C

THE HERITAGE GROUP INC.

Annual Report

1985


SCHNEIDERS
LIFESTYLE
Lifestyle products from Schneiders have been made for today's generation of health conscious consumers. There are 28 new products, all with dramatically reduced fat content, but still with the great taste and quality that go into everything Schneiders make.
125g LIFESTYLE
less than 10% fat
only 40 calories per slice
chicken loaf
pain de poulet
moins de 10% de matières grasses
seulement 40 calories par tranche
less than 10% fat
moins de 10% de matières grasses
less than 9% fat
only 43 calories per slice
beerwurst sausage
saucisson de bière
125g LIFESTYLE
less than 4% fat
only 27 calories per slice
cooked ham
jambon cuit
moins de 4% de matières grasses
seulement 27 calories par tranche
375g LIFESTYLE
less than 15% fat
only 92 calories per wiener
wieners
saucisses fumées

Corporate Principles

The Heritage Group of Companies will:

Produce and market products and provide services superior to those of its competitors

Act with integrity and fairness in its relations with employees, customers and suppliers

Continue to produce products of excellence at the lowest cost commensurate with quality, value and reputation

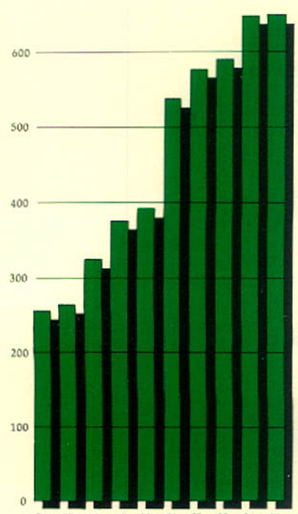
Provide opportunities for the self-development of its employees and where possible, promote from within

Generate a return on investment sufficient to insure continued growth in jobs, sales, assets and opportunity.

Financial Highlights

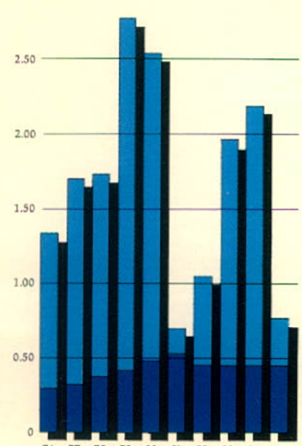
	1985	1984
	(thousands of dollars except where noted)	
Sales	648,598	645,558
Earnings before extraordinary items	2,009	5,766
Per share, in dollars	.76	2.17
Percent of sales	.31	.89
Percent of shareholders' opening equity	3.24	10.05
Net earnings (loss)	(2,036)	5,766
Per share, in dollars	(.77)	2.17
Percent of sales	(.31)	.89
Percent of shareholders' opening equity	(3.28)	10.05
Dividends paid	1,167	1,167
Rate per share, in dollars	.44	.44
Working capital	22,786	24,336
Working capital ratio	1.41	1.49
Shareholders' equity at end of year	58,780	61,983
Per share, in dollars	22.17	23.38

