

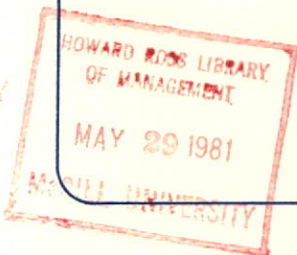
C

ANNUAL REPORT

silknit
LIMITED

for the fiscal year ended

DECEMBER 31, 1980





NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

JUNE 18, 1981

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Silkknit Limited will be held at the offices of the Corporation at 590 King Street West, Toronto, Ontario, on Thursday, the 18th day of June 1981, at 11:00 o'clock in the forenoon, for the following purposes:

- 1) To receive the Annual Report, the Financial Statements of the Corporation for the year ended December 31st, 1980 together with the Reports of the Directors and Auditors thereon;
- 2) To elect the Directors;
- 3) To appoint Auditors and to authorize the Directors to fix their remuneration; and
- 4) Transacting such other business as may properly be brought before the Meeting or any adjournment or adjournments thereof.

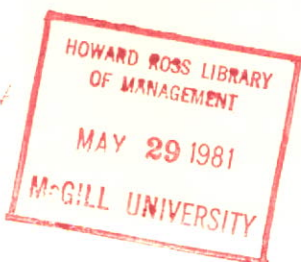
A copy of the Annual Report containing the Financial Statements of the Corporation together with the Auditors' Report thereon, an Information Circular and a Form of Proxy accompany this Notice.

Each shareholder in whose name a Common Share is registered on the date of the Meeting is entitled to vote the same either in person or by proxy. If you are not able to be present personally at the above meeting, kindly date, sign and return the enclosed form of proxy accompanying this Notice in the envelope provided for that purpose.

DATED at Toronto this 30th day of April, 1981.

By Order of the Board,

H. T. BURGESS
Secretary



INFORMATION CIRCULAR

as at April 30, 1981

MANAGEMENT SOLICITATION

This Information Circular is furnished in connection with the solicitation by the Management of Silknit Limited (the Corporation) of Proxies to be voted at the Annual Meeting of Shareholders of the Corporation to be held at the time and place and for the purposes set forth in the Notice of Meeting. The Solicitation will be by mail and the cost will be borne by the Corporation.

APPOINTMENT AND REVOCATION OF PROXIES

The persons named in the enclosed Form of Proxy are Directors of the Corporation. A SHAREHOLDER DESIRING TO APPOINT SOME OTHER PERSON TO REPRESENT HIM AT THE MEETING MAY DO SO BY INSERTING IN THE BLANK SPACE PROVIDED IN THE SAID FORM THE NAME OF THE PERSON WHOM HE WISHES TO APPOINT AS HIS PROXY.

A shareholder executing the enclosed Proxy has the power to revoke it at any time prior to its use by instrument in writing, executed by the Shareholder or by his attorney authorized in writing or, if the Shareholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized and deposited either at the head office of the Corporation at any time up to and including the last business day preceding the day of the Meeting, or any adjournment thereof at which the Proxy is to be used, or with the Chairman of such Meeting on the day of the Meeting or adjournment thereof.

EXERCISE OF DISCRETION BY PROXIES

IT IS INTENDED THAT THE ACCOMPANYING INSTRUMENT OF PROXY, IF SIGNED, DATED AND RETURNED TO THE CORPORATION PRIOR TO THE MEETING, WILL BE VOTED, SUBJECT TO ANY RESTRICTIONS THAT MAY BE IMPOSED BY THE PROVISIONS OF THE INSTRUMENT OF PROXY, FOR THE ELECTION OF DIRECTORS AND THE APPOINTMENT OF AUDITORS IN ACCORDANCE WITH THE INSTRUCTIONS CONTAINED IN THE ENCLOSED INSTRUMENT OF PROXY, AND WILL BE VOTED WITH RESPECT TO AMENDMENTS OR VARIATIONS IDENTIFIED IN THE NOTICE OF MEETING OR OTHER MATTERS THAT MAY PROPERLY COME BEFORE THE MEETING ACCORDING TO THE BEST JUDGMENT OF THE PERSON VOTING THE PROXY AT THE MEETING.

