

KingCot

*Forty*

~~FIFTY-FIFTH~~

# Annual Report

for the year ended 31st March 1955

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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. KEEFE	Vice-President — Sales
J. D. PADDON	Vice-President — Production
D. R. GORMLEY	Vice-President — Finance and Secretary-Treasurer

### DIRECTORS

L. C. BONNYCASTLE	Toronto	C. P. FELL	Toronto
A. S. BRUNEAU, Q.C.	Montreal	J. G. GLASSCO	Toronto
F. L. DeGUERRE	Toronto	H. R. JACKMAN	Toronto
J. A. ECCLES	Montreal	B. H. RIEGER	Toronto
	A. C. SALTER	Montreal	

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, 1955

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**TO THE SHAREHOLDERS**

The Directors submit herewith the financial statements for the year ended March 31, 1955 and the report of the Auditors thereon.

**OPERATING RESULTS**

Conditions in the textile industry during the past year continued to be as difficult as in the previous year. Your Company's volume of sales and production showed no increase. Profit margins continued to be narrow or non-existent. As a result, the operating loss which was incurred by your Company amounted to \$1,343,955 before providing for depreciation. This compares with a loss before depreciation of \$2,520,606 in the previous year. If depreciation had been provided for, the maximum amount which could have been claimed for tax purposes would have been \$1,093,600.

**STATEMENT OF SURPLUS**

The Statement of Earned Surplus indicates a slight increase in the Surplus Account during the year. This is accounted for by the transfer of \$2,000,000 from the reserve for future decline in inventory values to surplus and by a profit of \$584,537 on the sale of capital assets. From surplus has been deducted the net loss for the year and a further appropriation of \$1,000,000 to write down the carrying value of the Company's investment in Textile Sales, Limited.

The reserve for future decline in inventory values has been eliminated as it is considered that a specific reserve for this purpose is not required. The assets which have been sold were excess equipment from the plants which were closed in 1953 and 1954 and certain houses which were owned by the Company in Marysville, N.B. and Cornwall, Ontario.

**WORKING CAPITAL**

The working capital of the Company decreased by approximately \$1,000,000 during the year from \$9,434,867 to \$8,456,233. This figure reflects the loss incurred, a reduction of \$500,000 in Funded Debt and the purchase of certain new equipment. The sale of capital assets was an offset to these reductions in working capital.

## DIVIDENDS

In view of conditions and the loss suffered by the Company no dividends were paid on either the Preference or Common Stock during the year.

## TEXTILE SALES, LIMITED

Textile Sales, Limited suffered from the continued depression within the trade and again experienced an operating loss in 1954. Under the circumstances the value at which the investment of Canadian Cottons, Limited, in Textile Sales, Limited, is carried in the Balance Sheet, was reduced further by \$1,000,000 which was appropriated from surplus for this purpose. The results of the operations of Textile Sales, Limited in the first quarter of 1955 are more encouraging and indicate the Company is currently operating at a profit.

## COMPANY POSITION

The plans to improve the Company's competitive position, which were outlined in last year's Annual Report, have been completed and have been responsible for the reduction in the annual rate of loss. The time taken to accomplish the programme was greater than had been expected with the result that only now are many of the advantages of the mill changes becoming effective.

In the current year the full value of the mill reorganization should be available to the Company and it is expected that significant savings will develop as the new systems and procedures now in effect make an increasing contribution to the efficiency of the Company.

It was stated in last year's Report that, even with the elimination of both Stormont and Gibson Mills, the production available from the remaining mills would be sufficient to meet the foreseeable demand for the Company's products. This was not the case in the past year as the mill reorganization interfered with production and it took longer to achieve three shift operation than had been expected. Consequently both sales and operating results were adversely affected.

Currently, production is substantially higher than it was last year and, therefore, the needs of our customers are now being supplied in most lines. This is resulting in greatly improved service to the trade.

Other steps taken to give customers better service include the setting up of a Sampling Department which permits the development and preparation of new fabrics and designs on a year round basis. This means that the Company can now meet the requirements of the trade for newer cloths and more attractive patterns and can compete effectively with styles imported from the U.S.A.

The changes in the mills and the new equipment which has been purchased, as well as the modern machinery which was transferred from the closed mills, should help cut manufacturing costs substantially. They have allowed new methods of production and should

permit increased production from each employee. As has been mentioned in previous reports, it is necessary to introduce more productive work loads as only in this way can we compete with other manufacturers. This has required understanding and co-operation from all employees in both the Bargaining Unit and Supervisory Groups but we are sure that the planned work assignments will be reached as the workers gain experience in the new job loads. Only in this way can the Company stay in business.

### CONDITIONS IN THE INDUSTRY

During the calendar year 1954 both production and sales of cotton goods in Canada decreased substantially from the levels of 1953 which itself was low in output when compared with earlier years. There has been a slight improvement in sales in the first quarter of 1955 but there is no indication this will be maintained and even these sales can only be made at unprofitable prices.

