

GILDAN ACTIVEWEAR INC
Form 40-F
February 14, 2003

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EXHIBIT 1

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements and all information in the Annual Report have been prepared by management and approved by the Board of Directors for the Company. The consolidated financial statements were prepared in accordance with accounting principles generally accepted in Canada and, where appropriate, reflect management's best estimates and judgements. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality and for the consistency of financial data included in the text of the Annual Report with that contained in the consolidated financial statements.

To assist management in the discharge of these responsibilities, the Company maintains a system of internal controls designed to provide reasonable assurance that its assets are safeguarded, that only valid and authorized transactions are executed and that accurate, timely and comprehensive financial information is prepared.

The Company's Audit Committee is appointed by the Board of Directors annually and is comprised of non-management directors. The Audit Committee meets with management as well as with the independent auditors to satisfy itself that management is properly discharging its financial reporting responsibilities and to review the consolidated financial statements and the independent auditors' report. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for presentation to the shareholders. The independent auditors have direct access to the Audit Committee of the Board of Directors.

The consolidated financial statements have been independently audited by KPMG LLP, Chartered Accountants, on behalf of the shareholders, in accordance with generally accepted auditing standards. Their report outlines the nature of their audit and expresses their opinion on the consolidated financial statements of the Company.

(Signed) **H. Greg Chamandy**
Chairman of the Board
and Chief Executive Officer

(Signed) **Laurence G. Sellyn**
Executive Vice-President, Finance
and Chief Financial Officer

November 27, 2002

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Gildan Activewear Inc. as at September 29, 2002 and September 30, 2001 and the consolidated statements of earnings, retained earnings and cash flows for the years ended September 29, 2002, September 30, 2001 and October 1, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and United States generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 29, 2002 and September 30, 2001 and the results of its

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operations and its cash flows for the years ended September 29, 2002, September 30, 2001 and October 1, 2000 in accordance with Canadian generally accepted accounting principles.

(Signed) **KPMG LLP**
Chartered Accountants
Montreal, Canada

November 27, 2002

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CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

September 29, 2002 and September 30, 2001
(In Canadian dollars)

	2002	2001
Assets		
Current assets:		
Cash and cash equivalents	\$ 70,905,497	\$ 125,525,468
Accounts receivable	87,746,113	178,350,875
Inventories	112,970,468	4,265,223
Prepaid expenses and deposits	3,656,987	5,028,000
Future income taxes (note 8)	5,028,000	6,915,000
	280,307,065	315,056,566
Fixed assets (note 2)	209,247,348	153,571,566
Future income taxes (note 8)		1,081,000
Other assets (note 3)	7,084,926	6,941,740
	\$ 496,639,339	\$ 476,650,872
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 82,167,747	\$ 98,199,045
Income taxes payable	3,063,050	2,312,168
Current portion of long-term debt (note 4)	6,249,039	6,415,790
	91,479,836	106,927,003
Long-term debt (note 4)	114,866,404	153,224,648
Future income taxes (note 8)	20,385,000	17,646,000
Shareholders' equity:		
Share capital (note 5)	104,924,975	100,361,637
Contributed surplus	322,866	322,866
Retained earnings	164,660,258	98,168,718
	269,908,099	198,853,221
Commitments and contingent liabilities (note 7)	\$ 496,639,339	\$ 476,650,872

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2002	2001
_____	_____
_____	_____

See accompanying notes to consolidated financial statements.

On behalf of the Board:

(Signed) H. Greg Chamandy
Director

(Signed) Robert M. Baylis
Director

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CONSOLIDATED STATEMENTS OF EARNINGS

Years ended September 29, 2002, September 30, 2001 and October 1, 2000
(In Canadian dollars)

	2002	2001	2000
	_____	_____	_____
Sales	\$ 600,660,380	\$ 504,867,353	\$ 459,208,329
Cost of sales (note 9)	431,996,459	398,566,740	328,191,271
	_____	_____	_____
Gross profit	168,663,921	106,300,613	131,017,058
Selling, general and administrative expenses (note 9)	63,926,673	76,074,745	48,309,004
	_____	_____	_____
Earnings before the undernoted items	104,737,248	30,225,868	82,708,054
Depreciation and amortization (note 9)	17,591,885	16,208,560	9,380,214
Interest (note 4)	13,341,823	13,628,350	10,233,019
Debt prepayment charge (note 4)			2,344,682
	_____	_____	_____
	30,933,708	29,836,910	21,957,915
	_____	_____	_____
Earnings before income taxes	73,803,540	388,958	60,750,139
Income taxes (recovery) (note 8)	7,312,000	(427,000)	6,145,000
	_____	_____	_____
Net earnings	\$ 66,491,540	\$ 815,958	\$ 54,605,139
	_____	_____	_____
Earnings per share: (note 10)			
Basic	\$ 2.33	\$ 0.03	\$ 1.97
Diluted	2.26	0.03	1.88

