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HOWARD ROSS
OF MONTREAL
APR 14 1983
McGILL UNIVERSITY

*“Summer Kitchen” by F.T.V. Savard is one in a series of
Canadiana paintings reproduced by Corporate Foods Limited.*

Corporate Foods Limited is a leading manufacturer and distributor of bakery products, primarily bread and rolls, in the Ontario market, with investments in other bakery companies. The Company also manufactures and distributes nationally, under the Gainsborough brand, a line of frozen breakfast and pastry products. In Ontario, where the Company began business in 1911, plants are located at Toronto (3), London and Ottawa. The Company has the broadest distribution of variety breads and rolls of any bakery operating in Ontario, selling under the brand names Dempster’s, Bamby, Sunshine and Toastmaster and is also a major supplier of private label brands. In addition, the Company is licensee of Arnold, Brownberry, Hollywood and Sun•Maid Raisin breads.

The Company’s stock is traded on the Toronto and Montreal Stock Exchanges. Maple Leaf Mills Limited, a Canadian Pacific Enterprises Company, owns 62.5% of the common shares.

Directors

Norman T. Currie
R. G. Dale
R. S. DeMone
L. D. Irwin
W. T. Murchie
J. A. Schollar
J. A. Telfer

Senior Management

Norman T. Currie
President and Chief Executive Officer
R. H. Bonus, Senior Vice-President
J. G. Foy
Vice-President, Employee Relations
L. D. Irwin
Vice-President and Secretary
P. A. Nelson
Vice-President, Technical Services
E. vanWijk
Vice-President, Sales and Marketing

Financial Management

T. A. Burns, Manager, Internal Audit
E. K. Kunz
Manager, Information Systems
L. J. Palko, Corporate Controller

Production

C. J. Czerny, Plant Manager, Etobicoke
J. N. Hennessy, Plant Manager, Ottawa
G. B. Hicks, Plant Manager, Toronto
F. Leithinger
Manager, Equipment Repair Centre
W. J. Lewicki, Manager, Production
A. H. Telfer, Plant Manager, Toronto
A. A. Vesely, Production Controller
W. J. Worotny, Plant Manager, London

Sales and Marketing

M. P. Brogden
Area Sales Manager, London
J. L. Chizick, Director, Marketing
R. J. Cunningham
Manager, Sales Operations
W. I. Fraser, General Sales Manager
N. V. Lever
Area Sales Manager, Ottawa
F. J. MacEachern
Area Sales Manager, Central West
R. J. Maddalena
Sales Manager, National Accounts
E. E. Quigley, Manager, Route Planning
W. F. Stubbs
Sales Manager,
Frozen Product Group
R. R. Williamson
Area Sales Manager, Central

Purchasing

M. J. MacIsaac, Manager, Purchasing

Auditors

Clarkson Gordon, Toronto

Registrars and Transfer Agents

Canada Permanent Trust Company,
Toronto, Montreal, Winnipeg

Debenture Trustee

Canada Permanent Trust Company,
Toronto

Head Office

1243 Islington Avenue, Toronto, Ontario
M8X 2W1

Annual Meeting

The Annual and Special General Meeting of the shareholders of Corporate Foods Limited will be held at the Royal York Hotel, Confederation Rooms 4 and 5, 100 Front Street West, Toronto, Ontario, on Friday, April 8, 1983 at 10:00 o'clock in the forenoon.



Highlights

	1982	1981	1980
Financial			
Sales	\$89,515,797	\$88,312,355	\$79,571,346
Net earnings for the period	3,751,521	3,119,456	1,501,971
Funds provided from current operations	4,077,297	3,657,221	2,895,118
Capital expenditures	1,140,176	1,744,497	2,209,987
Working capital	3,957,234	2,164,228	1,618,006
Long-term debt (non-current portion)	4,644,433	5,419,254	6,595,636
Shareholders' equity	16,334,694	13,700,272	11,322,387
Return on invested capital	17.2	16.2	9.4
Return on shareholders' equity	22.9	22.8	13.3
Per common share			
Net earnings	\$ 11.77	\$ 9.75	\$ 4.58
Funds provided from current operations	12.81	11.47	9.03
Dividends	3.35	2.15	2.00
Shareholders' equity	48.28	39.86	32.26
Statistical data			
Number of preferred shareholders	124	128	159
Number of common shareholders	275	283	323
Number of preferred shares outstanding	25,000	25,000	25,000
Number of common shares outstanding	312,940	312,940	312,940

