



**Annual Report  
1980**

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OF MANAGEMENT

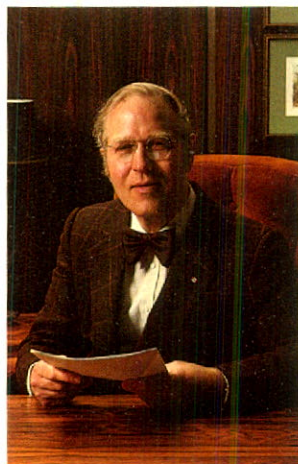
APR 10 1981

MCGILL UNIVERSITY





## Chairman's introductory statement



This Report reviews and summarizes the foundation, activities and prospects of The Heritage Group Inc.

The Heritage Group was established to oversee the activities of its subsidiary companies and allocate common resources to generate growth in new products and markets.

J.M. Schneider Inc., with its strong market presence, financial prosperity and above all people, is the base from which The Heritage Group Inc. currently takes its strength. Within the new structure, these strengths will be the cornerstones for growth and development in new markets.

Nevertheless, in a business environment characterized by change, it is important that one body have the necessary planning strength, flexibility and operating options to respond and initiate. In the years to come, the management of The Heritage Group Inc. believes everyone with an interest in the company's prosperity — shareholders, employees and customers — will benefit.

Chairman of the Board  
and President

## Financial highlights

	(dollars except where noted)	
	1980	1979
Sales	\$391,637,000	374,374,000
Net earnings	6,691,000	7,544,000
Per share	2.55	2.78
Percent of sales	1.71	2.02
Percent of shareholders' opening equity	14.75	18.80
Dividends paid	1,258,000	1,088,000
Rate per share	48¢	40¢
Working capital	23,842,000	22,304,000
Working capital ratio	2.01	2.11
Shareholders' equity at end of year	50,776,000	45,364,000
Per share	19.37	17.29
Percent return on capital employed at beginning of year	20.19	23.49

## The new corporate symbol

The new logo is a reflection of the tradition, character and prospects of the companies that comprise The Heritage Group Inc. The symbol is dominated by the relief cameo of John Metz Schneider, as

he looked at the turn of the century. J.M. Schneider began making and selling his meat products almost a century ago and founded the primary company within The Heritage Group Inc.

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## Chairman's letter to shareholders

The 1980 Annual Report is the first opportunity I have had to report to shareholders since the company name was changed to The Heritage Group Inc. It is a pleasure and privilege.

In 1980 your company surpassed the previous year's sales record with total sales of \$391,637,000 as compared with sales of \$374,374,000 in 1979. Net earnings after tax during the same period were \$6,691,000 as compared with net earnings in 1979 of \$7,544,000. On a share basis, earnings declined to \$2.55 from the previous year's record of \$2.78 per share.

The decline in earnings occurred for three reasons. Start-up costs associated with the establishment of The Heritage Group Inc. were an expense against earnings. However, such costs are more accurately interpreted as an investment that will yield greater dividends in years to come. Shareholders will also remember that 1979's earnings benefited from a favourable tax position. In fact, the accumulated tax credit taken in 1979 reduced the company's effective tax rate by approximately four percent. Finally, a significant amount of the decline took place in the latter part of the year as selling prices could not keep pace with the rising costs of our basic raw materials.

Net after tax earnings for fiscal 1980 were at the rate of 14.75% on shareholders' beginning equity. This represents a decline from the 18.80% rate of return in 1979 but remains a substantial improvement over the average return during the previous 10 years.

In many respects, 1980 was a watershed year for your company. At the last annual and special general meeting, shareholders approved the establishment of The Heritage Group Inc. as the corporate enterprise that would carry forward the traditions and prosperity of J.M. Schneider Inc. In April of 1980, National Consolidated Food Brands Inc. (Natco) began operations.

The most significant event your company undertook during the year was the formation and establishment of The Heritage Group Inc. as the 'umbrella' corporation under which a number of companies will operate. For the past few years it has become evident that domestic markets for processed meat products were approaching maturity. Basic market considerations, such as slow population growth, a slowdown in the per capita consumption of meat products, and changing living styles with their attendant preferences for convenience foods, hold implications for Schneiders growth and earnings' prospects.

At the same time, it was obvious J.M. Schneider Inc. was pre-eminent in its industry. The company name was almost exclusively linked to the production of quality processed meat products. Over its 90-year history, Schneiders has acquired skills and capabilities in the production, distribution and marketing of meat products — operating strengths that lend themselves to the general production and distribution of food products.

In deciding to form a corporate organization with subsidiary companies or separate divisions, it was necessary to look beyond the immediate security of the business we know best, and acknowledge the realities of a changing marketplace.



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**Chairman's  
letter to  
shareholders  
(cont'd.)**

In short, by establishing The Heritage Group Inc., Schneiders remains free to pursue its leadership position in the meat industry, while the new corporation has provided itself with the means to grow through product diversification and acquisition. It is also in a position to supply corporate services to subsidiary companies in the areas of finance, systems and distribution.

Shortly after The Heritage Group Inc. was established, Natco began operations as a wholly-owned subsidiary with a mandate to produce and market non-meat products, starting with a new line of frozen and refrigerated grocery items. To its strong line of Schneider cheeses, Natco has added a group of frozen products under the Grandma Martin label. And even though the young company was just a few months old at year-end, it made a contribution to earnings in 1980.

H.G. Beben, President of National Consolidated Food Brands Inc. will expand on Natco's operations later in the Report.

In 1980, J.M. Schneider Inc. was able to surpass 1979 sales and performance records. Indeed this accomplishment would have been more obvious had not a portion of that company's earnings underwritten the establishment of the Heritage Group's operations. For the immediate future, J.M. Schneider Inc. will be the major contributor to corporate earnings. K.G. Murray, President of J.M. Schneider Inc., will report at length on the company's performance and prospects later in the Report.

For 1981 your company is forecasting sales of approximately \$600 million, with sales in excess of \$1 billion well before the end of the decade. During the year the company has plans for capital expenditures of \$6.2 million, most of which will be used to complete the Calgary Distribution Centre and improve existing production facilities in Kitchener and Winnipeg.

The path your company has chosen is confident and ambitious, and, as can be expected, there should be significant benefits for shareholders as economies and operating efficiencies are realized. Everything taking place is premised on the objective to at least maintain the previous decade's growth rate and protect shareholders' investment with a return on equity of between 15% and 20%.

On behalf of the Board of Directors, I wish to thank shareholders for their encouragement and support. On behalf of the Board and all shareholders, I would like to express sincere appreciation for the dedicated efforts of all employees.



Chairman of the Board  
and President

From left to right

Kenneth G. Murray,  
Vice Chairman.