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years ended September 29, 2002, September 30, 2001 and October 1, 2000
(In Canadian dollars)

	2002	2001	2000
	_____	_____	_____
Retained earnings, beginning of year	\$ 98,168,718	\$ 97,352,760	\$ 42,747,621
Net earnings	66,491,540	815,958	54,605,139
	_____	_____	_____
Retained earnings, end of year	\$ 164,660,258	\$ 98,168,718	\$ 97,352,760
	_____	_____	_____

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended September 29, 2002, September 30, 2001 and October 1, 2000
(In Canadian dollars)

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Cash and cash equivalents, beginning of year	\$	\$ 33,492,381	\$
Cash flows from operating activities:			
Net earnings	66,491,540	815,958	54,605,139
Adjustments for:			
Depreciation and amortization	17,591,885	16,208,560	9,380,214
Future income taxes	5,013,000	(268,000)	4,279,000
Loss (gain) on disposal of fixed assets	949,092	7,534	(66,373)
Foreign exchange loss (gain)	3,443,038	(416,640)	(2,299,110)
Net changes in non-cash working capital balances:			
Accounts receivable	38,170,839	(13,129,676)	(4,250,638)
Inventories	65,380,407	(56,636,049)	(23,036,446)
Prepaid expenses and deposits	599,018	(225,444)	(1,637,740)
Accounts payable and accrued liabilities	(21,026,308)	39,545,292	5,334,171
Income taxes payable	1,488,272	1,755,409	(2,024,976)
	<u>178,100,783</u>	<u>(12,343,056)</u>	<u>40,283,241</u>
Cash flows from financing activities:			
(Decrease) increase in revolving bank loan	(35,083,026)	35,083,026	(10,340,350)
Repayment of capital leases	(5,119,718)	(5,164,290)	(4,934,576)
Increase in other long-term debt	2,974,000		104,839,000
Repayment of other long-term debt	(6,433,817)	(2,209,780)	(46,935,717)
Issue of common shares, net	4,563,338	986,726	1,790,789
Increase in deferred financing charges	(1,086,020)	(405,514)	(1,935,983)
	<u>(40,185,243)</u>	<u>28,290,168</u>	<u>42,483,163</u>
Cash flows from investing activities:			
Decrease in loans	150,000	150,000	150,000
Purchase of fixed assets, net of disposals	(65,764,900)	(49,149,541)	(46,897,766)
Decrease (increase) in advances		259,153	(452,004)
Increase in other assets	(1,545,301)	(542,352)	(2,322,444)
	<u>(67,160,201)</u>	<u>(49,282,740)</u>	<u>(49,522,214)</u>
Effect of exchange rate changes on cash and cash equivalents	150,158	(156,753)	248,191
Cash and cash equivalents, end of year	<u>\$ 70,905,497</u>	<u>\$</u>	<u>\$ 33,492,381</u>

Supplemental disclosure of cash flow information (note 14)

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended September 29, 2002, September 30, 2001 and October 1, 2000

(In Canadian dollars)

Gildan Activewear Inc. (the "Company") is incorporated under the Canada Business Corporations Act. Its principal business activity is the manufacture and sale of activewear apparel. The Company's fiscal year ends on the first Sunday following September 28. All references to 2002, 2001 and 2000 represent the fiscal years ended September 29, 2002, September 30, 2001 and October 1, 2000.

1. SIGNIFICANT ACCOUNTING POLICIES:

The consolidated financial statements are expressed in Canadian dollars and have been prepared in accordance with accounting principles generally accepted in Canada. These principles conform, in all material respects, with accounting principles generally accepted in the United States, except as described in note 16. The principal accounting policies of the Company are summarized as follows:

(a) Principles of consolidation:

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated on consolidation.

(b) Cash and cash equivalents:

The Company considers all liquid investments with maturities of three months or less when acquired to be cash equivalents.

(c) Inventories:

Inventories are stated at the lower of cost and market value. Cost is established based on the first-in, first-out method. Market value is defined as replacement cost for raw materials and net realizable value for work in process and finished goods.