Quarterly sales and net earnings (unaudited)
(dollars in thousands except per share)

	Sales			Net earnings			Net earnings per common share		
	1982	1981	1980	1982	1981	1980	1982	1981	1980
1st quarter	\$19,280	\$19,220	\$16,863	\$ 625	\$ 480	\$ 102	\$ 1.94	\$1.48	\$.27
2nd quarter	20,530	20,530	18,051	865	773	299	2.71	2.41	.90
3rd quarter	20,859	21,666	18,113	814	910	249	2.55	2.95	.74
4th quarter	28,847	26,896	26,544	1,448	956	852	4.57	2.91	2.67
	<u>\$89,516</u>	<u>\$88,312</u>	<u>\$79,571</u>	<u>\$3,752</u>	<u>\$3,119</u>	<u>\$1,502</u>	<u>\$11.77</u>	<u>\$9.75</u>	<u>\$4.58</u>

To Our Shareholders:

We are pleased to report another record profit year. Net earnings for the 52 weeks which ended December 25, 1982, were \$3,751,521 or \$11.77 per share compared with \$3,119,456 or \$9.75 per share for the 52 weeks which ended December 26, 1981. This is a 20 per cent increase.

Net earnings from Ontario operations increased from \$2,069,456 to \$2,535,498, while earnings from other bakeries in which we have interests increased from \$1,050,000 to \$1,216,023.

Net earnings in Ontario amounted to 2.8 per cent of sales – a significant improvement over last year's 2.3 per cent. This is a particularly encouraging achievement

because it is the direct result of programmes to enhance productivity and efficiency throughout our operations.

Sales were \$89,516,000 compared with \$88,312,000 for the preceding year. Total unit volume was equal to that of 1981. Sales volume decreases in areas of high unemployment were offset by increased export sales.

During 1982, we obtained the licence to produce and sell Sun Maid Raisin Bread throughout Canada, with the exception of B.C. This premium specialty bread is enjoying considerable sales success in the United States, and it has achieved favourable acceptance and wide distribution since it was introduced to the Ontario market last November.

As noted in our previous Annual Report,

we have an agreement with Oroweat Foods Company, of Greenwich, Conn., under which we manufacture premium breads for export to the northeast United States. Sold under the brand name, "Brownberry", these breads have flavours and features which are well described by their labels: "Natural Wheat", "Health Nut", "Raisin Nut", "Whole Bran" and "Apple Honey".

As a result of its export sales to Oroweat Foods Company, our London bakery has the facilities which enables it to produce these excellent products for the Ontario market as well. They are being introduced in Ontario this spring, adding the Brownberry and Sun Maid brands to the strong brand image established by Dempster's.



During the past three years, we have concentrated on productivity, quality control and operational improvements throughout our plants. Productivity in our plants continued to show successive increases, rising by 5.1 per cent during 1982. This follows an increase of 9.3 per cent in 1981 and 10.3 per cent in 1980. We expect further gains in 1983.

Improvements in formulation and processing, combined with the positive attitude of our plant personnel, led by a strong plant and quality control management group, have enabled us to meet still higher standards of quality. Quality enhancement is not only rewarded in the marketplace; but it also results in lower levels of plant waste.

In spite of higher fuel prices, distribution

costs, as a percentage of sales, were comparable with last year. This was achieved through improved transport controls and our route engineering programme. Through the latter, we continued to reduce the number of miles travelled without in any way impairing customer service while generating more time for selling and merchandising. Since the commencement of our route engineering programme, four years ago, we have reduced annual route travelling by approximately 1.5 million miles.

