

ANNUAL REPORT

silknit
LIMITED

for the fiscal year ended
DECEMBER 31, 1979

HOWARD ROSS LIBRARY
OF MANAGEMENT
MAY 21 1980
McGILL UNIVERSITY



**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
JUNE 12, 1980**

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 12th day of June 1980, 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, 1979 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;
- 4) To consider and if thought fit to confirm with or without variation, as a Special Resolution, a resolution the text of which is set forth in the accompanying Information Circular, to authorize amendments to the Articles of the Corporation altering the number of Directors of the Corporation; and
- 5) Transacting such other business as may properly be brought before the Meeting or any adjournment or adjournments thereof.

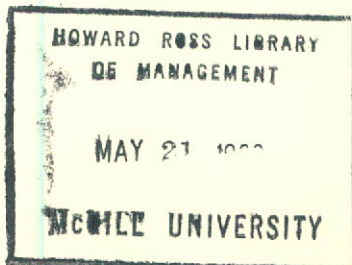
A copy of the Annual Report containing the Financial Statements of the Corporation together with the Auditors' Report thereon, an Information Circular and a Form of Proxy accompany this Notice.

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, 1980.

By Order of the Board,

H. T. BURGESS
Secretary





INFORMATION CIRCULAR

as at April 30, 1980

MANAGEMENT SOLICITATION

This Information Circular is furnished in connection with the solicitation by the Management of Silkknit 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 840,000 Common Shares of the Corporation outstanding on April 30, 1980. On April 30, 1980, H.B. Epstein directly and indirectly beneficially owned 150,484 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, 1980.

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	150,484	Executive, President of the Corporation
J. BRONSON	President	May 3, 1974	2,900	Executive, Vice-President of the Corporation
H.T. BURGESS	Secretary	April 24, 1945	61,148	Chairman of Burgess Graham Securities Limited (Investment Dealers)
C. BEE	Treasurer	May 18, 1978	3,000	Executive, Treasurer of the Corporation Comptroller Canadian Car Trailer, Sales Div. Hawker Siddeley Can. Ltd.
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

**DIRECTORS' AND OFFICERS' REMUNERATION FROM THE CORPORATION
AND ITS AFFILIATES
SECTION 35(t)(v), FOR THE YEAR ENDED DECEMBER 31, 1979.**

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	8,300	15,829				24,129
Remuneration of Officers						
a) Number of officers: 3						
b) Body Corporate incurring the expense						
SILKNIT		123,750	5,329	7,525		136,604
Remuneration of Officer-Directors						
a) Number of Officer-Directors: 4						
b) Body corporate incurring the expense						
SILKNIT	2,500	138,244	14,208	8,686		163,638
LOVABLE BRASSIERE COMPANY OF CANADA LIMITED		15,600				15,600
TOTALS	10,800	293,423	19,537	16,211		339,971

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 \$62,900 payable on demand without interest; the amount thereof presently outstanding is \$59,700.

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.

PARTICULARS OF OTHER MATTERS TO BE ACTED UPON

Special Resolution

The Annual Meeting of Shareholders will consider and if thought fit, confirming with or without variation, as a Special Resolution of the Corporation, the Special Resolution hereinafter set forth.

The Special Resolution authorizes that the present fixed number of Directors authorized be changed to a minimum of (6) six and a maximum of (12) twelve.

To become effective, the said Resolution must be confirmed at the meeting by at least 2/3 of the votes cast by the holders of the voting shares of the Corporation as a whole. Following shareholder approval as aforesaid, Articles of Amendment are required to be filed in accordance with the provisions of the Canada Business Corporations Act.

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.

DATED at Toronto, Ontario, as of the 30th day of April 1980.

The contents and sending of this Information Circular have been approved by the Directors of the Corporation.

