

ANNUAL REPORT

SILKNIT LIMITED

AND SUBSIDIARY COMPANIES

for the fiscal year ended

DECEMBER 31, 1948

PURVIS HALL
LIBRARIES

MAY 25 1949

McGILL UNIVERSITY

SILKNIT LIMITED

TORONTO 1, CANADA

May 23, 1949.

To the Shareholders of

SILKNIT LIMITED:

Your Board of Directors submits herewith the consolidated balance sheet of Silknit Limited and its subsidiary companies as at December 31, 1948, together with consolidated statements of profit and loss, earned surplus and capital surplus for the year then ended.

The volume of net consolidated sales attained was not only greater than in the previous year, but again reached a new all-time high. The consolidated net profits were the highest in the Company's history.

The combined profit from operations after charging all manufacturing, selling and administrative expenses, and after providing for depreciation and interest on bonds, but before providing for income and excess profits taxes, amounted to \$1,147,442.80 for the year 1948 as compared with \$883,431.82 for the previous year. The provision for income taxes for 1948 was \$495,195.52 as compared with \$448,267.81 for the year 1947. Before arriving at the consolidated net earnings for 1948, there was charged to the profit and loss account a provision of \$50,142.50 made by Australia Silknit Limited against future decline in inventory values, and the dividend on preference shares of Australia Silknit Limited amounting to \$13,587.00. The net earnings for 1948 after deducting all charges were \$588,517.78 as compared with \$435,723.60 for 1947. Although approximately three-quarters of the 1948 earnings arose from the operations of Silknit Limited and its Canadian subsidiaries, a good improvement in earnings from the previous year was also reported by the English and Australian subsidiary companies.

In 1948 your Company acquired an additional Canadian subsidiary, engaged in the production of woven fabrics. Consideration for all the issued shares of the subsidiary was \$50,000.00 cash plus 5,000 preferred shares and 4,000 common shares. The assets and liabilities of this company are included in the accompanying consolidated statements, together with the results of operations since August 21, 1948, the date of acquisition. In addition to supplying a portion of the Company's fabric requirements at a favorable cost, this subsidiary has operated at a consistent profit since acquisition.

The net current assets, or working capital, increased from \$2,172,070.11 at December 31, 1947, to \$2,553,356.85 at December 31, 1948.

During 1948 the necessary repairs and replacements to plants, equipment and properties have been carried out. Additions to fixed assets amounted to \$291,299.74 in Canada, and approximately \$135,000.00 in England and Australia. These expenditures will result in greater and more efficient production to meet the increased and keener competition which we are now experiencing.

During the year ending December 31, 1948, the regular quarterly dividends were paid on the preferred shares, and dividends of forty-five cents per share were paid on the common shares.

Operations to date in 1949 compare favorably with 1948. We are encountering more normal conditions of demand, supply and over-all business activity than have prevailed during the past few years, and should expect that margin of profit may be reduced. With its modern equipment, adequate facilities, an outstanding line of products, the Company should obtain its fair share of available business on a profitable basis.

In November of last year three new directors were appointed: Mr. Wm. S. Morgan, general sales manager of the Company; Mr. Jean A. Pinatel, in charge of the Company's subsidiary, Coaticook Textiles Limited; Mr. Clayton W. Dumas, in charge of the Company's subsidiaries, Cosmo Underwear Co. Limited and Kismet Co. Limited. W. B. Milner and C. R. Sinclair resigned as directors.

Your directors wish to take this opportunity of expressing their appreciation of the loyal services of all officers and employees throughout the year.

ON BEHALF OF THE BOARD,

M. H. EPSTEIN,
President.

AUDITORS' REPORT TO THE SHAREHOLDERS

To the Shareholders of

SILKNIT LIMITED:

We have examined the consolidated balance sheet of Silknit Limited and subsidiary companies as at December 31, 1948, and the related consolidated statements of profit and loss and of earned surplus and capital surplus for the fiscal year then ended, and have obtained all the information and explanations which we required. These statements include the assets and liabilities and the results of operations of the English subsidiary and of the five Australian subsidiary companies as reported upon by their auditors; the net assets of these subsidiary companies, which represent approximately 32% of the total net assets included in the consolidated balance sheet, are subject to such restrictions as have been, or may be, imposed by exchange regulatory authorities in England and Australia.

In connection with the accounts of Silknit Limited and three of its Canadian subsidiaries examined by us, our examination included such tests of the accounting records and other supporting evidence and such other procedures as we considered appropriate in the circumstances. We were furnished with audited statements as at December 31, 1948, of one Canadian subsidiary, which are included in the attached consolidated statements but whose accounts we did not examine.

