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Canadian Cottons Limited

KINGCOT

ANNUAL REPORT

FOR THE YEAR ENDED MARCH 31ST, 1953

CANADIAN COTTONS LIMITED

OPERATING

ONTARIO MILL, HAMILTON, ONT.
DUNDAS MILL, CORNWALL, ONT.
GLENGARRY MILL, CORNWALL, ONT.
STORMONT MILL, CORNWALL, ONT.
CANADA MILL, CORNWALL, ONT.
GIBSON MILL, MARYSVILLE, N.B.

SUBSIDIARIES

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

OFFICERS

J. G. GLASSCO, F.C.A., O.B.E. . . . . *Chairman of the Board*
J. IRVING ROY . . . . *President*
MacMILLAN BOYD . . . . *Vice-President — Sales*
J. D. PADDON . . . . *Vice-Pres.— Production*
D. R. GORMLEY, C.A. . . . *Vice-President — Finance and Secretary-Treasurer*

DIRECTORS

L. C. BONNYCASTLE, *Toronto*
MacMILLAN BOYD, *Montreal*
A. S. BRUNEAU, Q.C., *Montreal*
J. A. ECCLES, *Montreal*
C. P. FELL, *Toronto*
J. G. GLASSCO, F.C.A., O.B.E., *Toronto*
H. R. JACKMAN, *Toronto*
J. IRVING ROY, *Montreal*
A. C. SALTER, *Montreal*

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

ANNUAL REPORT

OF THE DIRECTORS OF

CANADIAN COTTONS LIMITED

YEAR ENDED MARCH THIRTY-FIRST, 1953

TO THE SHAREHOLDERS:

YOUR DIRECTORS SUBMIT herewith the accounts for the year ended March 31, 1953, together with the report of the auditors thereon. A year ago the accounts were for the first time presented on a consolidated basis and in the accounts for the year just ended the figures for the preceding year are shown in comparative form.

CONSOLIDATED NET INCOME

The net profit for the year amounted to $199,390, in addition to which a profit of $229,685 was realized on the sale of investments. The total of these two sums, $429,075, was insufficient to cover the total dividend disbursements of the year by an amount of $55,282 and the surplus has accordingly declined from $9,492,863 at the beginning of the year to $9,437,581.

In view of the continuing depression in the cotton textile trade which resulted in the Company's profit margins being reduced to almost nominal proportions, your Directors decided, commencing with the payment due January 2, 1953, to reduce the dividend rate on the common shares from 70c. to 35c. quarterly. Dividends on the preferred shares were paid at the regular rate. The dividend payments were as follows:

Dividends at the rate of 6% on preferred shares..	$193,486
Two quarterly dividends of 70c. per share and two quarterly dividends of 35c. per share on common shares, total of $2.10 per share.......	290,871
	$484,357

WORKING CAPITAL

During the year working capital has decreased by $4,837,258. This has resulted from the sale of inventories at the Milltown and Grand'Mere plants to Textile Sales, Limited, for securities of that company as referred to below, provision for the current instalment of funded debt, and capital expenditures made during the twelve-month period. Additions to plant and equipment amounted to $1,929,731. Of this total $763,969 were expenditures in connection with the new Converting Plant at Cornwall, Ontario, which will make possible the production of new products and the development of new markets. The remaining capital expenditures very largely represent completion costs of the Grand'Mere plant incurred early in the year and outlays for spinning and finishing equipment at the Company's other mills.

SALE OF MILLTOWN AND GRAND'MERE MILLS

For some years the Company in its mill at Milltown, New Brunswick, has been engaged in the production of rayon and other synthetic fabrics and recently a spinning unit was built at Grand'Mere, Quebec, to round out this production. The merchandising of these products was carried out by two companies, Textile Sales, Limited and Raymills Limited, in both of which your Company had a small minority stock interest. For some time now the manufacturing operations in this field have been unprofitable and with the increasingly severe competitive conditions of the past two years, the operating losses on synthetic manufacturing were reaching most serious proportions.

Upon examination of the problem it became evident that in order to compete effectively there should be a single organization responsible for both manufacturing and selling and that the creation of such an operating unit would not only offer profit possibilities in the synthetic field and stop a serious drain on the Company's earning power, but would leave the management free to devote its entire efforts to the cotton textile business without the diversion of effort which the synthetic operations have heretofore involved.

Your Directors accordingly authorized the entering into of an agreement with Textile Sales, Limited and others whereby on December 31, 1952, the mills at Milltown and Grand'-Mere and the related working capital, consisting principally of inventories, as well as the total share capital of Raymills Limited, were acquired by Textile Sales, Limited. At the same time Textile Sales, Limited acquired certain other companies in the woollen and worsted fields, all of which have had impressive records of successful operation.

