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Annual Report

FOR THE YEAR ENDED MARCH 31, 1957

CANADIAN COTTONS, LIMITED

Canadian Cottons, Limited

INCORPORATED 1892

Head Office: 760 Victoria Square, Montreal

Officers

L. C. BONNYCASTLE, *President*

A. S. BRUNEAU, *Vice-President*

D. R. GORMLEY, *Vice-President — Administration and Secretary-Treasurer*

J. D. PADDON, *Vice-President — Production*

Directors

L. C. BONNYCASTLE, *Toronto*

A. S. BRUNEAU, Q.C., *Montreal*

C. P. FELL, *Toronto*

J. G. GLASSCO, *Toronto*

H. R. JACKMAN, *Toronto*

J. A. LOWDEN, *Toronto*

B. H. RIEGER, *Toronto*

A. C. SALTER, *Montreal*

J. M. WELLS, *Montreal*

THE ROYAL TRUST CO., MONTREAL AND TORONTO	*Stock Transfer Agent*
BANK OF MONTREAL, MONTREAL	*Bankers*
THE CANADIAN BANK OF COMMERCE, MONTREAL	
MONTREAL STOCK EXCHANGE	*Stock Listed*

Operating

ONTARIO MILL, HAMILTON, ONT. CANADA MILL, CORNWALL, ONT.

DUNDAS MILL, CORNWALL, ONT.

Subsidiary

CORNWALL AND YORK COTTON MILLS COMPANY, LIMITED, SAINT JOHN, N.B.

Annual Report

OF THE DIRECTORS OF **CANADIAN COTTONS, LIMITED**

YEAR ENDED MARCH 31, 1957

TO THE SHAREHOLDERS:

Your Company's sixty-fifth annual report which includes the financial statements for the fiscal year ended March 31, 1957 and the Auditors' Report thereon is submitted for your approval.

Operating Results

After incurring substantial losses during the three preceding years your Company has been successful in earning a cash profit of $275,330 during the year under review. This is before providing for depreciation and therefore does not constitute a return on the shareholders' investment in the company, but it compares with a loss of $605,242 on the same basis in the previous year and so reflects the improvement in operations which has been continuous since 1953. If depreciation had been provided for, the maximum amount that could have been claimed for tax purposes would have been $1,133,444.

The improvement indicated above is due to continuing efforts to reduce costs and increase the efficiency of operations as well as to the lower price paid during the year for raw cotton as a result of the surplus disposal programme of the United States Government. This latter advantage is one which must by its nature be temporary and undoubtedly will be discontinued when the surplus of raw cotton in the United States has been reduced to manageable proportions.

Statement of Surplus

The statement of earned surplus shows a decrease of $2,071,362. To last year's surplus has been added the cash profit which was earned during the year and from the resultant figure has been deducted $2,350,000, the amount by which your Company's investment in Textile Sales, Limited has been written down. This latter company has had an unsatisfactory year financially and it is considered wise to write down your Company's investment in it to a conservative figure.

Working Capital

During the year the Company's entire funded debt was refinanced with the result that $2,000,000 of mortgage bonds which fell due in September and October 1956 and were carried in last year's balance sheet as a current liability are now shown under "Funded Debt". Consequently working capital has been increased by this amount in this year's statement and with the addition of the net profit less the amount expended on capital account, the working capital of the Company as at March 31, 1957 was $8,309,126 compared with $6,178,572 twelve months earlier. The refunding issue of $4,500,000 First Mortgage Bonds carries an interest rate of 5% and is repayable commencing September 1, 1958 at the rate of $510,000 a year until September 1, 1962. The balance which is then outstanding becomes payable on that date.

Company Position

Despite the continued pressure of imports which resulted in 1956 in a further small decrease in the percentage of the Canadian market retained by domestic cotton textile manufacturers, your management is confident that further improvement in earnings can be secured in the current year. Further, the long term future should hold promise now that cash losses have been stopped and more aggressive steps can be taken to develop the Company's competitive position. Careful investment in improved production facilities can add to earning power and an expanding market must develop with the rapid population growth that is occurring. Unfortunately the economic cycle in the textile industry is slow in moving ahead and more obstacles to its growth appear than in most other industries. Recently there has been a deterioration in the U. S. market and this, together with increasing pressure from low wage countries, particularly Japan, is being reflected in a reduced volume of business in Canada. In spite of these difficulties we look forward to the coming year with increased confidence.

