Canadian Cottons
LIMITED

Thirty-fifth

ANNUAL REPORT

for the Year Ended

31st March

1945

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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

R. G. TOLMIE	*Chairman*
E. C. FOX	*President and Man. Director*
W. V. BOYD	*Vice-President*
J. IRVING ROY	*General Manager*
JOS. DOLPHIN	*Manager of Mills*
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.....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, 1945

To the Shareholders:

Your Directors submit herewith the Balance Sheet of the Company as at March 31st, 1945, with a Statement of Profit and Loss for the year which ended on that date.

Net income of $592,981.88 includes income from investments and subsidy and is after providing for Income and Excess Profits Taxes, the current contribution to the Pension Fund and other customary charges. It has been distributed as follows:—

6% Dividend on Preferred Stock	$200,436.00
$1.20 per share Dividend on Common Stock	165,030.00
	365,466.00
Balance transferred to Surplus	227,515.88
	$592,981.88

For the fourth consecutive year it is necessary to make reference to the Canadian cotton textile industry being required to sell its output of yarns and fabrics to the civilian trade at less than cost and to a measure of compensation received in the form of a susbidy. Put briefly, the position is that the industry is selling its products to the civilian trade at prices which were in effect from November, 1940 to February, 1941. This constitutes what is called "ceiling prices". The subsidy is intended to compensate the Company for selling at these roll-back "ceiling prices" and is computed on the increase that has taken place in the cost of raw cotton used as against the established price on February 1st, 1941. It will be noted, however, that raw cotton is only one of the cost factors in the production of cotton goods and the subsidy does not provide for increases in other important items of cost such as wages, dyestuffs and all materials; neither does it provide for increased unit cost of maintenance and replacement and increased unit cost due to curtailment of production—this last, of course, attributable to a shortage of mill operatives. The cost of such items has advanced from 10% to as high as 200% of pre-war costs and cannot be recovered either in subsidy or in selling prices. Unfortunately the trend is still upward. This combination of conditions, namely, low selling prices and high operating costs, creates both an immediate and a post-war problem and is the cause of much concern to your Board.

The provision made in the last amendment to the Excess Profits Tax Act permits a recomputation of capital employed. This has resulted in an upward adjustment of your Company's pre-war standard profit and it is applicable both to the year under review as well as the preceding year. The prospect of retaining the advantage of this adjustment for the current fiscal year is doubtful due to the advancing costs of items mentioned in the previous paragraph and which are not covered by subsidy.

During the year announcement was made by the Department of Munitions and Supply that it was instituting a basis of "overall renegotiation" of war contracts. A renegotiated agreement having been reached, your Company has completed settlement

to March 31st, 1944 and the results are reflected in the Balance Sheet. That portion of the Company's share that was applicable to the years before the 100% tax on excess profits was in force has been absorbed in the reserve for income tax and excess profits taxes, and the balance has been deducted from the refundable portion of the excess profits taxes.

Manufacturing operations have followed the same pattern for the third successive year. The primary cotton textile industry is working under directives from the Cotton Administrator of the Wartime Prices and Trade Board. Since 1941 the number of styles and patterns has been steadily reduced. Under normal conditions this would facilitate an increase in the production of manufactured goods but the actual output of the Company's mills for the fiscal year was 19% less than in 1941. It is obvious the decline would have been more serious if no reduction in the number of styles and patterns had been made. Nor is it probable that there will be an increase in their number for some time after the European War is over. Indeed any immediate change is likely to be in the direction of further reduction of the less essential lines so as to permit an increase as far as possible in the production of fabrics which serve a more basic need. It is conceded that there is an acute world shortage of cotton textiles and that emphasis must be placed on quantity production of most needed fabrics. There is room for difference of opinion as to the extent of the shortage and how long it will take to satisfy the need. It is reported that information received from European countries so far liberated indicates that the damage to cotton mills is very much less than might be expected and that the bulk of the machinery is intact. There are many factors, however, that have to be considered before it is possible to say how long it will be before the mills get to work. Individual opinions on this important subject which so affects the immediate future of your Company are difficult to form.

