

Canadian Cottons

LIMITED

Twenty-eighth
ANNUAL REPORT
for Year Ended
March 31st
1938

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CANADIAN COTTONS, LIMITED

HEAD OFFICE:

760 Victoria Square, Montreal

Operating

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

Subsidiary

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

OFFICERS

A. O. DAWSON, LL.D.	<i>President and Man. Director</i>
W. J. MORRICE	<i>Vice-President</i>
R. G. TOLMIE	<i>General Manager</i>
HUGH M. WATSON, A.C.I.S.	<i>Secretary</i>
K. L. HAMILTON	<i>Treasurer</i>

DIRECTORS

SIR H. MONTAGU ALLAN, C.V.O. Montreal
W. V. BOYD - - - - - Montreal
A. O. DAWSON, LL.D. - - - Montreal
E. C. FOX - - - - - Toronto
F. E. MEREDITH, K.C., LL.D. - Montreal
W. J. MORRICE - - - - - Montreal
R. G. TOLMIE - - - - - Montreal

DIVIDEND DISBURSING AGENTS...The Royal Trust Co., Montreal
STOCK TRANSFER AGENTSThe Royal Trust Co., Montreal and
Toronto
REGISTRARSThe Bank of Montreal, Montreal and
Toronto
BANKERS.....The Bank of Montreal, Montreal
STOCK LISTED.....The Montreal Stock Exchange

THE TWENTY-EIGHTH ANNUAL REPORT OF THE DIRECTORS OF CANADIAN COTTONS, LIMITED, TO BE PRESENTED TO THE SHAREHOLDERS AT THE ANNUAL MEETING OF THE COMPANY TO BE HELD AT MONTREAL ON FRIDAY, MAY 20TH, 1938, AT 12.15 P.M.

To the Shareholders—

Your Directors appreciate this opportunity of submitting to you the Twenty-eighth Annual Report of your Company, together with Balance Sheet as at March 31st, 1938, and Profit & Loss Account for the twelve months' period ended on that date.

In common with all other Industries, your Company suffered during the year from the business depression that is well nigh universal. The situation with this Company was aggravated by several unfortunate strikes that prevailed at your three Cornwall plants during the fiscal year.

The Net Profit for the year, including interest on investments, amounted to \$226,950.46, as compared with \$360,137.33 for the previous year.

The Preferred Shareholders of the Company received their usual dividend of 6%, amounting to \$219,690.00, and \$103,620.00 was distributed among the Common Shareholders, being at the rate of 4% per annum on their holdings. To pay this Common Dividend an amount of \$101,359.54 had to be drawn from the accumulated earned surplus.

The Profits for the year have been computed as usual on a conservative basis, without any change in the long established policy of inventory valuation, which was unanimously approved by the Shareholders at the last Annual Meeting. Your Board's object in the continuation of this policy is to provide against inventory shrinkage to be expected, and hitherto experienced, during periods of depression and of falling prices. The wisdom of this policy, which has been followed by your Company, was fully demonstrated during the last fiscal year, as the following figures indicate.

At the time of the closing of the books on March 31st, 1937, the price of New York Spot Cotton was 15.10c per pound. By January 4th, 1938, the price of New York Spot Cotton had dropped to 7.79c per pound, thus showing a reduction in value of nearly 50% within a period of nine months. It can thus be seen in what a serious financial position your Company would have found itself with so heavy a drop in the value of its raw material if adequate deductions had not been made from inventories at stocktaking periods.

If the same amount had been appropriated for depreciation and obsolescence as in the previous year, the Profit & Loss Account would have been further reduced by the sum of \$150,000.00. While the circumstances would appear to justify this smaller appropriation at this time, it is the conviction of your Directors that as profits permit the capital value of your Mills and machinery should be steadily and adequately reduced so that the overhead burden may be lessened and the Company put in a better position to meet competition.

