Canadian Cottons
LIMITED

Thirtieth
ANNUAL REPORT
for Year Ended
March 31st
1940

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

E. C. FOX	*Chairman*
R. G. TOLMIE	*President and Man. Director*
W. J. MORRICE	*Vice-President*
W. V. BOYD	*General Manager*
HUGH M. WATSON, A.C.I.S.	*Secretary*
K. L. HAMILTON	*Treasurer*

DIRECTORS

SIR H. MONTAGU ALLAN, C.V.O.	Montreal
W. V. BOYD	Montreal
A. S. BRUNEAU, K.C.	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 AGENTS	The Royal Trust Co., Montreal and Toronto
REGISTRARS	The Bank of Montreal, Montreal and Toronto
BANKERS	The Bank of Montreal, Montreal
STOCK LISTED	The Montreal Stock Exchange

THIRTIETH ANNUAL REPORT OF THE BOARD OF DIRECTORS TO BE SUBMITTED TO THE SHAREHOLDERS AT THE ANNUAL GENERAL MEETING ON 21ST MAY, 1940.

Your Directors beg to submit the following Report and Financial Statement covering the operations of the Company for the fiscal year ended 31st March, 1940.

It is with a deep sense of personal loss that your Directors record the death on January 10th last of Mr. A. O. Dawson, President and Managing Director of your Company. This feeling of loss is acutely shared by a host of friends in all walks of life. One of Mr. Dawson's many outstanding characteristics was his friendliness, which he extended with rare impartiality to people of all classes. Mr. Dawson was a figure in the Canadian Textile Industry for over half a century. For thirty years he had directed the operating policies of your Company and had, since 1927, occupied the office of President.

The vacancy on your Board, created by the death of Mr. Dawson, has been filled by the election of Mr. A. S. Bruneau, K.C., who for some years has acted as the Company's Solicitor. Mr. E. C. Fox has been elected to the newly-created office of Chairman of the Board of Directors and you will be asked to approve of an amendment to the By-laws to give your Board the necessary authority for the creation of this office. Mr. R. G. Tolmie, formerly General Manager of the Company has been elected President and Managing Director, while Mr. W. V. Boyd, formerly Assistant General Manager, has been appointed General Manager.

In their last year's Report, your Directors referred to the hand-to-mouth character of the buying of the Company's products throughout the entire fiscal year. The opinion was then expressed, however, that

> "This condition has left stocks for immediate movement into consumption in a depleted state, which should provide a sounder basis for a more rapid recovery should the time come when the situation has cleared sufficiently to restore buyers' confidence."

During the last seven months of the fiscal year, there has been a marked increase in the demand for the products of your Company. This has permitted the resumption of full-time mill operations, after a year and a half of somewhat drastic curtailment, and has tended to reduce unit operating costs.

While your Company has been co-operating to the fullest possible extent with the Department of National Defence in the production of such cotton fabrics as are required for war purposes, the volume of such business, owing to the character of the Company's equipment, has been of necessity a relatively small factor in increasing total sales.

Difficulty in obtaining goods from foreign competitive sources of supply has induced Canadian buyers to place orders with domestic mills for a greater share of their requirements. At the same time there has been no inflation in prices of the products of your mills. Such price increases as have been made were actually less than represented by the advance in raw materials and increased wages.

Mill inventories of manufactured goods, which in August last were considerably larger than normal, have been substantially reduced.

The combined effect of these several causes of improved business conditions and full mill operations is a gratifying increase in net profits. Operating profits, after the usual provision for Depreciation, provision for Executive Salaries, Directors' Fees, Dominion and Provincial Taxes and for Legal Fees, amounted to $526,203.44. To this must be added Income from Investment amounting to $109,628.28, making a total available for distribution of $635,831.72. This sum has been appropriated as follows:—

Pension Fund	$50,000.00
6% Dividends on Preferred Stock	219,690.00
4% " " Common "	108,620.00
2% Bonus " " "	54,310.00
	432,620.00
Balance transferred to Surplus	203,211.72
	$635,831.72

