

*Canadian*  
*Cottons,* LIMITED



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McGILL UNIVERSITY

ANNUAL REPORT  
FOR THE YEAR ENDED MARCH 31, 1954



## OFFICERS

J. G. GLASSCO, F.C.A., O.B.E.	<i>Chairman of the Board</i>
L. C. BONNYCASTLE	<i>President</i>
D. KEEFE	<i>Vice-President — Sales</i>
J. D. PADDON	<i>Vice-President — Production</i>
D. R. GORMLEY	<i>Vice-President — Finance and Secretary-Treasurer</i>

## DIRECTORS

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

THE ROYAL TRUST CO., MONTREAL AND TORONTO  
BANK OF MONTREAL, MONTREAL  
THE CANADIAN BANK OF COMMERCE, MONTREAL  
MONTREAL STOCK EXCHANGE

*Stock Transfer Agents*  
*Bankers*  
*Stock Listed*

*Canadian Cottons, LIMITED*

INCORPORATED 1892

## OPERATING

ONTARIO MILL, HAMILTON, ONT.  
DUNDAS MILL, CORNWALL, ONT.

CANADA MILL, CORNWALL, ONT.  
GLENGARRY 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, 1954

## To the Shareholders:

The Directors submit herewith the accounts for the year ended March 31, 1954 and the report of the Auditors thereon.

## Operating Results

Conditions within the textile industry have been most difficult and have deteriorated throughout the year. Your Company has suffered a loss on operations of \$2,568,104 before making any provision for depreciation. The loss for the year includes approximately \$500,000 of expenses in moving machinery from mills which have been closed and in re-arranging machinery in the presently operating mills so that more efficient production can be achieved. If depreciation had been provided for at the usual rates it would have amounted to \$1,004,700.

Having regard to the amount of inventory held as at March 31, 1954 and the reductions made during the year, it was felt that a reserve for future decline in inventory values of \$2,000,000 was sufficient and this would provide primarily for any possible drop in the prices of raw material. The balance of this reserve of \$2,557,599 and the contingent reserve of \$715,000 which had appeared in the previous year's statement has been transferred to surplus.

In view of the unsatisfactory conditions existing your Directors failed to vote the common dividend which would normally have been paid on October 1, 1953, and subsequently the preferred dividend, which had been paid without interruption since 1911, was discontinued. Actual dividend payments made during the year consisted of two quarterly payments on the Preferred shares and one of 35¢ per share on the Common shares. These totalled:

Preferred dividends . . . . .	\$ 95,703
Common dividends . . . . .	48,479
	<hr/>
for a total of . . . . .	<u>\$144,182</u>



## *Conditions in the Industry*

Many of the reasons contributing to the poor results of the past year have been reported in the press in recent months. However, a brief review of the major adverse factors might be made. They are:—

1. Foreign goods, many of which have been in excess supply, particularly in the United States, have now taken one-half the Canadian cotton fabric market and have forced prices in Canada to an uneconomic level. Much of the business which has been retained by Canadian mills has been accepted at a loss.

2. The value of imported goods for duty purposes is currently based on the prices at which these goods are offered in the country of origin. Therefore, if American mills offer goods in the U.S.A. at distress prices they immediately depress the price level in Canada. This means that when the industry in the United States is in a depressed condition it automatically forces the same conditions on our Canadian industry.

3. There is a technical defect in the Canadian tariff structure which affects one-half the fabric output of your Company. Without any changes in tariff rates, as such, the protection on many coloured fabrics of the type produced by your Company has been reduced by over 40% since 1939 due to the fact that progressively lower rates apply as the price of the product increases. The increase in costs and prices generally since 1939 has automatically placed almost all such imports under much lower tariff rates at a time when other considerations indicate the necessity of at least maintaining tariffs. This is the unintended result of a faulty tariff structure which should be repaired if the industry is not to be sacrificed.

In a letter to Shareholders written on November 18, 1953 it was stated that certain steps must be taken by those interested in the industry if its existence is to be maintained.

