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ANNUAL REPORT

silknit
LIMITED

for the fiscal year ended
DECEMBER 31, 1982

ROSS LIBRARY
OF MANAGEMENT
OCT 11 1983
MCGILL UNIVERSITY



SILKNIT LIMITED

HEAD OFFICE

590 King Street West, Toronto, Ontario M5V 1M4

TEXTILE DIVISION

Cambridge (H), Ontario

Circular knitted fabrics.

Woven fabrics and industrial fabrics.

MOLYCLAIRE DIVISION

Montreal, Quebec

Lingerie, loungewear and sleepwear.

COMFY HOME FURNISHINGS DIVISION

Cambridge (H), Ontario

Slipcovers, throws and decorator cushions.

ASSOCIATED COMPANY

LOVABLE BRASSIERE COMPANY OF CANADA LIMITED —

Toronto, Ontario

(Wholly-owned Subsidiary
as from January 1, 1983)

Ladies inner fashions and activewear.



April 30, 1983

To the Shareholders of

SILKNIT LIMITED:

Net sales decreased in 1982 by \$3,292,488 to \$24,030,742 which resulted in an operating loss of \$564,536 compared to an operating loss of \$1,296,178 in 1981. The Corporations share in the loss for the year of the Lovable Brassiere Company of Canada Limited amounted to \$247,375 compared to \$181,125 in 1981. Total loss for the year after recovery of deferred income taxes of \$113,000 and including the Corporations share of the loss of the Lovable Brassiere Company of Canada Limited amounted to \$698,911 compared to a loss of \$761,303 in 1981.

The poor market condition that developed late in 1981 carried over for the first half of 1982 resulting in losses amounting to \$729,917 including the Corporations half of the loss of the Lovable Company of \$128,070. In the second half of the year a noticeable increase in business in all divisions combined with a substantial reduction in overhead costs, dropping interest rates and a decline in some raw material prices resulted in the Corporation being marginally profitable. Unfortunately, the pick up did not affect the operations of the Lovable Company and its losses continued through the second half of the year at the same rate.

The first quarter of 1983 is not anticipated to show more than a marginal improvement over the operating loss in the first quarter of 1982. The second quarter is going to be very much better than in 1982, and we are anticipating a return to profitability for the calendar year.

As of January 1st 1983 the Corporation took over the 50% equity held by the Lovable Company of the United States in the Lovable Brassiere Company of Canada Limited, and with the new management and several new products we are anticipating greatly reduced losses or possibly a break even in that division during 1983.

As of April 15th 1983 Mr. Arthur Simonian was appointed President of the Molyclair division. He brings to this operation an excellent background and a successful career in the garment industry. With strong day to day management this division will become profitable and resume its previous growth pattern.

In mid 1982 Mr. Bob Tease, Plant Manager of the Textile division resigned for health reasons and Mr. David Mason was promoted to that position. Mr. Gordon Dearborn was appointed head of the Comfy Home Furnishings division and Mr. Peter Webb joined the Company as Personnel Manager mid-year as did Mr. Jon Kaufman, Controller at Cambridge.

Other management changes at Cambridge have resulted in a much leaner and more aggressive team and lower costs; improved quality and better deliveries have been the result.

Working Capital decreased during the year by \$307,649 to \$4,782,425 as shown by the Statement of Changes in Financial Position forming part of the Financial Statements.

Your Directors wish to record their appreciation of the loyal services rendered throughout the year by the officers and employees of the Corporation.

On Behalf of the Board,

H.B. Epstein,
Chairman

Box 51, Toronto-Dominion
Centre
Toronto, Ontario
M5K 1G1
(416) 863-1133
Telex 065-24111

March 31, 1983

AUDITORS' REPORT

To the Shareholders of
SILKNIT LIMITED:

We have examined the balance sheet of Silknit Limited as at December 31, 1982 and the statements of operations, 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 Corporation as at December 31, 1982 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.

