Canadian Cottons
LIMITED

THIRTY-NINTH

Annual Report

for the year ended March thirty-first

1949

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.

Subsidiaries

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

OFFICERS

R. G. Tolmie	*Chairman*
E. C. Fox	*President and Man. Director*
W. V. Boyd	*Vice-President*
J. Irving Roy . . .	*General Manager*
Jos. Dolphin	*Vice-Pres.—Production*
MacMillan Boyd . .	*Vice-Pres.—Sales*
E. R. Suttie	*Vice-Pres.—Personnel*
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, 1949

To the Shareholders:

Your Directors submit herewith the Balance Sheet of the Company as at March 31st, 1949, with a Statement of Profit and Loss for the year ended on that date.

Net operating income, after providing for Income Taxes and other customary charges amounts to		$ 859,934.34
Income from investments amounts to		297,994.25
making a total of		$1,157,928.59
which has been distributed as follows:—		
6% Dividend on Preferred Stock		$ 198,312.00
Dividends on Common Stock:		
Four Quarterly Dividends	$346,275.00	
One Extra—50c. per share	69,255.00	415,530.00
Balance transferred to Surplus		544,086.59
		$1,157,928.59

Your Company's operations for the fiscal year, in common with most other industries, were characterized by a buoyant demand for merchandise and a consequently large volume of sales. There was a considerable increase in the number of employees, with the opportunity for continuous and full-time employment for all. Labour turnover has materially decreased in comparison to the last several years—this is a wholesome sign. The percentage of absenteeism shows only a slight reduction. There is, however, probably a time lag between the two.

The Canadian Government suspended, as of July 1st last year and for a period of one year, the British Preferential tariff on cotton and rayon piece goods coming into Canada. By virtue of the new Geneva Agreement the same concessions automatically were extended to goods of like kind coming into Canada from countries embraced in the Most Favoured Nations category, the only but very important difference being that quotas or restrictions of imports were imposed on certain goods originating in some of the latter countries, particularly the United States, under the Emergency Exchange Conservation Act. Fortunately conditions in the textile world were sufficiently buoyant that these concessions worked no hardship on the industry in Canada. However, there was present always the underlying fear that the suspension of duties might be unduly extended. Ultimately this would undoubtedly mean unemployment to thousands of people employed in the Canadian textile industry, for over any long period of time it is impossible to compete

(a) with a country such as England—the average textile wage rate in Canada as of May 1st, 1948, is reported as being 67% more than the average English rate—and for a different reason, (b) with the United States where because of the immense population and corresponding markets, textile mills are able to specialize in narrow fields but with all the advantages of mass production.

Your Directors are pleased to report that the *status quo ante* June 30th, 1948, of a moderate tariff has been declared by the Canadian Government effective July 1st, 1949.

Spot cotton prices as reflected on the New York Cotton Exchange declined 7% as between March 31st, 1948 (36.02c. per pound) and March 31st, 1949 (33.57c.). This does not mean that the price of raw cotton used by the Company during the whole year declined by 7%. On the contrary the average price of cotton used was decimal 43 cents per pound higher than in the previous year. In the first place the trend of spot cotton prices was not steadily downward from March 1948 but was characterized by an advance to more than 39c. a pound in April, May and June before a definite recession occurred. In the second place the New York cotton futures price is a base price quoted for only one grade and staple length of cotton. All other grades and staple lengths are quoted at differentials from that base. Broadly speaking these differentials hardened during the year, as is reflected in the cost of the Company's cotton used for the whole year. It thus more than offset the decline in the basic market.

There are at all times three major factors entering into textile operations, the influence of any one of which materially affects the Company's operating outlook.

These factors are:

(1) the price and controls of raw cotton
(2) labour conditions and rates of pay
(3) selling conditions and prices.

