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Canadian Cottons

LIMITED

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Annual Report

for the year ended March thirty-first

1950

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McGILL UNIVERSITY

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, 1950

To the Shareholders:

Your Directors submit herewith the Balance Sheet of the Company as at March 31st, 1950, 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		$ 896,449.78
Income from investments amounts to		376,070.50
making a total of		$1,272,520.28
which has been distributed as follows:—		
6% Dividend on Preferred Stock		$ 198,312.00
Dividends on Common Stock:		
Four Quarterly Dividends	$387,828.00	
One Extra—50c. per share	69,255.00	457,083.00
Balance transferred to Surplus		617,125.28
		$1,272,520.28

Although the amount carried forward to earned surplus ($617,125) is higher than that of a year ago ($544,086) the overall net profit of the Company is considerably less. A year ago the Company set aside a sum of $500,000 to inventory reserve to meet possible future losses resulting from price declines in raw supplies and inventories of processed and finished goods. Nothing has been set aside for this purpose out of this year's profits. Increases in wage rates, with corresponding increases in the cost of social benefits and higher costs of supplies, were the chief contributing factors to the reduction in net earnings.

In spite of an increase in the working capital of $794,312 the Company had to draw on its investment account to take care of larger inventories particularly in finished goods. The current situation in this respect is more normal than for ten years. During the war and immediately after the stock of manufactured goods was abnormally low due to a heavy and constant demand.

The mills of your Company continued to operate at high average levels throughout the year. Though demand has eased in some fields it has increased in others. Fortunately the Company makes a diversity of products and this tends to maintain a stabilizing effect on overall volume of sales.

Operating costs are geared to a high level of production. A marked falling off of consumer demand would result in reduced

production and higher unit costs. In other words, current profits are almost entirely dependent on volume and are, therefore, in a vulnerable position.

The immediate postwar position in textiles was characterized by world-wide shortages of civilian goods caused by an almost insatiable demand with little regard for selection or styling. Production in Canada was carried on with emphasis on volume of output and simplicity in variety of product. A gradual recovery in Canadian production from a low point in 1946, coupled with heavy importations, made possible a trend towards more normal conditions of supply and demand. This first became evident in 1948 but by the spring of 1949 we actually experienced a mild but definite slump in sales which continued for the first half of the fiscal year. Following the general advance in textile prices made necessary by the devaluation in September of the Canadian dollar, and due also to reduced inventories of goods held by the trade, there followed a substantial increase in sales which continued to the end of the year. Without this recovery your Company would have had a poor year.

While generally it is hoped to maintain a high level of plant operations for the coming year, nevertheless the prospect both with respect to volume of production and profits is conditioned by four major factors.

(1) The general level for the coming months of industrial activity throughout the world as reflecting itself in a demand for both durable and consumable goods.

(2) The possibility of heavy importations from other countries where the devaluation of currencies has been greater than that of the Canadian dollar.

(3) The quantities of textile goods or invisible inventories that are currently on the shelves or in the warehouses of the trade.

(4) The price of raw cotton for the 1950-51 crop year.

The first two factors are related. If there is no general recession in world trade then current operating conditions should continue, but in the event of a recession we are vulnerable in this country to heavy infiltrations of competitive goods, especially from some European and Far Eastern countries, the currencies of which were devalued in 1949 by an amount greater than Canadian import tariffs. At the moment British cotton mills appear occupied in supplying the demand existing within the Sterling area although exports to Canada have been increasing since devaluation took place. It seems only a matter of time, however, before British mills find their present lucrative markets shrinking and turn their attention to the more highly competitive Canadian field where the average hourly earnings are more than twice those of English mills. Another source of danger to the industry is from Japan with its rare combination of industrial "know how" and slave labour wages. According to the International Labour Office "wages in Japanese textile industry were among the very lowest, 3000 yen per month in November 1948, as compared to 7000 yen in all manufacturing trades." Three thousand yen per month at current rates of exchange amounts to $9.21 or about 4c. an hour.

The Canadian textile industry which contributes materially to the general high standard of living in this country is put in an impossible position if it has to compete with countries where standards of living are low and wage structures depressed to a fraction of those in Canada, a fraction which in the case of Japan is infinitesimal.

With respect to the third factor it follows that with wide fluctuations in trade inventories there is bound to be reflected into the primary industry alternating periods of insistent and slack demands for goods. This makes for unstable manufacturing conditions and uncertainty of employment.