H.T. BURGESS
Secretary



SPECIAL RESOLUTION

RESOLVED, as a Special Resolution of the Corporation, that the Articles of Continuance of the Corporation are hereby amended to provide as follows:

1. Until changed in accordance with the Canada Business Corporations Act, the Board of Directors shall consist of not fewer than (6) six directors and not more than (12) twelve.
2. Any By-law of the Corporation inconsistent with the foregoing shall be deemed to be and is hereby amended accordingly.
3. This resolution shall not be effective or acted upon unless, and it has been confirmed by a resolution carried by the affirmative vote of not less than 66-2/3% of the votes cast by the shareholders present in person or represented by proxy who voted in respect of this resolution at the special meeting of shareholders to be called for this purpose:
4. The Annual Meeting of the Shareholders of the Corporation be held on the 12th day of June 1980 at the head office of the Corporation, 590 King Street West, Toronto, Ontario, at the hour of 11:00 o'clock in the forenoon and that notice thereof be given by the Secretary to all holders of the shares of the Corporation entitled to vote at any such meetings as recorded on the books of the Corporation at the close of business on the date prior to the date on which notice of the meetings is given.
5. The Directors and Officers of the Corporation are hereby authorized to do all such acts and things and to execute and deliver under the corporate seal of the Corporation, or otherwise, all such documents and instruments, including Articles of Amendment, as in their opinion may be necessary or desirable to implement the foregoing.

*** *** ***

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.

SILKNIT LIMITED

Toronto, Canada.
April 30, 1980.

H.T. BURGESS,
Secretary.



INSTRUMENT APPOINTING A PROXY

SOLICITED BY MANAGEMENT FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON THE 12TH DAY OF JUNE 1980.

The undersigned holder of common shares of SILKNIT LIMITED (hereinafter called the "Corporation") hereby appoints H. B. EPSTEIN or him failing, H. T. BURGESS, or

as proxy, to attend, act and vote for and on behalf of the undersigned at the Annual Meeting of Shareholders of the Corporation to be held at the head office of the Corporation, 590 King Street West, Toronto, Canada, on the 12th day of June 1980 at the hour of 11:00 o'clock in the forenoon, Toronto time, and at any and all adjournments thereof, in the same manner, to the same extent and with the same power as if the undersigned were present at the meeting or any such adjournment and, without limiting the generality of the foregoing, hereby grants authority to vote:

- FOR AGAINST WITHHELD FROM VOTING Election of the Board of Directors
- FOR AGAINST WITHHELD FROM VOTING The appointment of Auditors
- FOR AGAINST Confirmation with or without variation of the Special Resolution, the text of which is set forth in the accompanying Information Circular, authorizing the amendment of the Articles of the Corporation to alter the number of Directors of the Corporation.

If the Shareholder has not specified a choice with respect to any item noted immediately above, then the shares represented by this proxy will be voted "FOR" the matter referred to.

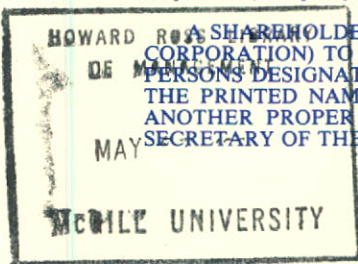
This Proxy confers discretionary authority to vote upon any amendments or variations to matters identified in the accompanying notice of meetings, or upon any other matters which may properly come before the meetings or any adjournment or adjournments thereof.

DATED this _____ day of _____ 1980.

NUMBER OF COMMON SHARES OWNED

SIGNATURE OF SHAREHOLDER

NOTE: This proxy should be dated and signed by the Shareholder or his attorney authorized in writing. If this proxy is not dated in the above space it is deemed to bear the date upon which it is mailed by the person making the solicitation. If the Shareholder is a corporation, the proxy must be signed under its corporate seal or by an officer or attorney duly authorized.





590 King Street West
 Toronto, Ontario M5V 1M4
 Phone: (416) 362-7641
 Telex: 06-22381

INTERIM REPORT

For the three months ending March 31, 1980

To the Shareholders of SILKNIT LIMITED

The Board of Directors of your Corporation submits below certain information with respect to the combined operations of the Corporation and its subsidiary Corporation and of changes in the consolidated financial position for the three month period from January 1, 1980 to March 31, 1980.

