Canadian Cottons LIMITED

FORTY-FIRST

Annual Report

for the year ended March thirty-first

1951

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*
Jos. Dolphin	*Montreal*
E. C. Fox	*Toronto*
J. Irving Roy	*Montreal*
A. C. Salter	*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, 1951

To the Shareholders:

Your Directors submit herewith the Balance Sheet of the Company as at March 31st, 1951, with a Statement of Profit and Loss for the year ended on that date.

Net operating income, after providing for Income Taxes and other charges, including $500,000 transferred to Inventory Reserve, amounts to		$1,269,231.82
Income from investments amounts to		367,833.66
making a total of		$1,637,065.48
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		981,670.48
		$1,637,065.48

Outstanding features of the year's operations are:

1. A record in production and volume both in respect of poundage and dollar values. This is the third consecutive year that the Company has had record production operations, reflecting a strong domestic demand for the Company's goods.
2. A record in the number of full-time employees; namely, 4,950 as against 4,550 a year ago.
3. A marked increase in tempo of the inflationary processes resulting in higher costs of raw materials and supplies, higher wage rates and higher selling prices. The price of raw cotton advanced 13.25 cents per pound or over 40% during the year, and the price of wool tops, as used by the Company, $2.75 per pound or 190%.

Because of these sharp advances in price, your Directors recommend that the sum of $500,000 be transferred to Inventory Reserve. The increase in inventory values for the year, based on last year's inventory quantities, amounts to approximately $2,000,000. Thus, had it not been for transfers in previous years to Inventory Reserve, a larger amount this year would have been recommended.

Your Directors expect active mill operations for the coming year but not the same margin of profit as resulted this year. That some official steps are being taken to stem the tide of inflation is well known. Whether or not they will be effective is uncertain. This much is certain, the world is again swinging over to a war economy which in itself is inflationary. If the current price structure can be held for the balance of 1951 it will be an encouraging sign.

It will be borne in mind that annual Profit and Loss statements do not necessarily synchronize with the fluctuations which take place in economic, financial and monetary trends, whether arising out of natural conditions of supply and demand or out of artificial conditions such as controls at high Government level. Also, there is frequently a time lag before the effect of such trends is reflected in operating accounts. Thus, one year's statements cannot tell the whole story as to how changes and trends affect a company's fortunes.

* * *

The Canadian cotton textile industry has been affected by controls, domestic and foreign, of one kind or another since the early 1930's. Sometimes the results have appeared to be beneficial and sometimes not. Looking back over the period your Directors are of the opinion that, on balance, controls, except in a national emergency, are not good and do not produce the desired objective. From November 1941 to September 1947 the primary Canadian textile industry was operating under controlled selling prices and wages. The selling prices were much under the actual cost of merchandise produced, as the raw cotton content was purchased on an advancing market in the United States. During this period of controls the cotton openings in Canada declined from 496,102 bales in 1942 to a low of 363,262 in 1946. It is not suggested that controls were the sole cause of this decline but it is believed they were an important factor.

Prior to and during the period of Canadian controls, there existed in the United States an effective floor price on raw cotton in contrast to a ceiling price. This floor price, based on a certain formula involving parity price of cotton, was intended to meet the chaotic conditions that prevailed in the early 1930's. When the market price of raw cotton fell below the floor price, the producer had the right to deliver his cotton to the Government either as a security for a time loan or, if he failed to pay his loan, as an ultimate sale. Under this scheme, the United States Government became the owner of millions of bales of raw cotton. The peak was reached in April 1939 when it had loaned upon or owned 11,300,000 bales. Due to the buoyant conditions existing between 1941 and 1947 this arrangement not only did not function, but the Government found itself in the fortunate position of being able to dispose of all of its embarrassing accumulation. However, in 1948 the floor price, having sunk below the market price, began to function again and to act as a control in supporting prices by withdrawing raw cotton from the open market.

By 1948 and '49 the floor prices had advanced in conformity with the formula to a point that encouraged cotton farmers in the Southern States to a greatly enlarged programme. Sixteen million bales of cotton from twenty-six million acres was the production for the cotton crop year of 1949-50. It was the sixth largest crop in history.

As a result of this huge crop of 1949-50, the United States Government found itself again becoming the banker for, and therefore the potential owner of, several millions of bales of cotton (the peak of 6,466,000 bales was reached in January 1950) which it apparently did not want. There was also the possibility that under similar conditions the situation would be repeated the following year. This caused the Government to step in with another kind of control. Without removing floor prices it imposed a production control; it limited the acreage for 1950-51 to twenty-one million acres; it called for severe penalties to each farmer if he should exceed his allotted acreage. The farmer and Nature aided and abetted this restrictive control, the farmer by planting only nineteen million acres, whereas the previous year he had planted twenty-six million acres, and Nature by reducing the yield of cotton per acre. As a consequence, the 1950-51 crop year was only ten million bales. This production is half a million bales short of taking care of the expected United States' consumption between August 1st, 1950, and July 31st, 1951, and makes no provision at all for any export demands.