Sales
in millions of dollars

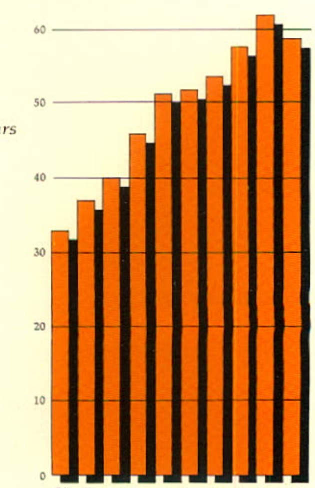


Net earnings per share before extra-ordinary items
in dollars

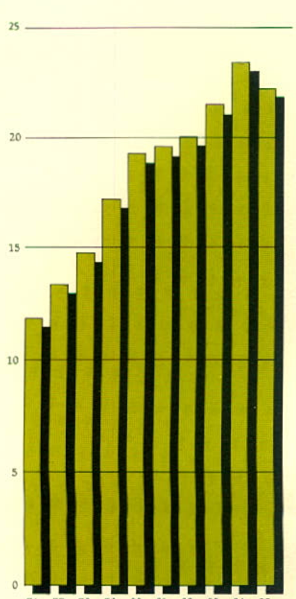
■ Dividends



Shareholders' equity at end of year
in millions of dollars

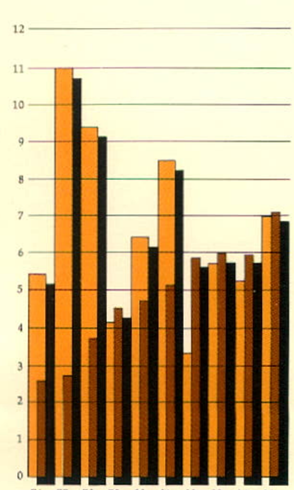


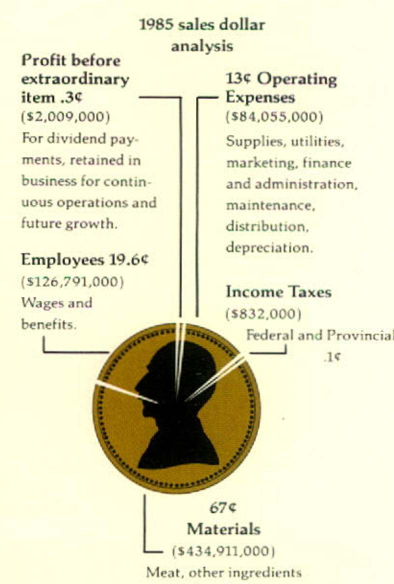
Equity per share at end of year
in dollars



Capital expenditures and Depreciation
in millions of dollars

■ Depreciation





THE HERITAGE GROUP

Report to the Shareholders

Left to right:

Herbert J. Schneider, Vice-President, The Heritage Group Inc.

Edward Van Wijk, President, F. G. Bradley Inc.

Douglas W. Dodds, President, J.M. Schneider Inc.

Frederick P. Schneider, Chairman, President & C.E.O. The Heritage Group Inc.

Dawson C. Jamieson, Sr. Vice-President, Corporate Services & Chief Financial Officer, The Heritage Group Inc.

William D. McMichael, General Manager, National Consolidated Food Brands Inc.

Howard G. Schneider, Vice-President & Director, Research & Development, J.M. Schneider Inc.

By any measure, your company's earnings for fiscal 1985 were unsatisfactory. Before extraordinary items, after-tax per share earnings were $.76 in 1985 compared to similar earnings of $2.17 in 1984. As a return on opening shareholders' equity, the 1985 earnings after extraordinary items represented a disappointing loss of 3.28%. To put our current earnings pattern into perspective, during the decade of the 70s, your company's earnings generated an average return of 13.26% on opening equity. Over the past six years, that number has fallen to an average of 6.81%. Clearly, your company cannot prosper with earnings anywhere near their current levels. They must improve. That objective is the single most important task for everyone in the company, this year and well into the future.

In 1985, sales for the total group were $648,598,000 compared to $645,558,000 in 1984, an increase of .47%.

The major extraordinary items in 1985 were the writedown of goodwill and provisions made to cover the costs of closing, or substantially reducing, operations at two F.G. Bradley plants in Winnipeg and one J.M. Schneider plant in Vancouver. The closing and reduction in operations resulted in the loss of $.77 per share in fiscal 1985. However, in the current year and beyond, we believe the corporation will realize significant cost savings as a result, without interrupting the normal flow of business.

In terms of the domestic industry at large, there was little evidence of any change in the trend toward lower levels of red meat consumption in 1985. In fact, while there continues to be change in the mix of what people are eating, overall levels of food consumption, in all categories, are flat. In our sector of the industry, the trend is still toward white meat food items and convenience and frozen foods in all categories.

Near the end of fiscal 1985, The Heritage Group, and some of its subsidiary companies, made a number of changes that we believe will have a positive effect on the corporation's operations and therefore its earnings. We began the process of simplifying the corporation's structure, in all companies, in order to make managers at every level more responsible in the management of the company.

For the first half of this decade, your company has tried to avoid rationalizing its business and instead, preserving jobs through increasing its market share, becoming a more efficient producer and growing through acquisitions. That strategy has been only partially successful. In today's environment, we cannot afford to continue some of the working practices, production methods and tradi-

for their performance and profitability. In general, the corporation intends to shift the emphasis of management onto the operating heads of the companies, leaving Heritage to provide only a few corporate management services, largely in the area of finance. I, along with other members of the Schneider family, have determined to be more active and visible in the corporation's affairs in response to a desire on the part of many employees that we play a more active role

tions that our competitors have long since abandoned. As a result, plans are already in progress to reduce the number of products made by various companies and to modernize our technical capacity in an effort to lower our production costs substantially.

The process of rationalization and modernization will not affect the corporation's strategy of diversification into non-meat sectors of the food industry. Through acquisition and development, we'll continue to look for opportunities to expand our business into other food areas.

On a company-by-company basis, J.M. Schneider Inc., the corporation's flagship company, specializing in all categories of meat products, had a disappointing year as earnings dropped from those of the previous year. A number of internal changes have already taken place. Mr. Douglas Dodds, previously president of Link Services Inc. was appointed president of J.M. Schneider Inc. early in fiscal 1986. A number of senior management changes followed Mr. Dodds' appointment, aimed at simplifying communications and realigning people at all levels into more practical business units.