Both the current and future policies of your Company must be determined by the exigencies of war and your Directors must draw for their guidance on the experiences of the Company during the last War and the post-War periods. It is to be hoped that there will not be the inflation of general commodity prices which took place during the last conflict, yet this contingency must be considered in determining operating policies. The former inflationary period naturally created large profits and on these profits very heavy taxes were paid. The post-War deflation produced heavy losses but the system of taxation in vogue in Canada did not permit the averaging of inflation profits with deflation losses. The course of the price of raw Cotton between 1914 and 1921 provides an outstanding illustration of the alternating inflations and deflations to which the Company was subjected during that period. Quotations for Spot Cotton in New York just prior to the outbreak of War in August, 1914, ranged around 13c. per pound. The New York Cotton Exchange remained closed from the outbreak of War until about the middle of November, 1914, during which time actual cotton sold down to 5c. per pound. The market moved from this figure to a high point for Spot Cotton of 43¾c. in July, 1920. By the following March the price had tobogganed to 11¼c. It is, therefore, the intention of your Directors to follow conservative financial and operating policies for the purpose of conserving the Company's liquid assets necessary to meet those adjustments that are certain to follow in the post-War period. This policy, fortunately, is in the common interest of the Employees, the Shareholders and of the country at large.

The net liquid assets or working capital of your Company are in a healthy condition and are ample to take care of all reasonable future requirements. Your Directors wish to point out, however, that due to the age of some of the buildings, there will, in the future, be large demands on the liquid resources of the Company for replacements. Were we now in normal times, it would be safe to say that the year ending March 31st, 1941, would see this replacement policy in operation. The War will naturally delay the Company in embarking on any undertakings involving the expenditure of important sums of money. Meanwhile the physical condition of both plants and equipment is being well maintained.

There is an item on the Liability side of the Balance Sheet herewith submitted under the caption of "Special Inventory Reserve" and amounting to $245,807.38. This is a portion of an item presently under discussion with the Federal taxing authorities, the Company having claimed that it is a discount and the Government that it constitutes an inventory reserve. It might have been credited to Profit and Loss Account but your Directors did not feel this wise for the following reasons:—

(1) It has nothing to do with the profits of the current year but, insofar as it may constitute a reserve, has been accumulated in previous years. At the Annual Meeting held to pass upon the Financial Reports for the year ended March 31st, 1937, the Shareholders unanimously approved of your Company's policy of inventory valuation.

(2) This item is released because of lower manufactured-goods inventories at the end of the fiscal year. If it were put to the credit of Profit and Loss now, it would only have to be charged to the same account when the time and opportunity come again to build up finished-goods inventories.

(3) Your Board deems it advisable to carry this item forward until the question is definitely disposed of with the Federal taxing authorities.

During the year your Management has augmented the basic wages of Employees by the addition of two wage premiums amounting to 10%. These premiums are included in the regular weekly pay envelope. The basic wage rates, exclusive of this substantial premium, are the highest in the history of the Company. That this is possible is due to the continuous policy of your Board since the inception of the Company, to install the most modern and approved machinery. Broadly speaking, this new equipment not only produces better quality goods but tends to reduce unit costs. The benefits thus accrued have been shared with the Trade in the way of better values, as well as with the Employees by advances in basic wage rates. The wage premium now being added is for a different reason. The larger volume of business your Company has experienced during the last few months has reduced unit costs and your Company is glad to share with Employees the savings thus effected, while the condition lasts. During the year under review, the number of Employees has been increased 11%, while fuller employment and increased wages have improved weekly earnings by 37%.

Your Management aims at as steady weekly employment conditions as are possible but intentions fail at times of actual performance, due to the uncertainty of public demand. Our operating policies are further affected by the conditions currently prevailing in countries which export textiles to Canada, particularly the United Kingdom, the United States and Japan. It is your Company's broad policy to keep on manufacturing goods during periods of slack demand, thus giving effect to the plan of steady employment. Subject to the extent of the pressure imposed by the above factors, this will continue to be the major operating objective as being in the best interests of the plant Employees.

Your Directors take this opportunity of placing on record their appreciation of the loyal and efficient co-operation of the Officers and Employees of the Company.

The books and accounts of the Company have been duly audited, and the Auditors' report is submitted herewith.