Dawson C. Jamieson,  
Sr. V.P. Corporate Services  
and Chief Financial  
Officer.

Frederick P. Schneider,  
Chairman and President.

Henry G. Beben,  
Sr. V.P. Corporate  
Development.

## Corporate profile

The Heritage Group Inc. is the corporate organization that holds the two wholly-owned subsidiary companies, J.M. Schneider Inc. and National Consolidated Food Brands Inc. (Natco).

The Heritage Group Inc. provides corporate services to its two subsidiaries by way of setting objectives, monitoring performance, obtaining and allocating investment dollars. As an example, Heritage maintains a personnel function which, in addition to monitoring subsidiaries, directly services Natco Foods.

Part of Heritage's mandate is to identify and pursue acquisitions that complement and expand overall corporate plans. As the investment medium for shareholders, it reports to shareholders on corporate activities through interim and annual reports, shareholders' meetings and activities of the Board.

J.M. Schneider Inc. is the largest of the two subsidiaries and is primarily responsible for the development and servicing of the retail meat trade with a wide variety of processed and fresh meat products for home consumption. It maintains a national distribution system across Canada and also sells to Japan and other export markets. Employing over 3,327 people it accounts for the bulk of total corporate sales.

Manufacturing takes place in Kitchener and Ayr, Ontario; Winnipeg, Manitoba; and Vancouver, British Columbia. Product is stocked and delivered from distribution centres in Kitchener, Thunder Bay, Winnipeg, Calgary, and Vancouver. Distributors are used for the Maritime Provinces and parts of Quebec. From these distribution centres overnight service is provided to most of its Canadian customers.

Natco Foods is the youngest member of The Heritage Group Inc. It was formed to develop and market retail grocery, dairy and frozen food products. These include consumer packaged cheese, lard and shortening, plus a range of frozen pastry products, such as quiche, crepes, pie crusts and tarts.

Natco relies largely, for the present, on the distribution system of J.M. Schneider Inc. to get its products to market but does sell nationally to larger buyers. It has equity interests and/or contractual relationships with its manufacturing suppliers to assure product continuity and quality. Its corporate relationships are subject to review and change as it grows and develops. We believe Natco will provide much of the growth in sales and earnings for The Heritage Group Inc. in the coming decade.

### Locations of The Heritage Group Inc. Subsidiary Companies

#### J.M. Schneider Inc. Meat Subsidiary

##### Manufacturing Plants with Distribution Centres

Kitchener  
Ontario

Winnipeg  
Manitoba

##### Manufacturing Plants

Ayr  
Ontario

Winnipeg  
Manitoba (2)

Vancouver  
British Columbia

##### Distribution Centres

Thunder Bay  
Ontario

Calgary  
Alberta

North Burnaby  
British Columbia

#### National Consolidated Food Brands Inc. Grocery Subsidiary

##### Manufacturing Plants

Winchester Cheese Inc.  
Winchester, Ontario 50% owned  
(After fiscal 1980 year end).

Mother Jackson's  
Open Kitchens Limited  
Port Perry, Ontario 48% owned

Dorset Foods Inc.  
Mississauga, Ontario 20% owned





J.M. Schneider Inc.  
Annual Review  
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## **J.M. Schneider Inc. President's report on operations**

This report will review developments in major operating areas of the company. Several of the same areas will be discussed in more detail in subsequent sections of the report.

1980 was an active and eventful year for J.M. Schneider Inc. Despite some doubt as to whether 1979's record sales levels could be sustained, 1980 surpassed the previous year with an 11% increase in sales of edible products.

Throughout the year the company maintained its efforts to produce and market new products that conform to the changing lifestyles and living habits of consumers.

Quality assurance practices, techniques and innovations affect all aspects of the company's operations. Improvements in quality assurance often result in improved product shelf-life. Because shelf-life is such an important customer consideration, and therefore marketing factor, we strive to achieve a 60-day shelf-life on all products. Efforts in this regard in the past year enabled us to gain greater market penetrations in Western Canada and the Maritimes. In pursuit of our quality assurance and shelf-life objectives, it is most efficient to centralize production.

Hand-in-glove with the quality function is the company's capacity to deliver products quickly. The distribution function assumed added importance in 1980 when the company created a separate division with an exclusive mandate to administer and develop corporate distribution systems. Douglas Dodds was appointed Vice-President of Distribution.

Continued sales growth in Western Canada confirms the credibility in and customer loyalty to Schneider products as consumers move to various parts of the country. These considerations prompt the need to establish a physical presence in the community in which we are doing business beyond product exposure on grocers' shelves. As business has developed in the West, the company has become aware of the desire on the part of many Westerners to participate more fully in national business life. The Heritage Group Inc. considers the new distribution centre a first step prior to adding production facilities to its Western operations.

The steps taken to expand pork killing facilities in late fiscal 1979 enabled the company to significantly increase our throughput of hogs in fiscal 1980. Internal control of the slaughtering process produces better yields and a higher quality of raw materials.

Work began last year to modernize our current manual system of production scheduling. The ultimate objective is to develop a computer-assisted production scheduling system linked with systems in warehouse and inventory control and order processing.

J.M. Schneider Inc. relies on the commitment of all employees to create an efficient workplace. A Cost Reduction Program instituted last year accounted for savings of \$1.3 million. These savings were in addition to cost efficiencies resulting from the established Employee Suggestion Program.

During 1980 margins generated by poultry operations were disappointing. Live poultry is currently marketed within a supply management system that gives the broiler grower control over quantity and price. For the long-term benefit of the poultry industry, this marketing system must be altered so it can (a) respond to current market conditions, (b) use an open-price discovery system that is sensitive to the competition pressures of other meats, and (c) allow the market to determine who should produce and process broiler chickens.

The attainment of our 1981 objectives will require the continuing dedication of all our employees.

We will be faced with increased raw material, supply and labour costs. The impact of the cost increases on our organization will be minimized through the implementation of further cost cutting programs, improved production technology, increased market penetration, expansion of market areas and the maintenance of our dynamic price setting system. In addition, we have implemented stringent controls on capital and other fixed cost expenditures.

Along with its challenges, 1981 will provide opportunities for personal growth and advancement by applying optimism and ingenuity in the design and execution of the activities required to meet our objectives.

From left to right  
Howard G. Schneider,  
V.P. and Director of  
Research and Development.

John E. Lauer,  
V.P. Manufacturing.  
Douglas W. Dodds,  
V.P. Distribution.

Kenneth G. Murray,  
President.

Lewis Bradich,  
V.P. Sales and Marketing.

Herbert J. Schneider,  
V.P. Personnel and  
Public Relations.

Gerald S. Fischer,  
V.P. Controller.



