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ANNUAL REPORT

FOR THE YEAR ENDED MARCH 31st, 1956

CANADIAN COTTONS, LIMITED

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CANADIAN COTTONS, LIMITED

INCORPORATED 1892

Head Office: 760 Victoria Square, Montreal

OFFICERS

L. C. BONNYCASTLE *President*
A. S. BRUNEAU *Vice-President*
D. KEEFE *Vice-President — Sales*
J. D. PADDON *Vice-President — Production*
D. R. GORMLEY *Vice-President — Finance
and Secretary-Treasurer*

DIRECTORS

L. C. BONNYCASTLE	<i>Toronto</i>	J. G. GLASSCO	<i>Toronto</i>
A. S. BRUNEAU, Q.C.	<i>Montreal</i>	H. R. JACKMAN	<i>Toronto</i>
J. A. ECCLES	<i>Montreal</i>	J. A. LOWDEN	<i>Toronto</i>
C. P. FELL	<i>Toronto</i>	B. H. RIEGER	<i>Toronto</i>
A. C. SALTER	<i>Montreal</i>		

THE ROYAL TRUST CO., MONTREAL AND TORONTO *Stock Transfer Agent*
BANK OF MONTREAL, MONTREAL
THE CANADIAN BANK OF COMMERCE, MONTREAL *Bankers*
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 31st, 1956

TO THE SHAREHOLDERS

With this report are presented the financial statements of your Company for the fiscal year ended March 31, 1956 and the report of the Auditors thereon.

Operating Results

Your Company incurred a loss on the year's operations but at a substantially reduced rate from those losses experienced during the previous two years. This loss was \$605,242 before providing for depreciation. On a comparable basis the losses were \$1,338,955 in the fiscal year ended March 31, 1955 and \$2,525,526 in the fiscal year ended March 31, 1954. If depreciation had been provided for, the maximum amount of depreciation which could have been claimed for tax purposes would have been \$1,102,935.

Certain changes in conditions within the industry contributed to the above results. The primary cotton textile industry experienced some improvement in sales volume and your Company shared in this increase. The price structure within the industry showed a firmer tone and, while there has been little increase in prices, the downward trend was halted and less goods were sold at distress prices than was the case in recent years.

It might be pointed out that, as far as your Company is concerned, the increase in sales volume occurred in the last 6 months of the fiscal year so that the operating results improved as the year advanced to the point where a small profit before depreciation was earned in the last quarter. It is expected that this more favourable trend will be extended.

Statement of Surplus

The Statement of Earned Surplus shows a decrease in the Surplus Account of \$259,908. That this is less than the net loss for the year is due to a recovery of income taxes amounting to \$196,087 which had been paid in prior years and a profit on the sale of capital assets amounting to \$149,247.

Working Capital

The Company's working capital decreased during the year by \$2,277,661 and now stands at \$6,178,572. This reduction is largely due to the inclusion in current liabilities of \$2,000,000 being the instalment of funded debt due in the present fiscal year. The balance of the decrease is the loss incurred during the year less amounts received from the sale of fixed assets and less the refund of income taxes paid in prior years.

Dividends

In view of the loss suffered by the Company no dividends were paid on the Preference or Common stock during the year. It is now 2½ years since a dividend has been paid to preference stockholders and almost 3 years since common stockholders received any return on their investment in the Company.

Textile Sales, Limited

The operations of Textile Sales, Limited showed an improvement in the year 1955 and the Company broke even before setting aside depreciation after having incurred losses in 1954 and in 1953 on the same basis. Your Company's interest in Textile Sales, Limited is carried on the books at \$4,850,000 after deduction of a reserve of \$1,500,000 from the original book value of the investment.

Company Position

The position of Canadian Cottons, Limited is certainly more favourable than it has been for the past 3 years. The rate of loss has been substantially reduced; sales are currently running at a higher rate than in the previous year; and production has increased slightly. Service to the trade is improved to the point where deliveries and quality are good and the Company is offering a broad range of well styled products.

At the same time it must be stated that no company can continue to operate long when it is not earning sufficient depreciation to replace obsolete equipment or modernize its plants. When the mills were reorganized 2 years ago a substantial sum was spent on new equipment and the consolidation of mill facilities allowed the elimination of much old machinery. Last year, however, only \$68,940 was spent on capital additions and, therefore, further expenditures on equipment must be made this year.

Under the circumstances it is essential that in the current fiscal year cash earnings be generated to maintain the Company's plant and equipment and prevent any further deterioration of working capital. With the continued co-operation of all employees of the Company this can be done but there can be no relaxation of efforts to restore the Company's earning power.