## *Management Action*

In the first place it was stated that the Management of your Company must do everything possible to improve the efficiency of operations and the merchandising of its products. In this connection your Directors felt it was essential to reduce the number of operating units in line with our reduced volume of business so that the losses being experienced might be reduced and so that production might be concentrated. Stormont Mill in Cornwall was the first to be closed, partly because it was the oldest mill in the Company and because of the definite possibility that this mill will be expropriated when the St. Lawrence Seaway is built. It was later decided that Gibson Mill in Marysville should also





be closed as the operating losses being experienced made imperative a further reduction in costs. This step was taken with the greatest reluctance because of the effect on the Marysville community and because this mill has been in continuous operation for over fifty years. The Management is attempting to sell the Mill so that some industry may be operated within this community but to date has been unsuccessful.

It was also decided by your Directors that the Yarn and Denim Mills in Hamilton should undergo a rearrangement of machinery and a general re-organization, and a broad programme towards this end has been initiated. It is expected that these changes will be completed by July 1, 1954 and that these mills will then be much more efficient than in the past.

The cost of making the transfers of machinery, and the capital expenditures necessary to put the Mills into first class condition, have been substantial and over \$1,500,000 was appropriated for this purpose. To the end of March, 1954 some \$900,000 of this amount has been expended.

The Management is taking other steps to reduce costs, strengthen the Merchandising and Sales divisions of the Company, and improve the quality of merchandise and service to customers.

### *Labour Co-operation*

The letter to Shareholders above referred to also pointed out that organized labour must work with management to reduce the cost of production through increased efficiency and higher output. We are currently negotiating with the Union regarding the contract which expired on December 17, 1953. The impossibility of granting a wage increase has been made clear and the Company has explained that it is essential that there be a reduction in labour costs and that the employees of the Company, whether in the salaried or Union groups, must make an increased contribution to the productivity of the organization for the benefit of all who are dependent on the success of the Company.

The Company and the Union are at conciliation and it is hoped that the contract may be settled by the time of the Annual Meeting. Unless productivity in our mills can be brought closer to the level which obtains in Southern United States mills our Company cannot hope successfully to compete in the Canadian market.

### *Government Consideration*

The importance of Government action to permit our industry to continue was also discussed in the letter referred to above. The Government did recognize



that the textile industry was subject to unfair competition from United States manufacturers and passed legislation preventing the dumping of goods of a seasonal nature. Unfortunately much of the production being shipped to Canada is not in this seasonal category, with the result that the legislation has had no material effect upon competitive conditions facing your Company.

Your Directors feel that a basic textile industry is an essential part of Canada's economic life. It was of major importance during the last two wars and will be of equal value should Canada be involved again in conflict. Its existence also protects the Canadian consumer in times when there is a shortage of goods generally and foreign markets are unduly high.

Tariffs protecting the industry are lower than exist in any major country with an industrial economy, with only one exception. They are also lower than the tariffs protecting most of Canada's other industries. In these circumstances there is surely every justification for the Government to repair the tariff structure where it has been automatically reduced by the price inflation of post-war years and to redefine the value of imports for duty purposes so that foreign depressions in the industry will not be imported into Canada.

### ***Stock Option Plan***

Subsequent to the year end covered by this report your Directors approved the formulation of a Stock Option Plan which would make available for purchase by executive officers of the Company up to an aggregate total of 7,500 of the Company's authorized but unissued Common shares.

It is contemplated that the option price will be reasonably related to the fair market value of the Company's Common shares at the date an option agreement is granted.

### ***Textile Sales, Limited***

Last year it was reported that the Company had sold two of its mills engaged in the production of rayon and other synthetic yarns and fabrics to Textile Sales, Limited, and had acquired in return therefore a substantial interest in the latter company. Conditions in the textile industry affected the operations of Textile Sales, Limited adversely, with the result that this Company suffered an operating loss during their fiscal year ended December 31, 1953. The amount at which the investment in Textile Sales, Limited is carried on the books of Canadian Cottons, Limited has therefore been reduced by \$500,000. As in the case of your Company, the management of Textile Sales, Limited has been active in adjusting its operations in order to offset the deterioration which has taken place in their section of the industry.