The disturbed international situation in general, and the Korean conflict in particular which developed in June 1950, stimulated an increased demand for cotton goods for which raw cotton supplies were inadequate. The inadequacy was sufficiently severe to cause the price of raw cotton to advance sharply, with the result that the United States Government, in January 1951, imposed a ceiling price on the commodity. There was so much confusion created in the process of arriving at both a method of pricing and a price that the cotton exchanges in the United States were closed for several weeks. When they reopened, it was to a ceiling price of 46.06 cents per pound on the New York Cotton Exchange for spot cotton. The net result has been an advance in the price of raw cotton from 32.80 cents per pound on April 1st, 1950, to 46.06 cents on April 1st, 1951 — an advance of over 40%.

The policies of the United States Government have again been reversed for the cotton crop year 1951-52. No limitation has been placed on acreage which can be planted to cotton and the ceiling price is not effective, unless renewed, after June 30th. The only control that remains is therefore the old floor price which, under present conditions, is considerably lower than market. It is impossible to make any forecast at the present time with respect to (1) acreage to be planted and prospective yield, and (2) whether or not other controls may yet be promulgated. The main point is that the extreme swings of Government controls from one year to another leave affected industries in a state of uncertainty and bewilderment. It would appear that controls for some time have been based quite as much on political expediency as on economy considerations — a situation that your Directors feared and referred to in their Annual Report for March 31st, 1949. The situation has deteriorated rather than improved in this respect since then.

* * *

Much has transpired since 1945 to alter or change the economic thinking as held generally in that year. At that time it was anticipated that the economic pattern would to a large degree follow that of the period of 1919 to 1921. After the cessation of hostilities in 1918 there ensued a period of economic and industrial buoyancy until it was ended by the sudden and unexpected collapse of 1921. Even with the knowledge of that earlier period in mind, but having regard to the fact that there had been no important expansion or replacement policy for many years, your Directors planned and committed the Company in 1945 to a post-war programme involving several million dollars. It was the view of the Directors at that time that this would conclude large capital expenditures until a new perspective, based on the new current conditions, could be formed. This post-war programme of additions and replacements of plant and equipment, while planned for in 1945, did not reflect itself on the Company's books until the year ended March 31st, 1947. For that and the two following years, additions to capital assets amounted to $5,448,726. This essentially completed the post-war programme, which had been estimated at $5,250,000.

It became evident even before the completion of the above programme that the pattern of the years from 1945 and on was not following that of the period of 1919 to '21. The following major factors contributed to changing the pattern:

1. "Managed currency" and "full employment" policies not only in Canada but in all important trading countries of the world have resulted in an almost continuous inflationary spiral.
2. A world situation that proved beneficial to Canadian trade and industry, along with improved industrial and technological knowledge.
3. A world-wide backlog of durable and consumer requirements that did not exist in 1919 to '21.
4. An important numerical increase in the population of Canada, which stimulated an increased demand for goods.

Capital additions for the year ended March 31st, 1950, were $833,127 and, as will be observed from the Balance Sheet, for the year under review were $1,239,350. These expenditures were made to fill an immediate need while a longer survey of Company requirements was being made. This survey calls for a programme involving an expenditure over the next four years of not less than $6,800,000. The Company does not anticipate going into any new lines. The programme is intended to permit increased production of and improved facilities for fabricating existing lines and to replace old equipment.

The Company has committed itself to an important part of this programme. It must, of course, be governed by any priority restrictions or other regulations which may be imposed in future by the Minister of Finance or by the Minister of Defence Production. Where such restrictions make the programme impossible, it will, of course, not be followed out.

Your Directors feel that the subject of deferred depreciation, an innovation announced by the Minister of Finance in his recent Budget, should not be passed by without comment. In order to encourage Canadian industry both to operate to the fullest extent and to expand, there were provisions in previous Income Tax Acts, in addition to the regular straight line depreciation allowances, for (1) accelerated depreciation when an industry operated machinery on more than a one-shift basis, and (2) double depreciation for capital expansion projects if undertaken between certain dates. These two extra provisions were cancelled in the Income Tax Act of 1950 and an allowance for depreciation, based on the principle of a diminishing balance, was substituted for the regular straight line method of allowance. For example, a 10% depreciation on a straight line basis would amortize the capital assets in ten years. On the diminishing balance basis the rate was doubled, i.e. 20%, but for the second year the 20% would only be applicable on 80% of the original cost, on 64% for the third year and so on. This has the effect of increasing the amount of annual depreciation for the first four or five years as against the straight line method. Over a longer period the amount is reduced and, as a matter of fact, the asset never is completely written off.

The 1951 regulations now propose to defer the charging of depreciation on assets acquired after April 10th, 1951, for a period of four years (except in special categories of industries). The Government undoubtedly has a laudable purpose in mind; namely, to decrease civilian spending while making way for a war economy, but it seems to your Directors that a precedent has been set and a sound principle violated that may prove dangerous to industrial enterprise. Depreciation henceforth may become a political instrument.

Depreciation and obsolescence are facts. They cannot be delayed or deferred on the say-so of anyone, but the charging of depreciation to operating costs, at the time equipment is being operated, can be and is now deferred. Once the precedent of deferment of charge is established, what is to prevent later authorities from extending the period beyond four years? The device, in effect, declares that a legitimate operating charge becomes a taxable profit. It actually swells current Government revenues at the expense of later years.