The encouraging factors in the present situation — a high level of economic activity and national income indicating increased sales and firm prices — are to some extent offset by the continued threat of Japanese competition and uncertainties in the U.S.A. which could affect the overall price structure and operating margins of Canadian mills.

Labour Conditions

Your Company's chief plants are located in Cornwall, Ontario, and Hamilton, Ontario, both cities where the demand for labour is great. In particular Cornwall, the centre of the new Seaway activity, offers job opportunities out of proportion to the available supply of manpower. While it is true the employment on the construction of the Seaway is temporary and to some extent seasonal in nature, it has led to increased labour turnover in all industries in the area. It is expected that this situation will correct itself once the employment peak is reached and the inevitable layoff of construction workers employed on the Seaway commences. In the meantime it adds to the problem of efficient operation.

Despite this heavy turnover it is gratifying to realize that there are 250 employees who have been with the Company for over 25 years. This is a group which has made a great contribution to the Company and a Twenty-five Year Club has been organized so that suitable tribute might be paid to the members.

Royal Commission on Canada's Economic Prospects

In common with a great many Canadian industries, the Primary Textile Industry and a number of its individual members, including your Company, were invited to appear before the Royal Commission on Canada's Economic Prospects and to report on the contributions the Industry and its member companies could make to Canada's future economy.

The views of the textile industry to this Commission outlined in great detail the problems currently facing the industry, the contributions it is making to Canada's diversified economy and the manner in which these contributions could be expanded.

The Commission's public hearings and the briefs presented to it have developed

a current and prospective picture of Canada which is exceptionally encouraging. It is our hope that the Primary Cotton Textile Industry will occupy its proper place in this picture. In the brief presented by your Company the basic requirements for a satisfactory cotton textile industry were again stressed as —

1. A flexible tariff policy which can carry out the purpose for which tariffs were established in Canada, namely, the encouragement of manufacturing industry; — at the very least a policy that can remove obvious inequities from the Customs Act which have developed over the years.
2. A method of valuation of imports for duty purposes which would prevent the dumping of excess goods into Canadian markets.

We are convinced that Canada can retain an efficient and effective textile industry if the Government makes the modest adjustments in policy needed to encourage the growth and development of advanced manufacturing. Too many basic industries are operating under handicaps which prevent them from making their proper contribution to the economy. While our great natural resources and primary industries have made Canada a wealthy country, broader diversification and the greater development of advanced manufacturing processes are essential if the economy is to achieve maximum stability and if Canada is to become substantially greater in terms of population and further improved standards of living.

Immediate Outlook

It is difficult to foresee the results of the current year. Volume should expand further as cotton textile sales are still below the level of 5 years ago and per capita consumption consequently shows a substantial decline; prices should be firm in the face of greater demand; costs must be held in line and in fact brought below current figures.

It is not possible to predict an adequate return on the funds invested in the Company but the situation is better than was the case two years ago and even last year. This turn of affairs of the Company is due to the exceptional co-operation and effort of the Officers of the Company, employees who have supervisory duties and other employees, all of whom have realized the difficulty of the task which has faced them and the necessity of restoring the earning power of the Company. The directors wish to record their sincere appreciation for the manner in which all members of the Company's organization have contributed to the year's operations.

For the Board of 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, 1956 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, 1956 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.

Montreal, Que.
May 12, 1956.

CANADIAN COTTONS, LIMITED
AND SUBSIDIARY COMPANY

Comparative Consolidated Statement of Profit and Loss

FOR THE YEARS ENDED MARCH 31, 1956 AND 1955

	<u>1956</u>	<u>1955</u>
Loss for the year before providing for the undernoted items. . .	\$ 328,507	\$1,035,599
Add:		
Bond interest.	156,250	176,250
Remuneration of executive officers.	107,500	111,250
Directors' fees.	9,825	9,875
Legal fees.	<u>3,160</u>	<u>5,981</u>
	<u>276,735</u>	<u>303,356</u>
Net loss for the year.	<u>\$ 605,242</u>	<u>\$1,338,955</u>

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 1956 year, calculated in accordance with the Income Tax Regulations, is \$1,102,935.

