

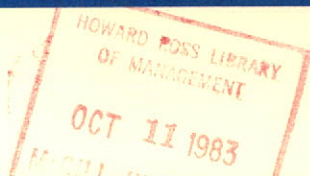
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ANNUAL REPORT

**silknit**  
LIMITED

*for the fiscal year ended*

DECEMBER 31, 1981







**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 — (50% owned)**

Toronto, Ontario

Foundation garments.



April 30, 1982

*To the Shareholders of*

**SILKNIT LIMITED**

Net sales for 1981 decreased by \$2,461,173 to \$27,323,230 which resulted in net operating loss of \$1,286,178 compared to operating income before taxes of \$270,933 in 1980. The Corporation's share of the loss for 1981 of the Lovable Brassiere Company of Canada Limited amounted to \$181,125 compared to a loss of \$36,350 in 1980. Total loss for 1981 after recovery of taxes of \$716,000 and including the Corporation's portion of the loss of the Lovable Brassiere Company of Canada Limited amounted to \$761,303 compared to a profit after taxes of \$210,689 in 1980. An extraordinary recovery of \$305,000 late in the year has not been included in the 1981 figures but has been credited to Retained Earnings net of related taxes.

The past year has been the most difficult since the start of the Corporation. The rise in interest rates and the very rapid increase in fuel costs combined with a slowdown in business at the retail level made it impossible, especially in the second half of the year, to operate at a level that would cover expenses. Adding to the problem was a declining price level in the market place as competing companies went after a lower level of business. Another factor adding to the situation was that raw material commitments had to be honoured. This resulted in unexpected levels of inventory, making it impossible to reduce interest charges as had been planned.

Sales of the Knitting section of the Textile division declined by almost \$2,000,000 while the Woven fabric section showed an increase of \$1,100,000 and the closing of the Pile fabric operation at the end of 1980 resulted in sales drop of \$750,000. The Comfy Home Furnishings division, reflecting poor retail sales, dropped \$750,000 in sales and the Molyclaire division showed a slight volume increase.

Unfortunately, the conditions that prevailed in 1981 have carried over into 1982. The cost of carrying inventories has resulted in minimal orders from retailers and corresponding small orders from the garment manufacturers as all companies try to operate with minimum inventories. Also, while there are restraints on imports, the level of penetration of the Canadian market rises as the total market contracts. Imported goods are normally ordered with long lead times and are usually not cancellable, so that there is even less money available to buy from the domestic manufacturers.

Starting late in 1981, there has been a substantial turnover of senior management personnel. Mr. Chris Bee, Director and Treasurer, Mr. Alan Holvey, Vice-President, Manufacturing, Textile Division, and Mr. George Kushnir, President, Molyclaire division, have all left the Corporation. The Corporation has been fortunate in obtaining the services of Mr. Stewart Raine who has become Comptroller. Mr. Robert Tease has been promoted to Plant Manager of the Textile Division while Mr. Kushnir of the Molyclaire Division has not been replaced as yet and the Division is operating under very close supervision of Head Office.

Quarterly dividends were paid at the rate of 6¢ per share for the first two quarters on the Common shares. In order to conserve cash, no further Common Dividends were declared in 1981. The regular half-yearly dividends of 3¢ per share were paid on the Cumulative Preferred Shares.

Working Capital decreased during the year by \$1,285,070 to \$5,090,074 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*



## STATEMENT OF OPERATIONS

	Year ended December 31	
	1981	1980
Net sales .....	\$27,323,230	\$29,784,403
Cost of merchandise sold including provision for depreciation of \$556,606 (1980 - \$644,190) .....	24,200,409	25,122,975
	3,122,821	4,661,428
Expenses:		
Interest .....	826,960	696,774
Selling, general and administration .....	3,592,039	3,693,721
	4,418,999	4,390,495
Income (loss) before income taxes and share of net loss of associated corporation .....	(1,296,178)	270,933
Income taxes:		
Current .....	—	(54,106)
Deferred .....	(716,000)	78,000
	(716,000)	23,894
Income (loss) before share of net loss of associated corporation .....	(580,178)	247,039
Share of net loss of associated corporation .....	(181,125)	(36,350)
Net income (loss) for the year .....	\$ (761,303)	\$ 210,689
Earnings (loss) per common share .....	\$ (0.90)	\$ 0.25