**SCHNEIDERS**  
**COARSE LIVERWURST**

PREPARED BY SCHNEIDER'S MEATWORKS, INC., ST. LOUIS, MO.  
KEEP REFRIGERATED  
GARDER AU FROID

J.M. SCHNEIDER, INC.  
KITCHEN, CANADA

**SCHNEIDERS**  
**GISSIN**  
**SOLE**

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## New products

The wide assortment and variety of Schneider products illustrates the importance the company places on new product development. Traditionally, new product sales account for approximately 4% of overall sales. Over the past decade the company has consistently placed new products in all sections of the grocer's meat department each year.

Ideas and inspiration for new products come from many sources within the organization. Consumer focus groups keep the company in touch with changing consumer tastes, flavour preferences, serving portions and convenience features. The characteristics of a new product are defined by the marketing function, and implemented by the new product development group. Product quality and consistency are assured through production procedure and compliance with quality assurance systems. A well defined sales and marketing effort is the key in securing national distribution.

For the past several years the thrust of new product development has focused on changing lifestyles, which affect consumer living and eating habits. Now more than ever there is a growing premium on foods that enable more working members of households to spend less time on meal preparation. In terms of new products, this can mean packaging products in a variety of sizes to accommodate the preferences of large families or individual consumers. Innovations in packaging itself, such as our new re-sealable sliced luncheon meat package, contribute to freshness and economy. Other new products bring something distinctive to the meat counter such as Country Mellow Bacon with its brown sugar flavouring, or Olde Fashioned Ham that continues to appeal to the consumers' desire to restore an element of value and tradition to their dinner tables.

In another area of the market, quiche has taken its place as a delicious, popular dish that complements today's tastes. A new line of frozen quiches opens up a new consumer market that will also increase Schneiders penetration in the food service market.

From left to right  
Lunch Mate Bologna  
Liverwurst  
Sweet-n-sour Pickles  
Slim Stik  
Country Mellow Bacon



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## Quality assurance

Schneider quality means 90 years of skill and experience, combined with exacting standards of scientific control and consistency. The chemists, bacteriologists and technicians in the Quality Assurance Department have direct responsibility for adding quality to all Schneider products. In addition, the department makes an indispensable contribution to the broader operations of production and marketing, since much of their efforts affect product shelf life. This is accomplished by applying rigorous standards of hygiene in the handling, cooking and packaging of all products. A number of new systems and processes were designed and implemented in 1980.

To supplement the human skills in selecting the best carcasses, Schneider scientists, in conjunction with the University of Waterloo, developed a program to test surface bacterial content. The old analytical process used to take 72 hours. The new program reduces the test time to 1½ hours.

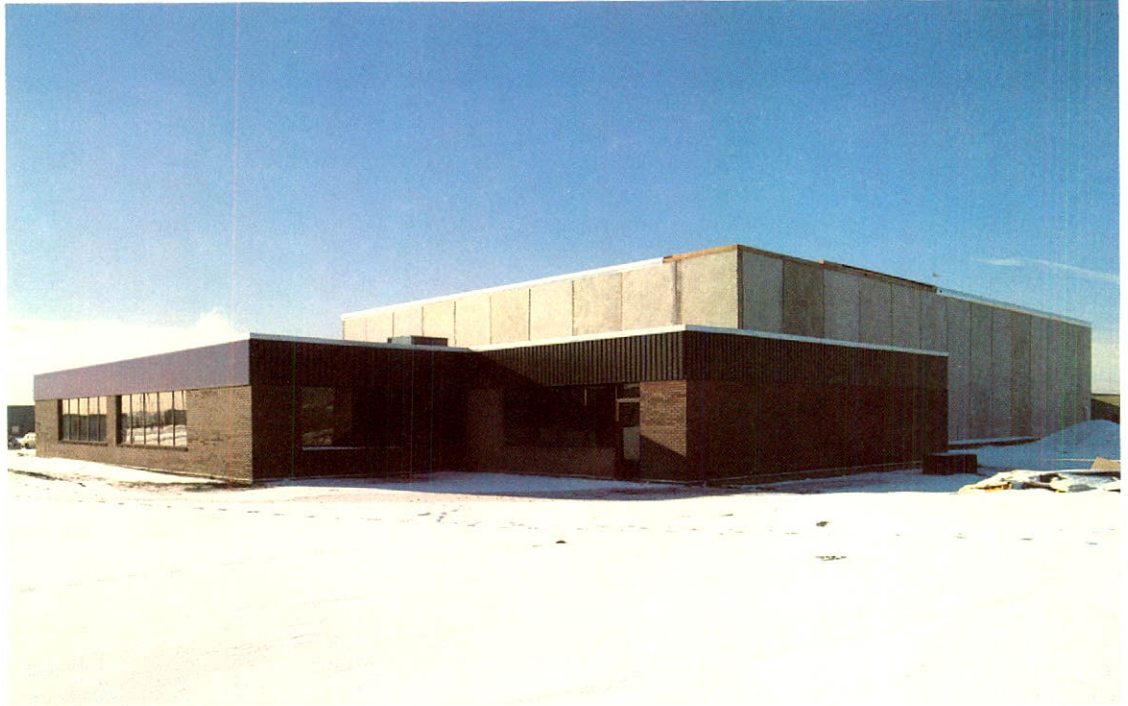
In the Department's laboratory, two new systems were put in place to measure quality standards from the beginning of the production process. Formulation Control analyzes the chemical parameters of a pre-blended meat block, such as: moisture, fat, protein, sugar levels, and prescribes what production adjustments are necessary to make the raw material conform to uniform quality standards. The Texture Measurement System evaluates finished product quality daily.

All the activities of the Quality Assurance Department are supported by computer systems that monitor 17 basic quality criteria.

The difference quality makes is anything but accidental. Adding quality is a deliberate, exacting and consistent process. Is it any wonder you can taste the difference quality makes!

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## Distribution



Calgary Distribution Centre

Schneider products are found in meat and grocery stores across Canada because distribution of frozen and refrigerated products is one of the strengths of the entire organization. A strong distribution system has enabled the company to expand its product range and markets.

To underscore the importance of the distribution function, a new division with vice-presidential status was established last year to expand and co-ordinate the vital functions of traffic operations, order processing and warehousing.

The Calgary Distribution Centre is the most recent link in a chain of distribution warehouses. When the Centre comes on stream in the Spring of 1981, it will have wide reaching effects on the overall distribution system. Once the Centre is fully operational, service to Saskatchewan and Alberta customers will be significantly improved. In turn, pressure on distribution facilities in Winnipeg and Kitchener will be alleviated. Through these changes, the Calgary Centre will enable the company to handle sales growth in Western Canada more effectively.

