

ZELLER'S LIMITED

ANNUAL REPORT TO SHAREHOLDERS

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For Fiscal year ended
January 31st, 1940

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TO THE SHAREHOLDERS:

The management takes pleasure in reporting that the fiscal year covered by this report has been the most successful in the Company's history. Both Sales and Profits show a substantial increase as compared with the preceding year. The figures herein mentioned represent the combined results of the operations for the fiscal year ending January 31st, 1940, of Zeller's Limited and its wholly-owned Subsidiaries, the statements of which together with those of the Parent Company have for purposes of convenience been combined in the present consolidated report.

SALES:

Sales amounted to \$6,180,192.44 as compared with \$5,120,504.01 for the preceding year, an increase of 20.7%. Exclusive of the additional sales accounted for by new stores not open for the two complete years, the store for store increase amounted to 5.4%.

The recent general improvement in industrial conditions continues to be reflected in the weekly sales, and, unless circumstances alter materially, it is anticipated that the present year will result in a rate of increase on a store for store basis in excess of the past year.

PROFITS:

Net Profits for the year amounted to \$253,475.93 as compared with \$185,711.20 the previous year. These figures, which, of course, represent the Net Profit after provision for Debenture Interest, Taxes and Depreciation, constitute an increase of 36%.

The tax burden was considerably greater than in the previous year. Federal and Provincial Income and Profit Taxes and other Corporation Taxes amounted to \$65,084.19 as compared with \$42,859.11 the previous year or an increase of 52%. These figures do not include any Real Estate or Business Taxes. Depreciation on buildings, furniture, fixtures, equipment and improvements to leasehold premises was \$130,152.67 as compared with the previous year's \$119,199.50. The increase in Net Profit is mainly the result of the increase in sales; markup on merchandise and operating expenses were approximately at the same ratio to sales as in the previous year.

The Net Profit is equivalent to more than five times Preferred Dividends and, after payment of these Dividends at the regular rate of \$1.50 per share, amounting to \$45,000.00, the balance remaining is equivalent to \$1.66 on the Common. No dividends, however, have been paid on the Common Stock, and although the earnings are very satisfactory, it is the opinion of your Board that consideration of a dividend policy should be deferred for the present. This decision is based on the uncertainty of general conditions due to the war and on a desire still further to improve the liquid position of the Company.

CURRENT ASSETS:

The Balance Sheet reveals the following net asset position—

CURRENT ASSETS

Cash on Hand and on Call.....	\$ 370,713.39
Merchandise	533,206.78
Sundry Accounts Receivable	10,229.08
Prepaid Expense & Supply Items	34,036.99
Life Insurance (Cash Surrender Value)	13,300.00
	<hr/>
	\$961,486.24
Current Liabilities	315,105.12
	<hr/>
Net Current Assets	\$646,381.12
	<hr/>

Current Assets are over three times Current Liabilities, and Cash on Hand and on Call is greater than the total Current Liabilities.

Inventories on a comparable store for store basis as at January 31st, 1940, stood at an increase of 4.5% as compared with the sales increase of 5.4%. On the outbreak of the war the policy was established to refrain from forward buying in anticipation of an increase in the price of merchandise due to war conditions. That policy is being continued. There are cases, however, when deliveries on some lines have become uncertain, and in such instances, it is, of course, a necessity to accept delivery of merchandise when it is available rather than when it is required. It is anticipated, as a consequence, that this will result in inventories slightly larger than average for the present year.

On February 1st last the Company purchased \$100,000.00 Dominion of Canada War Loan Bonds, which transaction is not, of course, reflected in the Balance Sheet as at January 31st, 1940.

DEBENTURE STOCK:

In addition to the usual 5% Sinking Fund payment on the Debenture Stock amounting to \$12,500.00, an additional payment of an equivalent amount has been provided for, making a total of \$25,000.00 par value of Debenture Stock to be redeemed. This sum will be carried as a current liability until May 31st, 1940, when the redemption will be effected, after which date the balance of Debenture Stock outstanding will be \$122,000.00.

PREFERRED STOCK PURCHASE RESERVE:

Among the liabilities set forth in the Company's Balance Sheet will be noticed a sum of \$22,117.48 appropriated for Preferred Stock Purchase Reserve. This is a fund to which appropriations have been made since 1938 pursuant to the Supplementary Letters Patent of the Company which provide that such monies are to be first applied to the redemption of Debenture Stock, as long as any remains outstanding, and thereafter to the purchase of Preferred Stock under the conditions in the said Supplementary Letters Patent set forth. As long as any Debenture Stock remains outstanding, therefore, it is actually a misnomer to refer to such appropriations as a Preferred Stock Purchase Reserve, but the said Supplementary Letters Patent as they now read permit the use of this misleading designation only. Without in any way altering the conditions regarding these appropriations or the position of either Debenture or Preferred Stockholders it is proposed to amend the Supplementary Letters Patent of the Company merely in order to ensure that the true operation of these appropriations may at all times be clearly represented. To authorize such an amendment, a Special General Meeting of the Shareholders has been summoned, to be held immediately prior to the Annual Meeting.