**BALANCE SHEET**

**ASSETS**

	December 31	
	<u>1981</u>	<u>1980</u>
		(Restated, Note 8)
<b>CURRENT ASSETS:</b>		
Accounts receivable –		
Trade .....	\$ 2,980,749	\$ 3,793,757
Litigation settlement (Note 8) .....	—	305,000
Associated corporation (Note 7) .....	325,592	130,803
Loans to officers, directors and employees .....	80,896	92,329
Income taxes recoverable .....	141,052	164,346
Inventories (Note 2) .....	8,730,419	8,231,052
Prepaid expenses .....	<u>9,012</u>	<u>42,071</u>
	12,267,720	12,759,358
<b>OTHER ASSETS:</b>		
Investment in shares of associated corporation .....	380,284	561,409
Cash surrender value of life insurance, less policy loans .....	<u>43,117</u>	<u>39,602</u>
	423,401	601,011
<b>FIXED ASSETS (Note 3) .....</b>	<u>2,582,265</u>	<u>2,719,198</u>
	<u>\$15,273,386</u>	<u>\$16,079,567</u>

**APPROVED BY THE BOARD:**

H. B. EPSTEIN, Director

J. BRONSON, Director

## LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31	
	1981	1980
		(Restated, Note 8)
<b>CURRENT LIABILITIES:</b>		
Bank indebtedness (Note 4) . . . . .	\$ 4,921,224	\$ 2,038,609
Notes payable . . . . .	—	2,000,000
Accounts payable and accrued liabilities . . . . .	2,256,422	2,345,605
	7,177,646	6,384,214
 DEFERRED INCOME TAXES . . . . .	 113,000	 829,000
 <b>SHAREHOLDERS' EQUITY:</b>		
Cumulative preferred shares (Note 5) . . . . .	1,150	21,479
Common shares (Note 5) . . . . .	3,366,431	3,366,957
Contributed surplus . . . . .	479,097	479,097
Retained earnings . . . . .	4,136,062	4,998,820
	7,982,740	8,866,353
	\$15,273,386	\$16,079,567



**STATEMENT OF RETAINED EARNINGS**

	Year ended December 31	
	1981	1980
<b>Beginning of year:</b>		
As previously reported .....	\$ 4,834,820	\$ 4,826,384
Prior period adjustment (Note 8) .....	164,000	164,000
As restated .....	4,998,820	4,990,384
Net income (loss) for the year .....	(761,303)	210,689
	4,237,517	5,201,073
 <i>Deduct:</i>		
Stock dividends (Note 5) .....	22,402	44,900
Cash dividends –		
Preferred shares .....	470	375
Common shares .....	78,583	156,978
	101,455	202,253
Balance at end of year .....	\$ 4,136,062	\$ 4,998,820





**STATEMENT OF CHANGES IN FINANCIAL POSITION**

	Year ended December 31	
	1981	1980
		(Restated, Note 8)
<b>FINANCIAL RESOURCES WERE PROVIDED BY:</b>		
Income for the year before share of net		
loss of associated corporation . . . . .	\$ —	\$ 247,039
Items not affecting working capital –		
Provision for depreciation . . . . .	—	644,190
Deferred income taxes . . . . .	—	78,000
	—	969,229
Total from operations . . . . .	—	969,229
Proceeds from issue of common shares . . . . .	—	6,957
	—	976,186
<b>FINANCIAL RESOURCES WERE USED FOR:</b>		
Loss for the year before share of net loss of		
associated corporation . . . . .	580,178	—
Items not affecting working capital –		
Provision for depreciation . . . . .	(568,097)	—
Deferred income taxes . . . . .	716,000	—
	728,081	—
Total for operations . . . . .	728,081	—
Cash dividends –		
Preferred shares . . . . .	470	375
Common shares . . . . .	78,583	156,978
Redemption of preferred shares . . . . .	42,731	34,450
Redemption of common shares . . . . .	526	—
Additions to fixed assets – net . . . . .	431,164	844,530
Change in cash surrender value of life insurance – net . . . . .	3,515	3,493
	556,989	1,039,826
Decrease in working capital . . . . .	(1,285,070)	(63,640)
Working capital at beginning of year . . . . .	6,375,144	6,438,784
Working capital at end of year . . . . .	\$ 5,090,074	\$ 6,375,144
<b>REPRESENTED BY:</b>		
Current assets . . . . .	\$12,267,720	\$12,759,358
Current liabilities . . . . .	7,177,646	6,384,214
	\$ 5,090,074	\$ 6,375,144



**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 1981**

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:

	1981	1980
Raw materials and supplies .....	\$ 4,912,434	\$ 4,635,903
Work in process .....	719,907	747,559
Finished goods .....	3,098,078	2,847,590
	\$ 8,730,419	\$ 8,231,052

3. FIXED ASSETS:

	1981	1980
Cost-		
Land .....	\$ 88,077	\$ 88,077
Buildings .....	1,408,276	1,441,900
Machinery and equipment .....	7,750,632	7,465,516
	9,246,985	8,995,493
Accumulated depreciation-		
Buildings .....	881,190	887,649
Machinery and equipment .....	5,783,530	5,388,646
	6,664,720	6,276,295
Cost, less accumulated depreciation .....	\$ 2,582,265	\$ 2,719,198

4. BANK INDEBTEDNESS:

Bank indebtedness is secured by general assignments of inventories, accounts receivable and fire insurance.