New buildings and machinery to the value of \$373,598.53 were added to Capital Account during the year. If your Company is to operate successfully, it must continue to install the most modern machinery available and to scrap machinery that has been outmoded or become obsolete.

Unexpectedly and without solicitation, your President received a few days ago from one of the Shareholders of the Company his views in regard to the Cotton business in general, and to the business of this Company in particular. Feeling assured that all our Shareholders would be glad to have the opportunity of studying the views of a fellow Shareholder who, it is evident, has been giving careful thought as to the best means of perpetuating an Industry that is of vast importance to Canada, your Board decided to have same printed and circulated, and have pleasure in handing you a copy herewith. We are hopeful that other Shareholders of the Company will, from time to time, in like manner feel free to express their views as to the affairs of the Company, with any suggestions or recommendations that they may care to make.

It is with the deepest regret that we have to report the death in June, 1937, of Mr. George Caverhill, the Vice-President of your Company. Mr. Caverhill was a Shareholder of the Company from its inception. He joined the Board in 1906 and was elected Vice-President in 1933. He was at all times a firm believer in the ultimate success of your Company and he gave unstintingly of his time and great ability to the forwarding of its interests. During the last year of his life Mr. Caverhill oftentimes attended meetings of the Board when, because of the condition of his health, he should have been in his home. His fellow Directors will greatly miss his kindly presence and his wise counsel.

It is also with the greatest regret that your Board had to accept the resignation of Mr. W. A. Black, who has been a Director of this Company since 1927. Mr. Black felt that he could no longer serve the interests of the Company as a member of the Board as he is now making his home in the Channel Islands, and therefore could not retain his contact with the business as

he felt a Director ought to do. Mr. Black has been one of the outstanding business men of Canada over a period of many years and his presence, his good judgment and his helpful influence will be sorely missed, not only by this Company but also by the many other organizations with which he was intimately associated during his long business career in Canada.

Mr. W. J. Morrice, who has been identified with this Organization during his entire business career, and who has been a member of the Board since 1916, has been elected to the Vice-Presidency of the Company.

Mr. E. C. Fox, one of the prominent business men of Ontario and a large Shareholder of the Company, has accepted an invitation to fill the vacancy on the Board occasioned by the death of Mr. Caverhill. Mr. Fox, with his keen business instinct and his wide experience, will prove to be a valuable addition to the Board and a real asset to the Company.

The vacancy on the Board caused by the resignation of Mr. W. A. Black has been filled by the appointment of Mr. W. V. Boyd, of Cornwall, Ontario. Mr. Boyd, by his native ability and by his careful attention to duty, has worked his way up from the lowly position of "water boy" to the important position of Assistant General Manager, and in recognition of the splendid service he has rendered the Company over a period of many years he has been invited to become a member of the Board. Much favourable comment on Mr. Boyd's appointment to the Directorate has been received.

It is difficult to anticipate conditions in the Textile Industry for the year 1938-39. All indications point to a quiet Spring and Summer, and buying is likely to be of a hand-to-mouth character. It is evident also that Canadian Cotton Mills are going to be faced with increasingly severe competition from England, United States, Japan, and other countries where new business is badly needed. It is quite certain that foreign Textiles are being offered in Canada at the present time at prices below the cost of production. Last year we stated that "the prosperity of the English Textile Industry would do more than anything else to bring prosperity to the Textile Industry of Canada." This is still true but English mills are no longer in the prosperous condition that they were at this time last year and we anticipate a continued expansion in sales of English manufactured cotton goods in Canada, which was recently reviewed in one of the trade papers as follows—

DOMESTIC COTTON INDUSTRY FACES INCREASINGLY SEVERE COMPETITION.

"In view of the approaching trade agreement with the United States and the further likelihood of a revised trade agreement between the Dominion and Great Britain, a review of the factors surrounding the protection, or lack of protection, afforded the cotton textile industry during the past decade or so is enlightening. It can readily be shown, for example, that the Canadian cotton mills receive an undue share of competition from Great Britain in comparison with other Canadian industries.

