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ANNUAL REPORT

SILKNIT LIMITED

AND SUBSIDIARY COMPANIES

for the fiscal year ended

DECEMBER 31st, 1945

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SILKNIT LIMITED

TORONTO 1, CANADA
CABLE ADDRESS: SILKNIT, TORONTO

May 23, 1946

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, 1945, together with consolidated statements of profit and loss, earned surplus and capital surplus for the year then ended.

The combined profit from operations for the year 1945 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 \$687,138.67 as compared with \$558,929.29 for the previous year. The provision for income and excess profits taxes for 1945 was \$555,861.13 (including refundable portion of excess profits tax amounting to \$79,700.00 for the year, making the total accruing to the Company \$213,900.00); this provision is \$119,605.81 more than in the previous year. After deducting taxes, and interest and sinking fund requirements on the Income Funding Rights, the net earnings for 1945 were \$108,148.66 as compared with \$105,314.74 in 1944.

The net profits of the English and Australian subsidiaries show a substantial improvement over the previous year. The earnings of the Canadian companies in 1945 before providing for income and excess profits taxes also show a good increase over 1944 but their net profits after providing for taxes on income are lower than in the previous year. The decrease in earnings after taxes is accounted for principally by the provisions of The Excess Profits Tax Act under which the company's standard profit had to be adjusted downwards.

During the year ending December 31, 1945, the company paid the full amount of the dividend on the preferred shares.

Your Directors wish to take this opportunity of expressing their appreciation of the loyal service of all officers and employees during 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, 1945, and the related consolidated statements of profit and loss and of earned 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 43% 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 accordance with Section 114 of The Companies Act we report that the shares of the subsidiary company (not consolidated) were acquired as of December 15, 1945; as that company did not operate during the last half of December, the question of the treatment of profits or losses since the date of acquisition of the shares does not arise in 1945.

In connection with the accounts of Silknit Limited and its consolidated 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 (read in conjunction with the notes thereto) is 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, 1945, 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, May 9, 1946.

CONSOLIDATED BALANCE SHEET

A S S E T S

CURRENT ASSETS:

| | | | |
|---|----|----------------|--|
| Cash on hand and in banks..... | \$ | 94,107.98 | |
| Savings bonds (England)..... | | 44,300.00 | |
| War bond certificates (Australia)..... | | 1,201.76 | |
| Trade accounts and bills receivable, less reserve for bad debts..... | | 582,525.07 | |
| Other accounts receivable..... | | 23,768.47 | |
| 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..... | | 1,658,018.02 | |
| Cash surrender value of life insurance policies..... | | 126,497.93 | |
| | | \$2,530,419.23 | |

| | | | |
|---|--|--|------------|
| <u>REFUNDABLE PORTION OF EXCESS PROFITS TAX</u> | | | 213,900.00 |
|---|--|--|------------|

INVESTMENT IN SUBSIDIARY COMPANY (not consolidated):

| | | | |
|---|----|-----------|--|
| Investment in shares..... | \$ | 61,494.95 | |
| Indebtedness of subsidiary company..... | | 3,311.63 | |
| | | 64,806.58 | |

DEFERRED CHARGES:

| | | | |
|--|----|-----------|--|
| Prepaid rent (secured by second mortgage)..... | \$ | 56,000.00 | |
| Prepaid taxes, unexpired insurance, etc..... | | 31,691.51 | |
| | | 87,691.51 | |

| | | | |
|---|--|--|------------|
| <u>WAR DAMAGE CLAIMS BY SILKNIT LIMITED (ENGLAND)</u> | | | 114,989.51 |
|---|--|--|------------|

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, 1944..... | \$ | 1,862,495.85 | |
| Add—Additions during the year (net)..... | | 44,862.34 | |
| | | \$1,907,358.19 | |
| Less—Reserve for depreciation..... | | 1,195,135.80 | |
| | | 712,222.39 | |

| | | | |
|----------------------|--|--|------|
| <u>PATENTS</u> | | | 1.00 |
|----------------------|--|--|------|

APPROVED ON BEHALF OF THE BOARD:

M. H. EPSTEIN, *Director.*

H. T. BURGESS, *Director.*

Submitted (with accompanying notes) with our report to the Shareholders dated May 9, 1946.

PRICE, WATERHOUSE & CO.,

Chartered Accountants.

\$3,724,030.22

LIMITED

Y COMPANIES

DECEMBER 31, 1945

L I A B I L I T I E S

CURRENT LIABILITIES:

| | | |
|---|---------------|----------------|
| Bank loans and overdrafts (secured)..... | \$ 477,658.17 | |
| Accounts and notes payable..... | 303,883.05 | |
| Interest on Income Funding Rights (paid in 1946)..... | 6,020.00 | |
| Accrued liabilities..... | 61,355.00 | |
| Reserve for income and excess profits taxes payable in Canada (after deducting \$180,000.00 paid on account)..... | 264,222.92 | |
| Reserve for income and excess profits taxes payable in England and Australia.. | 157,432.20 | |
| Other taxes payable and accrued..... | 20,091.94 | |
| Dividend on preference shares of Australia Silknit Limited..... | 7,444.50 | |
| | | \$1,298,107.78 |