We have continued to increase our investment in computer systems and software and by mid 1983 expect to have all major programmes operating. All our data processing equipment has been acquired under a capital lease arrange-

ment in order to reduce our operating cost. During 1982, we sold our investment in Purity Bakeries, Barbados, W.I. After tax profit on the sale of the shares was \$91,023, and this amount is included in earnings from other bakeries as reported above. We sold our interest in this bakery because changing market conditions in Barbados no longer afforded us the opportunity to maintain the desired return on investment. We will, however, continue to be involved with the Company on a consulting management fee basis.

Working capital increased from \$2,164,000 at December 26, 1981 to \$3,957,000 at December 25, 1982. During the year, we purchased fixed assets totalling \$1,140,176 and reduced



long term debt by \$790,175. We forecast fixed asset expenditures for 1983 at approximately \$3,000,000 including capital leases.

We have made notable progress in establishing "Dempster's" as our flagship brand name. Marketing activities have been accelerated and in 1983 we will increase our advertising and marketing expenditures.

Despite greatly increased competition in the Canadian frozen products market, our Gainsborough frozen foods division maintained volume at the level of the previous year. However, as a result of higher advertising and marketing expenditures required to meet the Canadian situation, the division's net

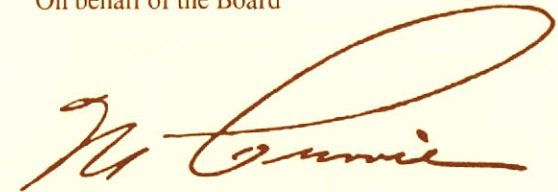
earnings fell below those of 1981. These developments affected our programme in the New England market where, as reported last year, we introduced some selected products. Because of the increased marketing costs incurred in Canada, we decided to reduce the scale of our New England project. At the same time, overall, we are increasing our frozen foods development programme and expect improved profit in 1983.

In these times, consumers, and hence retailers, are ever more demanding in terms of "value for money". Our management, employees and dealers realize that, to satisfy these demands, we must be professionals in everything we do. With the continuing strong support of each individual in our organization, we

are confident we can continue to meet our objective: to be the best.

We thank our employees and dealers for their fine performance throughout the year.

On behalf of the Board



President and Chief
Executive Officer
February 21, 1983

Balance Sheet

December 25, 1982

(with comparative figures as at December 26, 1981)

Assets

	1982	1981
Current:		
Short-term deposits	\$ 1,987,480	\$ 400,000
Accounts receivable	8,722,250	8,942,837
Inventories	2,043,078	1,770,410
Prepaid expenses	214,430	192,609
	<u>12,967,238</u>	<u>11,305,856</u>
Investments:		
Shares of other bakery companies	4,781,186	4,748,048
Mortgages and note receivable (note 5)	629,469	95,978
	<u>5,410,655</u>	<u>4,844,026</u>
Fixed assets (note 2)	<u>13,063,991</u>	<u>13,693,911</u>
Goodwill	<u>1,188,247</u>	<u>1,220,361</u>
	<u>\$32,630,131</u>	<u>\$31,064,154</u>

(See accompanying notes to financial statements)

On behalf of the Board:

Norman T. Currie, Director

William T. Murchie, Director

Auditors' Report

To the Shareholders of Corporate Foods Limited:

We have examined the balance sheet of Corporate Foods Limited as at December 25, 1982 and the statements of earnings and retained earnings and changes in financial position for the fifty-two week period 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 December 25, 1982 and the results of its operations and the changes in its

financial position for the fifty-two week period then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

February 15, 1983.