The Management knows of no matters to come before the Annual Meeting of Shareholders other than the matters referred to in the Notice of Meeting. If any matters which are not known should properly come before the Meeting, the accompanying Proxy Instrument will be voted in such matters, in accordance with the best judgment of the person voting it.

VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

Holders of Common Shares of the Corporation of record on the date of the Meeting are entitled to one vote for each such share held and only Common Share holders are entitled to vote at the Meeting. There were 841,546 Common Shares of the Corporation outstanding on April 30, 1981. On April 30, 1981, H.B. Epstein directly and indirectly beneficially owned 149,784 Common Shares of the Corporation and an associate directly and indirectly beneficially owned 40,004 Common Shares which together represented approximately 22.6% of the outstanding equity shares and H.B. Epstein is the Secretary, N.J. Epstein is the President and Treasurer and, Paul Henry is a Director of Enjay Investments Inc., which company was the beneficial owner of 319,868 Shares of the Corporation which represented 38.0% of the outstanding equity shares of the Corporation. These are the only persons or companies beneficially owning, directly or indirectly, more than 10% of the issued and outstanding Common Shares of the Corporation, in the knowledge of the Management.

ELECTION OF DIRECTORS

The persons named in the enclosed Instrument of Proxy intend to vote, subject to any restrictions that may be imposed by the Instrument of Proxy, for the election of the nominees whose names are set forth below. It is not contemplated that any of the Nominees will be unable to serve as a Director, but if that should occur for any reason prior to the Meeting, the persons named in the enclosed Form of Proxy reserve the right to vote for another Nominee in their discretion. The term of office for each person elected will be until the next Annual Meeting or until his successor is duly elected.

The following table states the names of all persons proposed to be nominated for election as Directors, their position with the Corporation, their principal occupation or employment during the last five years, the date upon which they became Directors of the Corporation and the approximate number of Common Shares of the Corporation beneficially owned, directly or indirectly, by each of them as of April 30, 1981.

Name of proposed nominee	Office presently held in company	Director since	Number of Common Shares beneficially owned	Principal occupation during the last five years
H.B. EPSTEIN	Chairman	June 20, 1941	149,784	Executive, President of the Corporation
J. BRONSON	President	May 3, 1974	1,046	Executive, Vice-President of the Corporation
H.T. BURGESS	Secretary	April 24, 1945	45,148	Chairman of Burgess Graham Securities Limited (Investment Dealers)
C. BEE	Treasurer	May 18, 1978	3,000	Executive, Treasurer of the Corporation
N.J. EPSTEIN	Director	February 15, 1977	100	Salesman
PAUL HENRY, Q.C.	Director	May 3, 1974	100	Senior Partner, Henry and Brown (Barristers and Solicitors)
G. KLAGER	Director	March 25, 1970	200	Retired, formerly General Manager of a division of the Corporation
W.F. McCORMICK	Director	February 15, 1972	400	Retired, formerly President of Galtex Co. Limited
M.J. ROTHSCHILD	Director	January 18, 1973	100	Vice-President of The Cadillac Fairview Corporation Limited

**DIRECTORS' AND OFFICERS' REMUNERATION FROM THE CORPORATION
AND ITS AFFILIATES**

SECTION 35(t)(v), FOR THE YEAR ENDED DECEMBER 31, 1980.

NATURE OF REMUNERATION EARNED

	Directors' Fees	Salaries	Bonuses	Non- accountable Expense Pension	Other	Total
Remuneration of Directors						
a) Number of directors: 5						
b) Body Corporate incurring the expense						
SILKNIT	7,500	17,500				25,000
Remuneration of Officers						
a) Number of officers: 3						
b) Body Corporate incurring the expense						
SILKNIT		128,269		7,796		136,065
Remuneration of Officer-Directors						
a) Number of Officer-Directors: 4						
b) Body corporate incurring the expense						
SILKNIT	2,500	150,656		9,485		162,641
LOVABLE BRASSIERE COMPANY OF CANADA LIMITED		18,717				18,717
TOTALS	10,000	315,142		17,281		342,423

A senior officer and director of the Corporation, J. Bronson, was indebted to it in respect of a loan made to him to enable him to purchase a residence; the maximum amount of such loan outstanding during the year was \$59,700 payable on demand without interest; the amount thereof presently outstanding is \$54,500.