During the year the company's Vancouver sausage plant on Dawson Street moved to leased premises nearby. The Dawson Street facility is now being used exclusively for warehousing and distribution.





National Consolidated  
Food Brands Inc.  
Annual Review  
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## National Consolidated Food Brands Inc. (Natco) President's report on operations

National Consolidated Food Brands Inc. (Natco) began operations in April, 1980, as a wholly-owned subsidiary of The Heritage Group Inc. It was established to apply existing corporate strengths to the development of grocery, dairy and frozen food products. This mandate will be accomplished both by the development of new and existing products and the acquisition of companies producing complementary products.

Natco joins The Heritage Group Inc. as a sister company, albeit a baby sister, of J.M. Schneider Inc. Following a decade of successful product and market expansion, it was unreasonable to expect Schneiders to continue growing indefinitely in a market that was largely mature for many of its products.

In order to maintain the level of earnings growth necessary to attract investor confidence, The Heritage Group Inc. had to choose between applying ever stringing efficiencies in the face of rising costs within Schneiders, or diversifying into other food areas, borrowing the Schneider expertise in such areas as data processing, cost control systems, finance and distribution of refrigerated and frozen food products. Natco's founding was the result of that decision.

Natco's market strategy is to be highly responsive to market trends and innovative in the area of product development. Initially the company will concentrate on frozen and refrigerated foods because of their consumer convenience and the corporation's capacity to distribute them.

As examples of Natco's mandate to develop new and existing products as well as participate with other companies in the manufacturing of new products, the company recently purchased, subsequent to the 1980 fiscal year end, 50% interest in Winchester Cheese which will manufacture a complete line of cheeses marketed by Natco but carrying the well-known Schneider label. Correspondingly, Grandma Martin products will be produced under the terms of Natco's operating relationship with Mother Jackson's Open Kitchens Limited.

Natco's marketing operations began with the full line of Schneider cheeses, consumer sizes of shortening, lard and margarine. In Natco's hands, the cheeses and ancillary products can be afforded the merchandising attention of which they are worthy. In addition, Grandma Martin's appearance on the grocery shelves will be followed by Natco's new line of French Maid frozen desserts.

During the first eight months, Natco products were sold by seven sales representatives in major cities across Canada. Their efforts were aimed exclusively at securing product listings from buyers in the large retail grocery chains, since buying and merchandising techniques vary according to product category. At the end of the year, the number of product listings had doubled from 225 to 450. This pattern of growth will accelerate as new products and sales staff are added.

At the sales level in the stores, the detailed work on Natco/Schneider products is carried out by Schneider sales representatives. Since marketing battles are usually won or lost on the grocer's shelves, Natco's eventual success depends a great deal on the support and cooperation it gets at the retail sales level.

Natco sales and operations have had an auspicious beginning. Already the company has made a small contribution to corporate earnings and it will grow significantly in the months and years ahead.

From left to right  
J. David Henderson,  
Product Manager.  
Robert D. Hepburn,  
Product Manager.  
Mark A. Hanley,  
Office Manager.  
Michael L. Pikett,  
National Sales Manager.  
Henry G. Beben,  
President.



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## Cheese: The wine of foods

Like wine, cheese is a preserve and it bears the same relation to milk as wine bears to grapes. Also like wine, it has countless varieties.

Canadian-made cheese has been described as, "usually excellent, sometimes great". J.M. Schneider recognized this fact almost a century ago. Located in the heart of Ontario's dairy industry, making and selling cheese was a natural addition to J.M.'s young butchering business. Today, through Natco, the company is the only national Canadian marketer of cheese.

Despite Schneiders long history in the business, cheese was largely overshadowed by the predominance of the company name in the meat industry. Within retail grocery operations, cheese is considered a 'dairy' rather than a 'meat' item, and as such, is purchased and handled by different departments. Under these circumstances, the cheese products did not always get the marketing attention they deserved.

When National Consolidated Food Brands Inc. was established, it inherited the Schneider cheese line along with several other products. In Natco's hands, these products are marketing priorities. And even though all cheese should be served at room temperature, it should not be stored and shipped that way. Natco, of course, can borrow all the corporate expertise, experience, and facilities for transporting refrigerated goods from coast-to-coast.

Producing fine cheese is an art. A master cheesemaker with all his secrets and skills can be moved to another locality, and he will be unable to make the same cheese. On the other hand, marketing cheese demands attention to changing lifestyles and consumer preferences.

During the year, the number of individual cheese products will double. New products in terms of shapes, sizes, kinds and maturity will be available on grocers' shelves. New products as distinctive as Old Nippy and Old Smoothy will reach the market this year. New packaging that graphically retains the heritage of Schneider quality will nonetheless give the entire line a fresh, new look without sacrificing the technical exactness of the packaging itself.

The Spring launch of new cheese products will be supported by a trade and consumer advertising program. In an industry dominated by one company's brand, Natco confidently expects to make Schneiders synonymous with fine cheese as well as quality meats.



# COUNTRY HEARTH



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## **Introducing the flavour and goodness of Grandma Martin**

Grandma Martin's Country Hearth and Copper Skillet are brand names for a new family of Natco frozen pastry products. Grandma has found the recipe for freezing all the flavour and aroma of old fashioned Waterloo County baking.

The magic of baking lies in the fact that two bakers can follow the same recipe and produce completely different results. One pastry is mediocre, the other is mouth-watering. Grandma Martin's standards for taste and tenderness means her crepes and tarts are every bit as delicious as Saturday night baking from a farm house kitchen.

In fact, Grandma Martin's baking began in an old country kitchen. Her pastries were sold first from a counter in a roadside restaurant. Although the restaurant foundered, Grandma's pastries flourished. Sophisticated market research wasn't necessary to prove her products were good — just an empty counter at the end of the day. Before long, Grandma Martin had to build a bakery to keep pace with the demand for pastries.

Natco has made sure nothing is lost on the way from the oven to the family dinner table. The technology of freezing, along with Natco's marketing and distribution facilities, means Grandma's goodness is a part of everything from her country hearth and copper skillet.

Grandma Martin is going to the market with products that meet a consumer need that is otherwise not being fully met. Supported by a national trade and retail advertising campaign, new products slated for launch this year include: frozen tarts, pie shells and an assortment of frozen quiches for both the retail and food service markets, along with a variety of entrée and dessert crepes.

There is some Grandma Martin magic in everything she bakes.

## Corporate directory

### Directors

**Henry G. Beben**  
Waterloo, Ontario  
Senior Vice-President,  
Corporate Development

†\***Geno F. Francolini**  
Tillsonburg, Ontario  
Vice-Chairman & Chief  
Executive Officer  
Livingston Industries Limited

†\***Milton R. Good**  
Breslau, Ontario.

