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CANADIAN FOOD PRODUCTS LIMITED

67 WALKER AVENUE, TORONTO 7, ONT.

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ANNUAL REPORT

June 26, 1961

To the Shareholders of
CANADIAN FOOD PRODUCTS LIMITED

On behalf of the board of directors, it is a pleasure to present to you the annual report of the Company covering its operations for the fiscal year ended February 25, 1961.

During this year the Company underwent a complete reorganization of its capital structure in accordance with the proposals submitted to you in October of last year. This reorganization was completed on November 29, 1960, and redemption of preferred shares was commenced during the year in accordance with the requirements of the capital reorganization.

Satisfactory progress was made during the year in the reduction of costs and the elimination of unprofitable operations. Efficiency and productivity have been improved, with the result that consolidated net earnings, after provision for taxes and minority interest for the year ended February 25, 1961, amounted to \$396,445, compared with a consolidated net loss of \$116,895 reported for the fiscal year ended February 27, 1960.

The Company paid its quarterly dividend of \$28,125 on the first and second convertible preference shares. After payment of the dividend to preferred shareholders, the net earnings per common share amounted to \$368,320. This amount has been retained to meet preferred share redemption requirements and for re-investment in the expansion of your Company.

Working capital at the end of the fiscal year 1961 was \$982,429, an increase of \$651,624 during the year. Current assets were \$2,753,892 against current liabilities of \$1,771,463, representing a current ratio of 1.55 to one.

The cash position of the Company has shown marked improvement, being represented on the balance sheet by cash of \$367,828 plus \$800,000 in short term investments for the fiscal year 1961, as against cash of \$266,536 shown for the fiscal year 1960.

It is with sincere regret that we record the death of Mr. E. W. Bickle, Chairman of the Board of Canadian Food Products Limited, who gave many years of outstanding service to your Company.

We also announce with regret the resignation as directors of your Company of Messrs. D. H. Gibson, J. A. Mullin, Q.C., D. Worts Smart, J. N. Swinden and H. M. Turner and would like to take this opportunity to express our sincere appreciation for their help and guidance during their tenure of office. As a result of these changes, Mr. Grant Horsey has been appointed Chairman of the Board of your Company and we are pleased to welcome to the Board Messrs. J. M. R. Corbet, G. E. Phipps and J. L. Lewtas, Q.C., to replace those directors who have resigned.

On behalf of the board of directors, we wish to extend to our shareholders and to all the members of the staff of the Company our sincere appreciation for their support and assistance throughout the year.

Submitted on behalf of the Board.

GRANT HORSEY,
Chairman.

L. W. LAWSON,
President.

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**CANADIAN FOOD PRODUCTS LIMITED
AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 25, 1961**

2. (Continued)

Changes in capital stock since reorganization on November 29, 1960 to February 25, 1961 were as follows:

	Authorized		Issued	
	Number of shares	Par value	Number of shares	Par or stated value
<i>First preference shares</i>				
On reorganization	25,000	\$1,250,000	25,000	\$1,250,000
Deduct:				
Redeemed during the year (Note 5)	375	18,750	375	18,750
February 25, 1961	<u>24,625</u>	<u>\$1,231,250</u>	<u>24,625</u>	<u>\$1,231,250</u>
<i>Second convertible preference shares</i>				
On reorganization	25,000	\$1,250,000	25,000	\$1,250,000
Deduct:				
Redeemed during the year (Note 5)	495	24,750	495	24,750
Converted to common share capital during the year (Note 5)	1,113	55,650	1,113	55,650
February 25, 1961	<u>23,392</u>	<u>\$1,169,600</u>	<u>23,392</u>	<u>\$1,169,600</u>
<i>Common shares</i> (without par value)				
On reorganization	1,000,000		650,000	\$ 650,000
Add:				
Issued on conversion of second convertible preference shares (Note 5)	6,678		6,678	55,650
Options exercised (Note 3)			28,000	84,000
February 25, 1961	<u>1,006,678</u>		<u>684,678</u>	<u>\$ 789,650</u>

3. Options to purchase 39,000 common shares of the company at \$3 per share were outstanding at February 27, 1960. Options covering 28,000 common shares have since been exercised. The remaining options have expired.
4. Total rentals under lease agreements which extended more than five years beyond February 27, 1960 aggregated approximately \$6,756,000 and which extend more than five years beyond February 25, 1961 aggregate approximately \$4,238,763.
5. During the period from November 29, 1960 (date of reorganization) to February 25, 1961, 375 first preference shares and 495 second convertible preference shares were redeemed at a discount of \$7,595 and 1,113 second convertible preference shares were converted into 6,678 common shares.
6. Since February 25, 1961 the company has purchased for cancellation 1,105 first preference shares and 1,630 second convertible preference shares.
7. Since the year end, capital commitments have been entered into by the company at a total cost of approximately \$330,000.
8. The companies' practice is to claim for income tax purposes the maximum depreciation permitted under Canadian law. Because this will exceed the depreciation recorded in the accounts, taxes otherwise payable for the year ended February 25, 1961 have been reduced by an estimated amount of \$43,000.

**CANADIAN FOOD PRODUCTS LIMITED
AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 25, 1961**

1. At February 27, 1960 the authorized capital stock of the company was as follows:

50,000 4½% cumulative redeemable preference shares with a par value of \$100 each, redeemable at \$103 per share plus accrued dividends	\$5,000,000
Class A shares without par value, carrying a cumulative preferential annual dividend of \$1 per share	100,000 shares
Common shares without par value	500,000 shares

The Class A shares were convertible into common shares at any time on the basis of one common share for each Class A share.