The basis upon which the Company sold its mills, working capital and interest in Raymills Limited to Textile Sales, Limited was the book value thereof, which was satisfied by the issue to the Company of bonds and shares of Textile Sales, Limited. After taking into account the Company's former interest in Textile Sales, Limited, the Company now holds the following securities of Textile Sales, Limited:

\$3,435,600 5½% sinking fund debentures maturing December 31, 1967	\$3,435,600
\$2,727,900 6% cumulative redeemable preferred shares..............	2,727,900
2,778 common shares representing 42.7% of the total issued capital — carried at your Company's net cost......	186,500
	\$6,350,000

Your Directors believe that this transaction constitutes an extremely important step in that the Company, in selling its rayon business, has been relieved of operating losses of serious proportions, and at the same time has acquired a valuable investment in Textile Sales, Limited. That company is well equipped both in manufacturing facilities and skilled personnel to operate effectively in the synthetic, woollen and worsted fields and your Company's investment in that concern should have distinct possibilities for future enhancement in value.

CONDITION OF INDUSTRY

This past year has again seen the Canadian Textile Industry facing most difficult conditions. Competition for the Canadian market has been very keen with imports having a marked effect on the level of operations of Canadian mills. While goods entering this country from the United States have formed by far the main outside competition, there has also been a steady flow of goods into Canada from European and Asiatic countries. India, in particular, has recently been exporting cotton fabrics to Canada at prices with which Canadian mills cannot hope to compete in view of the extreme disparity in wage levels.

There is ample evidence that United States cotton manufacturers are looking more and more to Canada as their last great export market for finished textiles. This is due not only to the circumstances of proximity and similar consumer tastes but to the serious post-war dislocation in trade with the older export markets and attendant currency difficulties. Excess productive capacity in the United States has in the past two years greatly intensified the drive for the Canadian market and the unusual strength of the Canadian dollar has added to the pressure. The available statistics amply demonstrate that United States manufacturers have secured a real gain through enlarging their share of the Canadian market and this has been at the expense of Canadian producers.

It is evident that Canadian tariff rates are no real obstacle to the continuing encroachment upon the Canadian market, and it is significant that the so-called dumping provisions of our law as presently interpreted are not preventing the influx of large quantities of U.S. textiles at prices actually below the cost of production in that country.

The situation is one where the future of the Canadian cotton industry and the large body of workers employed by it appears to be seriously threatened. It seems highly questionable whether the continuation of this trend is desirable in the national interest. While there will be some temporary price advantage to the Canadian consumer where dumped and distressed stocks are freely available, the real price to be paid by the Canadian economy will be measured in terms of loss of employment by Canadian textile workers and a further element of imbalance in Canada's U.S. dollar position. This situation requires at least the adoption of anti-dumping procedures which will render the Canadian market unavailable for the disposal of foreign-made cotton textiles at distress and uneconomic prices.

RAW COTTON PRICES

The price of raw cotton has fluctuated somewhat in the past year although the main trend has been steadily downward. Spot cotton which was selling a year ago at 39 cents a pound rose to over 40 cents a pound during the late summer but since then there has been a steady decline with cotton now at the 33 to 34 cent level. The rise to over 40 cents was, in some measure, due to an under-estimate by the United States Department of Agriculture of the size of the new crop and to some extent to over-optimistic estimates of the amount of cotton which would be exported. Later reports indicating a much larger crop than the September estimate and the failure of exports to materialize in anything like the volume anticipated, put heavy pressure on the market with the result that it is now selling at close to the loan support level. This falling market has, of course, necessitated several downward adjustments of our list prices for both yarns and fabrics so that current prices are well below those which prevailed a year ago.

MANAGEMENT CHANGES

As a result of the sale of the Milltown and Grand'Mere mills and in the light of changed business conditions, a simplification of the management structure has been carried out to enable the Company to meet modern-day competition in as an efficient a manner as possible. The officers of the Company now consist of a Chairman of the Board, a President, and three Vice-Presidents in charge respectively of sales, production and finance. Mr. MacMillan Boyd as Vice-President — Sales is also the elected Vice-President of the Company and Mr. D. R. Gormley, the Vice-President — Finance is Secretary-Treasurer. Mr. J. D. Paddon has been appointed Vice-President — Production succeeding Mr. Joseph Dolphin who retired a year ago. These changes coupled with the introduction of some additional personnel should provide an effective operating unit.

LABOUR RELATIONS

Reference was made in last year's Annual Report to wage negotiations then in progress with accredited Union representatives. Agreement was reached early last July granting employees a 5 cents per hour increase with 2 cents retroactive to December 17, 1951, the expiry date of the previous contract. In addition, the employees were given one more statutory holiday with pay, making a total of six paid holidays. This new contract is effective to December 17, 1953.

Of vital concern to the Industry, now and in the future, is the question of productivity. Only through the use of the most modern techniques and standards can the Canadian industry hope to remain competitive with those countries whose wage levels are only a fraction of our own, or with the United States where job loads are well in excess of Canadian standards. It must be realized that if there is to be full scale employment the combination of productivity and wages must be such as will allow Canadian mills to sell their product at both competitive and profitable prices.

