Imasco Limited Annual Report 1981

Imasco Limited operates through four divisions. Imperial Tobacco, Canada's largest tobacco company, manufactures and distributes a complete range of tobacco products. Imasco Associated Products is responsible for retail operations which specialize in prescription drugs, health and beauty aids, tobacco products and gifts, dry cleaning and sporting goods. Imasco Foods manufactures, processes and distributes a variety of food products. Hardee's Food Systems operates and licenses a system of fast food restaurants principally in the United States.

Financial Results at a Glance	**1981**	**1980**	**%**
	Thousands of dollars		
System-wide sales	2,264,940	1,721,809	32
Revenues	1,423,707	1,150,538	24
Net earnings	89,550	68,228	31
Earned per common share–basic	$4.27	$3.30	29
–fully diluted	$4.25	$3.27	30
Dividends per common share	$1.20	$1.00	20
Working capital	172,349	187,562	–8
Total assets	1,086,363	677,257	60
Shareholders' equity	512,348	344,305	49

Imperial Tobacco	1981	1980	%
	Thousands of dollars		
Revenues	952,923	826,665	15
Operating earnings	123,248	99,137	24

Imasco Associated Products	1981	1980	%
	Thousands of dollars		
Revenues	271,320	236,049	15
Operating earnings	22,455	18,968	18

Imasco Foods	1981	1980	%
	Thousands of dollars		
Revenues	141,893	116,019	22
Operating earnings	10,219	9,426	8

Hardee's Food Systems	1980	1979	%
	Thousands of U.S. dollars		
Revenues	433,258	355,533	22
Operating earnings	32,981	25,025	32

For the years ended October 31. Hardee's became a wholly owned subsidiary January 29, 1981.

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The Annual Meeting of Shareholders will be held June 25, 1981 at 10 h 30 at the Four Seasons Hotel, 1050 Sherbrooke Street West, Montréal, Québec.

Si vous désirez recevoir le rapport annuel en français, veuillez communiquer avec:

Le Secrétaire
Imasco Limitée
4, square Westmount
Montréal, Canada
H3Z 2S8

Imasco Limited
Directors and Officers

Directors

Paul Paré[1,3]
Chairman and Chief Executive Officer, Imasco Limited
John H. Coleman[2,3]
President, J.H.C. Associates Limited
H. Purdy Crawford, Q.C.[1,2]
Partner, Osler, Hoskin & Harcourt
Yves Hudon
President, Imasco Foods (1980) Limited
Anthony I. Kalhok
President, Imasco Associated Products Limited
Peter Kilburn[1,3]
Honorary Chairman, Greenshields Incorporated
Murray B. Koffler, C.M.
Chairman of the Board, Koffler Stores Limited
Jack A. Laughery
Chairman of the Board, President and Chief Executive Officer, Hardee's Food Systems, Inc.
Jean-Louis Mercier
President, Imperial Tobacco Limited
L. Edmond Ricard[1]
President and Chief Operating Officer, Imasco Limited
Jean H. Richer[2]
Chairman, Canac Consultants Limited
Robert T. Ruggles
President, Imasco Capital Management, Inc.

1 Member of the Executive Committee
2 Member of the Audit Committee
3 Member of the Salary Committee

Officers

Paul Paré,
Chairman and Chief Executive Officer
L. Edmond Ricard
President and Chief Operating Officer
Roger S. Ackman
Vice-President and General Counsel
Norman A. Dann
Vice-President, Public Relations
Roderick C. Foster, C.A.
Vice-President and Corporate Comptroller
Matthews Glezos
Vice-President and Treasurer
William J. Harris
Vice-President, Administration
Bernard W. Matte
Vice-President, Corporate Development
Robert T. Ruggles
Vice-President, Investments
Paul K. Ryan
Vice-President and Secretary
John N. Economides
Assistant Treasurer
G. Michael Martin, C.A.
Assistant Comptroller
Rita Tahhan
Assistant Secretary

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H3Z 2S8
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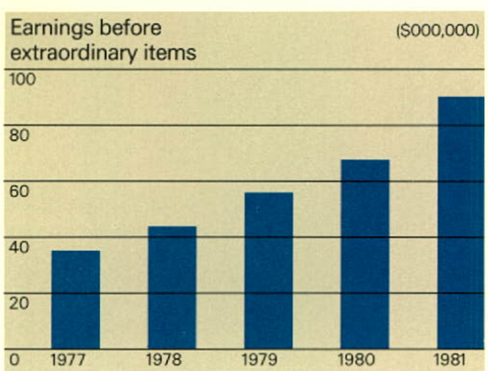
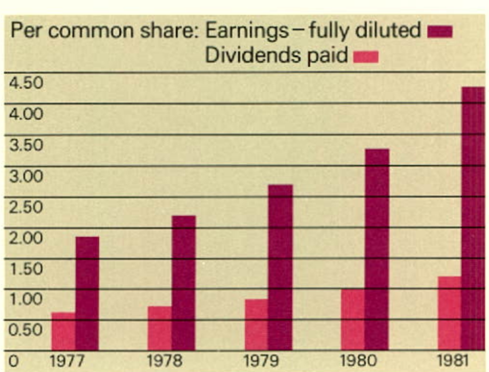
Paul Paré,
Chairman and Chief Executive Officer





