C

Canadian Cottons
LIMITED

Thirty-fourth
ANNUAL REPORT
for the Year Ended
31st March
1944

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

R. G. TOLMIE - - - -	*Chairman*
E. C. FOX - - - -	*President and Man. Director*
W. V. BOYD - - - -	*Vice-Pres. and Gen. Manager*
K. L. HAMILTON - - -	*Secretary-Treasurer*

DIRECTORS

SIR H. MONTAGU ALLAN, C.V.O. - - -	Montreal
MACMILLAN BOYD - - - - - -	Montreal
W. V. BOYD - - - - - - - -	Montreal
A. S. BRUNEAU, K.C. - - - - - -	Montreal
E. C FOX - - - - - - - -	Toronto
J. I. 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	The Bank of Montreal, Montreal and Toronto
BANKERS	The Bank of Montreal, Montreal
STOCK LISTED	The Montreal Stock Exchange

Annual Report

of the

Directors of

CANADIAN COTTONS, LIMITED

Year Ended 31st March, 1944

To the Shareholders:

Your Directors submit herewith the Balance Sheet of the Company as at March 31st, 1944, together with a Statement of Profit and Loss for the year which ended on that date.

Net income of $547,230.60 includes income from investments and is after providing for Income and Excess Profits Tax, the current contribution to the Pension Fund and other customary charges. It has been distributed as follows—

Additional and Special Contribution to Pension Fund	$100,000.00
6% Dividend on Preferred Stock	200,436.00
5% " " Common "	136,825.00
	437,261.00
Balance transferred to Surplus	109,969.60
	$547,230.60

The Profit and Loss Statement shows that the sources of your Company's profits include an item completely new in your Company's operations. Your Directors reported two years ago that retail ceiling prices on cotton fabrics had been established by the Wartime Prices and Trade Board and that the basis for determining such ceiling was selling prices of goods between September 15th and October 11th, 1941. Cotton mills, however, were required by the Board to revert to selling prices that were in effect on February 1st, 1941, which, in the case of your Company, in reality restored prices which were established in November, 1940. In the meantime the price of raw cotton has more than doubled what it was in November, 1940. Also your Directors, a year ago, reported that, owing to increasing cost of cotton, it would be necessary in the ensuing year for your Company to draw upon the subsidy provided under an agreement entered into for the purpose of compensating the Company for selling its goods at "roll-back" prices. The Operating Statement shows the trading results based on sales at ceiling prices plus the subsidy to which your Company is entitled.

Your Directors must point out once again that the subsidy agreement gives no guarantee of profit and furthermore it carries a restriction limiting the amount to be paid as compensation. That limit is 116⅔% of pre-war standard profits as determined by the Excess Profits Tax Act. Hence your Company is not liable to the maximum Excess Profits Tax rate for the past year. Likewise it has no claim to a post-war refund.

Your Directors thought wise to increase the current reserve for taxes by the sum of $100,000 as a possible further liability against final determination by government authorities with respect to the cost of goods delivered against Government contracts during the war period.

The Balance Sheet shows on the liability side an item for $124,786.70 marked "Special Inventory Reserve". An item of a similar nature has been referred to in a previous report and is not applicable to the year's operations. It arises from a reduction of inventory and will be absorbed again as soon as stocks begin to accumulate.

In order to bring the Depreciation Account more into line with the rates of depreciation permitted for taxation purposes, an adjustment has been made as between the Depreciation and the Earned Surplus Account, decreasing the former by $682,762.08 and increasing the latter by the same amount. This represents the accumulation over several years of differences in depreciation set up by the Company in excess of the rates permitted by the Income Tax Department.

There is nothing of outstanding importance concerning trade conditions in the fiscal year upon which to focus attention. The manufacturing operations of your Company have followed a pattern determined not by the Officers but by war service needs and civilian requirements which latter are governed by official quota. Production registered a decrease of 10% from each of the previous two years which were the peak production years of the Company. The decrease is due to a labour shortage which your Directors do not anticipate over-taking until there is a lessening in the production of materials of war.

Concurrent with the notice calling the Annual Meeting is a notice calling a Special General Meeting of shareholders to confirm amendments of by-laws of the Company made by your Directors to give effect to (1) increasing the number of Directors from seven to nine and (2) splitting the preferred and common shares of the Company on a basis of five for one and at the same time changing the common shares from par to no par value.

Your Board feels that nine Directors give a more adequate representation of shareholders and management having regard to the size of your Company's current operations. Consequently, on confirmation of the amendment you will be asked to appoint D. A. Campbell, Esq., and Joseph Dolphin, Esq., as the new members of the Board. Mr. Campbell is outstanding in Canadian business life and has an important interest in the Company. His advice on matters of both general and specific policy will be invaluable. Mr. Dolphin has been with the Company for over thirty years and is thoroughly acquainted with the technical intricacies of the textile industry. He has an excellent reputation as a careful operator and manufacturer. His appointment to the Board will be not only well merited but he will render exceedingly valuable service in matters of operating policy.

