other expenses	152,861	241,548
	<u>100,496,158</u>	<u>88,839,908</u>
Property, plant and equipment		
Land	560,229	513,751
Buildings and land improvements	12,420,134	12,219,177
Machinery and equipment	65,548,167	60,321,401
Total — at cost	<u>78,528,530</u>	<u>73,054,329</u>
Less accumulated depreciation	<u>46,658,639</u>	<u>43,028,004</u>
	<u>31,869,891</u>	<u>30,026,325</u>
	<u>\$132,366,049</u>	<u>\$118,866,233</u>
LIABILITIES	1985	1984
Current		
Accounts payable	\$ 11,818,832	\$ 12,391,026
Payroll and taxes withheld from employees	5,436,152	5,012,949
Dividends payable	2,640,000	2,475,000
Other accrued expenses	1,662,000	1,547,446
Income taxes	1,265,643	4,745,158
	<u>22,822,627</u>	<u>26,171,579</u>
Deferred income taxes	<u>10,000,000</u>	<u>8,600,000</u>
SHAREHOLDERS' INVESTMENT		
Share Capital		
Authorized		
15,000,000 shares		
Issued		
3,300,000 shares (Note 8)	1,125,000	1,125,000
Retained earnings	<u>98,418,422</u>	<u>82,969,654</u>
	<u>99,543,422</u>	<u>84,094,654</u>
	<u>\$132,366,049</u>	<u>\$118,866,233</u>
On behalf of the Board:		
R. G. Siefert, Director		
W. C. McIvor, Director		

(See Accompanying Notes to the Financial Statements)



**STATEMENT OF CHANGES IN
FINANCIAL POSITION for the year ended December 31, 1985**

	1985	1984
Cash obtained from		
Operations		
Net earnings for the year	\$20,563,768	\$19,073,429
Depreciation	4,129,307	3,587,759
Deferred income taxes	1,400,000	750,000
	<u>26,093,075</u>	<u>23,411,188</u>
Changes in working capital		
Decrease (increase) in accounts receivable	768,776	(1,705,294)
(Increase) decrease in inventories	(2,887,781)	2,276,001
(Decrease) increase in accounts payable	(572,194)	3,310,028
(Decrease) in income taxes	(3,479,515)	(341,538)
Other	375,466	2,413,839
	<u>(5,795,248)</u>	<u>5,953,036</u>
Cash provided by operations	<u>20,297,827</u>	<u>29,364,224</u>
Cash used for		
Dividends	<u>5,115,000</u>	<u>4,455,000</u>
Cash remaining for investment	<u>15,182,827</u>	<u>24,909,224</u>
Investment		
Property, plant and equipment	<u>5,972,873</u>	<u>7,893,613</u>
Increase in cash for the year	<u>9,209,954</u>	<u>17,015,611</u>
Cash and short-term deposits at beginning of year	58,520,713	41,505,102
Cash and short-term deposits at end of year	<u>\$67,730,667</u>	<u>\$58,520,713</u>

(See Accompanying Notes to the Financial Statements)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1985

1. Summary of significant accounting policies

Inventories

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

Depreciation

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.

Income taxes

The corporation provides for income taxes under the tax allocation basis of accounting whereby income taxes are provided for in the year in which the related income is reflected in the financial statements. Deferred income tax provisions result from timing differences in the recognition of income and expense for income tax and financial statement purposes. Investment tax credits are recorded using the cost reduction approach (see note 2).

Pension and other retirement benefits

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

Foreign currency conversion

Assets and liabilities of the Company in United States dollars are converted into Canadian dollars at the year-end exchange rate. Transactions during the year are converted at the current rates then in effect.

2. Change in accounting policy — investment tax credits

Effective January 1, 1985, the Company changed its method of accounting for investment tax credits by adopting prospectively the recommendations of the C.I.C.A. relating to investment tax credits (see note 1, income taxes). The Company previously recorded investment tax credits by the flow through method which recognized such credits in the year in which they were claimed for tax purposes by a reduction in the provision for income taxes. Had the former method of accounting for investment tax credits been continued, net earnings in 1985 would have been increased by \$160,000 as a result of a reduction in the provision for income taxes offset by a slightly higher provision for depreciation.

3. Pensions

Unfunded past service costs under pension plans for employees are estimated at approximately \$675,000 (1984 - \$1,060,000) at December 31, 1985.