PRICE WATERHOUSE
Chartered Accountants


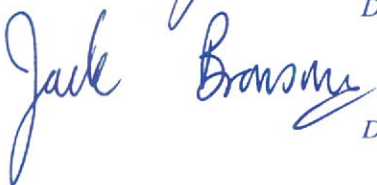


BALANCE SHEET

ASSETS

	<u>December 31</u>	
	<u>1982</u>	<u>1981</u>
CURRENT ASSETS:		
Accounts receivable —		
Trade	\$ 3,002,030	\$ 2,980,749
Associated corporation (Note 7)	491,721	325,592
Loans to officers, directors and employees	44,100	80,896
Income taxes recoverable	—	141,052
Inventories (Note 2)	8,682,724	8,730,419
Prepaid expenses	<u>33,493</u>	<u>9,012</u>
	12,254,068	12,267,720
OTHER ASSETS:		
Investment in shares of associated corporation	132,909	380,284
Cash surrender value of life insurance, less policy loans	<u>46,504</u>	<u>43,117</u>
	179,413	423,401
FIXED ASSETS (Note 3)	<u>2,367,918</u>	<u>2,582,265</u>
	<u>\$14,801,399</u>	<u>\$15,273,386</u>

APPROVED BY THE BOARD:


 Director

 Director

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31	
	1982	1981
CURRENT LIABILITIES:		
Bank overdraft and operating loan (Note 4)	\$ 2,147,731	\$ 4,921,224
Non-revolving bank loan (Note 4)	2,500,000	—
Accounts payable and accrued liabilities	2,823,912	2,256,422
	7,471,643	7,177,646
NOTES PAYABLE (secured)	51,584	—
DEFERRED INCOME TAXES	—	113,000
SHAREHOLDERS' EQUITY:		
Cumulative Preferred Shares (Note 5)	1,150	1,150
Common Shares (Note 5)	3,360,774	3,366,431
Contributed surplus	479,097	479,097
Retained earnings	3,437,151	4,136,062
	7,278,172	7,982,740
	\$14,801,399	\$15,273,386



STATEMENT OF OPERATIONS

	Year Ended December 31	
	1982	1981
Net sales	\$24,030,742	\$27,323,230
Cost of merchandise sold including provision for depreciation of \$451,755 (1981 — \$556,606)	20,497,049	24,200,409
	3,533,693	3,122,821
Expenses:		
Interest	720,530	826,960
Selling, general and administration	3,377,699	3,592,039
	4,098,229	4,418,999
Loss before income taxes and share of net loss of associated corporation	564,536 ✓	1,296,178
Deferred income taxes	(113,000)	(716,000)
Loss before share of net loss of associated corporation	451,536	580,178
Share of net loss of associated corporation	247,375	181,125
Net loss for the year	\$ 698,911	\$ 761,303
Loss per common share	\$ 0.83	\$ 0.90



STATEMENT OF RETAINED EARNINGS

	<u>Year Ended December 31</u>	
	<u>1982</u>	<u>1981</u>
Retained Earnings at beginning of year	\$ 4,136,062	\$ 4,998,820
Net loss for the year	<u>698,911</u>	<u>761,303</u>
	3,437,151	4,237,517
 <i>Deduct:</i>		
Stock dividends	—	22,402
Cash dividends—		
Preferred shares	—	470
Common shares	<u>—</u>	<u>78,583</u>
	—	101,455
Retained earnings at end of year	<u>\$ 3,437,151</u>	<u>\$ 4,136,062</u>