The fourth factor has to do with the price of raw cotton for the 1950-51 crop year. Last year's Annual Report dealt at length with the effect of "floor prices" in the United States on non-perishable agricultural products and on raw cotton in particular. Our fears that raw cotton prices would be artificially sustained have been justified.

While fluctuations in the price of spot cotton at New York during the past year have not been as severe as in some recent years, nevertheless there has been a swing of over three cents a pound from the low of last fall to the high of this year. This assumes significance when one realizes this increase has taken place despite the fact that the American crop was the sixth largest on record and also that the carryover from the preceding year was a substantial one. There can be little doubt that this advance in raw cotton prices which has taken place in the face of increased supply results from the loan policy to farmers, sponsored by the United States Government.

It now appears certain that the carryover at the end of this crop year will be over two million bales larger than in 1949 and in recognition of this the United States Department of Agriculture is restricting the acreage that can be planted to cotton this year and still receive loan support prices. However, that portion of the carryover owned by the Government can only be sold at the price at which it entered the loan plus accrued carrying charges. Because of the restricted acreage next year and consequently a smaller prospective crop and because cotton will be supported at 90 percent of next July's parity figure, it is difficult to foresee how there can be any appreciable drop in American cotton prices.

Of particular importance to the Canadian textile industry is the increase in cost of raw cotton due to the devaluation of the Canadian dollar by ten percent. This increase affected last year's costs of raw cotton for approximately the last quarter of the year. It will be effective for the twelve months of the coming year and will undoubtedly be the largest adverse factor entering into cost of operations. For the same reason costs have risen automatically for those chemicals, dyestuffs and other supplies which must be bought in the United States.

An examination of the Balance Sheet (and this holds for any industrial corporation, the activities of which antedate the last war) will show that although values are expressed in what appears to be one kind of dollar, yet there are actually two kinds of dollar values used. Broadly speaking the quick or current assets are expressed in a new or inflated dollar and that portion of the capital assets antedating 1945 or 1946 is expressed in the old or prewar dollar which possessed more than twice the purchasing power of the new dollar. The proportionate weighting of these two kinds of dollars is of great importance in determining the financial needs and policies of a company.

The general assumption in 1945 was that the high price levels of that year would not continue. Not only has no recession taken place but price levels in 1950 are actually higher. The question now being seriously discussed is whether or not any recession will occur, but if it should the general opinion is that it will not reach prewar price levels. Implications resulting from each alternative will bear examination.

(1) Replacement of plant will be made with new dollars on the supposition that current approximate price levels continue indefinitely. Consequently each year more and more of the balance sheet will become expressed in new dollars. Fortunately this is a slow process and is complete only when the Company's capital assets antedating 1945 are replaced. Under this premise while replacement is with new dollars, depreciation charges for income tax are only allowed on original cost. If the new dollar has only half

the purchasing power of the old dollar it is evident that a company can only replace one half of its pre-1945 buildings and machinery. There are only two ways to obtain the funds necessary for complete replacement, (1) by bringing in outside money (borrowing) and (2) by endeavouring to leave in the business each year as many new dollars (resulting from earnings) as is expedient until the disproportion is corrected. It is regarded as sound financing to borrow for a portion of the cost of expansion projects but to borrow for replacement would be ruinous to the whole national economy.

Because the contingency is of a remote rather than an immediate nature, it may not appear to be serious. Its real danger lies in the fact that when it does press as a financial problem it will be too late to reestablish the capital losses that will have been accumulating for years and which will not have been recorded on the balance sheet.

The practical application of the above to your Company's position is illustrative of the argument.

The net book value of the Company's capital assets as of March 31st, 1950 (cost less depreciation) was . . . $5,681,288. The difference between current replacement value and depreciation is many millions of dollars in excess of the net book value. It represents the long-term net replacement cost of the Company's capital assets and indicates clearly the desirability for large annual surpluses. When the trend of price levels becomes more clearly defined, it may be necessary to earmark an important share of the earned surplus for excess replacement depreciation.

(2) The second alternative assumes a recession in prices but not to prewar levels. This adversely affects, while the decline is taking place, the new dollar values of the current assets while at the same time it improves but does not completely satisfy the position of the old dollar invested in plant. On this premise it is wise to protect the inventory and accounts receivable positions with special provisions from time to time from current earnings. Most industries have been doing this and we believe that situation to be better protected than is the case of the old or prewar dollar.

