

ZELLER'S LIMITED

ANNUAL REPORT TO SHAREHOLDERS

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For Fiscal year ended
January 31st, 1939

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McGILL UNIVERSITY

Montreal, P.Q.,
15th March, 1939.

TO THE SHAREHOLDERS,
ZELLER'S LIMITED,
MONTREAL.

We have made an examination of the Balance Sheet of Zeller's Limited as at 31st January 1939, and of the Profit and Loss and Earned Surplus Accounts for the year ending 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.

No operations have been carried on by Zeller's (N.B.) Limited, which was incorporated during the year. The profits realized by Walter P. Zeller Holding Company Limited and Zeller's (Nova Scotia) Limited, wholly-owned subsidiaries, have not been included in the attached statements, nor has any provision been made therein for the losses sustained by Hills & Steele Limited, England, (formerly New Universal Stores Limited) a partially-owned subsidiary.

We have obtained all the information and explanations which we have required, and, based upon our examination, report that, in our opinion, the attached Balance Sheet as at 31st January 1939 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, according to the best of our information and the explanations given us, and as shown by the books, and that the related Profit and Loss and Earned Surplus Accounts fairly present 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.

QUEBEC, QUE.

SHERBROOKE, QUE.

THREE RIVERS, QUE.

FREDERICTON, N.B.

ST. JOHN, N.B.

NEW GLASGOW, N.S.

WINNIPEG, MAN.

Executive and Buying Offices:

1253 MCGILL COLLEGE AVE.

MONTREAL

NEW STORES IN CANADA:

The Company closed the year with twenty-four stores in operation. A new store in a suburban district of Hamilton, Ontario, was opened in April, and another in New Glasgow, N.S. in September. The new unit opened in Moncton in February, as mentioned in a previous paragraph, brings the present stores in operation at date of this report to twenty-five.

It is anticipated that the Halifax store mentioned previously will open towards the latter part of May. This store will be, we believe, the most modern of its kind in the Maritimes, and one of the most modern in Canada, embracing, as it will, the latest ideas in store construction and equipment.

A very satisfactory lease on what your Board of Directors considers to be an excellent location has been acquired in the City of Edmonton, Alberta, for possession the latter part of this year.

STOCK LISTING:

The Company's Preferred and Common shares have been listed on the Montreal Stock Exchange.

GENERAL:

Conditions at the moment do not justify an attempt to forecast sales volume for 1939, but the stability of business enjoyed by your established stores, together with anticipated satisfactory results from the new stores at Moncton and Halifax, should produce an improvement in net profit during the present year.

In keeping with the Company's policy of promoting and maintaining the goodwill of our employees, as well as the public, each employee with two years or more service was again granted a two-weeks vacation with full pay. During the year there was paid in salaries to employees an amount in excess of \$650,000.00, in addition to Christmas bonuses.

We wish again to mention that the results achieved during the past year were, in great part, due to the fine spirit of cooperation and loyalty existing throughout the organization, and I desire to conclude this report with a personal expression of appreciation to the entire staff for their splendid efforts.

On behalf of the Board,

WALTER P. ZELLER,
Chairman.

ZELLER'S

Balance Sheet as at

ASSETS

Cash on Hand and in Banks	\$ 260,689.29	
Inventories—Quantities determined by actual count, weight or measurement and priced at the lower of cost or market		405,986.34
Sundry Accounts Receivable and Deposits	\$ 11,054.90	
Less—Reserve for Doubtful Accounts	2,000.00	
		9,054.90
Prepaid Expenses and Supplies		28,106.52
Life Insurance—Cash Surrender Value		11,200.00
<u>TOTAL CURRENT</u>	\$ 715,037.05	

Investments in and Advances to Subsidiary Companies:

Zeller's (Nova Scotia) Limited

(a wholly-owned Subsidiary)—

Capital Stock \$ 99,985.00 | |

Advances 213,999.17 | |

\$ 313,984.17

Zeller's (N.B.) Limited

(a wholly-owned Subsidiary)—

Capital Stock \$ 6,985.00 | |

Advances 22,215.32 | |

29,200.32

Walter P. Zeller Holding Company Limited

(a wholly-owned Subsidiary)

Capital Stock \$ 1,000.00 | |

Advances 53,000.00 | |

54,000.00

Hills & Steele Limited, England

(a partially-owned Subsidiary)

Capital Stock 175,773.87 | |

572,958.36

Fixed Assets—As valued by the Directors as at 1st March,

1932—with net additions to date at Cost—

Furniture, Fixtures and Equipment \$ 598,655.94 | |

Improvements to Leasehold Premises 921,640.36 | |

\$1,520,296.30

Less—Reserve for Depreciation 561,652.63 | |

958,643.67

\$2,246,639.08

Approved on behalf of the Board:

ROBERT T. HARTT, Director.

T. E. McDERMOTT, Director.

Submitted subject to

MONTREAL, 15th March, 1939.