During 1986, J.M. Schneider Inc. will execute a program of well-planned, capital expenditure improvements in areas of our operations where we think cost savings will yield the greatest return. In every case, new production equipment comes with rapid payback advantages that will increase the longer term potential for profit and growth.

After an auspicious beginning, the F.G. Bradley company reported another year of disappointing results. At mid-year, Mr. Ed Van Wijk was appointed president of the company. In essence, Bradley is now in the process of aligning its costs with the realities of the marketplace. Part of this exercise involves focussing the company's sales and production efforts on products in which the company has a distinct advantage and on which an adequate profit can be made. The first step was the closure or reduction of operations in the two Winnipeg plants. Neither closure will have any effect on the company's ability to serve existing markets. Bradley will also benefit from the corporation's capital spending program for 1986.

National Consolidated Food Brands Inc. (NATCO) had a substantial year-over-year increase in sales and earnings in 1985. Under the direction of the new general manager, Mr. William McMichael, the operations of the company will be split into two business groups; one to concentrate on cheese manufacturing and marketing activities, the other to focus on frozen pastry and baked goods. The division recognizes the natural split in the company's operations and should lead to a more effective use of assets at lower costs.

The cheese side of NATCO's operations continues to show impressive results and the company took several steps to strengthen its position in that market in 1985. Early in 1985, NATCO completed the purchase of the Millbank Cheese & Butter company in Millbank, Ontario thereby securing both a milk quota and guaranteed supply of cheeses. To further strengthen our position in the industry, NATCO moved quickly in 1985 to reactivate our former cheese manufacturing plant in Wellesley, Ontario. Against the opposition of other processors, NATCO obtained the necessary operating licences, only to be informed subsequently by the Ontario Milk Marketing Board that the current milk allocation quota system would not permit them to supply the company with any milk for the Wellesley plant. The attitude and policy of the Milk Marketing Board begs the sense of the licencing process. However, it also vindicates our decision to purchase Millbank Cheese and Butter as NATCO's cheese volumes continue to grow annually. The corporation is actively pursuing this matter in an attempt to have the Milk Marketing Board alter its decision.

Heritage export division, Portage Trade Development, continued to show promising growth. Portage represents products from all the Heritage companies and last year the division exceeded its budget for tonnes and contributed to earnings for the first time. At its current stage of development, we think Portage would benefit most with the immediate support of a larger organization.

In closing, I would like to acknowledge the contribution of two men who have served this corporation for many years. Mr. Kenneth G. Murray resigned as president of J.M. Schneider Inc. in 1985, having served in that office with distinction for almost 20 years. We are pleased that Mr. Murray's experience and abilities will not be lost immediately to the corporation since he will continue as a director of The Heritage Group Inc.

Mr. Henry G. Beben also resigned as president of The Heritage Group Inc. in 1985. Mr. Beben played an important role in the development of The Heritage Group itself and the individual companies. His contribution was significant and I wish him well in his new endeavours.

On a sadder note, I know I am joined by many fellow employees in lamenting the passing of my uncle and former president and chairman of J.M. Schneider Inc., Mr. Norman C. Schneider. Throughout his long professional and community life, Norman stood for all the values our family has tried to emulate. We can honour Norman most by keeping alive the spirit he left behind.

On behalf of the Board of The Heritage Group, I wish to thank employees and shareholders for their support and efforts during a difficult transition in the corporation's history. As we emerge on the other side, I am confident all parties will be part of a healthier, more profitable company.

F.P. Schneider

F.P. Schneider
Chairman, President & C.E.O.

J.M. Schneider Inc.

F.G. Bradley Inc.

Link Services Inc.

National Consolidated Food Brands Inc.

Portage Trade Development

1. J.M. Schneider Inc. recently acquired a new, Multi-Vac packaging line which ensures the utmost freshness of their sliced luncheon meat products.

2. Bradley's meat patties are processed, then quick-frozen prior to shipment to many of Canada's major fast-food chains.

3. After an encouraging beginning, Portage Trade Development will become the Export Division of J.M. Schneider Inc., continuing the corporation's initiatives to sell into international markets.

4. Upon acquisition, Natco boosted Millbank's production capacity. Demand continues to be strong for all the new company's products.

5. Link Services' fleet of modern, efficient trucks and their drivers is a major reason for the company's reputation for product quality and freshness.

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Under a new team of senior managers in 1986, J.M. Schneider Inc. plans to concentrate on the things it does best — making and selling quality, retail meat products, and making a profit in the process. Concentration on product excellence will mean greater emphasis on quality control and attrition in some product lines. The company also plans to increase its production capacity through the adaptation of new technology.