5. PREFERRED AND COMMON SHARES:

Authorized -

- Preferred - unlimited
- Common - 2,400,000

	Preferred		Common	
Issued and outstanding -				
January 1, 1981 .....	21,479	\$21,479	841,546	\$3,366,957
Issued .....	22,402	22,402	—	—
Redeemed .....	(42,731)	(42,731)	(117)	(526)
December 31, 1981 .....	1,150	\$ 1,150	841,429	\$3,366,431

Dividend resolutions provided the option to receive cumulative preferred shares for an issue price of \$1.00 in lieu of the cash dividends. As a result, 22,402 preferred shares were issued.

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.

48,571 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, 1981, options granted under this Plan for 416 shares were outstanding. 117 common shares previously issued were redeemed in accordance with the terms of the Plan upon departure of an executive.

6. INCOME TAXES:

Losses carried forward on a tax filing basis and recognized in the financial statements amount to \$673,000 and expire in 1986.

7. RELATED PARTY TRANSACTIONS:

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

8. PRIOR PERIOD ADJUSTMENT:

During 1981 the Corporation received \$305,000 in settlement of an outstanding claim against a customer. The settlement relates to events occurring prior to 1980 and the amount, net of related deferred income taxes of \$141,000, has been accounted for as a prior period adjustment. Accordingly in the restated comparative figures, retained earnings and working capital as at January 1, 1980 have been increased by \$164,000 and \$305,000 respectively.

9. 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:

	1981				1980			
	Textiles	Clothing and soft furnishings	Eliminations	Total	Textiles	Clothing and soft furnishings	Eliminations	Total
Sales to customers . . . . .	\$19,241,158	\$ 8,082,072	\$ —	\$27,323,230	\$21,158,849	\$ 8,625,554	\$ —	\$29,784,403
Inter-segment sales . . . . .	1,336,316	—	(1,336,316)	—	1,283,492	—	(1,283,492)	—
Net sales . . . . .	<u>\$20,577,474</u>	<u>\$ 8,082,072</u>	<u>\$(1,336,316)</u>	<u>\$27,323,230</u>	<u>\$22,442,341</u>	<u>\$ 8,625,554</u>	<u>\$(1,283,492)</u>	<u>\$29,784,403</u>
Operating profit (loss) . . . . .	<u>\$ (240,470)</u>	<u>\$ 76,817</u>	<u>\$ (25,647)</u>	<u>\$ (189,300)</u>	<u>\$ 1,108,626</u>	<u>\$ 213,079</u>	<u>\$ (25,672)</u>	<u>\$ 1,296,033</u>
Corporate expenses – net . . . . .				(279,918)				(328,326)
Interest expense . . . . .				(826,960)				(696,774)
Income taxes . . . . .				716,000				(23,894)
Share in loss of associated corporation . . . . .				(181,125)				(36,350)
Net income (loss) for the year . . . . .				<u>\$ (761,303)</u>				<u>\$ 210,689</u>
Identifiable assets . . . . .	<u>\$ 9,146,551</u>	<u>\$ 4,983,494</u>		<u>\$14,130,045</u>	<u>\$ 9,488,613</u>	<u>\$ 4,593,821</u>		<u>\$14,082,434</u>
Corporate assets . . . . .				763,057				1,435,724
Investment in associated corporation . . . . .				380,284				561,409
Total assets . . . . .				<u>\$15,273,386</u>				<u>\$16,079,567</u>
Capital expenditures . . . . .	<u>\$ 325,088</u>	<u>\$ 130,472</u>			<u>\$ 762,501</u>	<u>\$ 82,029</u>		
Depreciation . . . . .	<u>\$ 472,110</u>	<u>\$ 84,496</u>			<u>\$ 525,148</u>	<u>\$ 109,768</u>		

Inter-segment sales are made at fair market value.

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Toronto, Ontario  
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(416) 863-1133  
Telex 065-24111

May 6, 1982

## AUDITORS' REPORT

*To the Shareholders of*  
SILKNIT LIMITED:

We have examined the balance sheet of Silknit Limited as at December 31, 1981 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, 1981 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



**DIRECTORS ALPHABETICAL**

- J. BRONSON ..... *Director*  
\*H. T. BURGESS ..... *Director*  
\*H. B. EPSTEIN ..... *Director*  
N. EPSTEIN ..... *Director*  
PAUL HENRY, Q.C. .... *Director*  
\*G. KLAGER ..... *Director*  
W. F. McCORMICK ..... *Director*  
M. J. ROTHSCHILD ..... *Director*  
\**Audit committee*

**OFFICERS**

- H. B. EPSTEIN ..... *Chairman*  
J. BRONSON ..... *President*  
H. T. BURGESS ..... *Secretary*  
S. RAINE ..... *Comptroller*

**TRANSFER AGENT**

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

## NOTES