COTTONS COMPRISE 10% OF MANUFACTURED IMPORTS FROM U.K.

"While the Canadian cotton industry comprises about 4% of manufacturing industry in Canada (based on relative employment) the imports from Great Britain, which compete with its production, formed 10% of the total Canadian purchases of manufactured goods from Great Britain in the fiscal year, 1936. It is also worth noting that 22.8% of the manufactured cotton goods imported from Great Britain entered Canada free of duty in 1937.

CANADIAN MARKET MADE VULNERABLE BY EASIER TARIFFS FOR U.K.

"Great Britain has steadily been given increased preferential treatment in the Canadian market for Cotton goods, particularly since 1932, and this has resulted, among other things, in Canada purchasing 12,000,000 more yards of cotton cloth from Great Britain last year than in any other year since the Great War. Further, British sales in Canada in 1937 were 32,000,000 yards greater than in 1928, and 37,000,000 yards greater than in 1929. The serious *invasion of our market by Great Britain in the past six years is vividly revealed in the following figures*—in 1932, when Ottawa Agreements were made, British cotton cloth exports to Canada were 27,000,000 yards, whereas in 1937 they were 76,000,000 yards, an increase of almost three times in five years. Represented in another fashion, this increase means that Great Britain, which secured 11% of the Canadian market in 1932, had 23% in 1936. Great Britain has also been gaining a larger share of our domestic yarn market. In 1937 Canada purchased more cotton yarn from Great Britain than in any previous year, and these imports represented 87% of all Canadian cotton yarn imports in that year.

BRITISH MILLS, LOSING OUT ELSEWHERE, TURNED TO DOMINION

"The significance of the above figures revealing Great Britain's expanding business in the Canadian market is particularly noteworthy in that this expansion has occurred during a period when Great Britain's total sales to all countries, especially to the Far East, have been steadily contracting. Comparative figures reveal the sharp loss suffered by Great Britain in her world textile trade. Total fabric exports decreased by 376,000,000 square yards from 1932 to 1937. Having thus suffered in other export markets, mainly in consequence of Japanese competition, British mills have paid increasingly strong attention to Canada, aided by lower protective tariffs, to make up for some of the loss suffered elsewhere. The resulting condition from these developments, obviously enough, has been that Canadian mills were obliged to meet selling prices which frequently bear little relation to the cost of production."

From the above it would appear as if the next fiscal year of your Company will not show any too favourable results.

In closing this Annual Report, your Directors wish to acknowledge with appreciation the loyal and efficient service of the Officers, Staff and Employees of the Company.

The Books and Accounts of the Company have been duly audited and the Auditor's Report is submitted herewith.

Submitted on behalf of the Directors.