Results of operation for the three month period ending March 31, 1980 compared with those for the first three months of 1979 are as follows:-

	<u>Three months ending March 31</u>	
	<u>1980</u>	<u>1979</u>
Net Sales.....	\$7,714,883 =====	\$7,339,136 =====
Income before income taxes and share of net income (loss) of associated corporation.....	\$ 11,945	\$ 121,799
Income Taxes-		
Current.....	\$ -	\$ 25,956
Deferred.....	\$ -	\$ -
	<u>\$ NIL</u>	<u>\$ 25,956</u>
	<u>\$ 11,945</u>	<u>\$ 95,843</u>
Share of net income (loss) of Lovable Brassiere Company of Canada Limited.	(11,599)	24,938
Net income for the period.....	<u>\$ 346</u>	<u>\$ 120,781</u>
Earnings per common share-		
Before share of net income (loss) of associated corporation.....	\$ 0.01	\$ 0.11
For the period.....	<u>\$ 0.00</u>	<u>\$ 0.14</u>

HOWARD ROSS LIBRARY
 OF MANAGEMENT

Divisions: Silkknit Knitting - Dominion Woolens & Worsteds - Comfy Home Furnishings - Molyclaire

Associated Company: Lovable Brassiere Company of Canada Limited

McGILL UNIVERSITY

Sales increased to \$7,714,883 in the first quarter of 1980, a gain of \$375,747 or 5.1% over sales of \$7,339,136 in the first quarter of 1979. Profit before taxes decreased to \$346 from \$120,781 in 1979.

The Knit Fabric section of the Textile Division increased sales by 25% with a good profit increase. However, all other sections of the Textile Division had lower sales and profits. The Molyclaire and Comfy Home Furnishings Division sales declined by approximately 25% and both divisions operated at a loss for the quarter.

The outlook for the second quarter is good for Knit Fabrics, but poor for all other Divisions, unless retail sales make a substantial improvement.

The cost of the recent 11 day strike at Cambridge has not yet been calculated, but the expense and the increased labour costs at Cambridge will have a negative effect on the second quarter and the remainder of 1980.

Net current assets, or working capital decreased by \$257,508 during the three month period ending March 31, 1980 to an amount of \$5,876,276 at that date, as shown by the following statement of changes in Financial Position, with figures for the comparable period last year.

	<u>Three months ending March 31</u>	
	<u>1980</u>	<u>1979</u>
Financial resources were provided by:		
Net income for the period before share of net income of associated corporation.....	\$ 11,945	\$ 95,843
Provision for depreciation.....	\$ 148,230	\$ 155,118
Total from operations.....	\$ 160,175	\$ 250,961
	=====	=====
Financial resources were used for:		
Dividends- Preferred Shares.....	\$ 104	\$ -
Common Shares.....	\$ 46,664	\$ 42,000
Additions to fixed assets (net).....	\$ 370,915	\$ 259,517
	\$ 417,683	\$ 301,517
	=====	=====
Resulting in a decrease in working capital of.....	\$ (257,508)	\$ (50,556)
Working capital at beginning of year	\$6,133,784	\$5,663,517
	\$5,876,276	\$5,612,961
	=====	=====

The financial statements provided in the text of this interim report have not been examined by the Corporation's auditors and are subject to year-end adjustments.

ON BEHALF OF THE BOARD,

H.B. EPSTEIN,
Chairman.



SILKNIT LIMITED

HEAD OFFICE

590 King Street West, Toronto, Ontario M5V 1M4

TEXTILE DIVISION

Cambridge (H), Ontario

Circular knitted fabrics.

