

HEAD OFFICE: WALKERVILLE, ONTARIO

Annual Report of
Hiram Walker-Gooderham & Worts *Limited*

For the year ended August 31, 1940



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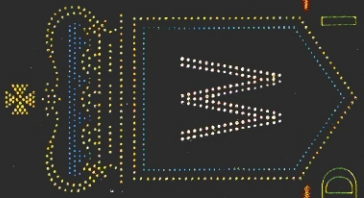
McGILL UNIVERSITY

Annual Report of
HIRAM WALKER-
GOODERHAM & WORTS
LIMITED

*For the year ended
August 31, 1940*

CANADIAN CLUB

WALKER



HIRAM WALKER

EST'D 1858

This display, 205 feet long, is believed to be the largest electrical sign in the world. Against the night sky of the Chicago lake front it advertises Canadian Club—or at a throw of the switch, Meadow Brook Bourbon. The letters beneath "Canadian Club" are in bulbs that form a changeable moving message, operated from a perforated tape. This feature of the sign is often used to advertise civic events and charity projects.

HIRAM WALKER - GOODERHAM & WORTS LIMITED

WALKERVILLE, ONTARIO, CANADA

Incorporated December 31, 1926, under the laws of the Dominion of Canada

BOARD OF DIRECTORS

H. C. HATCH
HOWARD R. WALTON
T. H. GIBBONS

J. F. LASH, K.C.
F. K. MORROW
E. D. GOODERHAM
LEIGH M. MCCARTHY

R. A. MCKINLAY
GEO. T. CHISHOLM
B. E. FORD

EXECUTIVE COMMITTEE

H. C. HATCH

T. H. GIBBONS

HOWARD R. WALTON

OFFICERS

*President and Chairman of
the Board*

H. C. HATCH

Secretary

FLETCHER RUARK

Vice-President

HOWARD R. WALTON

Comptroller

B. E. FORD

Assistant Secretary

W. G. GOOK

Vice-President

T. H. GIBBONS

Treasurer

H. O. C. PALMER

AUDITORS

PRICE, WATERHOUSE & CO., CHARTERED ACCOUNTANTS,
TORONTO, NEW YORK & LONDON

BANKERS

THE BANK OF TORONTO, TORONTO, ONT.
GUARANTY TRUST CO. OF NEW YORK, NEW YORK, N.Y.

TRANSFER AGENTS

NATIONAL TRUST CO. LIMITED, TORONTO, ONT.
BANKERS TRUST CO., NEW YORK, N.Y.

REGISTRARS

THE TORONTO GENERAL TRUSTS CORPORATION, TORONTO, ONT.
GUARANTY TRUST CO. OF NEW YORK, NEW YORK, N.Y.

REPORT OF DIRECTORS

for the Fiscal year ended August 31, 1940

To the Shareholders of

HIRAM WALKER-GOODERHAM & WORTS LIMITED:

We view in retrospect a truly abnormal year. Upon an ever-widening scale, forces released by the war have been invading the economies of all nations. Directors and shareholders in every theatre of business have been awakened to a new appreciation of the very real sense in which financial statements are affected by the shadow of an ever-changing international situation.