A. O. DAWSON,
President.

CANADIAN COTTONS, LIMITED

BALANCE SHEET

YEAR ENDED MARCH 31ST, 1938

<u>ASSETS</u>		<u>LIABILITIES</u>	
<u>CURRENT:</u>		<u>CURRENT:</u>	
Cash on Hand and in Banks	\$ 466,882.07	Accounts and Bills Payable	\$ 873,800.12
Accounts Receivable, less Reserve	933,862.10	Reserve for Dominion and Provincial Taxes	115,000.00
Inventories of Raw Cotton, Goods in Process, Manufactured Stock and Supplies, as determined and certified by the Management in accordance with resolution of shareholders, and valued in each case at cost or under, and not more than present market values	2,009,150.14	Due to Subsidiary Companies	130,729.92
Investments—Dominion and Provincial Government Bonds and Corporation Bonds and Shares at cost (Market value—March 31st, 1938, \$3,010,812.00)	2,837,678.71		
		<i>TOTAL CURRENT LIABILITIES</i>	\$1,119,530.04
<i>TOTAL CURRENT ASSETS</i>	\$6,247,573.02		
<u>SHARES IN SUBSIDIARY COMPANIES</u>	3.00		
<u>DEFERRED CHARGES:</u>		<u>RESERVES:</u>	
Prepaid Insurance, Taxes, etc	65,320.04	Replacements	\$ 600,000.00
<u>CAPITAL ASSETS:</u>		Contingencies	273,719.06
Mills, Plants and Properties—at cost	\$17,698,444.11		873,719.06
Less:		<u>CAPITAL STOCK:</u>	
Reserve for Depreciation	\$8,680,938.98	Preferred 6% Non-Cumulative:	
Reserve for Obsolescence	5,050,000.00	Authorized \$4,500,000.00	
	\$13,730,938.98	Issued 36,615 Shares at \$100.00	\$3,661,500.00
		Common:	
	3,967,505.13	Authorized \$3,500,000.00	
		Issued 27,155 Shares at \$100.00	2,715,500.00
	\$10,280,401.19		6,377,000.00
		<u>EARNED SURPLUS</u> —As per Statement attached	1,910,152.09
			\$10,280,401.19

Montreal, April 22nd, 1938

Audited and verified as per Certificate attached:

RITCHIE, BROWN & CO.
Chartered Accountants.

APPROVED:

A. O. DAWSON }
R. G. TOLMIE } *Directors.*

CANADIAN COTTONS, LIMITED

PROFIT AND LOSS ACCOUNT

FOR YEAR ENDED MARCH 31ST, 1938

Operating Profit after providing for items A, B, C, D and E as below noted	\$ 164,192.64
ADD:	
Income from Investments	112,757.82
	<hr/>
	276,950.46
DEDUCT:	
Addition to Contingent Reserve	50,000.00
	<hr/>
NET PROFIT FOR PERIOD	\$ 226,950.46
DEDUCT:	
Dividends on Preferred Stock, 6%	\$219,690.00
Dividends on Common Stock, 4%	108,620.00
	<hr/>
	328,310.00
Deficit transferred to Surplus	101,359.54
Earned Surplus as at March 31st, 1937 . . .	2,011,511.63
	<hr/>
EARNED SURPLUS AS AT MARCH 31ST, 1938	<u>\$1,910,152.09</u>

A. Depreciation and Obsolescence	\$750,000.00
B. Executive Salaries	53,820.00
C. Directors' Fees	7,500.00
D. Dominion and Provincial Taxes	90,052.20
E. Legal Expenses	2,018.26

TO THE SHAREHOLDERS,

CANADIAN COTTONS, LIMITED.

We have examined the books and accounts of Canadian Cottons, Limited for the year ended 31st March, 1938. We have verified the Cash in Bank and the Investment Securities and the Revenue 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, 1938, 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, 22nd April, 1938.

CANADIAN COTTONS, LIMITED

Manufacture

DENIMS	COTTON TWEEDS
COTTONADES	COTTON SUITINGS
CASSIMERES	PANTINGS
COVERTS	BEDFORD CORDS
AUTOMOBILE FABRICS	WHIPCORDS
MATTRESS TICKINGS	
AWNING FABRICS	
SHIRTINGS	APRON GINGHAMS
GALATEAS	NOVELTY DRESS FABRICS
DRESS GINGHAMS	NURSES CLOTHS
CHAMBRAYS	RIPPLETTES
ARTIFICIAL SILK FABRICS FOR DRESSES, LININGS AND LINGERIE	
FLANNELS	COLOURED FLANNELETTES
BLEACHED FLANNELETTES	MOTTLED INTERLININGS
NAPPED SHAKERS	SILENCE CLOTHS
TIE LININGS	EIDERDOWNS AND
NAPPED SHEETINGS	ROBE CLOTHS
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COTTON BLANKETS	
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UNBLEACHED, BLEACHED AND COLOURED YARNS	
HOSIERY YARNS, WARP YARNS	
SPUN RAYON AND WOOL BLEND YARNS	