LIMITED

at 31st January, 1939

LIABILITIES

Accounts Payable, Accrued Commissions and Miscellaneous Expenses....	\$ 155,230.23
Provision for Dominion, Provincial and Municipal Taxes	39,879.60
Provision for Redemption of Debenture Stock	18,000.00
Balance Due on Building Contract—Moncton, N.B.	8,150.62

TOTAL CURRENT \$ 221,260.45

General Reserve 20,000.00

DEBENTURE STOCK—

Authorized and Issued—Six Per Cent Cumulative Redeemable Sinking Fund Debenture Stock	\$ 250,000.00
Less—Redeemed	\$ 85,000.00
Redeemable during 1939—shown above	18,000.00
	<u>103,000.00</u>
	147,000.00

CAPITAL STOCK AND SURPLUS—

Authorized—40,000 Six Per Cent Redeemable Preferred Shares of a Par Value \$25.00 each	<u>\$1,000,000.00</u>
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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 \$ 15,195.33

Distributable Surplus 33,250.00

Earned Surplus—per Statement attached 434,933.30

483,378.63
1,858,378.63

CONTINGENT LIABILITIES—

There are contingent liabilities in respect of the following—

(a) A guarantee of the Mortgages of \$24,800.00 against the Sarnia property of Walter P. Zeller Holding Company Limited occupied by Zeller's Limited.

(b) The guarantee of the contract for the construction of the Halifax building of Zeller's (Nova Scotia) Limited. The balance of the contract is estimated to be \$210,000.00. Officials of the Company have informed us that negotiations are being carried on with a view to obtaining a mortgage on this property at current rates of interest in an amount of \$250,000.00.

\$2,246,639.08

ur report of this date.

(Signed) McDONALD, CURRIE & CO.,
Chartered Accountants.

ZELLER'S LIMITED

STATEMENT OF PROFIT AND LOSS

For the year ended 31st January, 1939

SALES\$5,017,028.13

DEDUCT—

Cost of Goods Sold, Operating Selling and Administra-
tive Expenses, exclusive of items shown hereunder.. \$4,636,654.54
Salaries of Executive Officers 32,500.00
Professional Fees 7,916.65
..... 4,677,071.19

Operating Profit before Provision for Depreciation \$ 339,956.94

DEDUCT—

Store Development Expense \$ 1,204.00
Interest—Sundry 101.38
Debenture 10,097.26
Depreciation—Furniture, Fixtures and Equipment and
Improvements to Leasehold Premises 114,827.89
..... 126,230.53
\$ 213,726.41

DEDUCT—

Provision for Dominion Income and Provincial Profits
Taxes 36,000.00
Net Profit for the Year—transferred to Earned Surplus Account \$ 177,726.41

STATEMENT OF EARNED SURPLUS

Balance at Credit—31st January, 1938 \$ 314,676.45

Add—Net Profit for the year 177,726.41

\$ 492,402.86

Deduct—Dividends on Preferred Shares \$ 45,000.00

Excess Life Insurance Premium over increase in
Cash Surrender Value 579.25
Transfer to General Reserve 6,617.67
Preferred Stock Purchase Reserve 5,272.64
..... 57,469.56

Balance at Credit—31st January, 1939 \$ 434,933.30

Board of Directors

WALTER P. ZELLER, Chairman

RUSSELL D. BELL

WM. C. NICHOLSON, K.C.

ROBERT T. HARTT

GILBERT F. BROOKS

HERBERT A. HILLS

T. E. McDERMOTT

Officers

WALTER P. ZELLER President

ROBERT T. HARTT Vice-President

T. E. McDERMOTT Sec'y-Treasurer

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

TO THE SHAREHOLDERS OF ZELLER'S LIMITED:

The Board of Directors submit herewith the Seventh Annual Report of your Company. Although two additional stores were opened during the year, sales were slightly less than in 1937 due to the general decline in business activity throughout Canada. This, together with an increase in store wages and taxes generally, resulted in a somewhat larger proportionate decrease in net profits. The profit of \$177,726.41 after depreciation, debenture interest and income taxes is equivalent to over four times the annual preferred dividend requirements and, in view of general conditions, is regarded as satisfactory.

Your Management has carried on a policy of effective physical maintenance of all store properties and equipment and has continued to employ an efficient staff of well-paid helpers, believing that during a period of adverse business conditions, this policy, rather than one of drastic expense reduction, would develop more permanent results.

BALANCE SHEET:

You will note that the Balance Sheet reflects the excellent financial position of the Company, current assets being three times current liabilities.

The usual Sinking Fund payment on the Debenture Stock, amounting to \$12,500, has been provided for, as well as the further sum of \$5,500 which has been set aside for the redemption of Debenture Stock on May 31st, 1939, in accordance with the conditions relating to the Preferred Stock. In other words, a total of \$18,000 is provided for the redemption of outstanding Debenture Stock this year.

Substantial funds were advanced to enable Zeller's (Nova Scotia) Limited, a wholly-owned subsidiary, to build a new store in Halifax, Nova Scotia. To permit repayment to your Company of part of the advances so made it is intended that, upon completion of the store, a mortgage at a favourable rate of interest, secured on the Halifax property, will be obtained.

During the year advances were also made to Zeller's (N.B.) Limited, another wholly owned subsidiary which acquired a property in Moncton, New Brunswick. These premises were thoroughly remodeled and a new store opened there during the latter part of February, 1939.

HILLS & STEELE LIMITED:

This Company's operations have not yet resulted in a profit, due mainly to the manifold problems incident to the establishment of the business, as well as to the adverse conditions in England arising from the unsettled European situation.