A number of capital equipment improvements, highlighted by the new pre-broiled bacon line already in operation, will have a significant effect on productivity levels in one of our major product categories. New equipment and additions to our poultry operations in Ayr, Ontario have enabled us to keep pace in an increasingly competitive sector of the market.

The company's major product development and marketing effort in 1986 will be a fresh launch of the Lifestyle line of low calorie, reduced fat products. In all, there are 28 different meat items. New packaging, greater marketing support and better products will make Lifestyle the largest, most successful launch in the company's history and give us a permanent place in this growing sector of the market.

In 1985, in the wake of several periods of unsatisfactory results, the F.G. Bradley company reassessed its position in the market and its options for recovery. The company's new management decided that fundamental, tangible changes were necessary in order to make it viable.

Bradley's difficulties stem from the changes in lifestyle and consumer tastes that permanently changed the economic and operational basis of the food service industry. One result has been a substantial over-capacity. Bradley has adopted a plan involving three major steps:

1. *Bring overheads and fixed costs into line with the company's sales and earnings performance.*
2. *Use technology to become a low cost producer in product categories where the company is not likely to be undercut by small, independent operators.*
3. *Move ahead cautiously with the development of new products that reflect the prestige the Bradley name carries in the food service market.*

Early signs of Bradley's rebuilding have been encouraging. Costs have been reduced substantially by closing or reducing operations in Winnipeg. The new more efficient production line at the company's Kipling Avenue plant in Toronto has increased productivity significantly for one of the company's major products. For the first time in its history as part of The Heritage Group, Bradley will be in a position to make a sustained and significant contribution to earnings as a result of efforts now underway.

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In 1985, NATCO rebounded strongly in terms of sales and earnings from its lacklustre performance the previous year. The resurgence was led by growth in the cheese area — particularly cheese slices — and growth in the soft margarine and edible oils categories.

In the area of product development, NATCO has decided to concentrate on developing new frozen food products that will use the full manufacturing capacity of Dorset Foods and Mother Jackson's rather than attempting experiments in new markets where their expertise may not be as great.

Shortly after NATCO completed the purchase of the Millbank Cheese & Butter Company, it boosted the production capacity to the limit in order to allow Millbank to supply its existing customers and contribute some production to NATCO's needs. NATCO now has a complete vertically-integrated cheese operation beginning with primary manufacturing at Millbank, processing and packaging at Winchester, and distribution administered by Link Services.

In 1985, the company continued to implement its program of gradually building its own, direct sales force. There are now NATCO salesmen covering the Maritimes and Quebec in addition to Ontario. In 1986, the outlook for NATCO's continued growth in earnings potential is strong.

From its beginnings three years ago, Portage Trade Development has made slow, steady progress. In 1985, the pace and amount of growth accelerated. The division is now seeing steady sales in cities in the northeastern United States including parts of New York City. Portage now markets over 50 Schneider and Bradley products as premium, Canadian-imported items.

Wherever it has gone, Portage has been successful getting major chains to list its products. The challenge now is to build and consolidate a consumer market. This objective will be accomplished in part by joining hands with J.M. Schneider Inc., the company from which it gets most of its products and under whose name Portage products have been sold. Having the Schneider resources at hand should accelerate the successful beginning Portage has made.

In 1985, Link Services improved its overall productivity and consolidated several aspects of its three-year capital expansion program in Western Canada.

Heritage companies (Link's customers) will be able to assess delivery costs more accurately and make more precise marketing decisions at operating levels with the help of Link's new freight audit and cost control system that provides more precise tracking and verification of freight charges.

During the year Link integrated truck deliveries for Bradley products destined for the Toronto and southwestern Ontario regions. In addition to improving transportation services for NATCO, to and from its cheese plant in Winchester, Ontario, NATCO also began using Link's Winnipeg Distribution Centre to improve service in western Canada.

Link added and replaced a number of trailers in its vehicle fleet. New trailer equipment incorporates the latest in refrigeration technology which enables Link to maintain product integrity during transit. New technology in the areas of bar coded labels and label scanning offers Link's customers greater savings through better inventory control and aging by location. The company is currently testing equipment for this purpose with plans to start implementing it in 1986.

Schneiders
375g
LIFESTYLE
keep frozen
less than 9% fat
only 58 calories per sausage
Schneiders
125g LIFESTYLE
KEEP REFRIGERATED
GARDER AU FROID
BEST BEFORE
MEILLEUR AVANT
less than 15% fat
only 52 calories per slice
bologna
bologne
moins de 15% de matières grasses
seulement 52 calories par tranche
less than 15 % fat
moins de 15 % de matières grasses

THE HERITAGE GROUP INC.