We report that, in our opinion, the attached consolidated balance sheet and consolidated statements of profit and loss and earned and capital surplus (read in conjunction with the notes thereto) are properly drawn up so as to exhibit a true and correct view of the state of affairs of Silknit Limited and subsidiary companies as at December 31, 1948, and the results of operations for the year then ended, according to the best of our information and the explanations given to us and as shown by the books which we examined and the audited statements furnished us as already referred to.

PRICE, WATERHOUSE & CO.,
Chartered Accountants.

TORONTO, April 26, 1949.

CONSOLIDATED BALANCE SHEET

ASSETS

CURRENT ASSETS:

Cash on hand and in banks.....	\$	53,898.70
Trade accounts and bills receivable, less reserve for bad debts.....		630,410.48
Refundable portion of excess profits tax (received in 1949).....		51,497.15
Other accounts receivable.....		30,142.66
Inventories of raw material and supplies, work in process, and finished stock, valued on the basis of cost or market, whichever was the lower—as determined and certified to by responsible officials of the companies.....		3,524,148.38
		\$4,290,097.37

SUNDRY ASSETS:

Loan, secured by second mortgage.....	\$	25,333.00
Account receivable 1949-53.....		13,250.00
Refundable portion of excess profits tax due 1950-51.....		148,259.90
Cash surrender value of life insurance policies.....		133,910.09
War damage claims by Silknit Limited (England).....		30,351.00
		351,103.99

FIXED ASSETS:

Land, buildings, plant and equipment.....	\$3,081,244.99	
<u>Less</u> —Reserve for depreciation.....	1,708,526.32	
		1,372,718.67

Fixed assets in Canada are valued at depreciated reproductive values as of October 10, 1927, reported by Sterling Appraisal Company Limited, plus subsequent additions at cost; fixed assets in Australia at appraised values as of December 31, 1936, reported by Mr. F. R. Banyard of British Engineering Pty. Ltd., plus subsequent additions at cost; fixed assets in England at cost.

PREPAID EXPENSES:

Unexpired insurance, prepaid taxes, etc.....		29,896.38
--	--	-----------

PATENTS:

1.00

APPROVED ON BEHALF OF THE BOARD:

M. H. EPSTEIN, *Director.*

H. T. BURGESS, *Director.*

\$6,043,817.41

LIMITED

Y COMPANIES

DECEMBER 31, 1948

LIABILITIES

CURRENT LIABILITIES:

Bank loans and overdrafts (secured).....	\$ 285,815.87	
Accounts payable.....	734,531.40	
Accrued liabilities.....	123,149.76	
Income taxes payable in Canada.....	160,734.50	
Income taxes payable in England and Australia.....	300,085.14	
Other taxes payable and accrued.....	55,630.35	
Dividend on preference shares of Australia Silknit Limited.....	6,793.50	
3% First Mortgage Serial Bonds maturing August 15, 1949.....	70,000.00	
		<u>\$1,736,740.52</u>

DEFERRED LIABILITY:

Under property purchase agreement, payable 1949-57.....	91,200.00
---	-----------

FIRST MORTGAGE BONDS:

Authorized and issued.....	<u>\$1,000,000.00</u>	
Outstanding—		
3% First Mortgage Serial Bonds maturing August 15, 1949-54.....	\$ 430,000.00	
<u>Less—Bonds maturing August 15, 1949, included under Current Liabilities</u>	<u>70,000.00</u>	
	\$ 360,000.00	
4½% First Mortgage Sinking Fund Bonds maturing August 15, 1967.....	500,000.00	
		<u>860,000.00</u>

RESERVES:

Against future decline in inventory values (Australia).....	\$ 50,142.50	
For dividends on preference shares of Australia Silknit Limited.....	40,761.00	
General (England and Australia).....	36,275.00	
		<u>127,178.50</u>

PREFERENCE SHARES OF AUSTRALIA SILKNIT LIMITED OUTSTANDING:

Representing £60,000 (Australian) seven per cent cumulative preference shares	237,900.00
---	------------

CAPITAL STOCK AND SURPLUS:

Five (5%) per cent redeemable preferred shares:		
Authorized—25,000 shares of \$40.00 each.....	<u>\$1,000,000.00</u>	
Issued—15,000 shares, fully paid.....	\$ 600,000.00	
Common Stock:		
Authorized—120,000 shares of \$5.00 each.....	<u>\$ 600,000.00</u>	
Issued—64,085 shares, fully paid.....	320,425.00	
Capital Surplus, as per statement attached.....	445,975.78	
Earned Surplus, as per statement attached.....	1,624,397.61	
		<u>2,990,798.39</u>