After giving due consideration to all ascertainable facts, your Directors have not thought it wise to plan for permanent investment in buildings and machinery solely to share in an abnormally large trade that might be satiated in two or three years. The post-war development that has been decided upon would be made in any event and is based on the current necessities for replacement and modernization of equipment. Current needs, however, are abnormally large due to inability to replace or modernize during the war years. The most essential equipment is being expedited so far as possible in the hope of securing a fair share of the immediate post-war trade but it should be realized that there may be considerable disappointment in respect of the time element due to the many disrupting and delaying factors incident to the importation and installation of all the equipment required.

Concurrent with a notice calling the Annual Meeting is a notice calling a special general meeting of shareholders, to confirm (1) general by-law No. 45 passed during the year by your Directors relevant to charitable and other kinds of gifts and (2) the purchase of shares of preferred stock of the Company and the cancellation thereof in conformity with the by-laws of the Company.

Your Directors have authorized over the years donations for charitable, benevolent and educational institutions in accordance with traditional custom. But with the great increase in personal income taxes and the increased momentum and number of many social and charitable activities, there is developing such a pressure on corporate bodies for donations that your Board feels it wishes to have the responsibility for such situation clarified. The annual sum you are asked to authorize the Directors to donate for charitable, educational, benevolent, public, general or useful objects is less than would be permitted in a year of normal earnings to be absorbed under the Income Tax Act. The limit suggested, therefore, is reasonable and it is only fair to ask for a clarification of this corporate duty both in the interests of shareholders and of Directors.

The other by-law is a routine matter. The Company having purchased for cancellation 1770 shares of the preferred stock of the Company in accordance with the by-laws of the Company, the shareholders are asked to confirm the purchase and authorize the Directors to proceed under Supplementary Letters Patent to apply for cancellation of the shares and a corresponding reduction of the paid-up capital of the Company.

In September last the City of Cornwall, Ontario, where three of your Company's

mills are located, suffered severe damage from earthquake. The damage to Company buildings exceeded $50,000. It is impossible to say what the total damage in the City amounted to but it is to the credit of the citizens that the only help they asked for or expected were priority orders for various materials with which to make essential repairs, otherwise each citizen stood his own loss. It is pleasing and refreshing to note that there still exists a spirit of independence and individual resourcefulness. Your Directors wish to pay tribute to the citizens of Cornwall and also to congratulate them on attaining the status of a "City" on January 1st, 1945.

After serving your Company and predecessor companies for over 62 years, Mr. W. V. Boyd, Vice-President and General Manager, asked last August to be relieved of the daily and exacting duties of his office. Mr. Boyd's length of service constitutes an outstanding record both in time and in the many progressive positions he filled from water-boy to General Manager. His valuable counsel and advice will still be available to the Company, for he is remaining on the Board and also retaining the Vice-Presidency.

Your Board was pleased to appoint Mr. J. Irving Roy as successor to Mr. Boyd in the position of General Manager. Mr. Roy has been with the Company for several years and the Board is confident he will fill worthily the position laid down by Mr. Boyd.

The relations with our employees have been pleasant throughout the year. Shortage of operatives, as has been previously indicated, is the main factor in curtailment of production and added to this the problems created by absenteeism make it difficult to plan and to carry on daily operations. Absenteeism exacts a double toll and is a source of loss to the Company as well as in many instances to the employees who remain steadily at their work. Especially is this latter point the case in respect of the incentive bonus which is on a collective rather than an individual basis. It is understandable that there is a certain spirit of restlessness—everyone is somewhat touched with it—and it is to the credit of the bulk of our employees that they have stayed faithfully on their jobs and the members of the Board and Officers of the Company wish to extend their appreciation and express their good-will to both office and factory employees.

Reference was made a year ago to the intention to set up an employees' pension fund. Delay in completing the plans has been due to pressure of work on the actuarial counsel whose services your Directors are most anxious to secure. It is hoped that an announcement may be made during the current year.