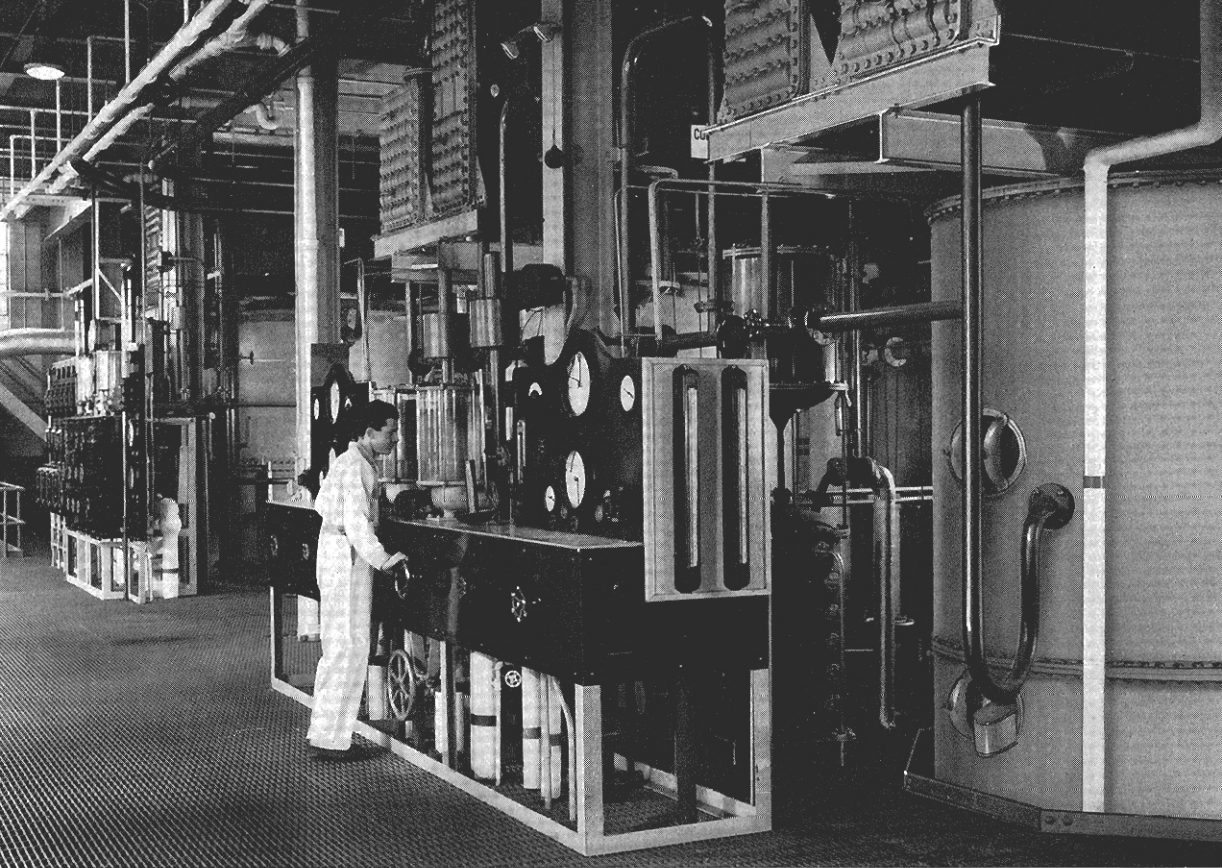
Inevitably, both the history of our growth and the distribution of our activities compel our Company to recognize that its interests are vitally involved in any crisis threatening the survival of democratic principles. Our capital investments are in Canada, the United States, and Great Britain. These countries build not only their political institutions but also their peacetime economies around the principles of democratic freedom, and we must not forget that, in the larger sense, the progress we have made stands as a monument to the existence of these principles in the English-speaking world.

SALES AND EARNINGS

The Company has ended another year of continued progress with consolidated sales volume again increased. For the year the total is \$78,678,677, up \$10,352,867 over 1939. Earnings too, despite rising costs in several fields, notably taxation, are higher, amounting to \$6,065,664, equivalent to \$7.60 per common share, compared with \$5,295,979 or \$6.58 for the preceding year. In conformity with the Company's practice in prior years, carrying charges on maturing whiskey stocks and depreciation on plant and equipment have been charged direct to earnings.

Throughout the year the maintenance and extension of the priceless and irreplaceable asset of public goodwill which our Company enjoys in such an exceptional measure has been our constant concern. Experience has long since demonstrated that a quality product deserves support, and we have continued to display our brands through generous advertising expenditure, largely in magazines and newspapers.

From an investor's standpoint, no feature of an enterprise is more important in the long run than this element of stability. Our corporate history is now sufficiently



PEORIA: The control floor in the still house. After the course of a distillation is charted in the laboratory, automatic devices govern the flow of steam into the still.

long to have enabled the Company to demonstrate a sustained earning power throughout years of widely varying economic conditions, and this dependability, that we regard as reasonably established, cannot be other than gratifying to all shareholders. To indicate its substantial character a table is given on page 8 of this report covering earnings, surplus, and financial progress over the past seven years.

DIVIDENDS

Dividends declared during the fiscal year aggregated \$3,456,834, of which \$2,896,016 was paid to holders of common stock at an annual rate of \$4.00 per share and \$560,818 to holders of preference stock at \$1.00 per share.

