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Canadian Cottons
LIMITED

THIRTY-EIGHTH

Annual Report

for the year ended March thirty-first

1948

CANADIAN COTTONS, LIMITED

Head Office

760 VICTORIA SQUARE, MONTREAL

Operating

ONTARIO MILL, HAMILTON, ONT.
DUNDAS MILL, CORNWALL, ONT.
ST. CROIX MILL, MILLTOWN, N.B.
STORMONT MILL, CORNWALL, ONT.
CANADA MILL, CORNWALL, ONT.
GIBSON MILL, MARYSVILLE, N.B.

Subsidiary

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

OFFICERS

R. G. Tolmie . . .	*Chairman*
E. C. Fox	*President and Man. Director*
W. V. Boyd.	*Vice-President*
J. Irving Roy . . .	*General Manager*
Jos. Dolphin	*Manager of Mills*
K. L. Hamilton . .	*Secretary-Treasurer*

DIRECTORS

Sir H. Montagu Allan, C.V.O. . . .	*Montreal*
MacMillan Boyd	*Montreal*
W. V. Boyd	*Cornwall*
A. S. Bruneau, K.C.	*Montreal*
D. A. Campbell.	*Montreal*
Jos. Dolphin	*Montreal*
E. C. Fox	*Toronto*
J. Irving Roy	*Montreal*
R. G. Tolmie	*Montreal*

Dividend Disbursing Agents. .	The Royal Trust Co., Montreal
Stock Transfer Agents	The Royal Trust Co., Montreal and Toronto
Registrars	Bank of Montreal, Montreal and Toronto
Bankers	Bank of Montreal, Montreal
	The Canadian Bank of Commerce, Montreal
Stock Listed	Montreal Stock Exchange

Annual Report

of the

DIRECTORS OF

CANADIAN COTTONS, LIMITED

Year Ended March thirty-first, 1948

To the Shareholders:

Your Directors submit herewith the balance sheet of the Company as at March 31st, 1948, with a Statement of Profit and Loss for the year ended on that date.

Net operating income, including subsidy, and after providing for Income and Excess Profits Taxes and other customary charges amounts to		$704,378.26
Income from investments amounts to		182,101.05
making a total of		$886,479.31
which has been distributed as follows:—		
6% Dividend on Preferred Stock		$198,312.00
Dividends on Common Stock:		
4 Quarterly—55c. per share	$304,722.00	
1 Extra—50c. per share	69,255.00	373,977.00
Balance transferred to Surplus		314,190.31
		$886,479.31

On September 15th last ceiling price directives and other controls under which the Canadian primary textile industry had been operating since November 1941 ceased to function officially but by arrangement with Government officials, ceiling prices were maintained to November 1st.

The operating profits and taxes for the year have to be read in the light of the above condition—7/12 of the year under controls and the balance without.

In taking farewell of controls along with whatever characteristics that accompanied them, your Directors wish to express the opinion that as a war measure they performed a national emergency service in helping keep productive costs and cost of living from rising as quickly as they otherwise would. But such controls carry with them not only certain disadvantages to the individual companies operating under them but also to the economy of the country.

It is submitted that in theory and practice controls ultimately curtail production, especially if controls are sponsored by more than one administrative body. In 1942 the Canadian primary textile industry came first under regulations of the Wartime Prices and Trade Board and later under other government controls. The bale openings of cotton in Canada from 1939 to 1947 inclusive were as follows:

1939	340,899 bales
1940	455,165
1941	491,410
*1942	496,102
1943	425,107
1944	375,835
1945	362,740
1946	360,198
1947	363,262

*Ceiling prices and other directives applied in this year.

It would not be a sound conclusion to blame controls as the sole cause of curtailment in the years following 1942 but your Directors believe that they were the primary cause of the dramatic decline in production which was only stopped in 1947. The Company's figures of cotton consumption are included in the above and follow almost an exact pattern of the whole.

For the first three months of 1948, however, the Company's bale openings were within only 80 bales of its corresponding openings for the year 1942.

Your Company has also suffered other disadvantages. It has not been able to build up adequate reserves, as commodity prices and other costs have risen, to meet either inventory losses which are inevitable or to meet capital replacement costs with respect to a very large portion of its building and equipment erected and installed when costs were much lower.