CURRENT OUTLOOK

While the several changes referred to in this report as well as certain other steps now underway will improve the operating position of the Company, the realization of a satisfactory level of profits must await the return of more normal and stable conditions in the Canadian cotton trade. So far this year business has remained at unsatisfactory levels and there is no present indication of any early improvement.

DIRECTORS

Mr. Joseph Dolphin tendered his resignation as a Director in February, 1953, and it was accepted with regret. Mr. Dolphin, formerly Vice-President — Production, had retired from active participation in the Company's affairs last spring, having completed nearly 40 years of service in both the mills and Head Office of the Company. Mr. L. C. Bonnycastle of Toronto was appointed a Director to fill the vacancy on the Board.

STAFF

The Directors appreciate and gratefully acknowledge the loyal support of the entire staff during this past year which has proved to be a most difficult one.

For the Board of Directors,

J. G. GLASSCO, J. IRVING ROY,

Chairman of the Board *President*

CANADIAN COTTONS LIMITED

AND SUBSIDIARY COMPANIES

Comparative Consolidated Statement of Profit and Loss

YEARS ENDED MARCH 31, 1953 AND 1952

	1953	*1952*
Operating profit for the year before depreciation	$ 1,398,658	*$ 2,407,733*
Income from investments	122,794	*138,648*
	1,521,452	*2,546,381*
DEDUCT:		
Provision for depreciation	956,272	*1,347,299*
Bond interest	206,250	*146,250*
Provision for income taxes	159,540	*506,112*
	1,322,062	*1,999,661*
Net profit for the year	$ 199,390	*$ 546,720*
Expenses of the 1953 year include the following items:		
Remuneration of executive officers	$ 110,000	
Directors' fees	12,800	
Legal fees	10,230	

Comparative Consolidated Statement of Earned Surplus

YEARS ENDED MARCH 31, 1953 AND 1952

	1953	*1952*
Balance at beginning of year	$ 9,492,863	*$ 8,591,273*
ADD:		
Net profit for the year	199,390	*546,720*
Profit on sale of investments	229,685	*1,010,265*
	429,075	*1,556,985*
	9,921,938	*10,148,258*
DEDUCT DIVIDENDS:		
On preferred shares at 6%	193,486	*198,312*
On common shares ($2.10 a share in 1953 and $3.30 a share in 1952)	290,871	*457,083*
	484,357	*655,395*
Balance at end of year	$ 9,437,581	*$ 9,492,863*

KINGCOT

CANADIAN COTTONS LIMITED AND SUBSIDIARY COMPANIES

ASSETS

	1953	1952
CURRENT:		
Cash on hand and in banks	$ 789,342	$ 530,193
Accounts receivable	2,636,181	3,976,108
Inventories valued at the lower of cost or market:		
Raw materials, goods in process and finished goods	9,785,317	12,266,596
Other materials and supplies	593,149	1,038,299
	10,378,466	13,304,895
Marketable investments at cost:		
Short term notes	997,500	1,500,000
Government of Canada bonds (market value $498,500)	495,250	—
Stocks and bonds (market value $610,215)	—	332,230
	1,492,750	1,832,230
Prepaid expenses	522,705	507,905
Total current assets	15,819,444	20,151,331
Investment in associated company at cost	6,350,000	250,000
Property and plants at cost	25,078,559	31,272,082
Accumulated depreciation	18,844,999	23,139,218
	6,233,560	8,132,864
	$28,403,004	$28,534,195

Signed on behalf of the Board:

J. G. GLASSCO, *Director.*

J. IRVING ROY, *Director.*

Comparative Consolidated Balance Sheet AS AT MARCH 31, 1953 AND 1952

LIABILITIES

	1953	*1952*
CURRENT:		
Accounts payable	$ 1,565,193	*$ 1,179,221*
Current instalment of funded debt	500,000	—
Federal and provincial taxes	164,731	*545,332*
Total current liabilities	2,229,924	*1,724,553*
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, 1953-1958 less current instalment shown above	2,500,000	*3,000,000*
	5,500,000	*6,000,000*
RESERVES:		
Reserve for future decline in inventory values	4,557,599	*4,557,599*
Contingent reserve	715,000	*715,000*
	5,272,599	*5,272,599*
CAPITAL:		
Authorized —		
Preferred — 6% non-cumulative, 207,185 shares par value $20.00		
Common — 175,000 shares no par value		
Issued and fully paid —		
Preferred — 1953, 159,635 shares; 1952, 163,699 shares	3,192,700	*3,273,980*
Common — 138,510 shares	2,770,200	*2,770,200*
	5,962,900	6,044,180
Retained earnings:		
Consolidated earned surplus, per attached statement	9,437,581	*9,492,863*
	$28,403,004	*$28,534,195*