Annual Review
1985

The Heritage Group Inc.
(Incorporated under the laws of Ontario)
Annual Review
1985

Consolidated balance sheet as at October 26, 1985

Assets	(in thousands) 1985	1984
Current assets		
Accounts receivable	$ 28,597	$ 28,340
Inventories	46,067	43,574
Income taxes recoverable	692	
Other	2,545	2,261
Total current assets	77,901	74,175
Investment in associated company	1,895	2,121
Fixed assets	58,954	56,732
Other assets		
Production licences and rights	3,280	
Intangible assets	1,784	3,783
	5,064	3,783
Total assets	$143,814	$136,811

Approved by the Board

F. P. Schneider

F. P. Schneider,
Director

D. C. Jamieson

D. C. Jamieson,
Director

The accompanying notes are an integral part of these statements

Liabilities	(in thousands) 1985	1984
Current liabilities		
Outstanding cheques	$ 4,306	$ 10,673
Bank advances	3,754	7,125
Accounts payable and accrued liabilities	37,064	30,190
Income taxes payable		633
Principal due within one year on debentures and loans	9,719	1,011
Current obligations under capital leases	272	207
Total current liabilities	55,115	49,839
Long term debt		
Debentures and loans	24,351	19,076
Obligations under capital leases	648	183
Total long term debt	24,999	19,259
Deferred income taxes	4,920	5,730
Shareholders' equity		
Capital stock	8,439	8,439
Retained earnings	50,341	53,544
Total shareholders' equity	58,780	61,983
Total liabilities and shareholders' equity	$143,814	$136,811

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 26, 1985 and the consolidated statements of earnings, retained earnings and changes in financial position for 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 consolidated financial statements present fairly the financial position of the company as at October 26, 1985 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
November 22, 1985

Thorne Riddell

Chartered Accountants

Consolidated statement of earnings year ended October 26, 1985

	(in thousands) 1985	1984
Sales	$648,598	$645,558
Expenses		
Cost of products sold and operating expenses	633,382	625,085
Interest	5,303	4,502
Depreciation and amortization	7,072	5,960
	645,757	635,547
Earnings before income taxes and extraordinary items	2,841	10,011
Income taxes	832	4,245
Earnings before extraordinary items	2,009	5,766
Plant closures and write off of intangible assets	(4,045)	
Net earnings (loss)	$ (2,036)	$ 5,766
Earnings per share before extraordinary items	$.76	$2.17
Earnings (loss) per share	$(.77)	$2.17

Consolidated statement of retained earnings year ended October 26, 1985

	(in thousands) 1985	1984
Balance at beginning of year	$ 53,544	$ 48,945
Net earnings (loss)	(2,036)	5,766
	51,508	54,711
Dividends		
Class A shares	1,002	1,002
Common shares	165	165
	1,167	1,167
Balance at end of year	$ 50,341	$ 53,544

The accompanying notes are
an integral part of these statements

Consolidated statement of changes in financial position year ended October 26, 1985

	(in thousands) 1985	1984
Working capital derived from		
Operations		
Earnings before extraordinary items	$ 2,009	$ 5,766
Items not involving working capital		
Depreciation and amortization	7,072	5,960
Deferred income tax reduction	(922)	(533)
Share of earnings of associated companies	22	(126)
	8,181	11,067
Issue of debenture	15,000	
Increase in capital lease obligation	830	51
Sale of fixed assets	708	187
	24,719	11,305
Working capital applied to		
Decrease in non-current portion of long term debt	10,396	1,289
Additions to fixed assets	6,983	5,254
Acquisition of shares of businesses less working capital related thereto of $957,000 ($1,925,000 in 1984)	6,420	1,695
Dividends paid	1,167	1,167
Additions to machinery and equipment under capital leases	830	51
Plant closure costs	473	
	26,269	9,456
Increase (decrease) in working capital	(1,550)	1,849
Working capital at beginning of year	24,336	22,487
Working capital at end of year	$22,786	$24,336

The accompanying notes are
an integral part of these statements

Notes to consolidated financial statements year ended October 26, 1985

1. Summary of accounting policies

(a) Basis of consolidation

The consolidated financial statements include the accounts of The Heritage Group Inc. and its subsidiary companies, all of which are wholly owned.

(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, maintenance and manufacturing materials, are valued at the lower of cost and replacement cost.