**J. Ruth Jackson**  
Kitchener, Ontario

\***Dawson C. Jamieson**  
Waterloo, Ontario  
Senior Vice-President  
Corporate Services &  
Chief Financial Officer

\***Mervyn L. Lahn,**  
London, Ontario  
President  
The Canada Trust Company

**Gordon A. Mackay, Q.C.**  
Kitchener, Ontario  
Senior Partner — Mackay,  
Kirvan, Seitz

**Kenneth G. Murray**  
Bright, Ontario  
President  
J.M. Schneider Inc.

†**Frederick P. Schneider**  
Kitchener, Ontario  
Chairman of the Board &  
President

†**Herbert J. Schneider**  
Kitchener, Ontario  
Vice-President, Personnel  
& Public Relations  
J.M. Schneider Inc.

**Howard G. Schneider**  
Kitchener, Ontario  
Vice-President & Director of  
Research & Development  
J.M. Schneider Inc.

\*Member of Audit Committee

†Member of Executive  
Committee

### Officers

**Frederick P. Schneider**  
Chairman of the Board &  
President

**Kenneth G. Murray**  
Vice-Chairman

**Dawson C. Jamieson**  
Senior Vice-President  
Corporate Services &  
Chief Financial Officer

**Henry G. Beben**  
Senior Vice-President,  
Corporate Development

**Gordon A. Mackay**  
Corporate Secretary

**A. Grace Hartleib**  
Assistant Corporate Secretary

### Honorary Director

**Norman C. Schneider**  
Past Chairman

### Corporate Head Office

The Heritage Group Inc.  
175 Columbia Street, West  
P.O. Box 1620  
Waterloo, Ontario N2J 4M3

**Registrar and Transfer Agent**  
The Canada Trust Company  
Toronto, Montreal, Winnipeg  
& Vancouver

### Auditors

Thorne Riddell

### Shares Listed

Toronto Stock Exchange  
Montreal Stock Exchange

### Meat Subsidiary

J.M. Schneider Inc.  
General Office:  
321 Courtland Avenue, East  
P.O. Box 130,  
Kitchener, Ontario N2G 3X8

### Plants and Distribution Centres

321 Courtland Avenue, East  
Kitchener, Ontario

140 Panet Road  
Winnipeg, Manitoba

### Plants

Northumberland Street  
Ayr, Ontario

358 Flora Avenue  
Winnipeg, Manitoba

663 Marion Street  
Winnipeg, Manitoba

1500 Kootenay Street  
Vancouver, B.C.

### Distribution Centres

147 Hardisty Street, North  
Thunder Bay, Ontario

4060 - 78th Avenue, S.E.  
Calgary, Alberta

4305 Dawson Street  
North Burnaby,  
British Columbia

### Sales Offices

Valhalla Executive Centre  
302 The East Mall, Suite 301  
Islington, Ontario

1673 Carling Avenue, Suite 112  
Ottawa, Ontario

795 Wonderland Road,  
Suite 215

Westmount Centre  
London, Ontario

128 Larch Street, Suite 303  
Sudbury, Ontario

7333 Boul Des Roseaies,  
Suite 305

Ville D'Anjou, Quebec

6080 Young Street, Suite 212  
Halifax, Nova Scotia

Asta Industrial Park  
301 Weston Street, Suite 216  
Winnipeg, Manitoba

6450 Roberts Street, Suite 345  
Sperling Plaza, Burnaby, B.C.

Centre 70, 7015 MacLeod Trail  
Suite 700

Calgary, Alberta

### Grocery Subsidiary

National Consolidated Food  
Brands Inc.

General Office:  
175 Columbia Street, West  
P.O. Box 1621  
Waterloo, Ontario N2J 4C4

### Plants

Winchester Cheese Inc.  
(50% owned)

St. Lawrence Street, South  
P.O. Box 347

Winchester, Ontario

Mother Jackson's  
Open Kitchens Limited  
(48% owned)

132 Simcoe Street  
Port Perry, Ontario

Dorset Foods Inc.  
(20% owned)

2687 Slough Street  
Mississauga, Ontario





**The Heritage Group Inc.  
Annual Review  
1980**

**Consolidated  
balance sheet  
as at  
October 25, 1980**

<b>Assets</b>	<b>(in thousands)</b>	
	<b>1980</b>	<b>1979</b>
Current assets		
Cash and term deposits		\$ 6,706
Accounts receivable	\$22,561	15,559
Inventories	24,156	19,616
Other	693	564
Total current assets	47,410	42,445
Investments in associated companies	1,622	
Fixed assets	41,523	39,253
Intangible assets	1,871	1,929
Total assets	\$92,426	\$83,627

Approved by the board  
signed: "F.P. Schneider" Director  
      "D.C. Jamieson" Director

The accompanying notes are  
an integral part of this statement

	(in thousands)	
	1980	1979
<b>Liabilities</b>		
Current liabilities		
Bank advances	\$ 1,027	
Accounts payable and accrued liabilities	21,603	\$14,975
Income taxes payable	152	4,450
Principal due within one year on debentures	100	124
Current obligations under capital leases	686	592
Total current liabilities	23,568	20,141
Long term debt		
Debentures	10,500	10,600
Obligations under capital leases	1,892	1,968
Total long term debt	12,392	12,568
Deferred income taxes	5,700	5,554
<b>Shareholders' equity</b>		
Capital stock	8,183	8,182
Retained earnings	42,583	37,182
Total shareholders' equity	50,766	45,364
Total liabilities and shareholders' equity	\$92,426	\$83,627

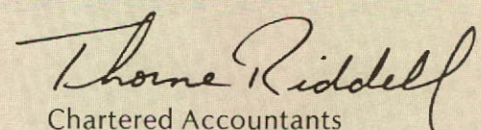
## Auditors' Report

To the Shareholders of  
The Heritage Group Inc.