APPOINTMENT OF AUDITORS

The persons named in the enclosed Form of Proxy intend to vote, subject to any restrictions that may be imposed by the provisions of the Instrument of Proxy, for the re-appointment of Price Waterhouse & Co., the present Auditors, as Auditors of the Corporation, to hold office until the next Annual Meeting of the Shareholders.

Other Business

The enclosed form of proxy confers discretionary authority upon the persons designated therein with respect to amendments or variations to matters identified in the Notice of Meeting, and with respect to other matters which may properly come before the Meeting. As at the date of this Information Circular, Management is not aware that any such amendments, variations or other matters are to be presented for action at the Meeting.

The undersigned hereby certifies that the information given in this Proxy Information Circular is true and complete in every respect to the best of my knowledge and belief and that the contents of and the sending out of the Circular has been approved by management.

Toronto, Canada.

SILKNIT LIMITED

April 30, 1981.

H.T. BURGESS,
Secretary.



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 and swimwear.



April 24, 1981

To the Shareholders of

SILKNIT LIMITED:

Net sales for 1980 decreased by \$795,057 to \$29,784,403 while net operating income before taxes declined to \$270,933 from \$1,164,571 in 1979. Net income after taxes amounted to \$247,039 in 1980 compared with \$783,989 in 1979. The Corporation's share of the loss of the Lovable Brassiere Company of Canada Limited amounted to \$36,350 in 1980 compared to a loss of \$2,363 in 1979. Net income for 1980 was \$210,689 or 25¢ per share while net income for 1979 was \$781,626 or 93¢ per share.

1980 was a difficult year for a variety of reasons, including a 10 day work stoppage at the Cambridge plant. This had the effect of loss of sales and production while overhead costs were unabsorbed leading to a substantial loss in the second quarter of the year. Although the last half of the year was profitable, it was not possible to generate enough profits to equal the 1979 results. Both Comfy Home Furnishings and Molyclair divisions had reduced sales and, while showing a small profit before the allocation of their share of Corporate expenses and interest charges, the divisions were not profitable after these expenses. Lower sales were the result of a drop in demand in the marketplace for most products of these types due to high interest rates, reluctance of the major retailers to place in quantity and sluggish sales at the retail and mail order level.

Sales of the Textile division after elimination of inter-segment sales increased by 6.5% to \$21,158,849 from \$19,869,297. This increase for the year was despite the slow second quarter and the determination to phase out the Silver Knit pile fabric operation during the second half of the year. This operation had been suffering losses for several years and the future outlook did not indicate any improvement. The machinery has been sold and the small amount of inventory that remains has been valued at the anticipated realizable value. A slowdown in the sales of "Velour" knit fabric and competitive market forces made it impossible to keep up profit margins for the continuing Textile operations.

Although the Textile and Clothing Board, in its report to the Federal Government, made a strong recommendation that certain measures of protection currently in effect be extended until 1990, to date no announcement of Government policy has been made. It is believed that the Canadian Government as well as the E.E.C. are in no rush to let their positions be known with regard to the renewal of the M.F.A. until the U.S.A. reveals its stance. Consequently the Textile and Clothing Board's recommendations are likely to remain just that, until all parties come to an agreement on M.F.A. renewal. It is not anticipated that current bilateral trade agreements will be allowed to expire but there is always some concern that the Federal Government might trade off domestic textile and clothing market share for something else they consider desirable.

Regular quarterly dividends at the rate of 6¢ per share were paid on the Common Shares and regular half yearly dividends at the rate of 3¢ per share were paid on the Cumulative Preferred Shares.

Working Capital decreased during the year by \$63,640 to \$6,070,144 as shown by the Statement of Changes in Financial Position forming part of the Financial Statements submitted herewith.