Your Directors have been considering for some time the advisability of sub-dividing the shares of your Company. The business or the Company has greatly expanded since 1910 when the present capital structure was set up. Current conditions call for a more appropriate capital base. Your Directors also believe a broad ownership of business is desirable and is in keeping with modern social and economic trends. Undoubtedly the smaller unit value representing the same ownership will permit a greater flexibility in this respect and puts the stock within the purchasing power of a larger number of people who might desire to acquire an interest therein. For the latter reason also it was deemed wise to recommend that the preferred stock be split in the same ratio as the common, thus leaving the relationship between the two classes of shares unchanged.

During the year your Directors exercised a power vested in them and issued 350 shares of the common stock at $100 per share to four of its chief Officers. This is very much to the ultimate interest of your Company. The coming management of the business will be largely dependent on three of these men. Your directors hope to repeat this innovation in a modest way from time to time as young men of promise become influential in the administrative and executive work.

In reviewing the Annual Statement the shareholders will notice that a special additional appropriation of $100,000 is made to the Pension Fund. A Company Pension Fund was authorized in 1935 by the shareholders and was set up and organized under the administration of designated Trustees. Current capital funds were provided and future financial provision was also made which it was hoped in time would permit the extension of its privileges to a greater number of employees. These funds, with the addition of the above $100,000 now appear sufficient to take care of the basic capital requirements to pay for past services back to thirty years of age of all employees whom it is proposed will come under it. The cost for future services will be borne annually as a current charge by employees and the Company on an approved actuarial basis. It is deemed wise not to commence factory employees pension fund contributions until age 30 due to the high rate of turn-over in employment under that age. The plan envisages that the shareholders will continue to be asked to make the usual annual contribution of $50,000 to the funds out of profits as a necessary part of the current maintenance of the fund.

Your Directors feel they carry your enthusiastic approval of this proposal in thus making provision for a definite and contractual retiring allowance to those who have spent the large part of their active life in the employment of the Company.

Post-war conditions must be determined before any completely defined statement can be made covering post-war prospects and this may take some considerable time to formulate. The post-war period must be divided into the shorter or immediate two or three years following cessation of hostilities and the longer succeeding business cycle. Your Directors feel that the shorter period will be characterized by a universal demand for textile fabrics which will require the capacity of mills to fill. The difficult problems in this period will be physical and financial. For five years there has been no important machinery replacement. The accumulated back-log for machinery will probably be tremendous. The longer the war lasts the greater the back-log and the longer the time taken for replacement. Therefore the operating efficiency of your mills during the immediate period following the war will largely depend on the ability to secure equipment. The financial problem has been referred to in a previous Annual Report. Your Directors recognize the vital necessity of the high incidence of taxation, with the life of the country and our civilization at stake. They feel, however, that due provision is not being made for the current accumulation of financial resources necessary to meet the post-war requirements of replacement and expansion. Industries of our type receiving Government subsidy cannot make profits in excess of 116⅔% of pre-war standard. Therefore they are not entitled to the 20% refund intended to meet heavy post-war obligations and emergencies. The essential requirements of your Company will run into several millions of dollars and your Directors feel that some consideration should be extended to industry to ease the financial strain. It must be borne in mind that prices for textile machinery have advanced nearly 40%. Unless some relief is granted the larger part of the financial requirements must come out of pre-war resources. This surely cannot be regarded as sound national economy.

It is the basic international trade conditions which follow the adjustment period that will determine the ultimate prospects of the Canadian textile industry. Canada enjoys a very high standard of living. It is so very much higher than the standard of living in most countries that it makes an ordinary comparison untenable. If the basic conditions for international trade have the tendency to pull down the standard of living here to the level of the lower standard countries, then the ultimate post-war period is not bright. If the basic conditions laid down keep in mind the directive purposes of raising the standard of living throughout all industrial countries, then the Canadian textile industry should be able to maintain the important place it has established for itself in Canadian economy. The determination of this factor is obviously a function of government.

Your Directors regret to report the passing on May 31st, 1943, of a valued friend and officer of the Company, Mr. W. J. Morrice, Director since 1916 and Vice-President since 1937. Mr. Morrice was not only a link with the past, his father being the chief factor in the founding of Canadian Cottons, Limited, but his genial personality and kindly friendship gained for him the admiration and affection of all those with whom he associated. Mr. MacMillan Boyd, Director of Research, a most important office for post-war operations, was appointed by the Board to fill the vacancy caused by the death of Mr. Morrice. Mr. Boyd has spent his business life with your Company and his abilities entitle him to a seat on the Board.