We have examined the consolidated balance sheet of The Heritage Group Inc. as at October 25, 1980 and the consolidated statements of earnings, retained earnings and changes in financial position of the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at October 25, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Kitchener, Canada  
December 5, 1980

  
Chartered Accountants

**Consolidated  
statement of  
earnings  
year ended  
October 25, 1980**

	(in thousands)	
	1980	1979
<b>Sales</b>	<b>\$391,637</b>	<b>\$374,374</b>
Expenses		
Raw materials	246,217	247,495
Packaging materials	15,936	13,440
Manufacturing	69,830	59,603
Marketing and distribution	32,162	27,422
Administrative and general	9,806	8,365
Interest on long term debt	1,426	1,409
Depreciation and amortization	4,725	4,476
	<b>380,102</b>	<b>362,210</b>
Earnings before income taxes	11,535	12,164
Income taxes	4,844	4,620
Net earnings	<b>\$ 6,691</b>	<b>\$ 7,544</b>
Earnings per share	<b>\$2.55</b>	<b>\$2.78</b>

**Consolidated  
statement of  
retained earnings  
year ended  
October 25, 1980**

	(in thousands)	
	1980	1979
Balance at beginning of year	\$37,182	\$31,626
Net earnings	6,691	7,544
	<b>43,873</b>	<b>39,170</b>
Acquisition of Class A shares	32	900
Dividends		
Paid on:		
Class A shares	1,079	938
Common shares	179	150
	<b>1,290</b>	<b>1,988</b>
Balance at end of year	<b>\$42,583</b>	<b>\$37,182</b>

The accompanying notes are  
an integral part of these statements

**Consolidated  
statement of  
changes in  
financial position  
year ended  
October 25, 1980**

	(in thousands)	
	1980	1979
Working capital derived from		
Operations		
Net earnings	\$ 6,691	\$ 7,544
Items not involving working capital		
Depreciation and amortization	4,725	4,476
Deferred income taxes	146	197
	<u>11,562</u>	<u>12,217</u>
Increase in capital lease obligations	599	1,425
Sale of fixed assets	68	68
Issue of Class A shares	14	30
	<u>12,243</u>	<u>13,740</u>
Working capital applied to		
Additions to fixed assets	6,406	4,104
Investment in associated companies including share of earnings not received as dividends	1,622	
Dividends paid	1,258	1,088
Decrease in non-current portion of long term debt	775	865
Additions to machinery and equipment under capital leases	599	1,425
Acquisition of Class A shares	45	1,240
	<u>10,705</u>	<u>8,722</u>
Increase in working capital	1,538	5,018
Working capital at beginning of year	22,304	17,286
Working capital at end of year	<u>\$23,842</u>	<u>\$22,304</u>

The accompanying notes are  
an integral part of this statement

**Notes to consolidated financial statements year ended October 25, 1980**

**1. Summary of accounting policies**

- a. Basis of consolidation  
The consolidated financial statements include the accounts of the wholly owned subsidiary companies, J. M. Schneider Inc. and National Consolidated Food Brands Inc.
- 
- b. Inventories  
Products are valued at lower of cost and net realizable value. Since most products can be sold at any stage in their production, it is not practical to segregate them into raw materials, work in process or finished goods. Cost includes laid down material cost, manufacturing labour and certain elements of overhead to the stage of production completion. Net realizable value is based on the adjusted wholesale trading price at the balance sheet date. Supplies, which include packaging and manufacturing materials, are valued at the lower of cost and replacement cost.
- 
- c. Investments in associated companies  
Investments in associated companies are recorded on the equity basis. The investments therefore include the company's share of undistributed earnings since acquisition and the statement of earnings includes the company's share of earnings for the year. Also included in the investments is the excess of the cost of the shares of the associated companies over the book value of their assets at dates of acquisition which is being amortized over 40 years.
- 
- d. Fixed assets  
Fixed assets are stated at cost which includes capitalized interest incurred on major projects during the period of construction. Depreciation is provided on a straight line basis to amortize the cost of the assets over their estimated useful life with estimated useful lives not to exceed certain limits.
- |  | Maximum useful lives | Approximate annual rates of depreciation |
|--|----------------------|--|
| Buildings of solid construction                    | 25 years             | 4%                                       |
| Buildings of frame construction and improved areas | 10 years             | 10%                                      |
| Machinery and equipment                            | 10 years             | 10% to 20%                               |
| Automotive equipment                               | 5 years              | 20%                                      |
- Depreciation is not provided on assets under construction. equipment under capital leases are amortized over the lease terms using a straight line method.  
The capitalized values of machinery and
- 
- e. Intangible assets  
Goodwill is being amortized on a straight line basis over forty years. The company recognizes permanent impairment in the value of intangible assets by additional charges against earnings.
- 
- f. Pension plans  
The unfunded past service obligation under pension plans is charged against earnings in the year in which it is paid.
- 
- g. Earnings per share  
Earnings per share are calculated on the weighted average number of shares outstanding in the year.

*1986 APR*

## 2. Reorganization

During the year, the company changed its name from J. M. Schneider Inc. to The Heritage Group Inc. and the following wholly owned subsidiary companies were formed:

- a. National Consolidated Food Brands Inc., incorporated on December 14, 1979, to provide a vehicle for the company to diversify into grocery food products and
- b. J. M. Schneider Inc., incorporated on October 17, 1980, to continue the operations of the meat processing division.

## 3. Investments in associated companies

During the year, National Consolidated Food Brands Inc. (NATCO) acquired interests in two grocery food product manufacturers for \$1,609,000 in cash. The cost of the investments in excess of the book value of the assets of the companies at dates of acquisition amounted to \$1,533,000.

At the time of acquisition, agreements were entered into requiring NATCO to acquire the remaining issued and outstanding shares on the happening of certain events and at prices determined according to certain formulae.

## 4. Fixed assets

	1980		1979	
	Cost	Accumulated depreciation	Net	Net
Land and improved areas	\$ 2,818,000	\$ 177,000	\$ 2,641,000	\$ 2,437,000
Buildings	28,755,000	9,415,000	19,340,000	19,473,000
Machinery and equipment	32,016,000	17,284,000	14,732,000	14,300,000
Assets under construction	2,723,000		2,723,000	838,000
	66,312,000	26,876,000	39,436,000	37,048,000
Machinery and equipment under capital leases	3,775,000	1,688,000	2,087,000	2,205,000
	\$70,087,000	\$28,564,000	\$41,523,000	\$39,253,000

The Board of Directors has approved future capital expenditures of \$6,200,000 of which approximately \$3,300,000 relates to projects now under construction.

**Notes to  
consolidated  
financial  
statements  
year ended  
October 25, 1980**

5. Debentures	1980	1979
8½ % Sinking Fund Debentures, with interest payable semi-annually, annual sinking fund payments of \$100,000 and maturing June 1, 1991	\$ 1,600,000	\$ 1,700,000
10¾ % Sinking Fund Debentures, with interest payable semi-annually, annual sinking fund payments of \$450,000 commencing in 1982 and maturing February 1, 1997	9,000,000	9,000,000
9½ % Debentures, maturing September 1, 1980		24,000
	<u>10,600,000</u>	<u>10,724,000</u>
Less principal included in current liabilities	100,000	124,000
	<u>\$10,500,000</u>	<u>\$10,600,000</u>

Principal due within each of the next five years is as follows:

1981	\$100,000
1982	550,000
1983	550,000
1984	550,000
1985	550,000

A fixed and specific charge on certain land, buildings, machinery and equipment and a floating charge on all assets of the company have been given as security for long term debt.

