

ANNUAL REPORT

SILKNIT LIMITED

AND SUBSIDIARY COMPANIES

for the fiscal year ended

DECEMBER 31, 1946

PURVIS HALL
MONTREAL

MAY 25
MCGILL UNIVERSITY

SILKNIT LIMITED

TORONTO 1, CANADA

May 14, 1947

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, 1946, together with consolidated statements of profit and loss, earned surplus and capital surplus for the year then ended.

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 \$950,107.60 for the year 1946 as compared with \$687,138.67 for the previous year. The provision for income and excess profits taxes for 1946 was \$573,078.58, a slight increase from the previous year, but leaving a retainable net profit substantially higher than in 1945. Before arriving at the net earnings for 1946, exchange adjustments of \$85,414.34 have been charged to the profit and loss account to reflect the 1946 increase in the rates of exchange of the Canadian dollar in relation to the English and Australian currencies. The net earnings for 1946 after deducting all charges were \$291,614.68 as compared with \$108,148.66 for 1945.

The operating results of the Canadian companies show a good improvement in 1946 over the previous year and the earnings were subject to the lower rate of excess profits tax applicable to the year 1946. The net profits of Silknit Limited (England), before the exchange adjustment arising from the conversion of the accounts to Canadian dollars, were approximately double those of the previous year. Australian taxes on income remain at a high level and a substantial increase in the operating results of the Australian subsidiaries resulted in only a slight improvement in the net profit.

The outstanding Income Funding Rights were redeemed on March 5, 1947, at the redemption price of \$20.00 each. In view of this redemption, accrued interest on the Income Funding Rights for 1946 was charged to the existing interest reserve and the transfer of a portion of the profits to the sinking fund reserve for redemption or retirement of Income Funding Rights was not required. The funds for the redemption were provided through the issue and sale of \$100,000.00 par value of the company's Bonds.

During the year ending December 31, 1946, the regular quarterly dividends were paid on the preferred shares.

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 made an examination of the consolidated balance sheet of Silknit Limited and subsidiary companies as at December 31, 1946, 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 as shown by the audited statements, and of the three Australian subsidiary companies as cabled direct to us by the auditors of these companies; the net assets of these subsidiary companies, which represent approximately 39% 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 its Canadian subsidiaries, whilst we did not make a detailed audit of the transactions for the year, our examination was carried out in accordance with generally accepted auditing standards applicable in the circumstances, and included such tests of the accounting records and of other supporting evidence and such other procedures as we considered necessary.

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, 1946, and the results of operations for the year ending that date, according to the best of our information and the explanations given to us and as shown by the books of the Canadian companies examined by us and by the reports of the auditors of the English and Australian subsidiary companies, as referred to in the first paragraph hereof.

PRICE, WATERHOUSE & CO.,

Chartered Accountants.

TORONTO, April 16, 1947.

CONSOLIDATED BALANCE SHEET

A S S E T S

CURRENT ASSETS:

Cash on hand and in banks.....	\$	68,024.04	
Savings bonds (England).....		40,200.00	
Commonwealth bonds (Australia).....		130,069.64	
Trade accounts and bills receivable, less reserve for bad debts.....		495,219.61	
Other accounts receivable.....		20,427.05	
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.....		2,107,014.94	
Cash surrender value of life insurance policies.....		123,821.31	
		\$2,984,776.59	

<u>REFUNDABLE PORTION OF EXCESS PROFITS TAX</u>			214,963.89
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DEFERRED CHARGES:

Prepaid rent (secured by second mortgage).....	\$	47,000.00	
Prepaid taxes, unexpired insurance, etc.....		33,697.40	
		80,697.40	

<u>WAR DAMAGE CLAIMS BY SILKNIT LIMITED (ENGLAND)</u>			104,347.14
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FIXED ASSETS:

Fixed assets in Canada 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 at October 31, 1936, reported by Mr. F. R. Banyard of British Engineering Pty. Ltd. in 1937, plus subsequent additions at cost; fixed assets in England valued at cost less amount amortized in respect of leasehold premises—			
As at December 31, 1945.....	\$	1,917,270.58	
Add—Additions during the year (net).....		173,773.14	
		\$2,091,043.72	
Less—Reserve for depreciation.....		1,279,710.71	
		811,333.01	

<u>PATENTS</u>			1.00
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APPROVED ON BEHALF OF THE BOARD:

M. H. EPSTEIN, *Director.*

H. T. BURGESS, *Director.*

\$4,196,119.03

Submitted (with accompanying notes) with our report to the Shareholders dated April 16, 1947.

PRICE, WATERHOUSE & CO.
Chartered Accountants.

LIMITED

RY COMPANIES

DECEMBER 31, 1946

LIABILITIES

CURRENT LIABILITIES:

Bank loans and overdrafts (secured).....	\$520,846.10	
Accounts and notes payable.....	415,793.10	
Interest on Income Funding Rights (paid in 1947).....	5,677.00	
Accrued liabilities.....	67,207.70	
Reserve for income and excess profits taxes payable in Canada (after deducting \$120,000.00 paid on account).....	263,021.68	
Reserve for income and excess profits taxes payable in England and Australia.....	253,934.66	
Other taxes payable and accrued.....	30,420.48	
Dividend on preference shares of Australia Silknit Limited.....	6,793.50	
		\$1,563,694.22

5% FIRST SECURED SINKING FUND BONDS MATURING DECEMBER 15, 1964:

Authorized.....	\$500,000.00	
Issued.....	\$400,000.00	
Less—Redeemed through Sinking Fund.....	26,800.00	
		373,200.00

RESERVE FOR DIVIDENDS ON PREFERENCE SHARES OF AUSTRALIA SILKNIT

LIMITED.....	40,761.00
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SINKING FUND RESERVE FOR REDEMPTION OR RETIREMENT OF INCOME

FUNDING RIGHTS.....	11,791.82
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PREFERENCE SHARES OF AUSTRALIA SILKNIT LIMITED OUTSTANDING:

Representing £60,000 (Australian) seven per cent cumulative preference shares	237,900.00
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CAPITAL STOCK AND SURPLUS:

5% cumulative redeemable preferred shares:

Authorized—25,000 shares of \$40.00 each.....	\$1,000,000.00	
Issued—10,000 shares, fully paid.....	\$400,000.00	

Common Stock:

Authorized—120,000 shares of \$5.00 each.....	\$ 600,000.00	
Issued—60,085 shares, fully paid.....	300,425.00	

Capital Surplus, as per statement attached..... 463,643.82

Refundable portion of excess profits tax (per contra)..... 214,963.89

Earned Surplus, as per statement attached..... 589,739.28

1,968,771.99

CONTINGENT LIABILITY:

Customers' trade paper under discount..... \$ 358,565.00

\$4,196,119.03

SILKNIT LIMITED

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDING DECEMBER 31, 1946

<u>PARTICULARS</u>	<u>AMOUNT</u>
Combined profit from operations for the year ending December 31, 1946, after charging all manufacturing, selling and administrative expenses with the exception of those deducted hereunder.....	\$1,148,105.89
<i>Deduct—</i>	
Provision for depreciation of buildings, plant and equipment.....	\$127,648.85
Interest on bonds.....	19,063.92
Directors' fees.....	6,481.35
Salaries of executive officers in Canada, England and Australia.....	54,376.68
Legal expenses.....	3,216.47
Premium on bonds redeemed through sinking fund.....	382.00
	211,169.27
<i>Add—</i> Profit on disposal of equipment.....	\$ 936,936.62 13,170.98
<i>Deduct—</i> Provision for income and excess profits taxes.....	\$ 950,107.60 573,078.58
<i>Profit before the undernoted exchange adjustments.....</i>	<u>\$ 377,029.02</u>
<i>Deduct—</i>	
Exchange adjustment arising from conversion of the accounts of English and Australian subsidiaries as at December 31, 1946, to Canadian currency.....	\$ 78,414.57
Exchange adjustment on cash surrender value of life insurance payable in United States dollars.....	6,999.77
<i>Balance carried to Earned Surplus Account.....</i>	85,414.34 <u>\$ 291,614.68</u>
<i>NOTE:</i> The above profit before exchange adjustments may be segregated as follows:	
Silknit Limited and Canadian subsidiaries.....	\$268,706.81
Silknit Limited (England).....	50,490.46
Australia Silknit Limited and subsidiary companies.....	57,831.75
	\$377,029.02

CONSOLIDATED STATEMENT OF EARNED SURPLUS FOR THE YEAR ENDING DECEMBER 31, 1946

Balance, December 31, 1945.....	\$ 332,362.60
<i>Add—</i> Profit for the year ending December 31, 1946.....	291,614.68 <u>\$ 623,977.28</u>
<i>Deduct—</i>	
Dividends on preference shares of Silknit Limited.....	\$ 20,000.00
Dividends on preference shares of Australia Silknit Limited.....	14,238.00
<i>Balance, December 31, 1946.....</i>	34,238.00 <u>\$ 589,739.28</u>

CONSOLIDATED STATEMENT OF CAPITAL SURPLUS FOR THE YEAR ENDING DECEMBER 31, 1946

Surpluses of predecessor and subsidiary companies at dates of acquisition:	
Balance, December 31, 1945.....	\$268,524.83
<i>Deduct—</i> Cost of shares of subsidiary company acquired December 15, 1945, in excess of their book value. (This company was not consolidated at December 31, 1945).....	19,219.87 <u>\$ 249,304.96</u>
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
<i>Balance, December 31, 1946.....</i>	114,809.54 <u>\$ 463,643.82</u>

SILKNIT LIMITED

AND SUBSIDIARY COMPANIES

NOTES TO FINANCIAL STATEMENTS, DECEMBER 31, 1946

(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, 1946; the net current assets of these subsidiaries represent approximately 50% 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 \$656,159.22 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 1946, viz., \$4.22½ and \$3.39 to the £ for the English and Australian subsidiaries, respectively; the corresponding rates of exchange used in converting the profit and loss figures for the previous year were \$4.43 and \$3.54½ to the £.

(2) On distribution as dividends the earnings of the English and Australian subsidiaries are subject to Canadian income and excess profits taxes, less such allowance for taxes paid in England and Australia as may be applicable on date of distribution.

(3) In addition to the Capital Stock at December 31, 1946, there were outstanding 5,677 Income Funding Rights. As all outstanding Income Funding Rights were redeemed on March 5, 1947, at the redemption price of \$20.00 each, no appropriation for sinking fund reserve thereon has been made out of the 1946 earnings, nor has interest been deducted as there was a sufficient balance in the interest reserve to meet the payment made in 1947 before redemption. The funds for the redemption of the Income Funding Rights were provided through the issue and sale of \$100,000.00 par value 5% First Secured Sinking Fund Bonds.