The books and accounts of the Company have been duly audited and the Auditors' report is incorporated in the statements attached hereto.

Submitted on behalf of the Board of Directors.

R. G. Tolmie,
Chairman.

E. C. Fox,
President.

CANADIAN CO

BALANC

AS AT 31ST

ASSETS

CURRENT:		
Cash on hand and in banks		$ 1,039,160.43
Accounts Receivable—less reserve for Doubtful Accounts		1,251,161.18
Inventories of Raw Cotton (including cotton purchased but not delivered), Goods in Process, Manufactured Stock and Supplies, as determined and certified by the Management, the basis of valuation being lower of cost or market, less reserve		790,863.30
Investments—At cost less reserve— Dominion Government and Corporation Bonds and Shares (Market value as at 31st March, 1945—$7,063,250.00)		6,766,326.92
TOTAL CURRENT ASSETS		9,847,511.83
SHARES IN SUBSIDIARY COMPANIES		3.00
DEFERRED CHARGES TO OPERATIONS		86,836.91
REFUNDABLE PORTION OF EXCESS PROFITS TAXES		186,615.61
CAPITAL ASSETS:		
Mills, Plants and Properties—at cost—		
Balance as at 31st March, 1944	18,930,307.59	
Additions for year	404,648.40	19,334,955.99
		$29,455,923.34

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, 26th April, 1945.

Audited and verified as per Certificate attached.

RITCHIE, BROWN & CO.,
Chartered Accountants.

TONS, LIMITED

SHEET

MARCH, 1945

LIABILITIES

CURRENT:		
Accounts and Bills Payable		$ 439,543.30
Cotton Acceptances		589,939.00
Due to Subsidiary Company		134,862.94
Contribution to Pension Fund		50,000.00
Reserve for Income and Excess Profits Taxes	823,121.41	
Less: Paid on account	222,660.00	
		600,461.41
TOTAL CURRENT LIABILITIES		1,814,806.65
CONTINGENT RESERVE		514,740.86
DEPRECIATION RESERVE		17,336,176.19
REFUNDABLE PORTION OF EXCESS PROFITS TAXES		186,615.61
CAPITAL STOCK:		
Authorized—		
Preferred—6% Non-Cumulative 208,955 shares Par Value $20.00 each	4,179,100.00	
Common— 175,000 shares No Par Value	3,500,000.00	
	7,679,100.00	
Issued and fully paid—		
Preferred— 167,030 shares at $20.00 each	3,340,600.00	
Common— 137,525 shares at No Par Value	2,750,500.00	
		6,091,100.00
EARNED SURPLUS: Balance per Statement attached		3,512,484.03
		$29,455,923.34

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 31ST MARCH, 1945

Operating Profit for year after including Subsidy, Investment Income of $169,496.34, and after providing for items of Expenditure A, B, C, D, E as below noted		642,981.88
Less:		
Contribution to Pension Fund		50,000.00
NET INCOME FOR PERIOD		592,981.88
Deduct:		
Dividends—Preferred 6%	200,436.00	
Common $1.20 per share	165,030.00	
		365,466.00
SURPLUS FOR YEAR		$227,515.88

A.	Depreciation	$339,862.68
B.	Executive Salaries	46,280.00
C.	Directors' Fees	9,666.66
D.	Provision for Taxes	550,000.00
E.	Legal Fees	1,232.37

EARNED SURPLUS ACCOUNT

Balance at credit as at 1st April, 1944		3,212,249.86
Add:		
Surplus for year as above	227,515.88	
Adjustment in Subsidy for 1944	72,718.29	
		300,234.17
BALANCE AS AT 31ST MARCH, 1945		$3,512,484.03

AUDITORS' REPORT

TO THE SHAREHOLDERS

We have examined the books and accounts of Canadian Cottons, Limited, for the year ended 31st March, 1945. 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, 1945, 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, 1945.

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