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

| | | |
|---|---------------|------------|
| Authorized..... | \$ 500,000.00 | |
| Issued..... | \$ 400,000.00 | |
| Less—Redeemed through Sinking Fund..... | 10,400.00 | |
| | | 389,600.00 |

RESERVE FOR DIVIDENDS ON PREFERENCE SHARES OF AUSTRALIA SILKNIT

| | | |
|--------------|--|-----------|
| LIMITED..... | | 44,951.58 |
|--------------|--|-----------|

| | | |
|--|--|----------|
| RESERVE FOR INTEREST ON INCOME FUNDING RIGHTS..... | | 7,832.66 |
|--|--|----------|

SINKING FUND RESERVE FOR REDEMPTION OR RETIREMENT OF INCOME

| | | |
|---------------------|--|-----------|
| FUNDING RIGHTS..... | | 16,086.91 |
|---------------------|--|-----------|

PREFERENCE SHARES OF AUSTRALIA SILKNIT LIMITED OUTSTANDING:

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

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..... | 482,863.69 | |
| Refundable portion of excess profits tax (per contra)..... | 213,900.00 | |
| Earned Surplus, as per statement attached..... | 332,362.60 | |
| | | 1,729,551.29 |

CONTINGENT LIABILITIES:

| | | |
|--|--------|--------------|
| Claim against Silknit Limited (England)..... | £2,018 | (\$8,939.74) |
| Customers' trade paper under discount..... | | \$137,987.46 |

\$3,724,030.22

SILKNIT LIMITED

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDING DECEMBER 31, 1945

| <u>PARTICULARS</u> | <u>AMOUNT</u> |
|---|---------------------|
| Combined profit from operations for the year ending December 31, 1945, after charging all manufacturing, selling and administrative expenses with the exception of those deducted hereunder | \$860,696.10 |
| <i>Deduct—</i> | |
| Provision for depreciation of buildings, plant and equipment | \$ 86,919.09 |
| Interest on bonds | 19,967.93 |
| Directors' fees | 6,642.30 |
| Salaries of executive officers in Canada, England and Australia | 71,790.68 |
| Legal expenses | 8,878.62 |
| Loss on sale of investments | 437.50 |
| | 194,636.12 |
| | \$666,059.98 |
| <i>Add—</i> Profit on disposal of equipment | 21,078.69 |
| | \$687,138.67 |
| <i>Deduct—</i> Provision for income and excess profits taxes (including the refundable portion of the Canadian excess profits tax amounting to \$79,700.00) | 555,861.13 |
| <i>Profit from operations before the undernoted exchange adjustment</i> | <i>\$131,277.54</i> |
| <i>Add—</i> Exchange adjustment arising from conversion of the accounts of Australian and English subsidiaries as at December 31, 1945, to Canadian currency | 557.89 |
| | \$131,835.43 |
| <i>Deduct—</i> Interest on Income Funding Rights | 6,020.00 |
| | \$125,815.43 |
| <i>Deduct—</i> Proportion of profits transferred to sinking fund reserve for redemption or retirement of Income Funding Rights | 17,666.77 |
| <i>Balance carried to Earned Surplus account</i> | <i>\$108,148.66</i> |
| NOTE: The above net profit may be segregated as follows: | |
| Silknit Limited and Canadian subsidiaries | \$ 38,383.76 |
| Silknit Limited (England) | 20,917.17 |
| Australia Silknit Limited and subsidiary companies | 48,847.73 |
| | \$108,148.66 |

CONSOLIDATED STATEMENT OF EARNED SURPLUS FOR THE YEAR ENDING DECEMBER 31, 1945

| | |
|---|---------------------|
| Balance, December 31, 1944 | \$259,102.94 |
| <i>Add—</i> Profit for the year ending December 31, 1945 | 108,148.66 |
| | \$367,251.60 |
| <i>Deduct—</i> | |
| Dividends on preference shares of Silknit Limited | \$ 20,000.00 |
| Dividends on preference shares of Australia Silknit Limited | 14,889.00 |
| | 34,889.00 |
| <i>Balance, December 31, 1945</i> | <i>\$332,362.60</i> |

CONSOLIDATED STATEMENT OF CAPITAL SURPLUS FOR THE YEAR ENDING DECEMBER 31, 1945

(No change during the year.)

| | |
|---|---------------------|
| Surpluses of predecessor and subsidiary companies at dates of acquisition | \$268,524.83 |
| 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, 1945</i> | <i>\$482,863.69</i> |

SILKNIT LIMITED

AND SUBSIDIARY COMPANIES

NOTES TO FINANCIAL STATEMENTS, DECEMBER 31, 1945

(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, 1945; the net current assets of these subsidiaries represent approximately 56% 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 \$656,754.94 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 1945, viz. \$4.43 and \$3.54½ to the £ for the English and Australian subsidiaries, respectively; this basis is the same as that used in converting the corresponding figures for the year ending December 31, 1944.

(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 there are outstanding 6,020 Income Funding Rights having the attributes and being subject to the provisions set forth in by-law "A" as amended by by-law "C" of the company.