A trust indenture securing the 1991 and 1997 debentures contains certain covenants some of which limit the creation of additional debt and the entering into long term leases and restrict the use of proceeds from the sale of a substantial part of the company's fixed assets. In addition, the company has undertaken not to declare or pay dividends or otherwise make changes in its capital which would have the effect of reducing the company's equity below \$26,000,000.



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## 6. Obligations under leases

### Capital leases

The following is a schedule of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of October 25, 1980:

1981	\$1,010,000
1982	1,229,000
1983	425,000
1984	344,000
1985	203,000
Later years	<u>143,000</u>
Total minimum lease payments	3,354,000
Less amount representing interest	<u>776,000</u>
Present value of net minimum lease payments	\$2,578,000

This amount is reflected in the balance sheet as current and non-current obligations under capital leases of \$686,000 and \$1,892,000 respectively.

### Operating leases

The following is a schedule of future minimum rental payments required under operating leases as of October 25, 1980:

1981	\$1,088,000
1982	778,000
1983	275,000
1984	15,000
1985	<u>4,000</u>
	<u>\$2,160,000</u>

**Notes to consolidated financial statements year ended October 25, 1980**

**7. Capital stock**

Authorized  
5,401,000 Class A shares without par value, (1979, 5,404,763 shares)  
373,627 Common shares

Issued  
2,248,328 Class A shares, (1979, 2,250,091 shares)  
373,627 Common shares

	1980	1979
	<b>\$7,949,000</b>	\$7,948,000
	<b>234,000</b>	234,000
	<b>\$8,183,000</b>	\$8,182,000

By Articles of Amendment effected May 1, 1980, the cumulative participating Class B and Class C Preference shares were redesignated as Class A shares. The holders of the Class A shares are entitled to a 24¢ cumulative annual dividend and equal participation with the holders of common shares in annual dividends in excess of 24¢ and in any distribution of assets of the company to its shareholders. During the year, the company purchased and cancelled 3,763 Class A shares. The excess of cost over the average issued value of these shares has been charged to retained earnings.

In accordance with a bylaw confirmed at a general meeting of shareholders held on April 30, 1980, the Stock Option Plan for Executives and Key Employees and the Employees' Payroll Deduction Capital Stock Purchase Plan were rescinded and no further options may be granted under these plans. During the year, certain options previously granted were exercised and 2,000 Class A shares were issued at \$7.25 per share. At October 25, 1980, options, granted in 1977 and expiring April 6, 1982, were outstanding for the purchase, at \$8.75 per share, of 29,200 Class A shares which shares have been reserved.

**8. Commitments**

It is estimated that the present value of the unfunded past service obligation under pension plans amounts to \$3,619,000. Annual payments of \$385,000

are required to liquidate this obligation by August 31, 1995. During the year, \$646,000 (\$754,000 in 1979) was paid against the past service obligation.

**Important dates for shareholders**

Company fiscal year 1981: October 26, 1980 to October 31, 1981 (53 weeks).

Dividend Dates

Payable: April 15, 1981, July 15, 1981, October 15, 1981, January 15, 1982.

Record: (4 weeks prior to date of dividend payable, closest Friday) March 13, 1981, June 12, 1981, September 11, 1981, December 18, 1981.

Fiscal Quarter Endings

1st Quarter: February 21, 1981, containing 17 weeks

2nd Quarter: May 16, 1981, containing 12 weeks

3rd Quarter: August 8, 1981, containing 12 weeks

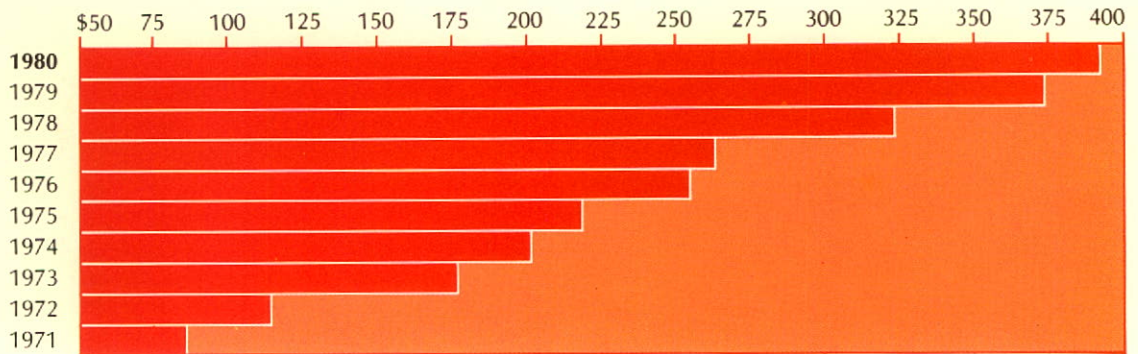
4th Quarter: October 31, 1981, containing 12 weeks

Quarterly Reports are usually ready six weeks from end of quarter. (4th Quarter Reports are delayed because of year-end figures).

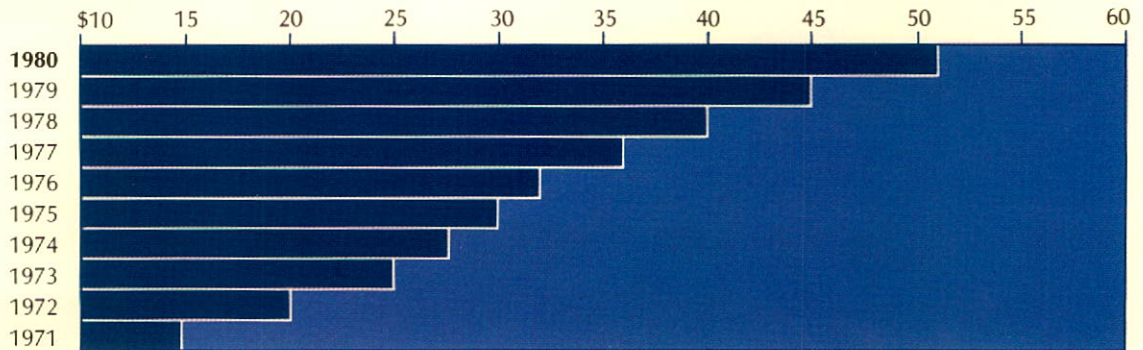
Annual Meeting

The Annual Meeting of common shareholders will be held at the Valhalla Inn, Kitchener, Ontario, on Wednesday, April 29th, 1981 at 7:30 p.m. All shareholders are cordially invited to attend.