FINANCIAL

The consolidated financial statements of the Company and its wholly-owned subsidiaries presented herewith follow the Company's usual accounting practice and in conformity with past procedure are expressed in terms of Canadian currency. In stating other currencies in terms of Canadian currency the official rates established by the Foreign Exchange Control Board of Canada have been used. The general

principles of exchange conversion used in the preparation of the consolidated balance sheet as at August 31, 1939, have again been employed; that is, stating the current assets and current liabilities in Canadian dollars at official exchange rates current at August 31, 1940; stating properties at approximately the rates of exchange prevailing at dates of acquisition and basing reserves and provisions for depreciation on the same rates; stating funded debt and unamortized discount and expense applicable thereto at the approximate rates prevailing at dates of issue of the respective obligations. With the exception of the provisions for depreciation the operations of the wholly-owned subsidiary companies in the United States and Great Britain have been stated in Canadian currency on the basis of the average rates of exchange prevailing throughout the fiscal year which, since September 15, 1939, have been the official rates of the Foreign Exchange Control Board of Canada.

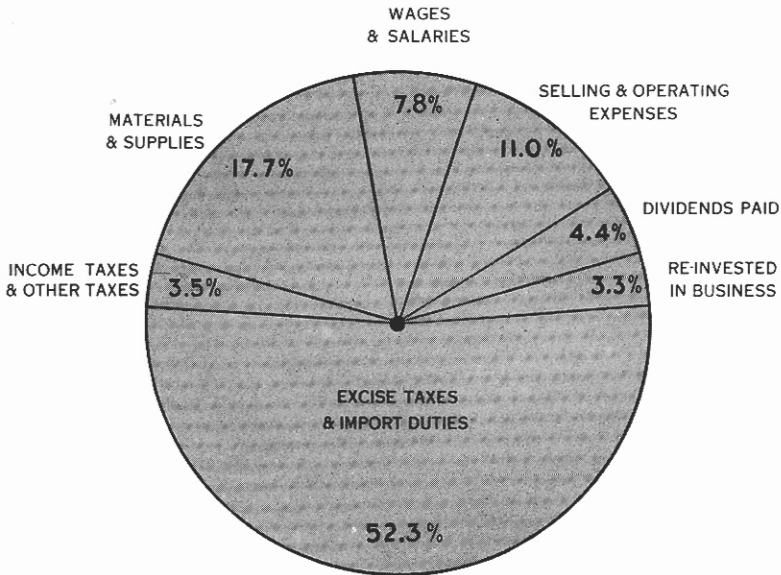
The net result of all exchange adjustments in consolidation for the year ended August 31, 1940, was a credit of \$1,417,276. As at August 31, 1939, a debit of \$229,848 was charged to Reserve for Contingencies on consolidation in connection with the net exchange adjustment at that date. In the consolidated statements presented herewith the latter amount has been restored to Reserve for Contingencies and charged against the exchange credit of \$1,417,276 arising in consolidation and the resultant balance of \$1,187,428 is shown on the consolidated balance sheet as Foreign Exchange Adjustment on Consolidation.

The assets in Great Britain, substantially all of which are located in Scotland, are subject to foreign exchange and other war restrictions. At August 31, 1940 the net assets as included in the Consolidated Balance Sheet presented herewith

PEORIA: In this illustration of the world's largest distillery, covering 34 acres, the building at lower right is where the grain cars unload and manufacturing commences. Ten other massive buildings are rack warehouses containing 865,000 barrels of ageing whiskey. The waterway in foreground is the Illinois River, down which barges start Hiram Walker goods to seaports of the Gulf, Atlantic, and Pacific coasts.



DISTRIBUTION OF THE SALES DOLLAR IN THIS FISCAL YEAR



The Company's total tax bill for the year was \$43,935,587 of which \$41,136,724, was for excise and import taxes used for general government purposes, including defense. Federal, state and provincial treasuries obtain more revenue from the alcoholic beverage industry than from any other.

amounted to \$10,390,933 before deducting the 4½% Debenture Stock, of which \$6,721,427 represented net current assets. As against these assets there is outstanding \$7,500,000 (£1,500,000) of 4½% Debenture Stock guaranteed by Hiram Walker-Gooderham & Worts Limited.

The net profits earned in Great Britain for the year ended August 31, 1940, as included in the accompanying consolidated statement of profit and loss amount to \$915,253. Present scale operations of the wholly-owned subsidiary companies in Great Britain are of comparatively recent origin and are still in the development stage. On this account and because of the financial obligations of the companies in Great Britain there has been no occasion to transfer profits from operations in that country to Canada. Under the regulations of the Foreign Exchange Board of Great Britain no dividends may be paid to non-residents by a resident company without first obtaining approval of the Board. Since the companies have not applied for permission to pay a dividend, the question of whether or not such application would be approved by the Board has not been determined.