Clarkson Gordon
Toronto, Canada, *Chartered Accountants*



Liabilities and Shareholders' Equity

	1982	1981
Current:		
Bank indebtedness	\$ 1,098,063	\$ 1,445,314
Accounts payable and accruals	5,414,800	5,169,153
Current income taxes payable	398,435	1,072,696
Payable to parent company	651,949	132,176
Dividends payable on preference shares	17,188	17,188
Long-term debt – current portion	369,618	354,209
Obligations under capital leases – current portion	396,951	376,892
Deferred income taxes	663,000	574,000
	<u>9,010,004</u>	<u>9,141,628</u>
Long-term liabilities:		
Long-term debt (note 3)	2,583,613	2,950,116
Obligations under capital leases (note 4)	2,060,820	2,469,138
Deferred income taxes	2,641,000	2,803,000
	<u>7,285,433</u>	<u>8,222,254</u>
Shareholders' equity:		
Share capital –		
Authorized:		
50,000 \$2.75 cumulative Series “A” preference shares with a par value of \$49 each, redeemable at \$52.75		
1,000,000 common shares without par value		
Issued and outstanding:		
25,000 preference shares	1,225,000	1,225,000
312,940 common shares	133,748	133,748
	<u>1,358,748</u>	<u>1,358,748</u>
Retained earnings:	14,975,946	12,341,524
	<u>16,334,694</u>	<u>13,700,272</u>
	<u>\$32,630,131</u>	<u>\$31,064,154</u>

(See accompanying notes to financial statements)



Statement of Earnings and Retained Earnings

For the fifty-two weeks ended December 25, 1982

(with comparative figures for the fifty-two weeks ended December 26, 1981)

	1982	1981
Revenues:		
Sales	\$89,515,797	\$88,312,355
Interest and other income	359,376	293,628
	<u>89,875,173</u>	<u>88,605,983</u>
Expenses:		
Cost of sales	72,514,568	72,715,290
Selling and administrative expense	10,237,959	9,473,517
Depreciation and amortization	1,762,089	1,675,964
Interest on long-term debt and on capital lease obligations	581,059	831,756
	<u>85,095,675</u>	<u>84,696,527</u>
Earnings before income taxes	4,779,498	3,909,456
Income taxes (note 6):		
Current	2,357,000	1,266,000
Deferred	(113,000)	574,000
	<u>2,244,000</u>	<u>1,840,000</u>
Earnings before equity in income of other bakery companies	2,535,498	2,069,456
Equity in income of other bakery companies (note 5)	1,216,023	1,050,000
Net earnings for the period	3,751,521	3,119,456
Retained earnings, beginning of period	12,341,524	9,963,639
	<u>16,093,045</u>	<u>13,083,095</u>
Dividends – preference shares		
– common shares	68,750	68,750
	1,048,349	672,821
	<u>1,117,099</u>	<u>741,571</u>
Retained earnings, end of period	<u>\$14,975,946</u>	<u>\$12,341,524</u>
Earnings per common share	<u>\$11.77</u>	<u>\$9.75</u>



(See accompanying notes to financial statements)

Statement of Changes in Financial Position

For the fifty-two weeks ended December 25, 1982

(with comparative figures for the fifty-two weeks ended December 26, 1981)

	1982	1981
Funds provided:		
Operations (excluding other bakery companies)	\$4,077,297	\$3,657,221
Dividends from other bakery companies	473,491	275,000
Proceeds from redemption of preferred shares of another bakery company	55,860	55,860
Proceeds from sale of fixed assets	54,927	159,267
Reduction of mortgage receivable	5,859	48,710
Proceeds from sale of investment (note 5)	703,534	
Less long-term portion of note receivable	(539,350)	
Total funds provided	4,831,618	4,196,058
Funds used:		
Purchases of fixed assets (including assets acquired under capital leases)	1,140,176	1,744,497
Less portion financed by capital lease obligations	(8,838)	(902,725)
Reduction of long-term debt and obligations under capital leases	790,175	2,047,743
Dividends	1,117,099	741,571
Investments in other bakery companies		18,750
Total funds used	3,038,612	3,649,836
Increase in working capital	1,793,006	546,222
Working capital, beginning of period	2,164,228	1,618,006
Working capital, end of period	\$3,957,234	\$2,164,228



(See accompanying notes to financial statements)