This note of optimism must be qualified by the realization that earnings reasonably commensurate with the investment which the shareholders have in the Company are not in prospect, particularly if the U. S. Government's policy in handling the export of surplus raw cotton is changed. On the other hand the time will come when our own Government must take action to correct the inequities facing our industry and which have grown up over the years since before the last war. These arise not only from the dumping of goods in Canada by the United States and other foreign manufacturers but more specifically from the manner in which inflation and the resultant price increases have made obsolete the tariff regulations governing a substantial part of Canada's cotton textile imports. The independent study made last year by the National Industrial Conference Board for the Royal Commission on Canada's Economic Prospects dealt specifically with this matter. It explains how the wording of Item 523 (b) of the Tariff Act which relates to coloured cotton fabrics has automatically and drastically reduced the tariff protection on this class of goods, as a result of price inflation, since 1938. In the case of your company the rate of tariff protection on half its fabric production has been reduced by almost 40% in this period. The major part of this reduction was due to the unfortunate wording of Tariff item 523 (b). It is surely reasonable to assume that at some stage such obvious inequities will be corrected.

Labour Conditions

During the past year there was a severe shortage of labour in both Cornwall and Hamilton where your Company's main plants are located. This situation will continue in Cornwall throughout the summer when the demand for labour to complete the Seaway and Hydro projects will be at a peak. It is expected that this heavy demand for labour will decrease later in the year and greater stability of our skilled labour force should result. This stability will be of great benefit to the company and to the individual worker for only experienced operators can produce efficiently and can take advantage of the earning opportunities available to them. It is the Company's policy to develop a stable, efficient force of Canadian Cotton people who will receive adequate earnings. This has been achieved in some departments of the Company but in others the advantages of good production and increased earnings have not yet been secured.

The contract with the Textile Workers Union of America, C.C.L.-C.I.O. which had been under negotiation for some six months was signed in February of this year. It is effective until August 1958.

Board of Directors

In August 1956 Mr. J. A. Eccles retired from the Board after serving the Company as a Director for 6 years. His advice and guidance have always been of the greatest value and his resignation because of the pressure of other business was accepted with regret. Mr. J. M. Wells, Vice-President and General Manager of The Royal Trust Company was elected to the vacancy and has already made a substantial contribution to the deliberations of the Board.

Immediate Outlook

Conditions at present are not good in the industry but, with a growing population and a record national income, the demand for textiles must improve. There are indications that the recent recession in the U. S. industry is coming to an end and this would react favourably on the Canadian market. Your Company is in position to take advantage of any improvement that occurs and your Directors are confident that the members of this organization, who have met the difficulties of the past few years so effectively, will continue to work untiringly in the interest of the Company. We wish to record our real appreciation of their support.

On behalf of the Directors,

L. C. BONNYCASTLE
President

Auditors' Report

TO THE SHAREHOLDERS

Canadian Cottons, Limited,
Montreal, Que.

We have examined the Consolidated Balance Sheet of Canadian Cottons, Limited and its subsidiary as at March 31, 1957 and the related Consolidated Statements of Profit and Loss and of Earned Surplus for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying Consolidated Balance Sheet and related Consolidated Statements of Profit and Loss and of Earned Surplus are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the Company and its subsidiary as at March 31, 1957 and the results of their operations for the year ended on that date, according to the best of our information and the explanations given to us and as shown by the books of the Companies.

P. S. ROSS & SONS,
Chartered Accountants.

Consolidated Statement of Profit and Loss

FOR THE YEAR ENDED MARCH 31, 1957
(with comparative figures for 1956)

	1957	1956
Profit or (loss) before providing for the undernoted items....	$ 565,288	$(328,507)
Deduct (add in 1956):		
Bond interest	147,714	156,250
Remuneration of executive officers	106,826	107,500
Directors' fees	10,075	9,825
Legal fees	10,284	3,160
Income taxes	15,059	—
	289,958	276,735
Net profit or (loss) for the year	$ 275,330	$(605,242)

NOTE: No charge has been made to the operations of the above years for depreciation of property and plants. The maximum capital cost allowance for the 1957 year, calculated in accordance with the Income Tax Regulations, is $1,133,444.

Consolidated Statement of Earned Surplus

FOR THE YEAR ENDED MARCH 31, 1957
(with comparative figures for 1956)

	1957	1956
Balance at beginning of year	$9,621,637	$9,881,545
Add:		
Net profit or (loss) for the year	275,330	(605,242)
Profit on sales of capital assets	3,308	149,247
Adjustment of prior years' income taxes	—	196,087
	278,638	(259,908)
	9,900,275	9,621,637
Deduct:		
Appropriation to reserve against decline in value of investment in associated company	2,350,000	—
Balance at end of year	$7,550,275	$9,621,637