OPERATIONS

The distilleries at Walkerville, Toronto, and Peoria all produced at approximately the same levels as last year. Within recent months at Toronto, however, there has

THE COMPANY'S RECENT RECORD

Fiscal Year	Sales	Net Earnings	DIVIDENDS		Surplus at end of Year
			Preference Dividends	Common Dividends	
1933-4.....	\$21,071,349	\$3,366,267	\$461,131	\$ ———	\$ 5,594,170
1934-5.....	45,353,470	3,165,650	460,818	————	8,244,484
1935-6.....	54,729,133	4,796,120	460,818	990,000	10,580,959
1936-7.....	63,969,514	6,463,633	460,818	1,443,433	15,140,340
1937-8.....	67,201,413	6,284,968	460,818	2,896,016	8,576,950*
1938-9.....	68,325,810	5,295,979	534,092	2,896,016	10,687,311
1939-40....	78,678,677	6,065,664	560,818	2,896,016	13,296,141

*Goodwill, Processes and Trade Marks of \$9,491,525 written off against Surplus in this year.

been a development that soon may become important. During the last war Gooderham & Worts Limited, did some valuable work for the Defence authorities and there is a definite prospect that the services of this plant will again be required on a substantial scale. Already we have made some introductory shipments, and have reason to believe they will continue in considerable volume.

All plants have maintained their record for efficient operations during the year. A steady stream of visitors to our Peoria and Walkerville plants evidences a healthy interest in our Company. It is our endeavor to deserve this interest by maintaining the high standard of our products and with this object in view, our Research Department, staffed by qualified scientists working with modern equipment, continues to supervise all materials used in our manufacturing process. While the cost of this research is considerable, your Directors are satisfied that the money is well spent, by reason of the more effective supervision it enables us to exercise over quality.

During the year Hiram Walker & Sons Inc., purchased the old Clarke Distillery at Peoria principally for its storage facilities and thereby increased the storage capacity 85,000 barrels.

SCOTTISH SUBSIDIARIES

In the President's address at the annual meeting a year ago the position of our Scottish subsidiaries was discussed. At that time our Dumbarton plant had stopped producing as a result of the commandeering of grain in the United Kingdom, due to the necessities of the British Government. Our Highland distilleries, Glen-Burgie and Milton-Duff, for their part, had only sufficient supplies on hand to carry them into the early months of 1940. In this situation, the hope was expressed that representations that had been made to the British Ministry of Food by the distillers as a group would be successful in having the restrictions amended. This hope has since been realized. Last spring the Ministry of Food issued an authorization allowing distilleries to produce in 1940 one-third of their output in the twelve months preceding September 1, 1939. It so happened that when this authorization was announced our two Highland distilleries had already produced their quota, while our Dumbarton

The U. S. market offers opportunity for many different kinds of liquor: straight whiskies, blends, gins, cordials. On this page are three straight whiskies made in Peoria.



TEN HIGH

Straight Bourbon Whiskey. An impartial audit shows Ten High to be the best selling whiskey of any type in package stores of open states (as distinguished from state liquor monopolies).



SIGNET

Straight Rye Whiskey. Hiram Walker's bottled-in-bond rye. It is aged in aged wood, and is the first bonded whiskey of its kind.



MEADOW BROOK

Straight Bourbon Whiskey. Hiram Walker's first bottled-in-bond bourbon. Introduced 1939.



TWO FAVORITES IN THE HIGH-PRICED FIELD

Ballantine's is a product of George Ballantine & Son Limited, a subsidiary of Hiram Walker & Sons (Scotland) Limited, and is blended and bottled in Scotland. The Company markets it in Canada. In U.S.A. it is distributed by an independent

importer. Canadian Club is one of the world's most widely obtainable whiskies. Its steady increase of sale in U.S.A. has been most gratifying, and it is often referred to in this important market as the most valuable of all whiskey brands.



CARAVAN

A blend of straight whiskies, made in Peoria, marketed by James Barclay & Co., Limited.



HIRAM WALKER'S LONDON DRY GIN

"America buys more Hiram Walker gins than any other kind."



G. & W. FIVE STAR

The Star blends are made in Peoria, marketed by Gooderham & Worts Limited. Two Star and Seven Star complete the group.

Each of three sales organizations in U.S.A. sells numerous items and these pages picture only their leading brands.