STATEMENT OF CHANGES IN FINANCIAL POSITION

	<u>Year Ended December 31</u>	
	<u>1982</u>	<u>1981</u>
FINANCIAL RESOURCES WERE PROVIDED BY:		
Proceeds from note payable	\$ 51,584	\$ —
FINANCIAL RESOURCES WERE USED FOR:		
Loss before share of net loss of associated corporation	451,536	580,178
Items not affecting working capital –		
Provision for depreciation	(462,243)	(568,097)
Deferred income taxes	<u>113,000</u>	<u>716,000</u>
Total for operations	102,293	728,081
Cash dividends –		
Preferred shares	—	470
Common shares	—	78,583
Redemption of preferred shares	—	42,731
Redemption of common shares	5,657	526
Additions to fixed assets, net	247,896	431,164
Change in cash surrender value of life insurance – net	<u>3,387</u>	<u>3,515</u>
	<u>256,940</u>	<u>556,989</u>
Decrease in working capital	(307,649)	(1,285,070)
Working capital at beginning of year	<u>5,090,074</u>	<u>6,375,144</u>
Working capital at end of year	<u>\$ 4,782,425</u>	<u>\$ 5,090,074</u>
REPRESENTED BY:		
Current assets	\$12,254,068	\$12,267,720
Current liabilities	<u>7,471,643</u>	<u>7,177,646</u>
	<u>\$ 4,782,425</u>	<u>\$ 5,090,074</u>



**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1982**

1. SUMMARY OF ACCOUNTING POLICIES:

- (a) Inventories are valued at the lower of cost and net realizable value.
- (b) Investment in shares of an associated corporation, Lovable Brassiere Company of Canada Limited (50% owned), is accounted for on the equity basis, whereby the investment is stated at cost plus the Corporation's share of undistributed earnings.
- (c) Fixed assets are recorded at cost. Depreciation is based on the estimated useful lives of the assets and is calculated as follows:

Buildings — 5% declining balance
Machinery and equipment — 8 years straight-line

2. INVENTORIES:

	1982	1981
Raw materials and supplies	\$ 4,324,810	\$ 4,912,434
Work in process	1,361,789	719,907
Finished goods	2,996,125	3,098,078
	<u>\$ 8,682,724</u>	<u>\$ 8,730,419</u>

3. FIXED ASSETS:

	1982	1981
Cost —		
Land	\$ 88,077	\$ 88,077
Buildings	1,443,280	1,408,276
Machinery and equipment	7,954,656	7,750,632
	<u>9,486,013</u>	<u>9,246,985</u>
Accumulated depreciation—		
Buildings	909,051	881,190
Machinery and equipment	6,209,044	5,783,530
	<u>7,118,095</u>	<u>6,664,720</u>
Cost, less accumulated depreciation	<u>\$ 2,367,918</u>	<u>\$ 2,582,265</u>

4. BANK INDEBTEDNESS:

The bank overdraft and operating loan are secured by a general assignment of inventories, accounts receivable and fire insurance.

The non-revolving bank loan is secured by a demand debenture in the sum of \$2,500,000 over all assets of the Company.

5. PREFERRED AND COMMON SHARES:

Authorized —
Preferred — Unlimited
Common — 2,400,000

	<u>Preferred</u>		<u>Common</u>	
Issued and outstanding —				
January 1, 1982	1,150	\$1,150	841,429	\$3,366,431
Redeemed	—	—	1,257	5,657
December 31, 1982	<u>1,150</u>	<u>\$1,150</u>	<u>840,172</u>	<u>\$3,360,774</u>

The preferred shareholders are entitled to receive a cumulative dividend of 6¢ per share. The shares are redeemable for \$1.00 each at the option of the shareholder at any time or at the option of the Corporation after December 31, 1983.

49,828 common shares are reserved for the Executive Share-Purchase Plan. The Plan provides that shares are purchasable at year-end market rates over a ten year period. At December 31, 1982 there were no outstanding options under the Plan. During the year 1,257 common shares previously issued were redeemed in accordance with the terms of the Plan.