Many corporations of undoubted economic importance to the country both in a peace and war economy, but not rating in the favoured categories, have made large commitments which must be completed. They have been implicitly relying on an attitude heretofore favourable to encouraging capital expansion.

* * *

During the year the $2\frac{1}{2}\%$ mortgage bond of $1,500,000, due September 1st, 1951, was refunded by a 3% bond due September 1st, 1960. Monetary changes since then have proven the wisdom of this transaction.

* * *

Your Directors regret to report the passing in August, 1950 of Douglas A. Campbell of Montreal. Mr. Campbell joined the Board in May, 1944. His counsel, advice and friendship were highly valued by his colleagues.

Mr. Alan C. Salter was appointed to serve as a Director for the balance of the year and is permitting his name to stand for election to the Board at the Annual Meeting. Mr. Salter not only has a thorough knowledge of the textile industry but he has a broad business experience that has already proved of benefit to the Company.

* * *

Company-Employee relationships have again been maintained at a high level. A further increase in wage rates commensurate with the general pattern throughout the country was negotiated during the year. The incidence of labour turnover has again been reduced; consequently there has been an increased number of people who have joined the Company's Pension Plan.

Your Directors wish to place on record their appreciation to all members of the Company's staff for the loyal and efficient services that they have 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.

E. C. Fox,

President and Managing Director.

CANADIAN COT

BALAN(

As of March t

ASSETS

CURRENT:		
Cash on hand and in banks		$ 409,192.17
Accounts receivable less reserve		3,922,308.35
Accounts receivable — subsidiary		191,704.76
Inventories as determined and certified by the management and valued at the lower of cost or market, less reserve		6,441,469.64
Investments at cost less reserve — Dominion Government bonds and corporation bonds and shares		2,422,603.26
(Quoted market value $3,851,350.00)		
TOTAL CURRENT ASSETS		13,387,278.18
SHARES IN SUBSIDIARY COMPANIES		688,603.00
LOAN TO SUBSIDIARY		82,047.05
DEFERRED CHARGES TO OPERATIONS		360,134.72
CAPITAL ASSETS:		
Mills, plants and properties — at cost — Balance as of March 31st, 1950	$25,838,328.50	
Net additions for year	1,239,350.08	
	27,077,678.58	
Less: Inactive and fully depreciated assets written off books	576,211.00	26,501,467.58
		$41,019,530.53

Montreal, April 26, 1951.

Audited and verified as per certificate attached.

RITCHIE, BROWN & CO.

Chartered Accountants.

TONS, LIMITED

E SHEET

irty-first, 1951

LIABILITIES

CURRENT:		
Accounts payable		$ 1,475,958.76
Due to subsidiary		178,075.01
Reserve for Federal and Provincial income taxes less amounts paid on account		1,546,180.42
TOTAL CURRENT LIABILITIES		3,200,214.19
MORTGAGE BONDS:		
2¾% due September 1, 1956	$ 1,500,000.00	
3% due September 1, 1960	1,500,000.00	3,000,000.00
CONTINGENT RESERVE		540,000.00
DEPRECIATION RESERVE		20,623,575.17
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		376,851.99
EARNED SURPLUS — per statement attached		7,203,489.18
		$41,019,530.53

NOTE: Company has guaranteed bank loan of $85,000.00 to subsidiary.

Signed on behalf of the Board:

E. C. FOX, *Director.*

J. IRVING ROY, *Director.*

CANADIAN COTTONS, LIMITED

STATEMENT OF PROFIT AND LOSS

For the year ended March thirty-first, 1951

Operating Profit for year after providing for items of expenditure A, B, C, D, E, F, G, H, as below noted		$ 1,269,231.82
Add: Income from investments		367,833.66
NET INCOME FOR YEAR		1,637,065.48
Deduct:		
6% preferred dividend	$ 198,312.00	
common dividend	457,083.00	655,395.00
SURPLUS FOR YEAR		$ 981,670.48

A.	Depreciation	$1,064,383.60
B.	Executive Remuneration	119,000.00
C.	Directors' Fees	9,675.00
D.	Provision for Taxes	1,900,000.00
E.	Legal Fees	32,314.03
F.	Bond Interest	83,125.00
G.	Contingent Reserve	6,840.00
H.	Inventory Reserve	500,000.00

STATEMENT OF EARNED SURPLUS

Balance at credit as of March 31, 1950	$ 6,210,134.36
Add: Surplus for year as above	981,670.48
	7,191,804.84
Add: Depreciation adjustment affecting prior years	11,684.34
BALANCE AS OF MARCH 31, 1951	$ 7,203,489.18

AUDITORS' REPORT
TO THE SHAREHOLDERS

We have examined the books and accounts of Canadian Cottons, Limited for the year ended March 31, 1951. We have verified the cash in banks and the investment securities and the revenue received therefrom.

We have obtained all the information and explanations we have required and, in our opinion, the attached balance sheet and profit and loss statement, 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 of March 31, 1951, 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, April 26, 1951.

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