(d) Fixed assets:

Fixed assets are recorded at cost. Depreciation and amortization are calculated on a straight-line basis at the following annual rates:

Asset	Rate
Buildings and improvements	2 ¹ / ₂ % to 20%
Equipment	6 ² / ₃ % to 25%
Equipment under capital leases	5% to 25%

(e) Deferred charges:

The costs of obtaining long-term financing are deferred and amortized on a straight-line basis over the term of the related debt, ranging over a period of 3 to 7 years. Plant start-up costs are deferred and amortized over 2 years. The amortization of these charges is included in depreciation and amortization.

(f) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those

estimates.

(g) Foreign exchange:

Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange at the balance sheet date. Other balance sheet items denominated in foreign currencies are translated at the

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rates prevailing at the respective transaction dates. Income and expenses denominated in foreign currencies are translated at average rates prevailing during the year. Gains or losses on foreign exchange are recorded in the consolidated statements of earnings.

The foreign subsidiaries are considered to be integrated foreign operations and their accounts have been translated using the temporal method with translation gains and losses included in the consolidated statements of earnings.

In November 2001, the Canadian Institute of Chartered Accountants ("CICA") issued revisions to Handbook Section 1650 "Foreign Currency Translation". The new recommendations eliminate the deferral and amortization of unrealized foreign currency translation gains and losses on foreign currency denominated monetary items that have a fixed or ascertainable life extending beyond the end of the fiscal year following the current reporting period. The new recommendations also require the disclosure of foreign exchange gains (losses) included in the consolidated statements of earnings which, for fiscal 2002, amounted to \$(968,633) (2001 - (\$1,906,216); 2000 - \$2,750,207). The change was adopted retroactively. There is no impact on the Company's consolidated financial position, results of operations and cash flows as a result of adopting these recommendations.

(h) Revenue recognition:

Sales are recognized upon shipment of products to customers since title passes upon shipment. At the time of sale, estimates are made based upon existing programs for customer price discounts and rebates. Accruals required for new programs which relate to prior sales are recorded at the time the new program is introduced.

(i) Financial instruments:

The Company may periodically use derivative financial instruments, such as forward foreign exchange contracts and cross-currency swap and cross-currency interest rate swap arrangements to manage risks related to fluctuations in exchange rates and interest rates. Derivative financial instruments are not used for trading purposes. Forward foreign exchange contracts are entered into with maturities of no longer than twelve months. Gains and losses on forward foreign exchange contracts are recognized through income and generally offset transaction losses or gains on the foreign currency cash flows, which they are intended to hedge. Gains and losses on swap arrangements are recognized and charged to income on a basis that corresponds with changes in the related underlying item.

(j) Income taxes:

The Company utilizes the asset and liability method for accounting for income taxes which requires the establishment of future tax assets and liabilities, measured at substantially enacted tax rates, for all temporary differences caused when the tax bases of assets and liabilities differ from those reported in the financial statements. Future income tax assets are evaluated and if realization is not considered to be more likely than not, a valuation allowance is provided.

(k) Stock-based compensation plans:

In December 2001, the CICA issued Handbook Section 3870, with respect to the accounting for stock-based compensation and other stock-based payments. The new recommendations, which are effective for fiscal years beginning on or after January 1, 2002, require that all stock-based payments to non-employees, and employee awards that are direct awards of stock, call for settlement in cash or other assets, or are stock appreciation rights that call for settlement by the issuance of equity instruments, granted on or after adoption of the standard be accounted

for using the fair value method. The Company presently does not have any such awards which must be accounted for using the fair value method. For all other stock-based employee compensation awards, the new standards permit the Company to continue to follow its existing policy of using the settlement date method of accounting. Under this method, no compensation expense is recognized when such stock-based compensation awards are issued to employees.

The Company has employee share purchase plans and a stock option plan which are described in notes 5 and 6 respectively. No compensation expense is recognized under the stock-based compensation

plans. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital.

The Company will be adopting these recommendations prospectively starting in the first quarter of fiscal 2003. The new standards will require that the Company disclose the pro forma effect of accounting for all stock-based awards granted following adoption of the standard using the fair value-based method. In the first year of application, comparative disclosures need not be provided for prior years.

(l) Employee future benefits:

The Company offers group defined contribution plans to eligible employees whereby the Company matches employees' contributions up to a fixed percentage of the employee's salary. Contributions by the Company to trustee-managed investment portfolios are expensed as incurred. The Company does not provide its employees with post-retirement defined benefit pensions, health, insurance and other benefits.

(m) Earnings per share:

Basic earnings per share are computed by dividing net earnings by the weighted average number of common shares outstanding for the year. Diluted earnings per share are computed in the same manner except the weighted average number of common shares outstanding for the period is increased to include additional shares from the assumed exercise of options, if dilutive. The number of additional shares is calculated by assuming that outstanding options are exercised and that the proceeds from such exercises are used to repurchase common shares at the average share price for the period.