The question of the necessity for inventory reserves doesn't need argument to support it when it is realized that the New York raw cotton market has advanced 27 cents a pound in the nine years—from approximately 9 cents as of March 1939, to 36 cents as of March 1948. If the market can advance that much, it can also decline the same or in a larger amount and can do it in less than nine years. In the short period from July 1920 to March 1921 the raw cotton market dropped from 43.75c. to 12.55c. per pound. Again between April 1928 and June 1932 the same market declined from 22.15c. to 5.80c. It follows that a very robust reserve is vital for protection to cover inventory losses for the completion of the swing of the pendulum. Inventory reserves have not been increased since year ending March 31st, 1943, when in the opinion of your Directors they were adequate. At that time, however, the raw cotton market was 22.19c. per pound. It is proposed that any refunds under the Excess Profits Tax Act shall, when paid, be applied to reserves instead of to surplus account and also any relief that may accrue resulting from the setting up of a reserve in the year March 31st, 1943, under Section 6(1)b of the Excess Profits Tax Act.

The case for costs of capital replacement is much broader and is common to all industries. It is best described by example. Depreciation on equipment costing $1,000,000 (prewar) is limited to $1,000,000. Today's replacement cost is at least $2,000,000. Thus industry has to draw on its working capital to the extent of $2,000,000 for which only $1,000,000 has been provided for through the regular channel of depreciation. It is, therefore, $1,000,000 worse off than it was. Many companies may find themselves in financial embarrassment if costs remain at the current high level for too long. The British Government, recognizing this situation, is subsidizing the British textile industry to the extent of 25% of current cost of machinery and equipment. Your Directors do not ordinarily approve of subsidies in principle but recognize that this will place the British textile industry in a very strong position in relation to the Canadian industry, the more so in view of their much lower wage level.

Thus as a national war emergency your Directors feel that, on balance, ceiling price directives and subsidies were warranted for a critical period but they were removed none too soon both in the interest of national production in peace time and in the interest of specific companies that operated under them.

It is not certain that commodity and manufacturing costs have yet reached their peak. The spot market for raw cotton has advanced from 36c. to 38.50c. per pound since March 31st last. There is an immediate demand for textiles not only in Canada but throughout the world and, so far as we can see, it will continue through the current year. But ability to pay is a greater factor in forecasting continuity of trade than is demand. There are distinct signs that the limit of such ability has been about reached.

Add to the above the chaotic political and economic conditions universally existing and there is produced a situation in which courage and caution should play equal parts in determining future operating policies.

The following comparative study of the overall costs of cotton yarns and fabrics made in the years ending March 31st, 1939, and March 31st, 1948, is revealing and informative. It is found that in the cost per pound of actual production in this last fiscal year

(1) raw cotton costs were 363% of those of 1939

(2) wage costs were 240% of the 1939 level

(3) all other charges such as supplies, services, municipal taxes, repairs and overhead were 161% of those of 1939.

The average increase in our total costs can be derived from these figures by relating them to their shares in the cost of production. In 1948 cotton constituted 45.17% of the cost of production, wage costs were 32.77% and other charges were 22.06%. It follows that 1948 total costs were above those of 1939, as calculated in the following table:

Cotton, 363% of 1939, @ 45.17% of total cost	164%
Wage costs, 240% of 1939, @ 32.77% of total cost	79%
Other charges, 161% of 1939, @ 22.06% of total cost	36%
1948 costs were of the 1939 costs.	279%

The weighted average selling price of twelve of the Company's largest production lines shows that, as of March 31st, 1948, they were 252% of the selling prices of March 31st, 1939. Thus the selling prices of our Company's yarns and fabrics have not risen proportionately to the increase in the actual cost of their ingredients. To put it another way, the Company would have to advance its 1948 selling prices by a further 27% of 1939 selling prices before being on a cost-price parity with that year.

Enclosed with the Annual Report your Directors are sending each shareholder a booklet entitled "The Story of Cotton in Canada" which it is hoped will be interesting and informing. Your Company's activities constitute a part of that story.

The additions to plant and equipment for the year amount to $1,851,007. The postwar programme is nearly complete and it is possible to give an accurate report as to the actual in relation to the estimated cost. The programme was first prepared five years ago and called for specific items of machinery and equipment, with costs allocated to each item. The total estimated cost came to approximately $5,250,000.