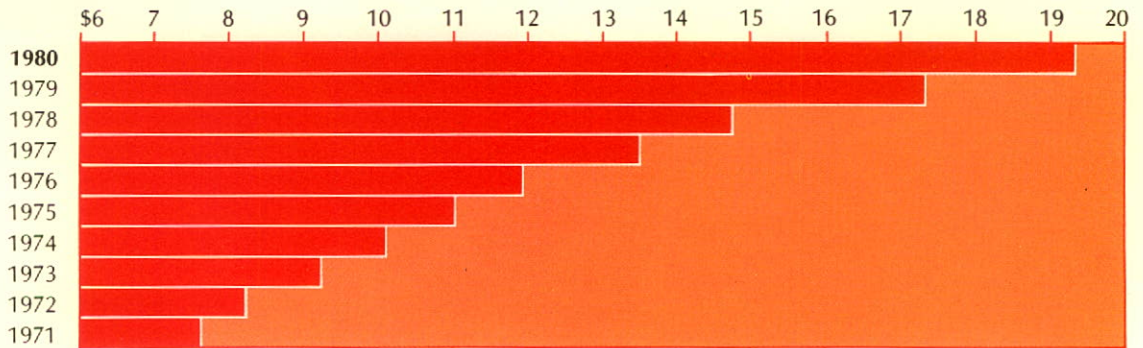
**Sales**  
(in millions)



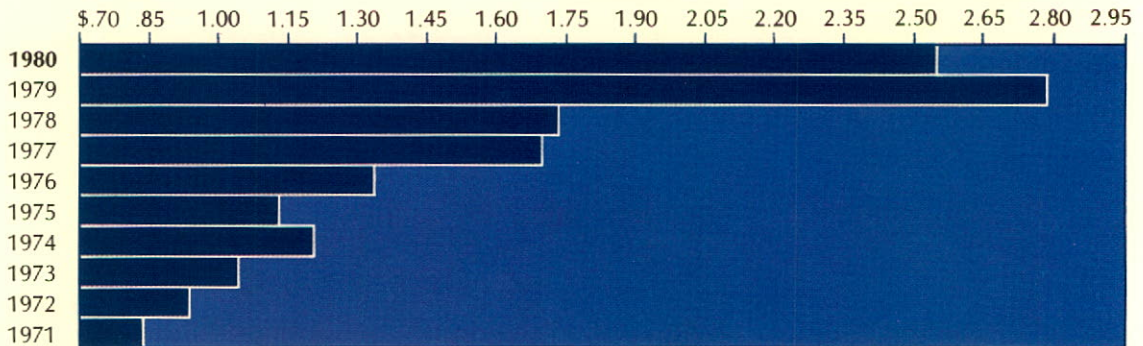
**Shareholders' equity at end of year**  
(in millions)



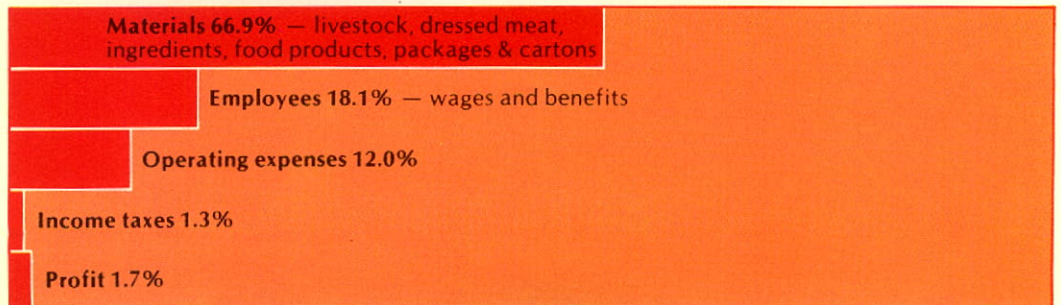
**Equity per share at end of year**



**Net earnings per share**



**1980 sales dollar analysis**



## Ten year statistical review

	(thousands of dollars except where noted)									
	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971
Sales	391,637	374,374	324,675	262,834	254,970	217,018	202,270	177,191	116,465	84,163
Earnings										
Earnings before income taxes and extraordinary items	11,535	12,164	7,766	7,544	7,865	5,610	5,871	4,629	3,715	3,185
Income taxes	4,844	4,620	3,079	2,944	3,288	2,545	2,585	1,921	1,708	1,599
Earnings before extraordinary items	6,691	7,544	4,687	4,600	4,577	3,065	3,286	2,708	2,007	1,586
Earnings before extraordinary items as a percent of sales	1.71	2.02	1.44	1.75	1.80	1.41	1.62	1.53	1.72	1.88
Net earnings	6,691	7,544	4,687	4,600	3,579	3,065	3,286	2,708	2,007	1,586
Dividends paid	1,258	1,088	1,011	824	756	702	810	727	601	494
Capital expenditures	6,406	4,104	9,389	11,030	5,377	4,425	2,945	3,733	2,950	3,509
Depreciation and amortization	4,725	4,476	3,674	2,652	2,567	1,955	1,671	1,602	1,382	1,175
Salaries, wages and employee benefits	71,004	61,538	56,501	47,747	42,084	34,048	30,226	24,718	21,537	18,767
Average number of employees	3,327	3,131	3,009	2,874	2,676	2,640	2,567	2,392	2,244	1,985
Working capital	23,842	22,304	17,286	18,984	12,774	12,000	11,276	9,713	8,504	5,618
Working capital ratio	2.01	2.11	1.92	2.44	1.95	1.91	1.82	1.68	2.04	2.31
Total assets	92,426	83,627	76,275	65,057	50,917	48,060	45,741	43,212	31,781	22,175
Shareholders' equity at end of year	50,776	45,364	40,118	36,361	32,287	29,810	27,447	24,970	20,032	14,452
Percent return on equity at beginning of year	14.75	18.80	12.89	14.25	12.01	11.17	13.16	13.52	13.89	11.87
Percent return on capital employed at beginning of year*	20.19	23.49	16.90	20.54	23.04	18.03	20.88	20.36	21.82	21.87
Number of shares outstanding, in thousands	2,622	2,624	2,716	2,699	2,695	2,701	2,701	2,701	2,395	1,899
Number of shareholders	1,716	1,867	1,977	2,115	2,203	2,385	2,379	2,560	2,217	1,955
Per share statistics, in dollars										
Net earnings	2.55	2.78	1.73	1.70	1.33	1.13	1.21	1.04	.93	.84
Dividends paid	.48	.40	.37	.31	.28	.26	.30	.28	.28	.26
Equity at end of year	19.37	17.29	14.77	13.47	11.98	11.04	10.16	9.25	8.36	7.61

\*Return on capital employed at beginning of year

Return is:

Earnings before income taxes and extraordinary items plus interest on long term debt at the beginning of year less interest earned on temporary investments of proceeds of long term debt.

Capital employed is:

Shareholders' equity, deferred income taxes and long term debt, all at the beginning of the year.







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