(c) Investment in associated company

The investment is recorded on the equity basis. The investment therefore includes 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 investment is the excess of the cost of the shares of the associated company over the book value of its assets at the date 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	Annual rates of depreciation
Buildings of solid construction	40 years	2.5% to 4%
Buildings of frame construction and improved areas	20 years	5% to 10%
Machinery and equipment	10 years	10% to 20%

Depreciation is not provided on assets under construction.

The capitalized values of machinery and equipment under capital leases are depreciated over the lease terms using a straight line method.

(e) Other assets

Other assets are being amortized on a straight line basis over their estimated lives, such amortization period not exceeding 40 years. The company recognizes permanent impairment in the value of these 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.

Notes to consolidated financial statements year ended October 26, 1985

2. Acquisitions

Early in the year a subsidiary company acquired the balance of the outstanding shares of one of its associated companies and all of the outstanding shares of Millbank Cheese & Butter Limited, a cheese manufacturing company. These transactions have been accounted for on the purchase method with results of operations included in these financial statements from the dates of acquisitions. Details of the acquisitions are as follows (in thousands):

Net assets acquired at assigned values (book value $2,756)	
Assets	$9,969
Liabilities	3,202
	6,767
Excess of cost of shares over assigned values	803
	7,570
Less adjustment for equity interest previously held	194
	$7,376
Cash consideration given	$7,376

3. Fixed assets

	(in thousands) 1985			1984
	Cost	Accumulated depreciation	Net	Net
Land and improved areas	$ 4,490	$ 390	$ 4,100	$ 4,647
Buildings and leasehold improvements	48,132	18,707	29,425	28,886
Machinery and equipment	56,066	33,282	22,784	21,903
Assets under construction	1,832		1,832	1,130
	110,520	52,379	58,141	56,566
Machinery and equipment under capital leases	1,433	620	813	166
	$111,953	$52,999	$58,954	$56,732

The Board of Directors has approved capital expenditures on future projects of $5,988,000. An additional $200,000 is expected to be required to complete projects now under construction.

Notes to consolidated financial statements year ended October 26, 1985

4. Debentures and loans

	(in thousands) 1985	1984
12 3/10% Sinking Fund Debentures, maturing August 15, 1995	$15,000	
Debenture, interest adjusted annually in accordance with a published McLeod, Young, Weir Limited 10 Industrial Bond Index less ½ of 1%. The company intends to exercise the prepayment privilege, contained in the agreement, on February 23, 1986	8,885	$ 9,089
10¾% Sinking Fund Debentures, maturing February 1, 1997	7,200	7,650
8½% Sinking Fund Debenture, maturing June 1, 1991	1,100	1,200
13½% Loan payable, maturing June 1, 1992. Interest to July 1987 will be forgiven subject to certain conditions	1,500	1,500
Non interest bearing mortgage and other loans payable with interest from 8% to 9½%, maturing at various dates to December 1, 1989	385	648
	34,070	20,087
Less principal included in current liabilities	9,719	1,011
	$24,351	$19,076
Interest for the year	$ 2,558	$ 2,264

Principal due within each of the next five years is as follows (in thousands):

1986	$9,719
1987	1,973
1988	2,137
1989	2,120
1990	2,158

The debentures and loans are secured by fixed and specific charges on certain assets and floating charges on all assets of the company.

A trust indenture securing the sinking fund 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. 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 $50,000,000. In addition, the company is required to maintain certain financial ratios.

Notes to consolidated financial statements year ended October 26, 1985

5. 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 26, 1985 (in thousands):

1986	$ 377
1987	289
1988	240
1989	190
1990	72
Total minimum lease payments	1,168
Less amount representing interest	248
Present value of net minimum lease payments	$ 920

This amount is reflected in the balance sheet as current and non-current obligations under capital leases of $272,000 and $648,000 respectively.

Operating leases

The following is a schedule of future minimum rental payments required under operating leases as of October 26, 1985 (in thousands):

1986	$ 4,261
1987	3,540
1988	2,763
1989	1,700
1990	739
Later years	2,576
	$15,579

6. Capital stock

Authorized

5,401,000 Class A non-voting shares

373,627 Common shares

	(in thousands) 1985	1984
Issued		
2,277,528 Class A shares	**$8,205**	$8,205
373,627 Common shares	**234**	234
	$8,439	$8,439

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.

Notes to consolidated financial statements year ended October 26, 1985

7. **Plant closures and write off of intangible assets**
In October 1985, a decision was made to close manufacturing facilities in Winnipeg, Manitoba owned by F. G. Bradley Inc. and facilities in Vancouver, B.C. leased by J. M. Schneider Inc. A charge of $1,403,000, net of income taxes of $605,000, has been made against earnings to reflect the write-down of buildings and equipment to their estimated net realizable values and the provision for costs of closing operations.