Woven fabrics, industrial fabrics and knitted pile 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, 1980

To the Shareholders of

SILKNIT LIMITED:

Net sales for 1979 increased by \$853,887 or 2.87% to \$30,579,460. Net operating income before taxes increased to \$1,164,571 or 3.81¢ per sales dollar, an increase from \$971,634 or 3.27¢ per sales dollar in 1978. Net income after taxes of \$380,582 amounted to \$783,989 before our share of the loss of the Lovable Brassiere Company of Canada Limited, of (\$2,363) bringing total income for 1979 to \$781,626 or 93¢ per common share. Net income for 1978 after income taxes of \$308,038, an extraordinary gain of \$67,074, and \$39,713 from the Lovable Brassiere Company of Canada Limited amounted to \$770,383 or 92¢ a common share.

Sales increased in the Woven cloth and Pile fabric sections of the Textile Division and were marginally lower in the Knit fabric section. Molyclaire Division showed a nominal increase in sales while the Comfy Home Furnishings Division increased sales in throws but dropped in cushions and bedspreads and drapes. A decision was made mid-year to phase out the bedspread and drapery operation which was liquidated by the end of the year. The remaining Comfy operations were moved to Cambridge at year end as the lease on their Toronto premises expired. Profits were up substantially in the Woven cloth section and to a lesser amount in Knit fabrics and remained level in Molyclaire. Pile fabrics showed an increased loss, while Comfy Home Furnishings' loss was up due to the phasing out of the bedspread and drapery operations and the move to Cambridge. The Salesroom at Cambridge, under new management, increased its profit substantially.

During 1979 the inflationary spiral affected every aspect of the corporation's operations and in many areas it became increasingly difficult to recover all of the growth in costs. All major items of expense increased with the greatest impact being in yarn prices and the very rapid escalation in interest rates.

The Textile and Clothing Board has just concluded a very extensive review of the industry and received briefs from all the Trade Associations and many individual companies including Silkknit Limited. It is hoped that out of this review will come a comprehensive policy for the next period of years so that the Industry will have a much better idea of how to plan with some degree of continuity of market availability. Silkknit Limited is making serious efforts to expand our small export business, both in fabrics and garments. This has become possible because of the depreciation of the Canadian dollar, which has made our products competitive in many markets which were formerly closed to us.

During the year the Class A Convertible Common and Class B Convertible Common shares were redesignated into Common shares. Dividends of 5¢ per share on the Class A and Class B Convertible Common shares were paid on March 15th and June 15th and 5¢ per share on the Common shares were paid on September 15th and December 15th.

Working Capital increased during the year by \$470,267 to \$6,133,784 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>1979</u>	<u>1978</u>
Net sales	\$30,579,460	\$29,725,573
Cost of merchandise sold including provision for depreciation and amortization of \$702,289 (1978 - \$602,217)	<u>25,063,578</u>	<u>24,830,617</u>
	5,515,882	4,894,956
Expenses:		
Interest (Note 4)	596,764	483,395
Selling, general and administration	<u>3,754,547</u>	<u>3,439,927</u>
	<u>4,351,311</u>	<u>3,923,322</u>
Income before income taxes, share of net income (loss) of associated corporation and extraordinary item	1,164,571	971,634
Income taxes:		
Current	428,582	325,038
Deferred	<u>(48,000)</u>	<u>(17,000)</u>
	<u>380,582</u>	<u>308,038</u>
Income before share of net income (loss) of associated corporation and extraordinary item	783,989	663,596
Share of net income (loss) of associated corporation	<u>(2,363)</u>	<u>39,713</u>
Income before extraordinary item	781,626	703,309
Extraordinary item (Note 6)	<u>—</u>	<u>67,074</u>
Net income for the year	<u>\$ 781,626</u>	<u>\$ 770,383</u>
Earnings per common share:		
Before extraordinary item	<u>\$.93</u>	<u>\$.84</u>
For the year	<u>\$.93</u>	<u>\$.92</u>