(1) *Raw Cotton:*

Instead of ceiling prices on finished goods to delay or inhibit the rate of inflation as existed for approximately five years, the textile industry now faces what is equivalent to a "floor" under prices of raw cotton in the United States. So long as inflationary forces predominated floor prices were not effective. But the situation today is that if it were not for a "floor" under raw cotton (loan level or "floor" for the 1948-49 crop year being 30.74 cents per pound at Memphis, Tenn.) the commodity could conceivably be selling for 20 cents a pound and possibly less. As the loan value or floor price to producers for the 1949-50 cotton crop is now fixed at 90% of parity, the situation may be further aggravated next fall as the United States faces the prospect of harvesting one of the largest cotton crops in history. Cotton is not the only commodity being regulated by artificially controlled floor prices. There are enough of them to justify the statement that today many industries are being operated from within an "iron lung."

Now it would seem logical if "ceilings" and certain basic restraints on selling prices retarded precipitous advances during the inflationary period that "floors" and corresponding basic restraints "in reverse" should retard precipitous declines. Indeed one would think that the "reverse" process should be more effective and beneficial to the national economy because of experiences gained in the period of rising prices. In the opinion of your Directors the outlook would be much healthier if floor prices and other controls on certain commodities were more flexible and had a more realistic relationship to supply and demand, both in the particular and in the general, as well as to world economic conditions. At the time of preparing this Report a recommendation is being sponsored by the United States Secretary of Agriculture. While much of the detail may be modified, changed or deleted, the proposal in general very definitely appears to commit the United States Administration for another year, namely for 1950-51 and possibly subsequent years, to a high price policy insofar as basic non-perishable agricultural commodities are concerned while many perishable farm products would be permitted to drop to a market level based on supply and demand with compensation to be paid by subsidy. Cotton, wheat and corn are among those included in the non-perishable group and consequently the proposed basic price structure for 1950-51 raw cotton would be very little if any lower than it presently is, indeed there is a possibility that it might be slightly higher. As one American authority has put it, "The long range disadvantage of this plan, as distinct from the subsidy or 'income maintenance' plan which is proposed for perishable commodities is that the consumer will continue to be required to pay high prices for cotton, which will tend to restrict consumption . . . ".

It would appear as if price controls instead of being handled with courage from an economic viewpoint had got into the realm where political rather than economic considerations tend to determine policies.

Whatever is done in the United States in dealing with basic commodities cannot avoid influencing our whole Canadian economy and most certainly has a fundamental bearing on the outlook for your Company.

(2) *Wage Rates:*

Your Company negotiated a new agreement last December with the union representing its employees at all mills. Wage rates were advanced by 11c. an hour to all hourly paid and piece work employees. This automatically increased the Company's obligations with respect to Pension Fund contributions, holiday pay, sick benefits, etc. and Workmen's Compensation. Corresponding increases were also called for in the supervisory classes of employees. The cost to the Company will amount close to $1,100,000 per year.

This was the third, since the War, of a series of big wage lifts generally followed in both the United States and Canada. Is there to be a fourth round in 1949? If so then it can only be met, as far as your Company is concerned, by (a) a decline in raw cotton prices (over which we have no control) with no change in selling prices, and/or (b) an increase in selling prices, and/or (c) an increased per capita production which labour, in its own interests, must be prepared to study and consider seriously.

Some branches of organized labour are reported to be committed to another drive for wage increases this year. They would do well to pause and consider. An unwise step now could easily result in the gravest consequences for the country generally and in lessened employment.

(3) *Selling Prices and Volume:*

This subject has been partially dealt with in the preceding paragraphs. At the present time selling prices seem equitably adjusted to the cost of raw cotton and wage rates. Large volume of operations, however, has tended to hold down overhead costs. Costs would thus advance sharply in the event of a recession in volume. The cotton textile industry in the United States has registered a material decline in the past year. It is hoped this condition may not extend to Canada but that may be too much to expect in view of the intimate economic and industrial relationship existing between the two countries. So long, however, as current conditions continue, operating results should be reasonably satisfactory.

Your Directors have sought to place before you the difficulties of some of the current problems of the Company. Some of them are unique to the industry—some of them are more widely applicable. The coming year, therefore, poses problems, the solutions of which can only be met as and when they present themselves.