Hiram Walker & Sons Limited has been the recipient of the Royal Warrant of Appointment for Canadian Club Whiskey from Her Majesty Queen Victoria, His Majesty King Edward VII, and His Majesty King George V. It is with much pride we announce this exceptional honor has recently been bestowed on Hiram Walker & Sons Limited by His Majesty King George VI.

Our activities in the United States again have been attended by results that are eminently satisfactory; and we are gratified to note the impressive manner in which

GENERAL

plant, to which the authorization also applied, had no grain on hand. Some grain was later allotted to Dumbarton and the plant began operations in August. It is still producing and sufficient grain has been supplied to complete our quota before December 31st.

The shipment of matured whiskeys from Scotland to the United States, Canada and other export markets has proceeded without interruption throughout the period of hostilities. This is made possible by the magnificent work of the British Navy in keeping the lanes of commerce open, and of the merchant marine who carry on, heroically indifferent to the dangers of drifting mines or lurking submarines.

All shipments, in addition to the usual insurance coverage, are insured against war risk loss. Our whiskey stocks in Scotland are insured against war risk under the compulsory British Government Commodity War Risk Insurance Plan. On October 8 the Prime Minister announced that a similar scheme will soon be put in effect covering buildings and equipment. Up to August 31, 1940, neither our plants nor stocks had suffered any war damage. Since that time our only damage has been to stocks stored in outside warehouses to the extent of \$16,568, which amount is recoverable in full under the British Commodity War Risk Insurance plan.

DUMBARTON, SCOTLAND: Largest whiskey distillery in Europe, situated on the River Leven where it joins the Clyde. This distillery, though smaller, is designed along the same principles as the Peoria plant. It produces mainly the grain whiskey two well-known distilleries, Glen-Burgie and Milton-Duff, in the Highlands.



the United States distilling industry generally continues to strengthen its position. Last year it was stated in the President's address that, for the first time, inventories of American distilleries had failed to show an increase in the twelve-month period, indicating that the industry was producing on a replacement basis. This situation still obtains, and adds to the stability of the industry's outlook. Our brands during the year have continued not only to hold their place in public favour but also to capture a satisfactory proportion of the increased business created through the war's stimulation to industry, with its resultant greater consumer buying power.

While this increased purchasing power is not without its significance, the fact remains that war is basically wasteful and that no real profit can be expected from it by any industry not directly connected with the production of its actual mechanism of destruction. Already this is emphasized in our own case by the substantial increases in taxation to which we have been subjected during the past year. In Canada, the United States, and Great Britain excise and income taxes have undergone drastic upward revision, and excess profits taxes have been introduced. The new rates reflect the financial pressure which armament policies inevitably impose on governments, and while we have been bearing their burden for certain of the months under review, their real weight will only be fully realized during the years to come. We cannot expect the level of our earnings to remain unaffected by the revenue obligations we are being called upon to discharge towards the treasuries of the three countries in which we carry on manufacturing operations.

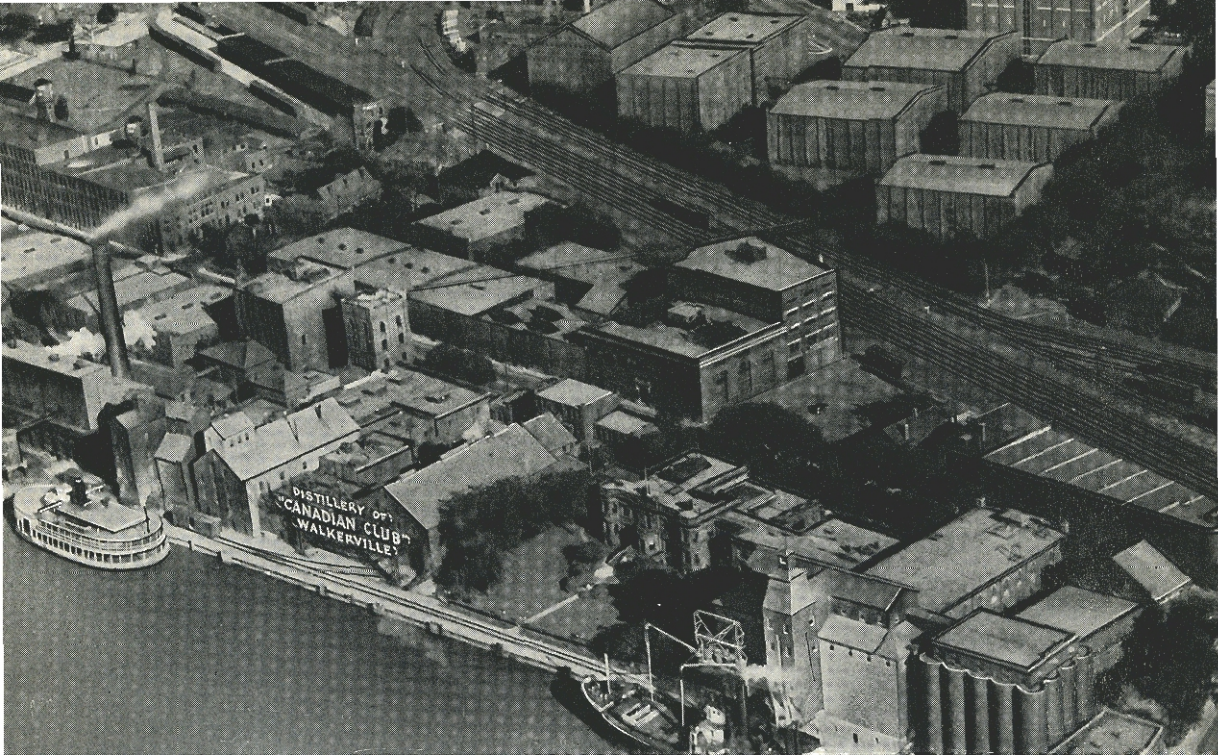
PEORIA: Topmost floor of an 11-story rack warehouse. The smallest such building at Peoria contains 22 miles of inspection walkways. The ten warehouses there hold 865,000 barrels (44,980,000 gallons) of maturing whiskey.