Notes to Financial Statements

December 25, 1982

1. Accounting policies

- (a) Accounting for other bakery companies –
The company accounts for its investment in other bakery companies in which ownership is 50% or less on the equity basis, whereby it recognizes in the accounts its proportionate share of those companies' earnings since acquisition rather than when realized through dividends.
- (b) Inventories –
Inventories, consisting primarily of ingredients and supplies are valued at the lower of cost, as determined using the first-in, first-out (FIFO) method, and replacement cost.
- (c) Goodwill –
Goodwill, representing the excess cost of the company's investment over the underlying value of the net assets acquired is amortized over periods ranging from fifteen to forty years. Goodwill amortization of \$32,114 and \$9,000 is included in depreciation and amortization expense and equity in income of other bakery companies respectively for both 1982 and 1981.
- (d) Fixed assets –
Fixed assets are initially recorded at cost and include certain leases, which in substance are purchases of fixed assets capitalized at the present value of their net minimum lease payments (note 4). Depreciation of owned and leased fixed assets is calculated on the straight-line basis at rates designed to amortize the cost over their estimated useful lives as follows:
- | | | |
|----------------------------|---|------------|
| Buildings | - | 2% |
| Automotive equipment | - | 20% |
| Bakery and other equipment | - | 7½% - 33⅓% |
- (e) Income taxes –
The company follows the tax allocation method of accounting for income taxes whereby timing differences may occur when revenues and expenses are recognized in the accounts in one period but are taxed or claimed for tax purposes in another period. The tax effect of these timing differences is recorded as "deferred income taxes".
- (f) Foreign currency translation –
Amounts which are receivable in foreign currencies are translated at the rate of exchange in effect at the balance sheet date. Revenues and expenses denominated in foreign currencies are translated at the rate of exchange in effect on the transaction date. Foreign exchange gains or losses are reflected in income, and are not significant.

2. Fixed assets

Fixed assets, including those owned and those recorded under capital lease, are comprised as follows:

	Cost	Accumulated depreciation and amortization	Net book value	
			1982	1981
Owned:				
Land	\$ 1,002,860		\$ 1,002,860	\$ 1,001,860
Buildings	5,863,017	\$ 2,325,874	3,537,143	3,731,604
Automotive equipment	148,592	71,955	76,637	32,546
Bakery and other equipment	15,913,472	9,866,551	6,046,921	6,103,112
	<u>22,927,941</u>	<u>12,264,380</u>	<u>10,663,561</u>	<u>10,869,122</u>
Leased:				
Automotive equipment	614,404	383,756	230,648	345,394
Bakery and other equipment	3,181,097	1,011,315	2,169,782	2,479,395
	<u>3,795,501</u>	<u>1,395,071</u>	<u>2,400,430</u>	<u>2,824,789</u>
	<u>\$26,723,442</u>	<u>\$13,659,451</u>	<u>\$13,063,991</u>	<u>\$13,693,911</u>

3. Long-term debt

	1982	1981
Notes payable, prime bank lending rate plus ½% due September 1, 1983	\$ 130,000	\$ 260,000
9½% mortgage payable, due March 29, 1984	95,079	99,689
8½% Series "A" sinking fund debentures, due December 15, 1988	2,728,152	2,944,636
	<u>2,953,231</u>	<u>3,304,325</u>
Less current portion included in current liabilities	369,618	354,209
	<u>\$2,583,613</u>	<u>\$2,950,116</u>

Under the terms of a trust indenture, the sinking fund debentures are collateralized by a floating charge on the assets of the company, and the company is restricted from declaring common share dividends if net current assets fall below \$400,000 after such declaration or if consolidated net assets are less than twice the amount of all long-term debt excluding capital lease obligations and deferred income taxes. Consolidated net assets are defined to include shareholders' equity plus deferred income taxes.



Debenture sinking fund instalments and other long-term debt repayments over the next five years are as follows:

1983	-	\$ 369,618
1984	-	348,462
1985	-	279,000
1986	-	303,000
1987	-	329,000
Subsequent years	-	1,324,151

4. Leases

(a) Payments under capital leases (including both principal and interest) are as follows:

• 1983	-	\$ 584,242
1984	-	564,789
1985	-	524,949
1986	-	529,404
1987	-	422,521
Subsequent years	-	480,190
		<u>3,106,095</u>
Less interest component	-	<u>648,324</u>
Net total		<u>\$2,457,771</u>

Interest rates on capital leases have a weighted average of 11%.