Comparative Consolidated Statement of Earned Surplus

FOR THE YEARS ENDED MARCH 31, 1956 AND 1955

	<u>1956</u>	<u>1955</u>
Balance at beginning of year.	\$9,881,545	\$9,640,963
Add:		
Transfer of reserve for future decline in inventory values. . .	—	2,000,000
Profit on sales of capital assets.	149,247	584,537
Adjustment of prior years' income taxes.	<u>196,087</u>	<u>(5,000)</u>
	<u>345,334</u>	<u>2,579,537</u>
	10,226,879	12,220,500
Deduct:		
Net loss for the year.	605,242	1,338,955
Appropriation to reserve against decline in value of investment in associated company.	—	1,000,000
	<u>605,242</u>	<u>2,338,955</u>
Balance at end of year.	<u>\$9,621,637</u>	<u>\$9,881,545</u>



CANADIAN COTTONS, LIMITED
AND SUBSIDIARY COMPANY

Comparative

ASSETS

	<u>1956</u>	<u>1955</u>
CURRENT:		
Cash.....	—	\$ 469,929
Accounts receivable less allowance for doubtful accounts..	\$ 2,610,978	2,181,000
Income taxes recoverable.....	8,646	159,273
Inventories valued at the lower of cost or market:		
Raw materials, goods in process and finished goods....	7,311,221	6,772,126
Other materials and supplies.....	<u>453,222</u>	<u>359,619</u>
	7,764,443	7,131,745
Prepaid expenses.....	<u>77,617</u>	<u>288,838</u>
Total current assets.....	10,461,684	10,230,785
Investment in associated company at cost less reserve of \$1,500,000.....	4,850,000	4,850,000
Property and plants at cost.....	19,871,022	19,839,714
Accumulated depreciation.....	<u>12,820,257</u>	<u>12,806,702</u>
	7,050,765	7,033,012
	<u>\$22,362,449</u>	<u>\$22,113,797</u>

Signed on behalf of the Board of Directors:

L. C. BONNYCASTLE, *Director*

J. G. GLASSCO, *Director*

Consolidated Balance Sheet AS AT MARCH 31, 1956 AND 1955

LIABILITIES

	<u>1956</u>	<u>1955</u>
CURRENT:		
Due to bankers	\$ 843,027	—
Accounts payable	1,440,085	\$ 1,274,552
Current portion of funded debt	<u>2,000,000</u>	<u>500,000</u>
Total current liabilities	4,283,112	1,774,552
FUNDED DEBT:		
First mortgage bonds —		
2¾% due September 1, 1956	1,500,000	1,500,000
3% due September 1, 1960	1,500,000	1,500,000
4% due serially October 1, 1956-1958	<u>1,500,000</u>	<u>2,000,000</u>
	4,500,000	5,000,000
Less: Current portion shown above	<u>2,000,000</u>	<u>500,000</u>
	2,500,000	4,500,000
CAPITAL STOCK:		
Authorized —		
Preferred — 6% non-cumulative		
207,185 shares of \$20.00 par value	\$4,143,700	
Common —		
175,000 shares of no par value	<u>3,500,000</u>	
	<u>\$7,643,700</u>	
Issued and fully paid —		
Preferred — 159,375 shares	3,187,500	3,187,500
Common — 138,510 shares	<u>2,770,200</u>	<u>2,770,200</u>
	5,957,700	5,957,700
Retained earnings:		
Consolidated earned surplus — statement attached	<u>9,621,637</u>	<u>9,881,545</u>
	<u>\$22,362,449</u>	<u>\$22,113,797</u>

This is the Consolidated Balance Sheet referred to in our Report to the Shareholders dated May 12, 1956.

P. S. ROSS & SONS,

Montreal, Que.

Chartered Accountants.

Makers of

AWNING MATTRESS TICKING EIDERDOWN
FLANNELETTE - Striped - Plain INTERLINING POCKETING
FLANNELETTE SHEETING

WORK CLOTHING FABRICS

DENIM PANTING CHAMBRAY
FLANNEL DRILL TWILL
CANTON FLANNEL

SPORTSWEAR FABRICS

SPORTS DENIM
DRILL TWILL
POPLIN SHIRTING FLANNEL

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CRIB BLANKETS PACKAGED YARNS

YARNS

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FOR
KNITTERS, WEAVERS, BRAIDERS AND INDUSTRIAL USERS

CANADIAN COTTONS, LIMITED

SPINNERS - WEAVERS - CONVERTERS

Sales Offices

MONTREAL, HAMILTON, TORONTO, WINNIPEG, EDMONTON, VANCOUVER



**Symbol of Canada's foremost
Textile producers**

CANADIAN COTTONS LIMITED

1000 BAYVIEW AVENUE, SCARBOROUGH, ONTARIO M1W 2Y5

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WEAVING, SPINNING, DYEING, FINISHING, PRINTING, BLENDING, PACKAGING, EXPORTING