PEORIA: Hundreds of women are employed on the bottling lines, of which there are 11, with a total daily capacity of 25,000 cases. Bottles are filled, stoppered and labeled by automatic machines, but seals and tax stamps are affixed by hand.

Prohibition forces, both in Canada and the United Kingdom, have made several attempts to capitalize the war situation through approaches to the governments concerned. The answer of the Government of the United Kingdom to these attempts of the dry forces to exploit a grave national emergency for their own advantage has been clear-cut and unequivocal. Not only is the Ministry of Supply allotting grain for distillation purposes as outlined earlier in this report but in addition Lord Woolton, Minister of Food, recently concluded his reply to a deputation by saying it was his view that he must not use the powers which had been given him by Parliament "to promote social reforms of a debatable character, however desirable they might appear to be to many sincere and disinterested people." Similar delegations have interviewed the Federal and some of the Provincial Governments in Canada, but without result. Any such movements will have to contend with the fact that governments and the people alike retain recent and vivid memories of prohibition. They know from experience that, far from being the answer to the problems that alcohol creates, it is the very reverse, and that it breeds conditions immeasurably worse than those it sets out to cure.



WALKERVILLE, ONTARIO: Here are located the head offices and the home of Canadian Club, which is made nowhere else in the world. On the Detroit River, a Great Lakes steamer in right foreground is discharging grain at the Company elevator. Buildings at upper right are rack warehouses in which Canadian Club matures before being bottled and dispatched to 87 countries.

A few words as to the future: Your Directors believe that we can look to the coming year with full confidence that it will emphasize anew the ability of our Company to meet exceptional conditions. Our brands are popular; the public have confidence in their rigid standards of quality; our markets will have a higher consumer purchasing power than for many years; and our enterprise is efficiently organized in all its branches. While the heavier burden of excise tax is undoubtedly a cloud on the horizon of our industry, it is to be hoped that the governments concerned will recognize the risk of diminishing returns and will not propose further imposts of a seriously adverse nature.

Reference should not be omitted to a final factor in our confidence. We steadfastly refuse to compromise with our belief that, in a business institution no less than in an individual or a nation, it is character that ultimately counts. Character is that intangible but potent power that a company derives from making integrity its watchword and giving enlightened recognition at all times to its responsibilities to the public, to its customers and to its workers. These are the principles upon which the firm of Hiram Walker-Gooderham & Worts Limited was founded. It adheres to them today with unimpaired faith in their power to serve the long-range interests of the Company as soundly in the future as they have in the past.