(b) The company also leases property and equipment under agreements which are classified as operating leases. Minimum annual rentals under these leases over the next five years are as follows:

1983	-	\$1,119,447
1984	-	960,823
1985	-	666,602
1986	-	525,854
1987	-	392,550

5. Sale of investment

Included in the equity in income of other bakery companies is an amount of \$91,023 (net of income taxes of \$50,000) which represents the gain on the disposal of the company's interest in a Barbados bakery.

The sale price, which is denominated in Barbados currency, is payable over six years in equal amounts and is interest bearing. Payment of the outstanding balance is guaranteed by a Canadian chartered bank. The portion of this receivable due after one year (\$539,350) is included in mortgages and note receivable.

6. Income taxes

A reconciliation comparing income taxes calculated at the Canadian statutory rate to the amount provided in the accompanying statements is as follows:

	<u>1982</u>	<u>1981</u>
Income taxes at Canadian statutory rate (including provincial income taxes)	\$2,476,000	\$2,025,000
Reduction (increase) in taxes applicable to:		
Manufacturing and processing profits credit	259,000	207,000
Inventory allowance	21,000	20,000
Investment tax credits	37,000	24,000
Others	<u>(85,000)</u>	<u>(66,000)</u>
Total income tax provision	<u>\$2,244,000</u>	<u>\$1,840,000</u>

7. Segmented information

The company operates primarily in a single industry consisting of the manufacture and sale of bakery products.

8. Related party transactions

A significant portion of cost of sales includes flour purchases, substantially all of which are purchased from the parent company.

Management fee revenue and rent from equity accounted bakery companies, included in other income, amounted to approximately \$53,000 in 1982 (1981 - \$71,000).

Long-term debt includes \$130,000 (1981 - \$260,000) in notes payable to related bakery companies at December 25, 1982. Interest on this indebtedness amounted to approximately \$38,500 during the year (1981 - \$70,000).

9. Subsequent event

Subsequent to the period end, the company disposed of certain fixed assets having a net book value of \$75,000 for proceeds of \$400,000. The resulting gain of \$259,000 (net of income taxes of \$66,000) will be included in the determination of income in 1983.

10. Comparative figures

Certain 1981 comparative figures have been reclassified to conform to the method of presentation adopted in 1982.

Five Year Comparison

	1982	1981	1980	1979	1978
Sales	<u>\$89,515,797</u>	<u>\$88,312,355</u>	<u>\$79,571,346</u>	<u>\$63,969,959</u>	<u>\$54,696,222</u>
Operating profit before the following	7,122,646	6,417,176	3,526,604	2,994,114	2,701,756
Depreciation and amortization	1,762,089	1,675,964	1,557,064	1,068,021	946,600
Interest on long-term debt	581,059	831,756	784,569	582,579	440,165
Income tax - current	2,357,000	1,266,000	(26,500)	(71,000)	362,000
- deferred	<u>(113,000)</u>	<u>574,000</u>	<u>510,500</u>	<u>615,000</u>	<u>197,000</u>
Earnings before equity in income of other bakery companies	2,535,498	2,069,456	700,971	799,334	755,991
Equity in income of other bakery companies	<u>1,216,023</u>	<u>1,050,000</u>	<u>801,000</u>	<u>821,634</u>	<u>494,107</u>
Net earnings	<u>\$ 3,751,521</u>	<u>\$ 3,119,456</u>	<u>\$ 1,501,971</u>	<u>\$ 1,620,968</u>	<u>\$ 1,250,098</u>
Number of common shares outstanding	312,940	312,940	312,940	312,940	309,800
Earnings per common share	\$11.77	\$9.75	\$4.58	\$4.96	\$3.82
Dividends declared per common share	\$3.35	\$2.15	\$2.00	\$1.80	\$1.20