4. Income taxes

	1985	1984
Currently payable . .	\$16,600,000	\$14,950,000
Deferred	1,400,000	750,000
	<u>\$18,000,000</u>	<u>\$15,700,000</u>

The basic corporate tax rate of 51.9% has been reduced to the effective provision rate of 46.7% by the application of the manufacturing and processing credit of 6.2%, and increased by other tax adjustments netting 1.0%.

5. Segmented information

The Company is a supplier of parts components to the automotive industry. Approximately 79% (1984 - 77%) of the Company's sales are to its customers in the United States.

6. Related party transactions

Approximately 5% (1984 - 5%) of the total sales are to the Company's parent and related companies. Additionally the Company pays to its parent a royalty charge of .75% on sales to non-related parties.

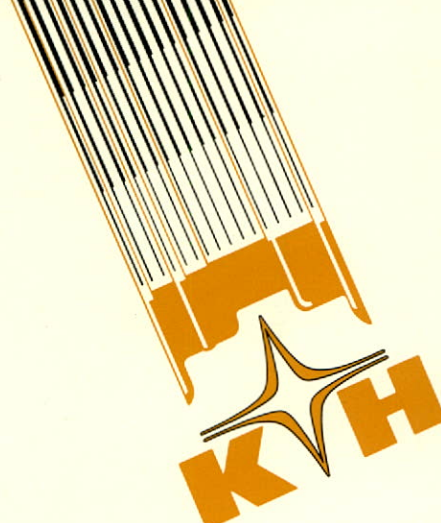
7. Effects of changing prices

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles on a historical cost basis. The only material difference between the basis used and a current cost basis would be in the valuation of the Company's property, plant and equipment and the related effects on depreciation expense. The following summarizes this difference.

	Historical Cost	Current Cost
Net book value of property, plant and equipment	\$31,869,891	\$42,125,095
Depreciation expense	<u>\$ 4,129,307</u>	<u>\$ 5,226,384</u>
Net after tax earnings	<u>\$20,563,768</u>	<u>\$19,466,691</u>

8. Subsequent event

On January 17, 1986 the Company obtained Articles of Amendment which divided each of the 3,300,000 issued common shares into two common shares without par value and changed the authorized capital to consist of an unlimited number of common shares without par value.



AUDITORS' REPORT

The Shareholders,
Kelsey-Hayes Canada Limited.

We have examined the balance sheet of Kelsey-Hayes Canada Limited as at December 31, 1985 and the statements of net earnings and 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 financial statements present fairly the financial position of the Company as at December 31, 1985 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, except for the change in the method of accounting for investment tax credits as explained in note 2, on a basis consistent with that of the preceding year.

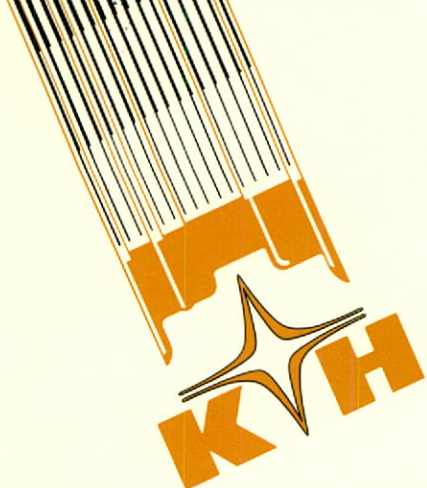
Touche Ross & Co.

Chartered Accountants

Windsor, Ontario
January 21, 1986

5 YEAR FINANCIAL REVIEW 1985 1984 1983 1982 1981

OPERATING RESULTS:	December 31 (Dollar Amounts in Thousands)				
Net sales	\$209,161	\$222,249	\$179,382	\$120,131	\$113,629
Net earnings before income taxes	38,564	34,773	23,342	12,174	15,057
Income taxes	18,000	15,700	10,500	5,400	6,900
Net earnings for the year	20,564	19,073	12,842	6,774	8,157
Dividends	5,115	4,455	2,706	2,310	2,299
Net increase in retained earnings	15,448	14,618	10,136	4,464	5,858
Expenditures for property, plant and equipment	5,973	7,949	4,401	6,614	4,308
Depreciation of plant and equipment	4,129	3,588	3,093	2,713	2,346
Per share of Common stock:					
Net earnings	\$ 6.23	\$ 5.78	\$ 3.89	\$ 2.05	\$ 2.47
Dividends	\$ 1.55	\$ 1.35	\$.82	\$.70	\$.70
FINANCIAL POSITION:					
Current assets	\$100,496	\$ 88,840	\$ 73,324	\$ 52,547	\$ 49,784
Current liabilities	22,823	26,172	21,718	10,058	9,241
Working capital	77,673	62,668	51,606	42,489	40,543
Property, plant and equipment (net)	31,870	30,026	25,720	24,452	20,733
Shareholders' investment	99,543	84,095	69,476	59,340	54,876
Book value per share of Common stock	\$ 30.16	\$ 25.48	\$ 21.05	\$ 17.98	\$ 16.63