Your Directors have been greatly influenced by the magnitude of the uncertainties above set out as well as by the greatly deflated value of the dollar as compared with prewar years in recommending for your approval certain dispositions as reflected in the Profit and Loss Account and the Balance Sheet.

The purchase value of the dollar figured on a Canadian cost-of-living basis is approximately 100/160 or 5/8 of the base of 1935-39. But your Company's current dollar has even a smaller purchasing value based upon (1) the prewar cost of raw cotton, (2) prewar wage rates, and (3) prewar costs of machinery and equipment replacements.

The above conditions impose an obligation on your Directors to exercise all possible financial foresight and precaution. The year's results would be considered as excellent if based on 1935-39 values, but cannot be so regarded if proper weighting is given to the currently low purchasing power of the dollar.

You will note, therefore, that your Directors recommend, before striking a net profit for the year, that the sum of $500,000 be set aside to inventory reserves. Income taxes have been provided for on this amount.

In the Annual Report of the previous year there was a paragraph dealing with the necessity of increasing the Company's inventory reserves. It was recommended therein that Balance Sheet items dealing with (a) refunds under the Excess Profits Tax Act and (b) relief from reserves set up under Section 6(1)b of the same Act be placed to the credit of inventory reserves. Negotiations with taxing authorities have proceeded far enough to give effect to this proposal, consequently it is possible to transfer these items and other Income Tax adjustments affecting prior years, in the amount of $613,243.39, to inventory reserves. The transfer of both these important amounts is obviously to the mutual interest and protection of both shareholders and employees of the Company.

There is a large addition under the heading of Shares in Subsidiary Companies. During the year, an opportunity having unexpectedly arisen, your Directors deemed it wise and expedient to purchase the assets of another textile company, the operating field of which was not competitive but complementary.

Your Directors submit for your approval, at a special Shareholders' Meeting called to precede this year's Annual Meeting, three special by-laws amending four existing Company by-laws, particulars of which are contained in the notice calling the special meeting. Amendments to these by-laws are occasioned by unforeseeable circumstances and inevitably changing conditions.

The purpose of Special By-law XXXV amending By-laws 22 and 24 of the General By-laws of the Company is to permit your Board to appoint operating Vice-Presidents who need not necessarily be members of the Board. Not only is this in line with recognized practice but it is to the Company's interest that certain of its key operating men be given a status in keeping with their responsibilities.

Consequent to the amendment of the above By-laws your Directors appointed three Vice-Presidents: Mr. Joseph Dolphin, heretofore Manager of Mills, Vice-President—Production; Mr. MacMillan Boyd, heretofore General Sales Manager, Vice-President—Sales; Brigadier E. R. Suttie, C.B.E., D.S.O., E.D., heretofore Personnel Manager, Vice-President—Personnel and Public Relations.

Special By-law No. XXXVI amending General By-law 43 by adding a subsection (4) thereto is for the purpose of clarifying and enlarging the scope of the discretion now given to Directors with respect to dependents in general. The benefit fund and insurance policies referred to in By-law 43 have for some years past been turned over to Trustees on the terms and conditions approved by the Department of National Revenue. But it is found that there will always be a number of cases not dealt with under present pension arrangements for which your Directors should have the authority to provide.

Special By-law No. XXXVII amending General By-law 45 is to permit the Board to appropriate up to $60,000 instead of $40,000 in any one fiscal year to charitable, educational, benevolent, public, general or useful objects. It now appears to your Directors that $60,000 rather than $40,000 more adequately expresses the Company's charitable and educational obligations.

Company-Employee relationships continued on a sound wholesome basis throughout the year. Discussions and negotiations, especially those of a general character, were conducted in a frank and serious manner. Your Directors wish to congratulate the group of union and employee representatives for their share in maintaining this healthy relationship. At the same time they feel that they must point out to their employees that the industrial pattern for 1949-50 is more difficult to discern than at any time in the last ten years. Wisdom and sound judgement henceforward will play a much greater and more responsible part in the consideration of issues than they have over the same period of time.