## *Management Changes*

During the year the resignations of Mr. J. Irving Roy, President of the Company, and Mr. MacMillan Boyd, Vice-President, were accepted by the Board of Directors. Mr. L. C. Bonnycastle was appointed President and Mr. Douglas Keefe has joined the Company as Vice-President in charge of sales.

## *Current Outlook*

While the position of the industry shows no improvement, the many steps which have been taken by your Directors to improve further the productive facilities of the Company, to reduce costs and to stimulate sales should, we feel, be effective in reducing the rate of loss currently being suffered.

Even with the elimination of both Stormont and Gibson mills the productive facilities of the remaining mills are sufficient to meet the foreseeable demand for all the Company's products. The concentration of production will permit closer co-ordination of the Company's various divisions. Any improvement in the volume of sales, in the price structure or any action which may be taken by the Government will be reflected in the Company's position.

Your Directors would like to express their gratitude to the officers and employees of the Company for the way in which they have co-operated in meeting the many problems with which they have been faced during a most difficult year.

For the Board of Directors,

J. G. GLASSCO,

*Chairman of the Board.*

L. C. BONNYCASTLE,

*President.*



*Canadian Cottons, LIMITED*  
AND SUBSIDIARY COMPANY

**Comparative Consolidated Statement of Profit and Loss**

FOR THE YEARS ENDED MARCH 31, 1954 AND 1953

	1954	1953
Operating profit or loss (-) for the year.....	\$ 2,568,104 -	\$ 236,136
Income from investments.....	42,498	122,794
	<u>2,525,606 -</u>	<u>358,930</u>
DEDUCT:		
Adjustment of income taxes relating to prior years		
— net.....	4,920	—
Provision for income taxes.....	—	159,540
Net profit or loss (-) for the year.....	<u>\$ 2,520,686 -</u>	<u>\$ 199,390</u>
Expenses of the 1954 year include the following items:		
Bond interest.....	\$ 196,250	
Remuneration of executive officers.....	114,792	
Directors' fees.....	9,500	
Legal fees.....	7,543	

NOTE: No charge has been made to the operations of the 1954 year for depreciation of property and plants. The capital cost allowance for that year, calculated in accordance with the Income Tax Regulations, is \$1,004,700.

**Comparative Consolidated Statement of Earned Surplus**

FOR THE YEARS ENDED MARCH 31, 1954 AND 1953

	1954	1953
Balance at beginning of year.....	\$ 9,437,581	\$ 9,492,863
ADD:		
Transfer of reserves created in prior years:		
Reserve for future decline in inventory values.....	\$ 2,557,599	
Contingent reserve.....	715,000	
Other.....	50,000	
	<u>\$ 3,322,599</u>	
Net profit or loss (-) for the year.....	2,520,686 -	\$ 199,390
Profit on sale of investments and capital assets..	45,651	229,685
	<u>\$ 847,564</u>	<u>\$ 429,075</u>
	<u>\$10,285,145</u>	<u>\$ 9,921,938</u>
DEDUCT:		
Appropriation to reserve against decline in value		
of investment in associated company.....	\$ 500,000	
Dividends:		
On preferred shares.....	\$ 95,703	\$ 193,486
On common shares.....	48,479	290,871
	<u>\$ 144,182</u>	<u>\$ 484,357</u>
	<u>\$ 644,182</u>	<u>\$ 484,357</u>
Balance at end of year.....	<u>\$ 9,640,963</u>	<u>\$ 9,437,581</u>



# Canadian Cottons, LIMITED AND SUBSIDIARY COMPANY

## ASSETS

	<u>1954</u>	<u>1953</u>
CURRENT:		
Cash on hand and in banks . . . . .	\$ 871,073	\$ 789,342
Accounts receivable less allowance for doubtful accounts of \$60,000 in 1954 . . . . .	1,952,218	2,636,181
Federal taxes recoverable — net . . . . .	165,946	—
Inventories valued at the lower of cost or market:		
Raw materials, goods in process and finished goods . . . . .	7,667,231	9,785,317
Other materials and supplies . . . . .	362,641	593,149
	<u>8,029,872</u>	<u>10,378,466</u>
Marketable investments at cost . . . . .	—	1,492,750
Prepaid expenses . . . . .	337,859	522,705
Total current assets . . . . .	<u>11,356,968</u>	<u>15,819,444</u>
Investment in associated company at cost less re- serve of \$500,000 in 1954 . . . . .	5,850,000	6,350,000
Property and plants at cost . . . . .	26,151,441	25,078,559
Accumulated depreciation . . . . .	18,837,645	18,844,999
	<u>7,313,796</u>	<u>6,233,560</u>
	<u><u>\$24,520,764</u></u>	<u><u>\$28,403,004</u></u>