CONTINGENT LIABILITY:

Customers' trade paper under discount.....	<u>\$ 505,871.65</u>	
		<u>\$6,043,817.41</u>

SILKNIT LIMITED

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED DECEMBER 31, 1948

<u>PARTICULARS</u>	<u>AMOUNT</u>
Combined profit from operations for the year ended December 31, 1948, after charging all manufacturing, selling and administrative expenses with the exception of those deducted hereunder.....	\$1,460,589.27
<i>Deduct</i> —	
Provision for depreciation of buildings, plant and equipment.....	\$219,907.95
Interest on Bonds.....	36,712.50
Directors' fees.....	6,320.40
Salaries of executive officers in Canada, England and Australia.....	75,821.35
Legal expenses.....	6,059.47
	344,821.67
<i>Add</i> —Profit on disposal of equipment and other miscellaneous income.....	\$1,115,767.60 31,675.20
	\$1,147,442.80
<i>Deduct</i> —Provision for income taxes.....	495,195.52
<i>Profit before the undernoted charges</i>	\$ 652,247.28
<i>Deduct</i> —Provision against future decline in inventory values (Australia).....	\$ 50,142.50
Dividends on preference shares of Australia Silknit Limited.....	13,587.00
	63,729.50
<i>Balance carried to Earned Surplus Account</i>	\$ 588,517.78

NOTE: The balance carried to Earned Surplus may be segregated as follows:

Silknit Limited and Canadian subsidiaries.....	\$445,833.26
Silknit Limited (England).....	50,923.63
Australia Silknit Limited and subsidiary companies.....	91,760.89
	\$588,517.78

CONSOLIDATED STATEMENT OF EARNED SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1948

Balance, December 31, 1947.....		\$1,060,799.84
<i>Add</i> —Profit for the year ended December 31, 1948.....	\$588,517.78	
Subsidies received in respect of prior year, less taxes thereon (Australia)....	48,418.24	
		636,936.02
		\$1,697,735.86
<i>Deduct</i> —Dividends on preferred shares.....	\$ 25,000.00	
Dividends on common shares.....	28,238.25	
	\$ 53,238.25	
Transferred to general reserve (England).....	20,100.00	
		73,338.25
<i>Balance, December 31, 1948</i>		\$1,624,397.61

CONSOLIDATED STATEMENT OF CAPITAL SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1948

Surplus of predecessor company, less cost of shares of subsidiary companies in excess of their book value at dates of acquisition:		
Balance, December 31, 1947.....	\$249,304.96	
<i>Deduct</i> —Cost of shares of subsidiary company acquired in 1948 in excess of their book value.....	17,668.04	
		\$ 231,636.92
Other capital surplus accounts (no change during the year):		
Surplus arising from appraisal of fixed assets of Australia Silknit Limited.....		95,083.65
Surplus arising from appraisal of fixed assets of The Summit Dyeing Company Limited.....		4,445.67
Surplus arising from conversion of capital stock of Silknit Limited in 1944:		
On preference shares.....	\$100,000.00	
On common shares.....	14,809.54	
		114,809.54
<i>Balance, December 31, 1948</i>		\$ 445,975.78

SILKNIT LIMITED

AND SUBSIDIARY COMPANIES

NOTES TO FINANCIAL STATEMENTS, DECEMBER 31, 1948

(To be read in conjunction therewith)

(1) The current assets and current liabilities of the English and Australian subsidiaries are converted to Canadian currency at the rate of exchange current at December 31, 1948; the net current assets of these subsidiaries represent approximately 34% of the total net current assets. The preference shares of Australia Silknit Limited are included at the rate of exchange current at date of issue thereof, viz. July 1, 1937; the net assets of this company amount to \$882,207.61 before deducting the capital liability of \$237,900.00 carried in respect of its preference shares. The figures of the English and Australian subsidiaries included in the statement of profit and loss have been converted to Canadian currency at the average rate of exchange current during the year 1948, viz. \$4.02 and \$3.23½ to the £ for the English and Australian subsidiaries, respectively; these rates are the same as those used in converting the corresponding figures for the previous year.

(2) During the year Silknit Limited acquired all the issued shares of a subsidiary company for a consideration of \$50,000.00 cash plus 5,000 preferred shares and 4,000 common shares.