Cumulative preference share dividends were in arrears as follows:

- (a) 4½% preference shares, arrears \$646,875, dividends paid to April 1, 1954.
- (b) Class A shares, arrears \$925,000, dividends paid to October 1, 1950.

2. Under the terms of supplementary letters patent dated November 29, 1960 and issued pursuant to a plan of reorganization:

- (a) The 25,000 unissued 4½% cumulative redeemable preference shares at February 27, 1960 were cancelled.
- (b) The outstanding 25,000 4½% cumulative redeemable preference shares were re-classified into 25,000 first preference shares with a par value of \$50 each, and 25,000 second convertible preference shares with a par value of \$50 each.
- (c) The 100,000 Class A shares authorized and outstanding at February 27, 1960 were re-classified into 450,000 common shares without par value.
- (d) The authorized capital was increased by the creation of a further 50,000 common shares.
- (e) The issued or stated capital was decreased from \$4,277,220 to \$3,150,000, such decrease being applied against the stated value of \$1,777,220 of the then outstanding Class A and common shares and was effected by writing off goodwill (including trade names, formulae, etc.) appearing on the books of the company at an amount of \$417,686 and by writing down investments in subsidiary companies by an amount of \$514,590 and by transferring the sum of \$194,944 from issued capital to contributed surplus.

The first preference shares carry a cumulative annual dividend of 6% and are redeemable at a premium of 20% plus accrued dividends. The second convertible preference shares carry a cumulative annual dividend of 3% until October 1, 1965 or the commencement of common share dividends, whichever is the earlier, and thereafter a 6% cumulative dividend, are redeemable (subject to certain restrictions) at a premium of 20% plus accrued dividends and are each convertible at any time into 6 common shares. The company is required to apply a maximum of 20% of consolidated net earnings of the preceding year after preferential dividends to the purchase for cancellation or redemption of the first preference shares and second convertible preference shares or to purchase or redeem at least 500 first preference shares and second convertible preference shares in the aggregate in each year, subject to certain conditions. Dividends may not be paid on the common shares until the aggregate par value of all the first preference shares and second convertible preference shares has been reduced to less than \$1,800,000. The first preference shares and the second convertible preference shares are entitled to one vote per share at all meetings of the shareholders of the company.

**CANADIAN FOOD PRODUCTS LIMITED
AND ITS SUBSIDIARIES**

**STATEMENT OF CONTRIBUTED SURPLUS
FOR THE YEAR ENDED FEBRUARY 25, 1961**

ARISING ON REORGANIZATION		
Transfer from issued capital stock		
November 29, 1960 pursuant to a		
plan of reorganization (Note 2)		\$194,944
Loss on closing and disposal of		
restaurants	\$ 80,783	
Reorganization expenses	28,570	109,353
		<u>85,591</u>
ARISING ON THE REDEMPTION OF PREFERENCE		
SHARES (Note 5)		7,595
BALANCE — FEBRUARY 25, 1961		<u>\$ 93,186</u>

**STATEMENT OF CONSOLIDATED RETAINED EARNINGS
FOR THE YEAR ENDED FEBRUARY 25, 1961**

(With comparative figures for 1960)

	1961	1960
BALANCE — BEGINNING OF YEAR	\$401,294	\$562,428
Net earnings (loss) for the year	396,445	(116,895)
	<u>797,739</u>	<u>445,533</u>
Dividends—		
First preference shares	18,750	
Second convertible preference shares	9,375	
	<u>28,125</u>	
	769,614	445,533
Loss on closing and disposal of		
restaurants (Net)		72,551
Profit on closing and disposal		
of coffee shops		28,312
		<u>44,239</u>
BALANCE — END OF YEAR	<u>\$769,614</u>	<u>\$401,294</u>

**STATEMENT OF CONSOLIDATED EARNINGS
FOR THE YEAR ENDED FEBRUARY 25, 1961**

(With comparative figures for 1960)

	1961	1960
Earnings from operations before the undernoted items	\$922,916	\$296,253
Investment income	8,959	
Profits on disposals of fixed assets	30,169	
	<u>962,044</u>	<u>296,253</u>
Deduct:		
Provision for depreciation and amortization	343,751	405,162
Directors' fees	9,772	7,986
Earnings (loss) before income taxes	608,521	(116,895)
Provision for income taxes (Note 8)	262,354	
Less:		
Reduction on application of prior year's losses	50,278	212,076
NET EARNINGS (LOSS) FOR THE YEAR	<u>\$396,445</u>	<u>(\$116,895)</u>

DIRECTORS

J. M. R. CORBET	Toronto
HON. WILFRID GAGNON	Montreal
*GRANT HORSEY	Toronto
**J. WILLIAM HORSEY	Todmorden
*L. W. LAWSON	Toronto
J. L. LEWTAS, Q.C.	Toronto
G. E. PHIPPS	Toronto
W. P. SCOTT	Toronto
F. C. WALLACE	Toronto
W. P. WILDER	Toronto

*Members of the Executive Committee

**Chairman of the Executive Committee

OFFICERS

<i>Chairman of the Board</i>	GRANT HORSEY
<i>President</i>	L. W. LAWSON
<i>Vice-President</i>	B. M. DRAPER
<i>Vice-President</i>	R. H. HERGERT
<i>Treasurer & Controller</i>	J. G. ROWNY
<i>Secretary</i>	J. L. LEWTAS, Q.C.

Auditors McDonald, Currie & Co., Toronto

Legal Counsel Arnoldi, Parry, Campbell, Pyle, Godfrey and Lewtas

Transfer Agents Crown Trust Company, Toronto and Montreal