The above point has been developed in greater detail than would ordinarily be necessary because there has been considerable discussion and newspaper comment concerning forced dividends or dividends deemed to have been paid. A great responsibility rests on any outside authority charged with making such a decision. Your Directors do not believe that the authority will be lightly exercised. No matter which alternative lies ahead, most industries in Canada today need more, not less, working capital (1) for eventual replacement of old plant should price levels not recede, (2) to meet trading losses in the event of a recession in trade or in price levels, (3) for purposes of expansion, but that is not relevant to this discussion.

The number of employees remained steady during the year, totalling 4550 people. Labour turnover was approximately half of the previous year, and the lowest in years. Absenteeism was reduced in about the same proportion. This settling down is good for everyone. It increases the employee's earning power and his or her stake in the community. It is reflected in the larger numbers who become eligible to join the Company's Pension Plan. There were 272 more members of the Plan as of December 31st, 1949 than a year ago. The Company's contribution to the Pension Fund was

$244,000 as against $179,000 for the year previous and $139,000 two years ago. This was all for future service — the whole cost for past service having been paid by the Company when the Fund was established. Likewise employee contributions were $165,000 as against $125,000 the previous year and $92,197 two years ago. Your Directors feel that the Pension Plan and other social benefits, such as holiday pay, group insurance, sick and hospital benefits paid for by the Company, are contributing to make employment in our mills more attractive.

Company-Employee relationships have been maintained at a high level. There have been grievances but these have been resolved in terms of the Union agreement and in only one instance during the year was a case taken to arbitration.

Your Directors wish to record their appreciation for the loyal and efficient services rendered by all members of the Canadian Cottons Staff.

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.

E. C. Fox,
President.

CANADIAN COT

BALANC

As at March th

ASSETS

CURRENT:		
Cash on hand and in banks		$ 291,845.07
Accounts receivable less reserve		2,615,878.65
Accounts receivable — subsidiary		86,433.36
Inventories as determined and certified by the management and valued at the lower of cost or market less reserve		6,013,179.87
Investments at cost less reserve — Dominion Government bonds and corporation bonds and shares		3,900,821.12
(Quoted market value $4,978,600.00)		
TOTAL CURRENT ASSETS		12,908,158.07
SHARES IN SUBSIDIARY COMPANIES		688,603.00
LOAN TO SUBSIDIARY		50,000.00
DEFERRED CHARGES TO OPERATIONS		329,956.98
CAPITAL ASSETS:		
Mills, plants and properties — at cost — Balance as at 31st March 1949	$25,005,201.40	
Net additions for year	833,127.10	25,838,328.50
		$39,815,046.55

Montreal, 3rd May 1950.
Audited and verified as per certificate attached.
RITCHIE, BROWN & CO.
Chartered Accountants.

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LIABILITIES

CURRENT:		
Accounts payable		$ 1,077,092.43
Cotton acceptances		1,795,546.00
Due to subsidiary		179,390.74
Reserve for Dominion and Provincial income taxes less amounts paid on account		412,512.57
TOTAL CURRENT LIABILITIES		3,464,541.74
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		20,157,040.70
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 — 165,250 shares	3,305,200.00	
Common — 138,510 shares	2,770,200.00	6,075,400.00
CAPITAL SURPLUS		367,929.75
EARNED SURPLUS — Per statement attached		6,210,134.36
		$39,815,046.55

NOTE: Company has guaranteed bank loan of $85,000 to subsidiary company.

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, 1950

Operating Profit for year after providing for items of expenditure A, B, C, D, E, F, H, as below noted		$ 896,449.78
Add: Income from investments		376,070.50
NET INCOME FOR YEAR		1,272,520.28
Deduct:		
6% preferred dividend	$ 198,312.00	
common dividend	457,083.00	655,395.00
SURPLUS FOR YEAR		$ 617,125.28

A.	Depreciation	$1,028,185.93
B.	Executive Remuneration	110,500.00
C.	Directors' Fees	9,900.00
D.	Provision for Taxes	720,000.00
E.	Legal Fees	4,361.89
F.	Bond Interest	78,750.00
H.	Contingent Reserve	20,240.47

EARNED SURPLUS ACCOUNT

Balance at credit as at 1st April 1949	$ 5,610,371.84
Add: Surplus for year as above	617,125.28
	6,227,497.12
Less: Subsidy adjustment — prior years	17,362.76
BALANCE AS AT 31st MARCH 1950	$ 6,210,134.36

AUDITORS' REPORT
TO THE SHAREHOLDERS

We have examined the books and accounts of Canadian Cottons, Limited for the year ended 31st March 1950. 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 1950, 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, 3rd May 1950.

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