The final cost will exceed that sum by about $100,000. While this close approximation between estimated and actual is fortunate, your Directors do not wish to leave the impression that such accuracy was entirely due to foresight in anticipating and allowing for "run away" costs which actually did develop, as contracts could only be negotiated at that time with the inclusion of an escalator clause. While generous allowance was made for possible inflation, there were three important factors that entered into the calculated costs, viz., a ten percent discount on Canadian funds, a war exchange tax of 10% on imported machinery and an 8% sales tax. These three factors were inoperative at the time a large part of the machinery and equipment was imported. It is the practical disappearance of these which has kept the costs within reasonable limits of the estimates. On the other hand your Directors wish it to be understood that had commitments under the programme been deferred, the cost would have been much more than it is and the Company would still be waiting another two or three years for very necessary equipment.

The completion of the postwar programme does not mean that capital expenditures cease even for one year. There are numerous items which cannot be anticipated but which are necessary each year, the total of which amounts to a considerable sum. These blanket expenditures prior to the war averaged about $300,000 a year over a period of years. Under current conditions it seems wise to estimate corresponding outlays at approximately $500,000 annually if the business is to be kept healthy.

In the Annual Report for the year ended 31st March 1941, there appeared the following paragraph, "Your Directors, in considering the investments of the Company, have decided that it is in the Company's interest to apply a portion of its surplus funds to the purchase for cancellation of such preferred stock of the Company as may be offered at a reasonable price, or its redemption from such preferred shareholders as may be disposed of their own free will to turn in their shares for redemption. The by-law submitted for your approval does not alter the rights of any shareholder and permits only the voluntary retirement of preferred stock". The purpose of the proposed amended by-law to be presented at the special meeting of shareholders called to precede this year's Annual Meeting is to give the Company a price of voluntary call or open market purchase that is practical or workable under lower interest rates. Your Directors feel the original by-law when it was passed in 1941 and as amended in 1944 when the Company's shares were subdivided, was in the interests of both classes of shareholders and for that reason it is only proper to keep it harmonious with present day conditions.

During the year your Company negotiated a new agreement with the Executive of the Textile Workers Union of America, C.C.L.—C.I.O. representing the employees of the Company's six mills.

Hourly wage increases were conceded in line with the pattern current at the time of negotiation. Two innovations were also made, one offered voluntarily by the Company's representatives and the other at the request of the Union.

The Company offered a "two weeks' holiday with pay" plan for all employees who have been with the Company for a year and benefiting proportionately all employees who had been with the Company three months. This replaced the one week holiday plan then current. The proposal was accepted gratefully. It is hoped that a two weeks' holiday will prove a sufficient economic and social benefit to justify its continuance and that it will help to reduce absenteeism.

The union representatives asked for a group insurance plan to be paid for by the Company. This was conceded. As a result all hourly paid employees of the Company have the following benefits: life insurance, sickness and accident, and hospital expenses up to $3. per day for employees and their dependents.

After negotiations had been completed, certain officers of the union made public statements in the press commending the Company with respect to terms of settlement and its officers with respect to the manner in which negotiations were conducted.

Your Board would be lacking in proper appreciation if at this first opportunity it failed to express its feelings of cordiality and good will to the group of union and employee representatives who conducted the negotiations on their part and to say that it believes both sides gain by frank discussion and by conduct of negotiations in a rational manner.

The Pension Fund that the Company instituted on January 1st, 1946, is functioning smoothly. At that time the Company paid for all past services of eligible employees. Contributions for current service are made jointly by employees (3½% of their gross wages), the balance, necessary each year to maintain the Fund on a sound actuarial basis, being paid by the Company. The Company's contribution in this respect for the year just ended was $139,000.

Your Board also desires to place on record its appreciation for the efficient and loyal work as rendered by all members of the Company's operational, selling and office staffs.

The books and accounts of the Company have been duly audited and the Auditors' Report is recorded in the statements attached herewith.

Submitted on behalf of the Board of Directors.

R. G. Tolmie,
Chairman.

E. C. Fox,
President.

CANADIAN COT

BALANC

As at March t

ASSETS

CURRENT:

Cash on hand and in banks		$	548,748.46
Accounts Receivable—less Reserve			1,143,594.21
Inventories as determined and certified by the management and valued at the lower of cost or market less reserve			5,101,987.45
Investments—at cost less reserve—Dominion Government Bonds and Corporation Bonds and Shares			4,922,556.38
(Quoted Market Value $5,722,455.00)			
TOTAL CURRENT ASSETS			11,716,886.50
SHARES IN SUBSIDIARY COMPANIES			63,603.00
DEFERRED CHARGES TO OPERATIONS			277,464.21
REFUNDABLE PORTION OF EXCESS PROFITS TAXES			186,615.61
CAPITAL ASSETS:			
Mills, Plants and Properties—at cost—Balance as at 31st March 1947	$22,088,875.05		
Additions for year	1,851,007.18		23,939,882.23
			$36,184,451.55

Montreal, 29th April, 1948

Audited and verified as per certificate attached.