Walkerville, Ontario,
November 20, 1940

By Order of the Board,
H. C. HATCH,
President and Chairman of the Board

AUDITORS' REPORT

To the Shareholders of

HIRAM WALKER-GOODERHAM & WORTS LIMITED:

We have examined the Consolidated Balance Sheet of Hiram Walker-Gooderham & Worts Limited and its wholly-owned Subsidiary Companies in Canada, the United States and Great Britain as at August 31, 1940 and the Consolidated Statements of Profit and Loss and Earned Surplus for the year ended on that date, and have obtained all the information and explanations which we required. In connection with our examination we reviewed the system of accounting control and procedures of the companies and examined or tested their accounting records and other supporting evidence, by methods and to the extent we deemed appropriate; our audit of the detailed transactions was confined to limited tests thereof.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying Consolidated Balance Sheet and related Consolidated Statements of Profit and Loss and Earned Surplus are properly drawn up in conformity with accepted accounting principles applied on a basis consistent with that of the preceding year so as to exhibit a true and correct view of the state of affairs of the combined companies as at August 31, 1940 and the results of the companies' operations for the year ended on that date.

Under Section 114 of The Dominion Companies Act we report that the earnings of the non-consolidated subsidiary company are reflected in the accompanying financial statements only to the extent of dividends received from such subsidiary company.

PRICE, WATERHOUSE & CO.
Chartered Accountants.

Toronto, Ontario, November 20, 1940.

HIRAM WALKER-GOODERHAM & WORTS LIMITED

Consolidated Balance

(Stated in Canadian currency on the basis set out
Report which also contains data

ASSETS

CURRENT ASSETS:

Cash on hand and in banks.....		\$1,557,725	
Accounts receivable—Trade.....	\$7,377,271		
Notes receivable—Trade.....	435,990		
Miscellaneous accounts receivable.....	413,901		
	<u>\$8,227,162</u>		
Less—Reserve for doubtful accounts.....	530,456		7,696,706
Inventories at not exceeding manufacturing or purchased cost in the currencies of the countries in which the subsidiaries are located as determined on the companies' usual basis and certified to by responsible officials of the companies (stated in Canadian currency at official rates of exchange current at August 31, 1940).			
Spirits (including bottling material on bottled whiskey):			
In Canada and Great Britain:			
Original gauge imperial proof gallons 18,156,907			
In United States:			
Original gauge U. S. proof gallons . . . 46,869,739		\$21,332,134	
Duties and excise taxes on unsold spirits.....	2,645,546		
Grains and raw materials.....	487,841		
Barrels, bottles and supplies.....	6,424,185		30,889,706
Total Current Assets.....			\$40,144,137

CASH SURRENDER VALUE OF LIFE INSURANCE POLICIES..... 310,857

INVESTMENTS:

Investment in and advances to subsidiary company not wholly-owned and not consolidated—			
Capital stock, at not exceeding cost.....	\$3,413,804		
Advances.....	11,001	\$ 3,424,805	
Common stocks and other investments without quoted market value, at cost.....		138,287	3,563,092

LAND, BUILDINGS, PLANT AND EQUIPMENT, AT COST excepting the plant of Gooderham & Worts Limited at Toronto, which has a net depreciated value of \$911,160 based on values reported by Canadian Appraisal Company Limited on February 1, 1924, after deducting capital surplus of \$245,812..... 26,285,265

Deduct—Reserves for depreciation on buildings, plant and equipment..... 8,761,014 17,524,251

COMMON SHARES (2,773) OF HIRAM WALKER-GOODERHAM & WORTS LIMITED held by trustee for United States subsidiary under option at cost plus interest to an employee—Cost..... 99,550

(Quoted market value August 31, 1940—\$102,601).

PREPAID AND DEFERRED CHARGES:

Unamortized debenture and debenture stock discount and expense.....	\$312,434		
Prepaid licenses and taxes.....	68,395		
Prepaid insurance.....	216,078		
Miscellaneous charges.....	167,639		764,546

GOODWILL, PROCESSES AND TRADE MARKS..... 1

\$62,406,434

NOTE: The company's equity in subsidiary company not wholly-owned and not consolidated has been increased since dates of acquisition as a result of profits less dividends by an amount of \$282,269. A portion of the assets of this company is represented by spirits in Scotland.