BALANCE SHEET

ASSETS

	<u>December 31</u>	
	<u>1979</u>	<u>1978</u>
CURRENT ASSETS:		
Accounts receivable	\$ 4,389,261	\$ 4,217,992
Receivable from associated corporation	246,331	27,602
Loans to officers, directors and employees	96,050	66,350
Inventories (Note 2)	9,280,573	8,094,821
Prepaid expenses	<u>37,440</u>	<u>49,228</u>
	14,049,655	12,455,993
OTHER ASSETS:		
Investment in shares of an associated corporation	597,759	650,122
Cash surrender value of life insurance, less policy loans	36,109	26,123
Sundry	<u>—</u>	<u>3,050</u>
	633,868	679,295
FIXED ASSETS (Note 3)	2,518,858	2,481,245
	<u><u>\$17,202,381</u></u>	<u><u>\$15,616,533</u></u>

APPROVED BY THE BOARD:

H. B. EPSTEIN, *Director*

J. BRONSON, *Director*

LIABILITIES AND SHAREHOLDERS' EQUITY

	<u>December 31</u>	
	<u>1979</u>	<u>1978</u>
CURRENT LIABILITIES:		
Bank indebtedness (Note 4)	\$ 2,842,045	\$ 3,119,193
Notes payable (Note 4)	2,000,000	2,000,000
Accounts payable and accrued liabilities	3,010,926	1,351,803
Loans from shareholders	—	108,553
Income taxes payable	<u>62,900</u>	<u>212,927</u>
	7,915,871	6,792,476
BANK TERM LOAN LESS AMOUNTS PAYABLE WITHIN ONE YEAR	—	114,200
DEFERRED INCOME TAXES	610,000	658,000
SHAREHOLDERS' EQUITY:		
Cumulative Preferred Shares without nominal or par value (Note 5)	11,029	—
Common Shares without nominal or par value (Note 5)	3,360,000	3,360,000
Contributed surplus	479,097	479,097
Retained earnings	<u>4,826,384</u>	<u>4,212,760</u>
	8,676,510	8,051,857
	<u>\$17,202,381</u>	<u>\$15,616,533</u>



STATEMENT OF RETAINED EARNINGS

	<u>Year Ended December 31</u>	
	<u>1979</u>	<u>1978</u>
Balance at beginning of year	\$ 4,212,760	\$ 6,663,871
Net income for the year	<u>781,626</u>	<u>770,383</u>
	4,994,386	7,434,254
<i>Deduct:</i>		
Amounts capitalized during year	—	3,010,000
Stock Dividends (Note 5)	11,529	—
Cash Dividends—		
Preferred shares	2	1,494
Common shares	72,471	—
Class A and Class B convertible common shares	<u>84,000</u>	<u>210,000</u>
	<u>168,002</u>	<u>3,221,494</u>
Balance at end of year	<u>\$ 4,826,384</u>	<u>\$ 4,212,760</u>



STATEMENT OF CHANGES IN FINANCIAL POSITION

	<u>Year Ended December 31</u>	
	<u>1979</u>	<u>1978</u>
FINANCIAL RESOURCES WERE PROVIDED BY:		
Net income for the year before share of net income (loss) of associated corporation and extraordinary item	\$ 783,989	\$ 663,596
Items not affecting working capital —		
Provision for depreciation and amortization	702,289	602,217
Loss on sale of sundry assets	79	—
Deferred income taxes	<u>(48,000)</u>	<u>(17,000)</u>
Total from operations	1,438,357	1,248,813
Proceeds from sale of Lodge	—	74,501
Proceeds from sale of sundry assets	2,971	—
Dividend from associated corporation	<u>50,000</u>	<u>50,000</u>
	1,491,328	1,373,314
FINANCIAL RESOURCES WERE USED FOR:		
Dividends —		
Preferred shares	2	1,494
Common shares	156,471	210,000
Tax on sale of Lodge	—	5,562
Redemption of preferred shares	500	—
Redemption of Class C preferred shares	—	37,356
Additions to fixed assets (net)	739,902	329,253
Reduction in long-term portion of bank term loan	114,200	214,300
Other (net)	<u>9,986</u>	<u>2,914</u>
	1,021,061	800,879
Increase in working capital	470,267	572,435
Working capital at beginning of year	<u>5,663,517</u>	<u>5,091,082</u>
Working capital at end of year	<u>\$ 6,133,784</u>	<u>\$ 5,663,517</u>
REPRESENTED BY:		
Current assets	\$14,049,655	\$12,455,993
Current liabilities	<u>7,915,871</u>	<u>6,792,476</u>
	<u>\$ 6,133,784</u>	<u>\$ 5,663,517</u>