A charge of $2,642,000 has been made against earnings to recognize the permanent impairment in the value of intangible assets acquired on the acquisition of F. G. Bradley Inc. and an acquisition of J. M. Schneider Inc.

8. **Commitments**
(a) Pension plans
The company charged against income $404,000 ($690,000 in 1984) for past service commitments under pension plan agreements. The present value of unfunded past service obligations at October 26, 1985, estimated by the company's actuarial consultants to be $1,406,000, will be paid in accordance with the provisions of The Ontario Pensions Act.

(b) Investment
A subsidiary company has entered into an agreement which requires it to acquire the remaining issued and outstanding shares of an associated company on the happening of certain events and at a price determined according to a certain formula.

9. **Other information**
(a) Operations
The company operates substantially in one industry, the processing and distribution of meat and related food products.

(b)

	(in thousands) 1985	1984
Depreciation	$6,831	$5,832
Amortization	$ 241	$ 128

Ten Year statistical review

(thousands of dollars except where noted)

	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976
Sales	**648,598**	645,558	590,074	581,071	539,364	391,637	374,374	324,675	262,834	254,970
Earnings										
Earnings before income taxes and extraordinary items	**2,841**	10,011	9,494	5,125	3,304	11,535	12,164	7,766	7,544	7,865
Income taxes	**832**	4,245	4,222	2,238	1,382	4,844	4,620	3,079	2,944	3,288
Earnings before extraordinary items	**2,009**	5,766	5,272	2,887	1,922	6,691	7,544	4,687	4,600	4,577
Earnings before extraordinary items as a percent of sales	**.31**	.89	.89	.50	.36	1.71	2.02	1.44	1.75	1.80
Net earnings (loss)	**(2,036)**	5,766	5,272	2,887	1,922	6,691	7,544	4,687	4,600	3,579
Net earnings (loss) as a percent of sales	**(.31)**	.89	.89	.50	.36	1.71	2.02	1.44	1.75	1.40
Dividends paid	**1,167**	1,167	1,167	1,162	1,390	1,258	1,088	1,011	824	756
Capital expenditures	**6,983**	5,254	5,741	3,329	8,486	6,406	4,104	9,389	11,030	5,377
Depreciation and amortization	**7,072**	5,960	5,978	5,861	5,129	4,725	4,476	3,674	2,652	2,567
Salaries, wages and employee benefits	**126,791**	128,316	108,508	100,515	88,924	71,004	61,538	56,501	47,747	42,084
Average number of employees	**3,971**	3,970	3,827	3,817	3,880	3,327	3,131	3,009	2,874	2,676
Working capital	**22,786**	24,336	22,487	22,333	18,816	23,842	22,304	17,286	18,984	12,774
Working capital ratio	**1.41**	1.49	1.51	1.62	1.42	1.89	2.11	1.92	2.44	1.95
Total assets	**143,814**	136,811	126,867	119,715	126,692	95,537	83,627	76,275	65,057	50,917
Shareholders' equity at end of year	**58,780**	61,983	57,384	53,279	51,300	50,766	45,364	40,118	36,361	32,287
Percent return on equity at beginning of year	**(3.28)**	10.05	9.90	5.62	3.79	14.75	18.80	12.89	14.25	12.01
Per share statistics, in dollars										
Earnings before extraordinary items	**.76**	2.17	1.99	1.10	.73	2.55	2.78	1.73	1.70	1.70
Net earnings (loss)	**(.77)**	2.17	1.99	1.10	.73	2.55	2.78	1.73	1.70	1.33
Dividends paid	**.44**	.44	.44	.44	.53	.48	.40	.37	.31	.28
Equity at end of year	**22.17**	23.38	21.64	20.10	19.56	19.36	17.29	14.77	13.47	11.98

Directors and Officers

Directors

* **Geno F. Francolini, F.C.A.**
President & Chief
Executive Officer
Xenon Capital Corporation
Tillsonburg, Ontario

Douglas R. Haas-Hawkings
Ancaster, Ontario
Link Services Inc.

†* **Walter J. Hachborn**
St. Jacobs, Ontario
President
Home Hardware Stores
Limited

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

† **William H. Kaufman**
Kitchener, Ontario
Chairman, Kaufman
Footwear & Kaufman
Furniture, divisions of
William H. Kaufman Inc.