The labour situation in the country has grown steadily more acute and the day to day operating problems have been very difficult. Your Directors in no perfunctory manner wish to express their appreciation to all employees for their cooperation under most difficult conditions.

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.

R. G. Tolmie, *Chairman*.   E. C. Fox, *President*.

CANADIAN COT

BALANCE

AS AT 31ST

ASSETS

CURRENT:

Cash on hand and in banks		$ 2,124,800.08
Accounts Receivable—less Reserve for Doubtful Accounts.		1,406,214.42
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		1,613,802.77
Investments— Dominion Government Bonds and Corporation Bonds and Shares—at cost less reserve (Market Value as at 31st March 1944—$5,200,000)		5,045,772.75
TOTAL CURRENT ASSETS		10,190,590.02
SHARES IN SUBSIDIARY COMPANIES		3.00
DEFERRED CHARGES TO OPERATIONS		98,178.66
REFUNDABLE PORTION OF EXCESS PROFITS TAXES:		
Balance as at 31st March, 1943	$ 219,136.19	
Adjustment affecting prior period	28,780.05	
		247,916.24
CAPITAL ASSETS:		
Mills, Plants and Properties—at cost—		
Balance as at 31st March, 1943	18,838,268.40	
Additions for year	92,039.19	18,930,307.59
		$29,466,995.51

NOTE:—In computing the amount set aside for Dominion Taxes, consideration has been given to the provisions of the Excess Profits Tax Act, allowing Reserves against future depreciation in inventory values.

Montreal, 28th April, 1944.

Audited and verified as per Certificate attached.

RITCHIE, BROWN & CO.,
Chartered Accountants.

TONS, LIMITED

SHEET

MARCH, 1944

LIABILITIES

CURRENT:		
Accounts and Bills Payable		$ 416,955.65
Cotton Acceptances		1,095,499.00
Due to Subsidiary Company		129,845.70
Contribution to Pension Fund		150,000.00
Special Inventory Reserve		124,786.70
Reserve for Income and Excess Profits Taxes	$751,727.90	
Less: Paid on account current year	255,000.00	
		496,727.90
TOTAL CURRENT LIABILITIES		2,413,814.95
CONTINGENT RESERVE		505,600.95
DEPRECIATION RESERVE		16,996,313.51
REFUNDABLE PORTION OF EXCESS PROFITS TAXES		247,916.24
CAPITAL STOCK:		
Authorized—		
Preferred—6% Non-cumulative 41,791 shares par value $100.00 each	$4,179,100.00	
Common— 35,000 shares par value $100.00 each	3,500,000.00	
	$ 7,679,100.00	
Issued and fully paid—		
Preferred— 33,406 shares at $100.00 each	3,340,600.00	
Common— 27,505 shares at $100.00 each	2,750,500.00	
		6,091,100.00
EARNED SURPLUS—Balance per Statement attached		3,212,249.86
		$29,466,995.51

Signed on behalf of the Board:

R. G. TOLMIE, *Director.*

W. V. BOYD, *Director.*

CANADIAN COTTONS, LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31ST MARCH, 1944

Operating Profit for year including Investment Income of $189,974.53 after providing for items A, B, C, D, E, as below noted		276,688.00
Subsidy to maintain sales at ceiling prices		445,329.30
		722,017.30
Less: Inventory adjustment affecting prior period	124,786.70	
Annual contribution to Pension Fund	50,000.00	
		174,786.70
NET INCOME FOR PERIOD		547,230.60
Deduct:		
Dividends—Preferred 6%	$200,436.00	
Common 5%	136,825.00	
	337,261.00	
Special Contribution to Pension Fund	100,000.00	
		437,261.00
SURPLUS FOR YEAR		$109,969.60
A. Depreciation	$309,614.01	
B. Executive Salaries	45,815.00	
C. Directors' Fees	7,625.00	
D. Provision for Taxes	518,500.00	
E. Legal Fees	615.65	

EARNED SURPLUS ACCOUNT

Balance at credit as at 1st April, 1943		$2,419,518.18
Add:		
Surplus for year as above	$109,969.60	
Adjusting Depreciation Reserve Account to conform more closely with amounts allowed for tax purposes	682,762.08	
		792,731.68
BALANCE AS AT 31st MARCH, 1944		$3,212,249.86

TO THE SHAREHOLDERS,

CANADIAN COTTONS, LIMITED.

We have examined the books and accounts of Canadian Cottons, Limited, for the year ended 31st March, 1944. 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, 1944, 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, 28th April, 1944.

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