Submitted on behalf of the Board of Directors:

E. C. Fox,
Chairman of the Board.

R. G. Tolmie,
President.

CANADIAN COTTONS, LIMITED

BALANCE SHEET

AS AT 31ST MARCH, 1940

ASSETS

CURRENT:			
Cash on hand and in Banks—including U.S. Funds converted at 10% premium		$ 1,616,303.21	
Accounts Receivable less Reserve for Bad and Doubtful Accounts		1,418,024.69	
Inventories of Raw Cotton (including Cotton purchased but not delivered), Goods in Process, Manufactured Stock and Supplies, as determined and certified by the management, and valued in each case at cost or under and not in excess of present market values		2,242,083.26	
Investments— Dominion and Provincial Government Bonds and Corporation Bonds and Shares—at Cost (Market Value as at 31st March, 1940—$3,382,125.00)		3,449,316.58	
TOTAL CURRENT ASSETS		$8,725,727.74	
SHARES IN SUBSIDIARY COMPANIES		3.00	
DEFERRED CHARGES TO OPERATIONS:			
Prepaid Insurance, Taxes and Sundry Expense		49,370.32	
CAPITAL ASSETS:			
Mills, Plants and Properties—at Cost—			
Balance as at 1st April, 1939	$17,845,121.09		
Additions during year	224,040.72		
		18,069,161.81	
		$26,844,262.87	

LIABILITIES

CURRENT:			
Accounts and Bills Payable		$ 468,135.42	
Cotton Acceptances		963,689.52	
Due to Subsidiary Company		160,560.47	
Contribution to Pension Fund		50,000.00	
Reserve for Dominion and Provincial Taxes		352,852.25	
Special Inventory Reserve		245,807.38	
TOTAL CURRENT LIABILITIES		$ 2,241,045.04	
CONTINGENT RESERVE		443,681.93	
RESERVES AGAINST CAPITAL ASSETS:			
Depreciation and Obsolescence	$15,280,938.98		
Replacements	600,000.00		
		15,880,938.98	
CAPITAL STOCK:			
Authorized—			
Preferred—6% Non-Cumulative 45,000 shares at par value $100. each	$ 4,500,000.00		
Common— 35,000 shares at par value $100. each	3,500,000.00		
	$ 8,000,000.00		
Issued—			
Preferred— 36,615 shares at $100. each	3,661,500.00		
Common— 27,155 shares at $100. each	2,715,500.00		
		6,377,000.00	
EARNED SURPLUS:			
Balance per Statement attached		1,901,596.92	
		$26,844,262.87	

Montreal, 26th April, 1940

Audited and verified as per Certificate attached.

RITCHIE, BROWN & CO.,
Chartered Accountants.

APPROVED:

R. G. TOLMIE } *Directors.*
W. V. BOYD

CANADIAN COTTONS, LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31ST MARCH, 1940

Operating Profit after providing for items A, B, C, D, E, as below noted			$772,010.82	
Less: Inventory Adjustment affecting prior period			245,807.38	
NET OPERATING PROFIT				$ 526,203.44
Add: Income from Investments				109,628.28
				635,831.72
Deduct: Contribution to Pension Fund				50,000.00
NET PROFIT FOR YEAR				585,831.72
Deduct:				
Dividends—				
Preferred 6%			$219,690.00	
Common—Ordinary	4%	$108,620.00		
Bonus	2%	54,310.00		
			162,930.00	
				382,620.00
SURPLUS FOR YEAR				203,211.72
Earned Surplus as at 31st March, 1939				1,698,385.20
EARNED SURPLUS AS AT 31st MARCH, 1940				$1,901,596.92

A.	Depreciation	$800,000.00
B.	Executive Salaries	53,018.52
C.	Directors' Fees	7,800.00
D.	Dominion and Provincial Taxes	268,652.00
E.	Legal Fees	4,411.37

TO THE SHAREHOLDERS,

CANADIAN COTTONS, LIMITED.

We have examined the books and accounts of Canadian Cottons, Limited, for the year ended 31st March, 1940. We have verified the Cash in Banks 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, 1940, 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, 26th April, 1940.

CANADIAN COTTONS, LIMITED

Manufacture

DENIMS
COTTONADES
CASSIMERES
COVERTS
AUTOMOBILE FABRICS

COTTON TWEEDS
COTTON SUITINGS
PANTINGS
BEDFORD CORDS
WHIPCORDS

MATTRESS TICKINGS
AWNING FABRICS

SHIRTINGS
GALATEAS
DRESS GINGHAMS
CHAMBRAYS

APRON GINGHAMS
NOVELTY DRESS FABRICS
NURSES CLOTHS
RIPPLETTES

ARTIFICIAL SILK FABRICS FOR DRESSES, LININGS AND LINGERIE

FLANNELS
BLEACHED FLANNELETTES
NAPPED SHAKERS
TIE LININGS
NAPPED SHEETINGS

COLOURED FLANNELETTES
MOTTLED INTERLININGS
SILENCE CLOTHS
EIDERDOWNS AND ROBE CLOTHS

COTTON BLANKETS

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