Signed on behalf of the Board of Directors:

J. G. GLASSCO, *Director*

L. C. BONNYCASTLE, *Director*



**Comparative Consolidated Balance Sheet** AS AT MARCH 31, 1954 AND 1953

**LIABILITIES**

	<u>1954</u>	<u>1953</u>
<b>CURRENT:</b>		
Accounts payable.....	\$ 1,422,101	\$ 1,565,193
Current instalment of funded debt.....	500,000	500,000
Federal and provincial taxes.....	—	164,731
Total current liabilities.....	<u>1,922,101</u>	<u>2,229,924</u>
<b>FUNDED DEBT:</b>		
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, 1954-1958 less current instalment shown above.....	2,000,000	2,500,000
	<u>5,000,000</u>	<u>5,500,000</u>
<b>RESERVES:</b>		
Reserve for future decline in inventory values...	2,000,000	4,557,599
Contingent reserve.....	—	715,000
	<u>2,000,000</u>	<u>5,272,599</u>
<b>CAPITAL:</b>		
Authorized —		
Preferred — 6% non-cumulative 207,185 shares of \$20.00 par value		
Common — 175,000 shares no par value		
Issued and fully paid —		
Preferred — 1954, 159,375 shares; 1953, 159,635 shares.....	3,187,500	3,192,700
Common — 138,510 shares.....	2,770,200	2,770,200
	<u>5,957,700</u>	<u>5,962,900</u>
Retained earnings:		
Consolidated earned surplus—statement attached	9,640,963	9,437,581
	<u>\$24,520,764</u>	<u>\$28,403,004</u>

This is the consolidated Balance Sheet referred to in our Report to the Shareholders dated May 18, 1954.

P. S. ROSS & SONS,  
*Chartered Accountants.*

Montreal, Que.

## 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, 1954 and the related Consolidated Statements of Profits 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.

The amounts shown for the year ended March 31, 1953, which are included throughout these statements for purposes of comparison, were examined by the former auditors of the Company.

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, 1954 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.

Montreal, Que.,  
May 18, 1954

P. S. ROSS & SONS,  
*Chartered Accountants.*



*In cottons the brand is*

WORK DENIMS    SPORTS DENIMS  
GINGHAMS    COTTON SUITINGS  
DRESS AND SHIRT FABRICS  
DRILLS, TWILLS AND POPLINS  
CHAMBRAYS  
PLAYSUIT AND SPORTSWEAR  
FABRICS  
EIDERDOWN ROBECLOTHS  
DOESKINS    PANTINGS  
WHIPCORDS    COVERTS  
BEDFORD CORD  
COTTONADES



COTTON FLANNELS  
COLOURED AND BLEACHED  
FLANNELETTE  
COTTON AND WOOL-MIXTURE  
BLANKETS  
FLANNELETTE BLANKETS  
CRIB BLANKETS AND BLANKET-SHEETS  
FLANNELETTE AND BIRDSEYE DIAPERS  
INTERLININGS AND NAPPED SHEETINGS  
SILENCE CLOTH  
AUTOMOBILE FABRICS  
AWNING FABRICS  
MATTRESS TICKINGS  
UNBLEACHED, BLEACHED  
AND COLOURED YARNS  
FOR KNITTERS, WEAVERS,  
BRAIDERS AND INDUSTRIAL USE

*symbol of one of  
Canada's foremost  
textile producers*

*Canadian Cottons, LIMITED*

HEAD OFFICE: 760 Victoria Square, Montreal

SALES OFFICES: Montreal, Hamilton, Toronto  
Winnipeg, Vancouver

THE UNIVERSITY OF TORONTO



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