Competition from the United States is as keen as ever, and it is being heightened by substantial imports of Japanese and Indian goods, both in the U.S. market and in Canada. This situation is not confined to the Primary Cotton Industry alone. Many other basic manufacturing industries in Canada are meeting increased pressure as foreign countries with lower standards of living expand and develop their industrial plant and become more aggressive in seeking export markets. The extent to which Canada wishes to maintain industrial employment should be a matter of careful consideration, and no industry should be allowed to disappear without an assessment of the effect of its loss on our economic life and whether or not its difficulties are indicative of similar ailments which may attach to other industries.

The Primary Cotton Industry in Canada needs some tariff protection. The present amount of protection is insufficient to allow this Industry to continue to operate satisfactorily. If earnings do not permit it to maintain its physical assets and replace them when necessary, it must fall behind in the competitive race. If Canada wants to retain an industry which is one of the most important employers of labour in the country, the Federal Government must insure an adequate level of tariff protection to the Primary Cotton Industry. The reasons the Cotton Textile Industry is in a particularly difficult position are —

1. The Primary Cotton Textile Industry in the U.S.A. is in a severe depression and, therefore, constitutes more aggressive competition in Canada than has arisen from most other U.S. industries. As a result selling prices have been forced down to uneconomic levels.
2. In such times of market distress there is an inevitable tendency to ship goods into Canada in a manner which is very similar to dumping and such practices are, even with the greatest vigilance, most difficult to detect, particularly when they relate to textiles.
3. Low wage countries are able to move more easily into the manufacture of textiles than into many other fields.

4. There has been a significant reduction since 1939 in the tariff protection which the Primary Cotton Industry receives on all its products. In the case of Canadian Cottons, Limited this reduction has been very severe, amounting, in effect, to 40% on one-half the Company's production of fabrics (this excludes Yarn and Blanket production). On the balance of production the decrease has been less but is substantial.

### PRESENT OUTLOOK

The encouraging aspect of your Company's present position is that the rate of loss suffered by the Company has been reduced and there is reason to expect that this reduction in the rate of loss will be extended during the current year.

Company personnel have given exceptional support to the general programme and with the completion of many phases of this programme their efforts should be increasingly productive.

It is difficult to know how soon your Company will again be able to earn a reasonable return on the capital invested in it. However, if further co-operation can be secured from Company personnel, Canadian Cottons, Limited will be able to share fully in any improvement which may develop within the industry as a result of a lessening of import competition or more adequate tariff protection.

The thanks of the Directors are due to those Officers and Employees of the Company who have worked so hard to reverse the unfavourable trend which first developed in 1952.

For the Board of Directors,

L. C. BONNYCASTLE,  
President.

# AUDITORS' REPORT

TO THE SHAREHOLDERS

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Canadian Cottons, Limited,  
Montreal, Que.

We have examined the Consolidated Balance Sheet of Canadian Cottons, Limited and its subsidiary as at March 31, 1955 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, 1955 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, 1955.



**CANADIAN COTTONS, LIMITED**  
AND SUBSIDIARY COMPANY

***Comparative Consolidated Statement of Profit and Loss***

FOR THE YEARS ENDED MARCH 31, 1955 AND 1954

	1955	1954
Loss for the year (after deducting investment income of \$42,498 in 1954) before providing for the under-noted items . . . . .	<b>\$ 1,035,599</b>	<b>\$ 2,197,441</b>
ADD:		
Bond interest . . . . .	176,250	196,250
Remuneration of executive officers . . . . .	111,250	114,792
Directors' fees . . . . .	9,875	9,500
Legal fees . . . . .	5,981	7,543
Adjustment (deduction (-)) of income taxes relating to prior years — net . . . . .	5,000	4,920—
	<b>308,356</b>	<b>323,165</b>
Net loss for the year . . . . .	<b>\$ 1,343,955</b>	<b>\$ 2,520,606</b>

NOTE: No charge has been made to the operations of the 1954 and 1955 years for depreciation of property and plants. The maximum capital cost allowance for the 1955 year, calculated in accordance with the Income Tax Regulations, is \$1,093,600.