SUBSIDIARIES:

The Management has felt that more efficient specialization could be attained by creating Subsidiary Companies to which certain special functions could be entrusted. For this purpose Zeller's (Nova Scotia) Limited, Zeller's (N.B.) Limited and Zeller's (Alta.) Limited were incorporated for the operation of stores in the Provinces of Nova Scotia, New Brunswick and Alberta respectively. A fourth wholly-owned Subsidiary, Walter P. Zeller Realty Company Limited, formerly known as Walter P. Zeller Holding Company Limited, which changed its name the better to designate its purpose, owns certain parcels of real estate and leases all of them to the Parent Company, Zeller's Limited.

NEW STORES:

Three new stores were opened during the fiscal year. Moncton, N.B. — Halifax, N.S. — and Edmonton, Alta. This brings the present stores in operation to a total of 27. Unless some exceptionally attractive propositions should become available, it is anticipated that no new stores will be added during the present fiscal year.

HILLS & STEELE LIMITED:

The results achieved by Hills & Steele Limited over a two year period were disappointing, and this together with the unsettled European situation, led to a decision to dispose of the investment in that Company. The necessary adjustment resulting from this action, amounting to \$116,820.82, has been charged against surplus.

CONCLUSION:

Although the fiscal year just closed has been the most profitable which the Company had until then experienced, there is reason to expect that the gross sales for the present year will show a still greater increase. The net results for the present year, however, are difficult to forecast with any accuracy due to the uncertainty of the conditions which may develop as the war proceeds. Certainly, fluctuations in the cost of merchandise and mounting taxes of all kinds must offset to a degree the advantages of a larger volume of sales.

Nevertheless, the record of the fiscal year just completed holds encouragement for the future and, whatever the circumstances which may arise, this Company shall continue its policy of supplying the public with desired merchandise in the most efficient manner at reasonable cost and of maintaining the physical condition of its properties and equipment at a high standard.

In conclusion, the Management is pleased once again to pay tribute to the diligence with which the members of the entire staff have discharged the various tasks for which they are responsible. Their whole-hearted cooperation is a credit to themselves and a matter of pride to the organization.

On behalf of the Board,

WALTER P. ZELLER,

Chairman

ZELLER'S

AND SUBSIDIARIES

Consolidated Balance Sheet

ASSETS

Cash on Hand and in Banks	\$ 265,713.39	
Cash on Call	105,000.00	
		\$ 370,713.39
Inventories—Quantities determined by actual count, weight or measurement and priced at the lower of cost or market		533,206.78
Sundry Accounts Receivable and Deposits	12,229.08	
Less—Reserve for Doubtful Accounts	2,000.00	
		10,229.08
Prepaid Expenses and Supplies		34,036.99
Life Insurance—Cash Surrender Value		13,300.00
		<u>961,486.24</u>
<u>TOTAL CURRENT</u>		\$ 961,486.24
Land and Buildings—at Cost	\$ 721,847.63	
Less—Reserve for Depreciation of Buildings	13,939.25	
		707,908.38
Furniture, Fixtures, Equipment and Improve- ments to Leasehold Premises—as valued by the Directors as at 1st March, 1932—with net additions to date at Cost	1,801,718.01	
Less—Reserve for Depreciation	686,665.49	
		1,115,052.52
		<u>1,822,960.90</u>

Approved on behalf of the Board:

WALTER P. ZELLER, Director.

T. E. McDERMOTT, Director.

\$2,784,447.14

MONTREAL, 21st March, 1940.

Submitted subject to

LIMITED

RY COMPANIES

et as at 31st January, 1940

LIABILITIES

Accounts Payable, Accrued Commissions and Miscellaneous Expenses.....	\$ 224,186.56
Provision for Dominion, Provincial and Municipal Taxes	65,918.56
Provision for Redemption of Debenture Stock	25,000.00

TOTAL CURRENT	\$ 315,105.12
Mortgages Payable	369,959.42
General Reserve	22,794.75

DEBENTURE STOCK—

Authorized and Issued—Six Per Cent Cumulative Redeemable Sinking Fund Debenture Stock.....	250,000.00
Less—Redeemed	103,000.00
Redeemable during 1940—shown above	25,000.00
	<u>128,000.00</u>
	122,000.00

CAPITAL AND SURPLUS—

Authorized—40,000 Six Per Cent Redeemable Preferred Shares of a Par Value of \$25.00 each	1,000,000.00
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150,000 Common Shares without Nominal or Par Value.

ISSUED AND FULLY PAID—

30,000 Preferred Shares	750,000.00
125,000 Common Shares	625,000.00
	<u>1,375,000.00</u>

Surplus—Appropriated for Preferred Stock Purchase Reserve

22,117.48

Distributable Surplus

33,250.00

Consolidated Earned Surplus—
per Statement No. 3

524,220.37

579,587.85

1,954,587.85

\$2,784,447.14

ur report of this date.