(n) Research and investment tax credits and government grants:

Research and investment tax credits and government grants are recorded as a reduction of the related expense or the cost of the assets acquired. Tax credits are recorded in the accounts when reasonable assurance exists that they will be realized.

2. FIXED ASSETS:

	2002		
	Cost	Accumulated depreciation & amortization	Net book value
Land	\$ 15,154,082	\$	\$ 15,154,082
Buildings and improvements	64,899,283	5,869,949	59,029,334
Equipment	150,127,748	33,010,768	117,116,980
Equipment under capital leases	28,329,528	10,382,576	17,946,952
	\$ 258,510,641	\$ 49,263,293	\$ 209,247,348
	2001		

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	2001		
	Cost	Accumulated depreciation & amortization	Net book value
Land	\$ 13,938,449	\$	\$ 13,938,449
Buildings and improvements	42,990,460	4,086,042	38,904,418
Equipment	97,179,841	25,183,783	71,996,058
Equipment under capital leases	27,966,675	8,225,379	19,741,296
Construction in progress	8,991,345		8,991,345
	<u>\$ 191,066,770</u>	<u>\$ 37,495,204</u>	<u>\$ 153,571,566</u>

Depreciation expense in fiscal 2002 was \$15,297,250 (2001 \$13,265,489; 2000 \$8,294,238).

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During fiscal 2002, fixed assets were acquired at an aggregate cost of \$74,526,963 (2001 \$55,908,925; 2000 \$48,917,442), \$1,024,508 of which were acquired by means of capital leases (2001 \$88,928; 2000 nil).

3. OTHER ASSETS:

	2002	2001
Loans to directors and officers (note 11)	\$ 900,000	\$ 1,050,000
Deferred charges, net of accumulated amortization	2,722,500	2,932,454
Prepaid equipment rental	940,651	1,089,741
Deposits	1,157,775	366,145
Cross-currency swap	1,164,000	1,207,500
Other	200,000	295,900
	<u>\$ 7,084,926</u>	<u>\$ 6,941,740</u>

4. LONG-TERM DEBT:

	2002	2001
Secured:		
Senior notes (US\$70,000,000)	\$ 110,271,000	\$ 106,173,000
Revolving bank loan		35,083,026
Obligations under capital leases, bearing interest at rates varying from 5.21% to 16.08%, maturing at various dates through 2005	7,026,062	11,067,506
Term loans, bearing interest at rates from 7.58% to 8.15%, maturing at various dates through 2004	687,951	6,901,131
	<u>117,985,013</u>	<u>159,224,663</u>
Current portion of secured debt	5,570,277	6,300,015
	<u>\$ 112,414,736</u>	<u>\$ 152,924,648</u>
Unsecured:		
	\$ 3,130,430	\$ 415,775

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	2002	2001
Term loans, bearing interest at rates up to 6% per annum, maturing at various dates through 2008		
Current portion of unsecured debt	678,762	115,775
	\$ 2,451,668	\$ 300,000
Total unsecured and secured long-term debt	\$ 114,866,404	\$ 153,224,648

Included in interest expense is an amount of \$13,439,948 (2001 \$13,720,931; 2000 \$10,008,673) of interest on long-term debt.

The senior notes are repayable in four equal annual installments commencing in June 2004, bear interest at 9.51% on US\$55,000,000 and 9.88% on US\$15,000,000 and are secured by tangible and intangible property of the Company.

During fiscal 2000, the foreign currency risk associated with the senior notes was fully hedged through the use of a cross-currency interest rate swap arrangement under which the Company had fixed repayments on the senior notes of US\$70,000,000 into CDN\$104,839,000. All quarterly interest payments relating to this debt were converted to Canadian dollars to yield an effective interest rate of 8.705% on \$82,373,500 and 9.1% on \$22,465,500 for the term of the debt, for a composite rate of 8.79% for fiscal 2000.

During fiscal 2001, the Company cancelled US\$55 million of the cross-currency interest rate swap arrangement. A gain of approximately \$1.6 million was realized on the cancellation of the swap arrangement

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which amount is being deferred and amortized over the term of the senior notes. As at September 29, 2002, approximately \$1.0 million (2001 \$1.3 million) of the gain remains deferred on the consolidated balance sheet in accounts payable and accrued liabilities. The combined effective interest rate on the senior notes for fiscal 2002 was 9.43% (2001 was 9.42%) excluding the effect of the amortization of the gain realized on the cancellation of the swap.