Box 51
TORONTO-DOMINION CENTRE
TORONTO, ONT. M5K 1G1
(416) 863-1133 TELEX 065-24111

March 31, 1980

AUDITORS' REPORT

To the Shareholders of

SILKNIT LIMITED:

We have examined the balance sheet of Silknit Limited as at December 31, 1979 and the statements of income, 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, 1979 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 & CO.
Chartered Accountants



**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1979**

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 calculated by the reducing balance method at 5% per annum on buildings and 20% per annum on machinery and equipment. Amortization of leasehold improvements is computed by the straight-line method over the terms of the leases plus the first renewal period thereof.

2. INVENTORIES:

	<u>1979</u>	<u>1978</u>
Raw materials and supplies	\$ 4,862,628	\$ 4,476,597
Work in process	1,052,684	875,942
Finished goods	<u>3,365,261</u>	<u>2,742,282</u>
	<u>\$ 9,280,573</u>	<u>\$ 8,094,821</u>

3. FIXED ASSETS:

	<u>1979</u>	<u>1978</u>
Cost —		
Land	\$ 88,077	\$ 88,077
Buildings	1,441,900	1,441,900
Machinery and equipment	7,050,205	8,033,171
Leasehold improvements	<u>—</u>	<u>193,372</u>
	8,580,182	9,756,520
Accumulated depreciation and amortization —		
Buildings	856,750	825,953
Machinery and equipment	5,204,574	6,278,406
Leasehold improvements	<u>—</u>	<u>170,916</u>
	<u>6,061,324</u>	<u>7,275,275</u>
Cost, less accumulated depreciation and amortization	<u>\$ 2,518,858</u>	<u>\$ 2,481,245</u>

4. 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 \$47,188 (1978 — \$67,829) on bank indebtedness initially incurred for a term of more than one year.

5. PREFERRED AND COMMON SHARES:

At December 31, 1979, the authorized, issued and outstanding preferred and common shares were:

	<u>Preferred</u>	<u>Common</u>
Authorized	unlimited	2,400,000
Issued and outstanding	11,029	840,000

During the year, previously issued Class A and Class B convertible common shares were redesignated as common shares and the Class C non-voting redeemable shares were cancelled.

The September and December 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, 11,529 preferred shares were issued of which 500 shares were subsequently redeemed for \$500.00.

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.

The directors of the Corporation approved an Executive Share-Purchase Plan for which 50,000 common shares have been reserved. 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.

6. EXTRAORDINARY ITEM:

In 1978, the Corporation realized a gain of \$67,074 (net of taxes of \$5,562) from the sale of its lodge.

7. CLASSES OF BUSINESS:

The directors of the Corporation have determined the following classes of business at a meeting of directors and have recorded them in the minutes of the meeting:

<u>Net sales</u>	<u>1979</u>	<u>1978</u>
Textiles (weaving and knitting)	\$19,869,297	\$18,802,316
Clothing and soft furnishings	<u>10,710,163</u>	<u>10,923,257</u>
	<u>\$30,579,460</u>	<u>\$29,725,573</u>

8. 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.



DIRECTORS ALPHABETICAL

C.R. BEE	<i>Director</i>
J. BRONSON	<i>Director</i>
*H.T. BURGESS	<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>
C.R. BEE	<i>Treasurer</i>
A. HOLVEY	<i>Vice-President Manufacturing — Textile Division</i>
G. KUSHNIR	<i>President — Molyclaire Division</i>
M.D. LAWRENCE	<i>President — Comfy Home Furnishings Division</i>

TRANSFER AGENT

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

NOTES