CORPORATE OFFICE:

Windsor, Ontario, Canada

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

BOARD OF DIRECTORS

Frank P. Coyer, Jr.
T. Neal Combs
J. G. Crean
W. A. Harrison
W. C. McIvor
Morgan Reid
R. G. Siefert

OFFICERS

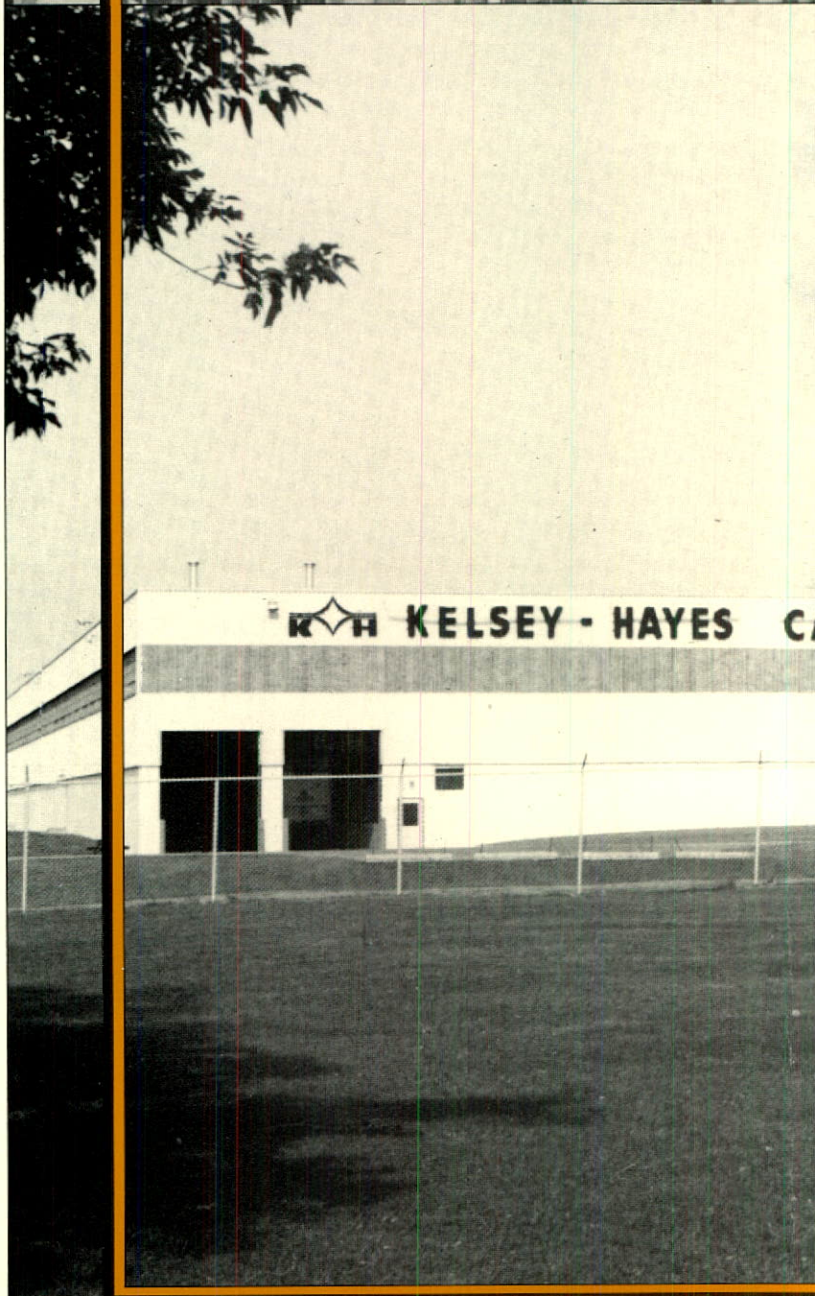
R. G. Siefert
Chairman of the Board
D. O. Remter
President
D. A. Robinson
Secretary-Treasurer
L. E. Wilson
Assistant Secretary-Treasurer