The Company has a revolving term credit facility for a maximum of \$150,000,000 or the equivalent amount thereof in US dollars which matures in July 2005. The facility is secured by a first ranking moveable hypothec and security interest on the majority of the Company's accounts receivable, inventories, intangible assets, equipment and tangible moveable assets. There was no balance outstanding under this facility at September 29, 2002. The effective interest rate at September 30, 2001 was 6.88% on US dollar denominated loans and 5.63% on Canadian dollar denominated loans under this facility.

During fiscal 2000, the Company used the proceeds of its issue of senior notes to repay its unsecured debentures and all of the outstanding indebtedness under its revolving bank facility. A prepayment penalty and the write-off of the unamortized deferred financing costs related to these loans, totalling \$2,344,682, were expensed as a debt prepayment charge in the consolidated statement of earnings.

Under various financing arrangements with its bankers and other long-term lenders, the Company is required to meet certain covenants. The Company was in compliance with all of these covenants as at September 29, 2002 and September 30, 2001.

Principal payments due on long-term debt, other than obligations under capital leases, are as follows:

Fiscal year	
2003	\$ 1,290,280
2004	28,243,399
2005	28,213,393
2006	28,218,133
2007	28,074,176
Thereafter	50,000
	\$ 114,089,381

Fiscal year

Future minimum lease payments under capital leases are as follows:

Fiscal year

2003	\$ 5,247,143
2004	2,153,096
2005	47,828
Total minimum lease payments	7,448,067
Less imputed interest	422,005
	\$ 7,026,062

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5. SHARE CAPITAL:

	2002		2001	
	Shares	Book value	Shares	Book value
Authorized without limit as to number and without par value:				
First preferred shares, issuable in series, non-voting				
Second preferred shares, issuable in series, non-voting				
Class A subordinate voting shares, participating, one vote per share				
Class B multiple voting shares, participating, eight votes per share				
Issued and outstanding:				
Class A subordinate voting shares:				
Total outstanding, beginning of year	22,095,460	\$ 95,278,241	21,942,952	\$ 94,291,515
Shares issued under employee share purchase plan	8,096	181,721	2,376	60,310
Shares issued pursuant to exercise of stock options	723,408	4,381,617	150,132	926,416
Total outstanding, end of year	22,826,964	99,841,579	22,095,460	95,278,241
Class B multiple voting shares	6,094,000	5,083,396	6,094,000	5,083,396
	28,920,964	\$ 104,924,975	28,189,460	\$ 100,361,637

The Company has employee share purchase plans which allow eligible employees to authorize payroll deductions of up to 10% of their salary to purchase, from treasury, Class A subordinate voting shares of the Company at a price of 90% of the then current stock price as defined in the plans. Employees purchasing shares under the plans must hold the shares for a minimum of one year. The Company has reserved 700,000 Class A subordinate voting shares for issuance under the plans.

6. STOCK OPTION PLAN:

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The Company has established a stock option plan (the "Plan"). Under the Plan, the Company may grant options to purchase Class A subordinate voting shares at the then current market price to officers, other key employees and directors of the Company. Options vest ratably over a two to four-year period from the date of grant and expire no more than ten years after the date of grant. The Plan provides that the number of Class A subordinate voting shares reserved for issuance upon the exercise of options granted thereunder shall not exceed 2,768,888 shares.

Changes in outstanding options were as follows:

	Number	Weighted average price
Options outstanding, October 1, 2000	1,647,236	\$ 7.66
Granted	596,540	27.61
Exercised	150,132	6.17
<hr style="border: none; border-top: 1px solid black;"/>		
Options outstanding, September 30, 2001	2,093,644	13.45
Granted	163,552	19.68
Exercised	723,408	6.06
Cancelled	104,834	11.24
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Options outstanding, September 29, 2002	1,428,954	\$ 18.07

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The following table summarizes information about stock options outstanding and exercisable at September 29, 2002:

Range of exercise prices	Options outstanding			Options exercisable	
	Number	Weighted average exercise price	Weighted average remaining contractual life (yrs)	Number	Weighted average exercise price
\$5.15 \$5.75	323,032	\$ 5.27	5.85	245,701	\$ 5.18
\$6.63 \$9.75	189,521	8.47	6.60	56,782	9.35
\$14.38 \$19.70	228,032	16.70	8.28	25,500	14.38
\$20.00 \$25.68	408,569	24.44	8.25	19,257	24.05
\$27.00 \$35.12	279,800	31.17	8.43	5,000	27.90