Signed) McDONALD, CURRIE & CO.,

Chartered Accountants.

ZELLER'S LIMITED
AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF PROFIT AND LOSS
For the year ended 31st January, 1940

<u>SALES</u>	\$6,180,192.44
<u>DEDUCT—</u>	
Cost of Goods Sold, Operating, Selling and Administrative Expenses, exclusive of items shown hereunder.....	\$5,649,192.79
Salaries of Executive Officers	46,500.00
Legal Fees	8,979.88
Directors' Fees	400.00
	<hr/> 5,705,072.67
<u>Operating Profit before Provision for Depreciation</u>	475,119.77
<u>DEDUCT—</u>	
Store Development Expense	9,424.10
Interest on Mortgages	13,117.66
do Debentures	8,986.02
Depreciation—Buildings, Furniture, Fixtures and Equipment and Improvements to Leasehold Premises.....	130,152.67
	<hr/> 161,680.45
	\$ 313,439.32
<u>DEDUCT—</u>	
Provision for Dominion Income and Provincial Profits Taxes	60,150.00
<u>Net Consolidated Profit for the year—transferred to Consolidated Earned Surplus Account</u>	<hr/> \$ 253,289.32

CONSOLIDATED STATEMENT OF EARNED SURPLUS

<u>Balance at Credit—31st January, 1939</u>	\$ 451,961.50
<u>Add—Consolidated Profit for the Year—per Statement No. 2.</u>	253,289.32
	<hr/> \$ 705,250.82
<u>Deduct—Preferred Stock Purchase Reserve</u>	\$ 6,922.15
Dividends on Preferred Shares	45,000.00
Additional Income Taxes for prior year	12,287.48
Loss on Sale of Investment in Hills & Steele Limited	116,820.82
	<hr/> 181,030.45
<u>Balance at Credit—31st January, 1940</u>	<hr/> \$ 524,220.37

Montreal, P.Q.,
21st March, 1940.

TO THE SHAREHOLDERS,
ZELLER'S LIMITED,
MONTREAL.

We have made an examination of the Consolidated Balance Sheet of Zeller's Limited and Subsidiary Companies as at 31st January, 1940, and of the Consolidated Profit and Loss and Earned Surplus Accounts for the year ended on that date. In connection therewith we examined or tested the accounting records and other supporting evidence and made a general review of the accounting methods and of the Operating and Income Accounts for the year, but did not make a detailed audit of the transactions.

We have obtained all the information and explanations which we have required and, based upon our examination, report that, in our opinion, the attached Consolidated Balance Sheet as at 31st January, 1940, is properly drawn up so as to exhibit, in accordance with accepted principles of accounting consistently maintained by the Company during the year under review, a true and correct view of the state of the affairs of Zeller's Limited and Subsidiary Companies, according to the best of our information and the explanations given to us, and as shown by the books, and that the related Consolidated Profit and Loss and Earned Surplus Accounts fairly represent the operating results for the year.

(Signed) McDONALD, CURRIE & CO.,

Chartered Accountants.

Operating in the following Cities

BARRIE, ONT.	BELLEVILLE, ONT.	BRANTFORD, ONT.
FT. WILLIAM, ONT.	GUELPH, ONT.	HAMILTON, ONT.
HAMILTON, ONT. SUBURBAN DIST.	KITCHENER, ONT.	LINDSAY, ONT.
LONDON, ONT.	NORTH BAY, ONT.	OSHAWA, ONT.
OTTAWA, ONT.	PETERBOROUGH, ONT.	PORT ARTHUR, ONT.
ST. CATHARINES, ONT.	SARNIA, ONT.	WINNIPEG, MAN.
QUEBEC, QUE.	SHERBROOKE, QUE.	THREE RIVERS, QUE.
FREDERICTON, N.B.	MONCTON, N.B.	ST. JOHN, N.B.
EDMONTON, ALTA.	HALIFAX, N.S.	NEW GLASGOW, N.S.

Executive and Buying Offices
1253 MCGILL COLLEGE AVE.
MONTREAL

Board of Directors

WALTER P. ZELLER, Chairman

RUSSELL D. BELL

GILBERT F. BROOKS

ROBERT T. HARTT

T. E. McDERMOTT

WM. C. NICHOLSON, K.C.

Officers

WALTER P. ZELLER President

ROBERT T. HARTT Vice-President

T. E. McDERMOTT Treasurer

E. G. COLLARD Secretary

Transfer Agents

BARCLAYS TRUST COMPANY OF CANADA

214 ST. JAMES STREET WEST, MONTREAL

Registrar

CHARTERED TRUST AND EXECUTOR COMPANY

132 ST. JAMES STREET WEST, MONTREAL