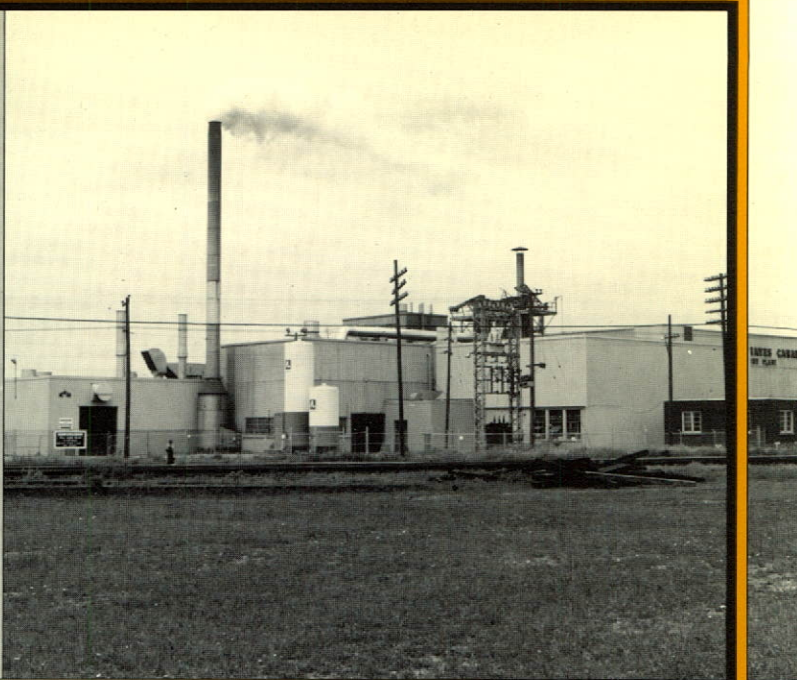
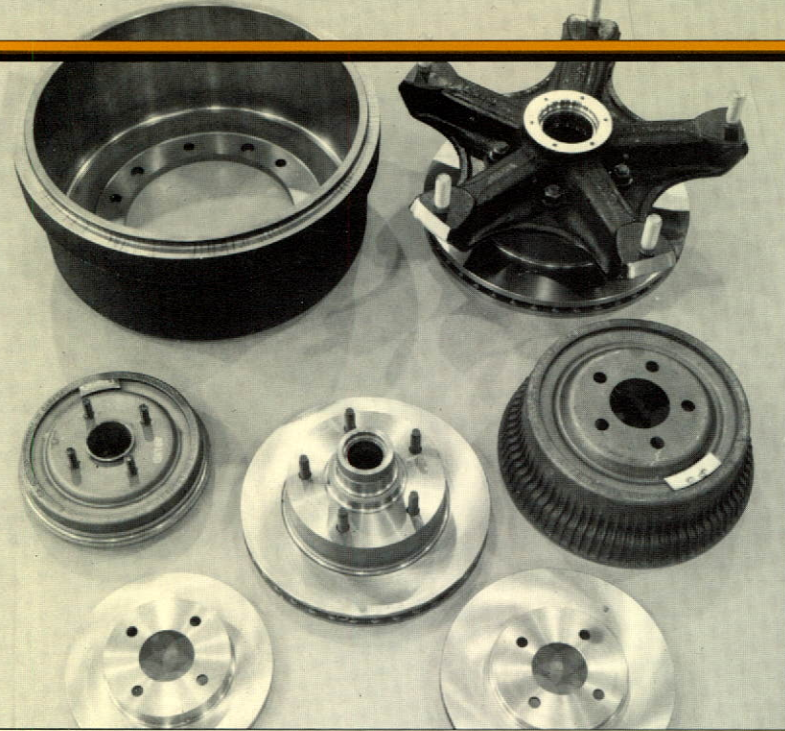
TRANSFER AGENT AND REGISTRAR

The National Victoria
and Grey Trust Company
Toronto, Montreal, Winnipeg
and Vancouver

AUDITORS

Touche Ross & Co.,
Windsor, Ontario







Company-Wide Excellence
KELSEY-HAYES CANADA LIMITED