† **Gordon A. Mackay, Q.C.**
Kitchener, Ontario
Senior Partner
MacKay, Artindale, Wunder

Kenneth G. Murray
Ayr, Ontario
Vice-Chairman

† **Frederick P. Schneider**
Kitchener, Ontario
Chairman, President &
Chief Executive Officer

† **Herbert J. Schneider**
Waterloo, Ontario
Vice-President

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

* **Milo D. Shantz**
St. Jacobs, Ontario
Chairman of the Board
Mercedes Developments
Limited

* Member of Audit Committee
† Member of Executive Committee

Officers

Frederick P. Schneider
Chairman, President &
Chief Executive Officer

Kenneth G. Murray
Vice-Chairman

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

Herbert J. Schneider
Vice-President

Gordon A. Mackay, Q.C.
Corporate Secretary

A. Grace Hartleib
Assistant Corporate Secretary

Important dates for shareholders

Company fiscal year 1986:
October 27, 1985 to
October 25, 1986 (52 wks)

Proposed Dividend dates
Payable: April 15, 1986
July 15, 1986
October 15, 1986
January 15, 1987
Record: (3 weeks prior
to date of dividend
payable, closest Friday)
March 21, 1986
June 20, 1986
September 19, 1986
December 19, 1986

Fiscal quarter endings:
1st Quarter
February 15, 1986
containing 16 weeks

2nd Quarter
May 10, 1986
containing 12 weeks

3rd Quarter
August 2, 1986
containing 12 weeks

4th Quarter
October 25, 1986
containing 12 weeks

Corporate Directory

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, Ontario

Auditors
Thorne Riddell

Shares Listed
The Toronto Stock Exchange

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

Plants
321 Courtland Avenue East
P.O. Box 130
Kitchener, Ontario
N2G 3X8

140 Panet Road
Winnipeg, Manitoba
R2J 0S3

Northumberland Street
Ayr, Ontario
N0B 1E0

663 Marion Street
Winnipeg, Manitoba
R2J 0T3

4305 Dawson Street
North Burnaby,
British Columbia
V5C 4B4

Sales Offices
Valhalla Executive Centre
302 The East Mall
Suite 301
Islington, Ontario
M9B 6C7

1673 Carling Avenue
Suite 112
Ottawa, Ontario
K2A 1C4

795 Wonderland Road
Suite 215
Westmount Centre
London, Ontario
N6K 3C2

128 Larch Street
Suite 303
Sudbury, Ontario
P3E 1C2

6600 Cote Des Neiges Road
Suite 306
Montreal, Quebec
H3S 2A9

6080 Young Street
Suite 707
Halifax, Nova Scotia
B3K 5L2

140 Panet Road
Winnipeg, Manitoba
R2J 0S3

6450 Roberts Street
Suite 345
Sperling Plaza
Burnaby, British Columbia
V5G 4E1

4060 78th Avenue S.E.
Calgary, Alberta
T2C 2L8

Export Division
321 Courtland Avenue East
P.O. Box 130
Kitchener, Ontario
N2G 3X8

Grocery Products
National Consolidated Food
Brands Inc.
General Office:
175 Columbia Street West
P.O. Box 1621
Waterloo, Ontario
N2J 4C4

Plants
Dorset Foods Inc.
2687 Slough Street
Mississauga, Ontario
L4T 1G2

Millbank Cheese & Butter
Limited
78 Church Street
Millbank, Ontario
N0K 1L0

Winchester Cheese Inc.
694 St. Lawrence Street South
P.O. Box 490
Winchester, Ontario
K0C 2K0

Mother Jackson's Open
Kitchens Limited (48% owned)
132 Simcoe Street
Port Perry, Ontario
L0B 1N0

Sales Offices
78 Shorncliffe Road
Etobicoke, Ontario
M8Z 5K5

6600 Cote Des Neiges Road
Suite 306
Montreal, Quebec
H3S 2A9

6080 Young Street
Suite 711
Halifax, Nova Scotia
B3K 5L2

Food Service Products
F.G. Bradley Inc.
Corporate and Sales Offices:
200 Ronson Drive
Rexdale, Ontario
M9W 5Z9

Plants
550 Kipling Avenue
Toronto, Ontario
M8Z 5E9

1575 Inkster Boulevard
Winnipeg, Manitoba
R2X 1R2

4120-98th Street
Edmonton, Alberta
T6E 5A2

Sales Office
205 Donaghy Avenue
North Vancouver,
British Columbia
V7P 2L6

Distribution
Link Services Inc.
General Office:
175 Columbia Street West
P.O. Box 1623
Waterloo, Ontario
N2J 4N1

Distribution Centres
321 Courtland Avenue East
P.O. Box 130
Kitchener, Ontario
N2G 3X8

198 Dawson Road North
Winnipeg, Manitoba
R2J 0S7

4060-78th Avenue S.E.
Calgary, Alberta
T2C 2L8

205 Donaghy Avenue
North Vancouver,
British Columbia
V7P 2L6

Distribution Terminal
78 Shorncliffe Road
Etobicoke, Ontario
M8Z 5K5