RITCHIE, BROWN & CO.,

Chartered Accountants.

TONS, LIMITED

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rty-first, 1948

LIABILITIES

CURRENT:		
Accounts Payable		$ 900,856.75
Cotton Acceptances		1,043,909.00
Due to Subsidiary Company		61,170.28
Reserve for Income and Excess Profits Taxes including Provincial Income Taxes	$ 962,123.41	
Less: Paid on account	165,300.00	796,823.41
TOTAL CURRENT LIABILITIES		2,802,759.44
MORTGAGE BONDS:		
2½% due 1st September 1951	1,500,000.00	
2¾% due 1st September 1956	1,500,000.00	3,000,000.00
CONTINGENT RESERVE		541,895.48
DEPRECIATION RESERVE		18,174,835.02
CAPITAL STOCK:		
Authorized—		
Preferred—6% Non-Cumulative 207,185 Shares par value $20.00 each	4,143,700.00	
Common—		
175,000 Shares no par value	3,500,000.00	
	$ 7,643,700.00	
Issued and Fully paid—		
Preferred—165,260 Shares	3,305,200.00	
Common—138,510 Shares	2,770,200.00	6,075,400.00
CAPITAL SURPLUS		336,660.75
REFUNDABLE PORTION OF EXCESS PROFITS TAXES		186,615.61
EARNED SURPLUS—Per Statement attached		5,066,285.25
		$36,184,451.55

Signed on behalf of the Board:

E. C. FOX, *Director.*

J. IRVING ROY, *Director.*

CANADIAN COTTONS, LIMITED

PROFIT AND LOSS ACCOUNT

For the year ended March thirty-first, 1948

Operating Profit for year after including Subsidy and after providing for items of Expenditure A, B, C, D, E, F, as below noted		$ 704,378.26
Add: Income from Investments		182,101.05
NET INCOME FOR YEAR		886,479.31
Deduct:		
6% Preferred Dividend	$ 198,312.00	
Common Dividend	373,977.00	572,289.00
SURPLUS FOR YEAR		$ 314,190.31

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A.	Depreciation	$ 747,052.35
B.	Executive Remuneration	68,250.00
C.	Directors' Fees	9,950.00
D.	Provision for Taxes	545,000.00
E.	Legal Fees	3,430.12
F.	Bond Interest	78,750.00

EARNED SURPLUS ACCOUNT

Balance at credit as at 1st April 1947	$4,752,094.94
Add: Surplus for year as above	314,190.31
	$5,066,285.25

AUDITORS' REPORT
TO THE SHAREHOLDERS

We have examined the books and accounts of Canadian Cottons, Limited for the year ended 31st March 1948. We have verified the Cash in Banks and the Investment Securities and the Revenue received therefrom.

We have obtained all the information and explanations required, and in our opinion the attached Balance Sheet and Profit and Loss Account, based upon certified inventories presented, are properly drawn up so as to exhibit a true and correct view of the state of affairs of the Company as at 31st March 1948, and for the year ended that date, according to the best of our information and the explanations given to us and as shown by the books of the Company.

RITCHIE, BROWN & CO.
Chartered Accountants.

Montreal, 29th April, 1948.

CANADIAN COTTONS, LIMITED

Manufacture

DENIMS
COTTONADES
COVERTS
AUTOMOBILE FABRICS
AWNING FABRICS

COTTON TWEEDS
COTTON SUITINGS
PANTINGS
BEDFORD CORDS
WHIPCORDS

MATTRESS TICKINGS

SHIRTINGS
GALATEAS

NOVELTY DRESS FABRICS
NURSES CLOTH

CHAMBRAYS

ARTIFICIAL SILK FABRICS FOR DRESSES, LININGS
AND LINGERIE

FLANNELS
BLEACHED FLANNELETTES
NAPPED SHAKERS
TIE LININGS
NAPPED SHEETINGS

COLOURED FLANNELETTES
MOTTLED INTERLININGS
SILENCE CLOTH
EIDERDOWNS AND
ROBE CLOTHS

COTTON BLANKETS
WOOL-MIXTURE BLANKETS

UNBLEACHED, BLEACHED AND COLOURED YARNS
HOSIERY YARNS, WARP YARNS
SPUN RAYON AND WOOL BLEND YARNS