The sum of $179,000 was the amount of the Company's contribution to the Pension

Fund for the year just closed. The corresponding amount a year ago was $139,000. The very substantial increase is due to increased wage rates, larger number of employees and reduced labour turnover—all previously referred to in this report.

The cost to the Company of holiday pay for hourly paid and piece work employees (two weeks for those in the employ of the Company for a full year or 4% of the wages of those who have less than one year but more than three months to their credit) was $226,000.

The above items are two, but not all, of the social advantages that the employees of the Company enjoy. In themselves they constitute important cost factors in a highly competitive industry. It is hoped that these and the other benefits will continue to be seriously recognized.

The continued and loyal efforts of the manufacturing, selling and office staffs has materially contributed to the results for the year. Your Board desires to place on record its sincere appreciation of the faithful work thus rendered.

The Books and Accounts of the Company have been duly audited and the Auditors' Report is appended as part of the statements attached herewith.

Submitted on behalf of the Board of Directors.

R. G. Tolmie,
Chairman.

E. C. Fox,
President.

CANADIAN CO[T

BALANC

As at March t

ASSETS

CURRENT:		
Cash on hand and in banks		$ 309,391.79
Accounts Receivable—less reserve		2,294,845.72
Inventories as determined and certified by the management and valued at the lower of cost or market less reserve		5,127,919.44
Investments—at cost less reserve—Dominion Government Bonds and Corporation Bonds and Shares		5,448,652.38
(Quoted market value $6,385,000.00)		
TOTAL CURRENT ASSETS		13,180,809.33
SHARES IN SUBSIDIARY COMPANIES		713,603.00
DEFERRED CHARGES TO OPERATIONS		352,347.81
CAPITAL ASSETS:		
Mills, Plants and Properties—at cost—Balance as at 31st March 1948	$23,939,882.23	
Net additions for year	1,065,319.17	25,005,201.40
		$39,251,961.54

Montreal, 29th April, 1949

Audited and verified as per certificate attached.

RITCHIE, BROWN & CO.

Chartered Accountants.

TONS, LIMITED

E SHEET

irty-first, 1949

LIABILITIES

CURRENT:		
Accounts Payable		$ 1,323,010.11
Cotton Acceptances		2,499,009.00
Due to Subsidiary Companies		207,919.86
Reserve for Dominion and Provincial Taxes	$ 959,366.21	
Less: Paid on account	457,800.00	501,566.21
TOTAL CURRENT LIABILITIES		4,531,505.18
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		540,000.00
DEPRECIATION RESERVE		19,129,754.77
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		364,929.75
EARNED SURPLUS—Per Statement attached		5,610,371.84
		$39,251,961.54

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, 1949

Operating Profit for year after providing for items A, B, C, D, E, F, G, H, as below noted		$ 859,934.34
Add: Income from investments		297,994.25
NET INCOME FOR YEAR		1,157,928.59
Deduct:		
6% Preferred Dividend	$ 198,312.00	
Common Dividend	415,530.00	613,842.00
SURPLUS FOR YEAR		$ 544,086.59

A.	Depreciation	$910,548.00
B.	Executive Remuneration	87,833.00
C.	Directors' Fees	10,250.00
D.	Provision for Taxes	900,000.00
E.	Legal Fees	12,575.27
F.	Bond Interest	78,750.00
G.	Inventory Reserve	500,000.00
H.	Contingent Reserve	16,756.18

EARNED SURPLUS ACCOUNT

Balance at credit as at 1st April 1948	$ 5,066,285.25
Add: Surplus for year as above	544,086.59
BALANCE AS AT 31st MARCH 1949	$ 5,610,371.84

AUDITORS' REPORT
TO THE SHAREHOLDERS

We have examined the books and accounts of Canadian Cottons, Limited for the year ended 31st March 1949. 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 1949, 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, 1949.

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