6. INCOME TAXES:

The Corporation has losses available at December 31, 1982 for application against future income as follows:

Tax losses expiring in:

1986	\$ 673,000
1987	365,000
	<u>1,038,000</u>

Less: Excess of expenses claimed for tax purposes over the amount recorded for book purposes (412,500)

Accounting losses, the tax effects of which have not been recognized in the financial statements \$ 625,500

7. RELATED PARTY TRANSACTIONS AND SUBSEQUENT EVENT:

The Corporation sells some materials, rents certain premises and lends short-term funds to its associated corporation at commercial rates.

Subsequent to December 31, 1982, the Corporation purchased the remaining 50% of the issued shares of the associated corporation.

8. SEGMENTED INFORMATION:

The directors of the Corporation have determined the following industry segments:

- (a) textiles — woven, knitted and industrial fabrics, and
- (b) clothing and soft furnishings — lingerie, loungewear, sleepwear, slipcovers, throws and cushions.

Industry segments:

	1982				1981			
	Textiles	Clothing and soft furnishings	Eliminations	Total	Textiles	Clothing and soft furnishings	Eliminations	Total
Sales to customers.....	\$15,779,123	\$ 8,251,619	\$ —	\$24,030,742	\$19,241,158	\$ 8,082,072	\$ —	\$27,323,230
Inter-segment sales.....	1,854,354	—	(1,854,354)	—	1,336,316	—	(1,336,316)	—
Net sales.....	<u>\$17,633,477</u>	<u>\$ 8,251,619</u>	<u>\$(1,854,354)</u>	<u>\$24,030,742</u>	<u>\$20,577,474</u>	<u>\$ 8,082,072</u>	<u>\$(1,336,316)</u>	<u>\$27,323,230</u>
Operating profit (loss).....	<u>\$ (131,302)</u>	<u>\$ 526,868</u>	<u>\$ (15,227)</u>	<u>\$ 380,339</u>	<u>\$ (240,470)</u>	<u>\$ 76,817</u>	<u>\$ (25,647)</u>	<u>\$ (189,300)</u>
Corporate expenses, net...				(224,345)				(279,918)
Interest expense.....				(720,530)				(826,960)
Income taxes.....				113,000				716,000
Share in loss of associated corporation...				(247,375)				(181,125)
				<u>(1,079,250)</u>				<u>(572,003)</u>
Net loss for the year.....				<u>\$ 698,911</u>				<u>\$ 761,303</u>
Identifiable assets.....	<u>\$10,050,307</u>	<u>\$ 3,842,183</u>		<u>\$13,892,490</u>	<u>\$ 9,146,551</u>	<u>\$ 4,983,494</u>		<u>\$14,130,045</u>
Corporate assets.....				776,000				763,057
Investment in associated corporation...				132,909				380,284
Total assets.....				<u>\$14,801,399</u>				<u>\$15,273,386</u>
Capital expenditures.....	<u>\$ 215,128</u>	<u>\$ 9,580</u>			<u>325,088</u>	<u>130,472</u>		
Depreciation	<u>\$ 397,610</u>	<u>\$ 54,145</u>			<u>472,110</u>	<u>84,496</u>		

Inter-segment sales are made at fair market value.



DIRECTORS ALPHABETICAL

J. BRONSON	<i>Director</i>
*H.T. BURGESS	<i>Director</i>
*S. ELLIOTT	<i>Director</i>
H.B. EPSTEIN	<i>Director</i>
N. EPSTEIN	<i>Director</i>
PAUL HENRY, Q.C.	<i>Director</i>
*G. KLAGER	<i>Director</i>
W.F. McCORMICK	<i>Director</i>
M.J. ROTHSCHILD	<i>Director</i>

**Audit committee*

OFFICERS

H.B. EPSTEIN	<i>Chairman</i>
J. BRONSON	<i>President</i>
H.T. BURGESS	<i>Secretary</i>
S. RAINE	<i>Comptroller</i>

TRANSFER AGENT

CENTRAL TRUST COMPANY
P.O. BOX 38 1, FIRST CANADIAN PLACE, TORONTO, ONTARIO
M5X 1G4

NOTES