AND WHOLLY-OWNED SUBSIDIARY COMPANIES

Sheet, August 31, 1940

in financial section of accompanying Directors' as to assets in Great Britain

LIABILITIES, CAPITAL STOCK AND SURPLUS

CURRENT LIABILITIES:

Bank loans	\$1,100,000	
Trade accounts payable	1,101,661	
Balance payable to subsidiary company not consolidated	4,882	
Other accounts and accruals	288,243	
Dividend payable September 16, 1940 on preference stock	140,204	
Dividend payable September 16, 1940 on common stock	724,004	
Debenture and debenture stock interest accrued	133,971	
Reserves for federal, provincial, state and municipal taxes in Canada, the United States and Great Britain	<u>3,244,568</u>	
Total Current Liabilities		\$6,737,533

FUNDED DEBT:

Secured by deposit with the trustee in Scotland of documents of title to certain whiskey stocks in Scotland included in inventories at \$4,592,834 and by a Mortgage on certain properties in Scotland:

Ten-Year 4¼% Convertible Debentures of Hiram Walker-Gooderham & Worts Limited and Hiram Walker & Sons Inc. successor to Hiram Walker & Sons Distilleries Inc. due December 1, 1945 (payable in United States currency):		
Authorized and issued	\$8,000,000	
Less: Converted or redeemed	<u>4,046,000</u>	
	\$3,954,000	

Fifteen-Year 4½% Guaranteed Debenture Stock of Hiram Walker & Sons (Scotland) Limited (guaranteed by Hiram Walker-Gooderham & Worts Limited) due May 15, 1953:		
Authorized	£2,000,000	
Issued	£1,500,000	7,500,000
		11,454,000

NOTE: Sinking fund requirements in the year ending August 31, 1941 expressed in Canadian currency at exchange rates current at August 31, 1940 will amount to \$620,851.

FOREIGN EXCHANGE ADJUSTMENT ON CONSOLIDATION

1,187,428

RESERVE FOR CONTINGENCIES

1,184,792

CAPITAL STOCK, NO PAR VALUE:

Cumulative dividend redeemable preference—redeemable as to principal at \$20 per share (authorized 875,000 shares of which 199,182 shares have been redeemed and cancelled):		
Issued	760,000 shares	
Redeemed and cancelled	<u>199,182 shares</u>	
Outstanding	<u>560,818 shares</u>	\$11,216,360

Common (authorized 875,000 shares of which 724,004 shares are issued and outstanding as shown below and 68,861 shares are reserved for issuance from time to time upon conversion of the Ten-Year 4¼% Convertible Debentures due December 1, 1945):		
Issued and outstanding	724,004 shares	17,330,180
		\$28,546,540

EARNED SURPLUS, as per statement attached

13,296,141

41,842,681

Approved on behalf of the Board:

H. C. HATCH, *Director*

(Signed) B. E. FORD, *Comptroller*

HOWARD R. WALTON, *Director*

November 20, 1940.

HIRAM WALKER - GOODERHAM & WORTS LIMITED
and Wholly-owned Subsidiary Companies

Consolidated Statement of Profit and Loss

For the year ended August 31, 1940

*(Stated in Canadian currency on the basis set out in financial section of accompanying Directors' Report
which also contains data as to earnings in Great Britain)*

Net sales	\$78,678,677	
Cost of goods sold	57,776,645	
Gross profit on sales before deducting provision for depreciation, etc.	\$20,902,032	
Add—Other income:		
Dividends received from investments	\$147,198	
Agency commissions, purchase discounts, etc.	155,322	302,520
		\$21,204,552
Deduct:		
Selling and general expenses	\$11,351,660	
Executive officers' and directors' salaries. (These officers and directors receive no additional remuneration from any wholly-owned subsidiary company)	176,495	
Legal fees	96,589	
Directors' fees for services as such	20,000	
Debenture and debenture stock interest	483,769	
Amortization of debenture and debenture stock discount and expense ...	34,217	
Interest on bank loans	61,894	
Provision for depreciation of buildings, plant and equipment	810,552	
Losses (net) on disposal of capital assets	1,825	13,037,001
		\$8,167,551
Net Profit for the year before providing for income and excess profits taxes		\$8,167,551
Deduct—Provision for income and excess profits taxes in Canada, the United States and Great Britain		2,101,887
		\$6,065,664
Net Profit for the year carried to Earned Surplus		\$6,065,664

NOTE: The Company's proportionate share of the earnings of subsidiary company not wholly-owned and not consolidated, for the fiscal year ended August 31, 1940 exceeded the dividends received from such subsidiary during the same period by an amount of \$42,964.

Consolidated Statement of Earned Surplus

Earned Surplus as at September 1, 1939	\$10,687,311	
Net Profit for the year ended August 31, 1940	6,065,664	
		\$16,752,975
Deduct:		
Dividends on preference shares	\$ 560,818	
Dividends on common shares	2,896,016	3,456,834
		\$13,296,141
Earned Surplus as at August 31, 1940		\$13,296,141