***Comparative Consolidated Statement of Earned Surplus***

FOR THE YEARS ENDED MARCH 31, 1955 AND 1954

	1955	1954
Balance at beginning of year . . . . .	<b>\$ 9,640,963</b>	<b>\$ 9,437,581</b>
ADD:		
Transfer of reserves created in prior years:		
Reserve for future decline in inventory values . . . . .	2,000,000	2,557,599
Contingent reserve . . . . .	—	715,000
Other . . . . .	—	50,000
	<b>2,000,000</b>	<b>3,322,599</b>
Profit on sales of capital assets . . . . .	584,537	45,651
	<b>2,584,537</b>	<b>3,368,250</b>
	<b>\$12,225,500</b>	<b>\$12,805,831</b>
DEDUCT:		
Net loss for the year . . . . .	<b>\$ 1,343,955</b>	<b>\$ 2,520,686</b>
Appropriation to reserve against decline in value of investment in associated company . . . . .	1,000,000	500,000
Dividends:		
On preferred shares . . . . .	\$ —	\$ 95,703
On common shares . . . . .	—	48,479
	—	144,182
	<b>2,343,955</b>	<b>3,164,868</b>
Balance at end of year . . . . .	<b>\$ 9,881,545</b>	<b>\$ 9,640,963</b>



CANADIAN COTTONS, LIMITED AND SUBSIDIARY COMPANY

	1955	1954
CURRENT:		
Cash on hand and in banks . . . . .	\$ 469,929	\$ 871,073
Accounts receivable less allowance for doubtful accounts . . . . .	2,181,000	1,952,218
Federal taxes recoverable — net . . . . .	159,273	165,946
Inventories valued at the lower of cost or market:		
Raw materials, goods in process and finished goods .	6,772,126	7,667,231
Other materials and supplies . . . . .	359,619	362,641
	7,131,745	8,029,872
Prepaid expenses . . . . .	288,838	337,859
Total current assets . . . . .	10,230,785	11,356,968
Investment in associated company at cost less reserve of \$1,500,000 in 1955 and \$500,000 in 1954 . . . . .	4,850,000	5,850,000
Property and plants at cost . . . . .	19,839,714	26,151,441
Accumulated depreciation . . . . .	12,806,702	18,837,645
	7,033,012	7,313,796
	<u>\$22,113,797</u>	<u>\$24,520,764</u>

Signed on behalf of the Board of Directors:

L. C. BONNYCASTLE, Director

J. G. GLASSCO, Director

*Comparative Consolidated Balance Sheet* AS AT MARCH 31, 1955 AND 1954

<b>LIABILITIES</b>		
	<u>1955</u>	<u>1954</u>
<b>CURRENT:</b>		
Accounts payable . . . . .	<b>\$ 1,274,552</b>	\$ 1,422,101
Current instalment of funded debt . . . . .	<b>500,000</b>	500,000
Total current liabilities . . . . .	<b><u>1,774,552</u></b>	<u>1,922,101</u>
<b>FUNDED DEBT:</b>		
First mortgage bonds —		
2¾% due September 1, 1956 . . . . .	<b>1,500,000</b>	1,500,000
3% due September 1, 1960 . . . . .	<b>1,500,000</b>	1,500,000
4% due serially October 1, 1955-1958 less current instalment shown above . . . . .	<b>1,500,000</b>	2,000,000
	<b><u>4,500,000</u></b>	<u>5,000,000</u>
Reserve for future decline in inventory value . . . . .	<u>—</u>	<u>2,000,000</u>
<b>CAPITAL:</b>		
Authorized —		
Preferred — 6% non-cumulative, 207,185 shares of \$20.00 par value		
Common — 175,000 shares of no par value		
Issued and fully paid —		
Preferred — 159,375 shares . . . . .	<b>3,187,500</b>	3,187,500
Common — 138,510 shares . . . . .	<b>2,770,200</b>	2,770,200
	<b><u>5,957,700</u></b>	<u>5,957,700</u>
Retained earnings:		
Consolidated earned surplus — statement attached . . .	<b>9,881,545</b>	9,640,963
	<b><u>\$22,113,797</u></b>	<u>\$24,520,764</u>

This is the consolidated Balance Sheet referred to in our Report to the Shareholders dated May 12, 1955.

Montreal, Que.

P. S. ROSS & SONS,  
Chartered Accountants.

*Famous cottons  
with a new  
signature . . .*

**WORK CLOTHING FABRICS**

DENIM      PANTING      CHAMBRAY  
COVERT      FLANNEL  
DRILL      TWILL  
CANTON FLANNEL

**SPORTSWEAR  
FABRICS**

SPORTS DENIM  
DRILL      TWILL  
POPLIN      SHIRTING  
FLANNEL



AWNING  
MATTRESS TICKING  
EIDERDOWN

FLANNELETTE — Striped — Plain  
INTERLINING      POCKETING  
FLANNELETTE SHEETING

**FINISHED PRODUCTS**

DIAPERS      FLANNELETTE BLANKETS  
BLENDED FIBRE BLANKETS  
CRIB BLANKETS      PACKAGED YARNS

**YARNS**

UNBLEACHED, BLEACHED & COLOURED  
FOR  
KNITTERS — WEAVERS — BRAIDERS  
& INDUSTRIAL USERS

*New symbol of  
one of Canada's  
foremost Textile  
producers.*

**CANADIAN COTTONS, LIMITED**

**SPINNERS - WEAVERS - CONVERTERS**

*Sales Offices*

MONTREAL, HAMILTON, TORONTO,  
WINNIPEG, EDMONTON, VANCOUVER