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 INCOME

	<u>Year Ended December 31</u>	
	<u>1980</u>	<u>1979</u>
Net sales	\$29,784,403	\$30,579,460
Cost of merchandise sold including provision for depreciation of \$644,190 (1979 — \$702,289)	25,122,975	25,063,578
	<u>4,661,428</u>	<u>5,515,882</u>
Expenses:		
Interest (Note 5)	696,774	596,764
Selling, general and administration	3,693,721	3,754,547
	<u>4,390,495</u>	<u>4,351,311</u>
Income before income taxes and share of net loss of associated corporation	270,933	1,164,571
Income taxes:		
Current	(54,106)	428,582
Deferred	78,000	(48,000)
	<u>23,894</u>	<u>380,582</u>
Income before share of net loss of associated corporation	247,039	783,989
Share of net loss of associated corporation	36,350	2,363
Net income for the year	<u>\$ 210,689</u>	<u>\$ 781,626</u>
Earnings per common share	<u>\$ 0.25</u>	<u>\$ 0.93</u>



BALANCE SHEET

ASSETS

	<u>December 31</u>	
	<u>1980</u>	<u>1979</u>
CURRENT ASSETS:		
Accounts receivable	\$ 3,793,757	\$ 4,389,261
Receivable from associated corporation (Note 8)	130,803	246,331
Loans to officers, directors and employees	92,329	96,050
Income taxes recoverable	164,346	—
Inventories (Note 3)	8,231,052	9,280,573
Prepaid expenses	<u>42,071</u>	<u>37,440</u>
	12,454,358	14,049,655
OTHER ASSETS:		
Investment in shares of an associated corporation	561,409	597,759
Cash surrender value of life insurance, less policy loans	<u>39,602</u>	<u>36,109</u>
	601,011	633,868
FIXED ASSETS (Note 4)	2,719,198	2,518,858

APPROVED BY THE BOARD:

H. B. EPSTEIN, *Director*

J. BRONSON, *Director*

\$15,774,567

\$17,202,381

LIABILITIES AND SHAREHOLDERS' EQUITY

	<u>December 31</u>	
	<u>1980</u>	<u>1979</u>
CURRENT LIABILITIES:		
Bank indebtedness (Note 5)	\$ 2,038,609	\$ 2,842,045
Notes payable (Note 5)	2,000,000	2,000,000
Accounts payable and accrued liabilities	2,345,605	3,010,926
Income taxes payable	<u>—</u>	<u>62,900</u>
	6,384,214	7,915,871
DEFERRED INCOME TAXES	688,000	610,000
SHAREHOLDERS' EQUITY:		
Cumulative Preferred Shares without nominal or par value (Note 6)	21,479	11,029
Common Shares without nominal or par value (Note 6)	3,366,957	3,360,000
Contributed surplus	479,097	479,097
Retained earnings	<u>4,834,820</u>	<u>4,826,384</u>
	<u>8,702,353</u>	<u>8,676,510</u>
	<u>\$15,774,567</u>	<u>\$17,202,381</u>



STATEMENT OF RETAINED EARNINGS

	Year Ended December 31	
	1980	1979
Balance at beginning of year	\$ 4,826,384	\$ 4,212,760
Net income for the year	210,689	781,626
	5,037,073	4,994,386
 <i>Deduct:</i>		
Stock dividends (Note 6)	44,900	11,529
Cash dividends—		
Preferred shares	375	2
Common shares	156,978	156,471
	202,253	168,002
Balance at end of year	\$ 4,834,820	\$ 4,826,384



STATEMENT OF CHANGES IN FINANCIAL POSITION

	<u>Year Ended December 31</u>	
	<u>1980</u>	<u>1979</u>
FINANCIAL RESOURCES WERE PROVIDED BY:		
Income for the year before share of net loss of associated corporation	\$ 247,039	\$ 783,989
Items not affecting working capital —		
Provision for depreciation	644,190	702,289
Loss on sale of sundry assets	—	79
Deferred income taxes	<u>78,000</u>	<u>(48,000)</u>
Total from operations	969,229	1,438,357
Proceeds from issue of common shares	6,957	—
Proceeds from sale of sundry assets	—	2,971
Dividend from associated corporation	<u>—</u>	<u>50,000</u>
	976,186	1,491,328
FINANCIAL RESOURCES WERE USED FOR:		
Cash dividends —		
Preferred shares	375	2
Common shares	156,978	156,471
Redemption of preferred shares	34,450	500
Additions to fixed assets-net	844,530	739,902
Reduction in long-term portion of bank term loan	—	114,200
Change in cash surrender value of life insurance-net	<u>3,493</u>	<u>9,986</u>
	1,039,826	1,021,061
Increase (decrease) in working capital	(63,640)	470,267
Working capital at beginning of year	<u>6,133,784</u>	<u>5,663,517</u>
Working capital at end of year	<u>\$ 6,070,144</u>	<u>\$ 6,133,784</u>
REPRESENTED BY:		
Current assets	\$12,454,358	\$14,049,655
Current liabilities	<u>6,384,214</u>	<u>7,915,871</u>
	<u>\$ 6,070,144</u>	<u>\$ 6,133,784</u>



**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1980**

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 (Note 2)

2. CHANGE IN ACCOUNTING POLICY:

The Corporation has changed the method of accounting for depreciation on machinery and equipment from 20% declining balance to 8 year straight-line to better reflect the useful lives of the assets. No adjustments were required for prior years since the amounts involved were immaterial. Depreciation expense would have been \$569,000 in 1980 under the former method.

3. INVENTORIES:

	<u>1980</u>	<u>1979</u>
Raw materials and supplies	\$ 4,635,903	\$ 4,862,628
Work in process	747,559	1,052,684
Finished goods	<u>2,847,590</u>	<u>3,365,261</u>
	<u>\$ 8,231,052</u>	<u>\$ 9,280,573</u>

4. FIXED ASSETS:

	<u>1980</u>	<u>1979</u>
Cost —		
Land	\$ 88,077	\$ 88,077
Buildings	1,441,900	1,441,900
Machinery and equipment	<u>7,465,516</u>	<u>7,050,205</u>
	8,995,493	8,580,182
Accumulated depreciation—		
Buildings	887,649	856,750
Machinery and equipment	<u>5,388,646</u>	<u>5,204,574</u>
	<u>6,276,295</u>	<u>6,061,324</u>
Cost, less accumulated depreciation	<u>\$ 2,719,198</u>	<u>\$ 2,518,858</u>

5. BANK INDEBTEDNESS:

Bank indebtedness and notes payable, guaranteed by the bank, of \$2,000,000 are secured by general assignments of inventories, accounts receivable and fire insurance.

Interest expense includes interest of \$18,918 (1979 — \$47,188) on bank indebtedness initially incurred for a term of more than one year.

6. PREFERRED AND COMMON SHARES:

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

	Preferred		Common	
Issued and outstanding —				
January 1, 1980	11,029	\$11,029	840,000	\$3,360,000
Issued	44,900	44,900	1,546	6,957
Redeemed	(34,450)	(34,450)	—	—
December 31, 1980	<u>21,479</u>	<u>\$21,479</u>	<u>841,546</u>	<u>\$3,366,957</u>

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, 44,900 preferred shares were issued of which 34,450 shares were subsequently redeemed for \$34,450.

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.

50,000 common shares have been 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, 1979, options for 1,962 shares were outstanding, of which 1,546 shares were taken up during 1980.

7. 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:

	Textiles	Clothing and soft furnishings	Eliminations	Total
Sales to customers	\$21,158,849	\$ 8,625,554	\$ —	\$29,784,403
Inter-segment sales	1,283,492	—	(1,283,492)	—
Net sales	<u>\$22,442,341</u>	<u>\$ 8,625,554</u>	<u>\$(1,283,492)</u>	<u>\$29,784,403</u>
Operating profit	<u>\$ 1,108,626</u>	<u>\$ 213,079</u>	<u>\$ (25,672)</u>	\$1,296,033
Corporate expenses-net				(328,326)
Interest expense				(696,774)
Income taxes				(23,894)
Share in loss of associated corporation				(36,350)
Net income for the year				<u>\$ 210,689</u>
Identifiable assets	<u>\$ 9,488,613</u>	<u>\$ 4,593,821</u>		\$14,082,434
Corporate assets				1,130,724
Investment in associated corporation				561,409
Total assets				<u>\$15,774,567</u>
Capital expenditures	<u>\$ 762,501</u>	<u>\$ 82,029</u>		
Depreciation	<u>\$ 525,148</u>	<u>\$ 109,768</u>		

Inter-segment sales are made at comparable prices charged to arms-length customers.

8. RELATED PARTY TRANSACTIONS:

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

9. CONTINGENCY:

The Corporation has an outstanding claim against a customer for losses incurred from cancelled contracts. Any settlement, the amount of which cannot be reasonably estimated at this time, will be treated as a prior period adjustment.

NOTES