The past year has been one of achievement in the progress and growth of your company. Sales and earnings were in general excellent. A number of events have taken place, most notably the addition of a new operating division, Hardee's Food Systems, Inc., Rocky Mount, North Carolina.

Consolidated net earnings for the year ended March 31, 1981 were $89,550,000, compared with $68,228,000 last year, an increase of 31%.

Earnings per common share were $4.27 basic and $4.25 fully diluted, an increase of 30%.

In July 1980 the common shares were subdivided two for one.

In January 1981 the outstanding common shares of Hardee's Food Systems, Inc., Rocky Mount, North Carolina, U.S.A., not already owned by Imasco, were purchased for U.S. $78,703,000. We had held an investment in Hardee's since 1977 and had been impressed with the competence of its management and its dynamic growth. Revenues and net earnings for its last fiscal year ended October 31, 1980 were U.S. $433,258,000 and U.S. $15,181,000. In the past five years Hardee's has had a 22% compound annual increase in revenues, and earnings have increased at a compound rate of 35%.

In February the Corporation issued 2,825,000 $3.06 Cumulative Convertible Redeemable Preference Shares Series B at $37. Net proceeds from this issue were $100,800,000 and were used principally to retire short term debt and provide working capital.

The inclusion of Hardee's assets and liabilities in the consolidated balance sheet at March 31, 1981 had the effect of increasing total indebtedness, relative to shareholders' equity, above the levels the Corporation has historically maintained. While this situation will not inhibit continued growth and progress, cash flow will be monitored to bring the debt ratio closer to historical levels.

Dividends

In May 1980 the quarterly dividend was increased to 60 cents, or 30 cents after the stock split in July 1980. On May 20, 1981 the quarterly dividend was further increased to 35 cents, or $1.40 annually.

The option of dividends in common shares instead of cash will be available to all shareholders beginning with the dividends payable in June 1981. Copies of the stock dividend plans were sent to shareholders in May.

Associated companies

The Corporation holds 20% of the common shares of Canada Northwest Land Limited. The book value of this investment was $11,206,000 as of March 31, 1981 and the market value was $48,302,000.

Income from our investment in Canada Northwest Land amounted to $1,684,000. Income from the investment in Hardee's Food Systems, until our purchase of the remaining shares in January, amounted to $7,606,000. Both these amounts are accounted for by the equity method.

Public affairs

As a corporation we believe we have a duty to support charitable and civic activities across Canada and we do so in accordance with a Corporate Donations Policy. The Policy is administered by a Corporate Donations Committee on which employees represent all divisions of the company in Canada. During fiscal 1981, the Corporation contributed over $1,065,000 to organizations engaged in welfare, educational, cultural and recreational activities.

We also believe that the democratic political process deserves financial support from the private sector. Accordingly, in the past year we contributed $42,000 to federal and provincial political parties and other organizations which stand for democratic government, a united Canada and a strong private sector.

Purchase of shares

The Corporation intends to purchase and cancel some of its common shares over the next 12 months through the facilities of the stock exchanges in order to prevent dilution of the holdings which could have resulted from the issue of stock dividends and the employees' stock purchase plan.

Although the total number of shares to be purchased in the 12 months has not yet been determined, it is expected to be approximately 100,000 shares. In any event it will not exceed 4.9% of the total outstanding.

Board of Directors

In February 1981 Mr. George G. Ross retired from the company and resigned from the Board. In the same month, Mr. Jack A. Laughery, Chairman, President and Chief Executive Officer, Hardee's Food Systems, Inc., was appointed to the Board.

Outlook

We look forward in the current year to progress in the resolution of the contentious issues facing the country, and an improved economic environment conducive to industrial expansion and profitability. For our own company, we expect continuing growth in our main areas of business and an even more successful fiscal 1982.

A time for reconciliation

While we look back upon our recently completed year with pride and pleasure in our achievements, we cannot view the broader picture of our country with complacency. It has been an eventful, even an exciting year, in Canada's political, social and industrial history. We have experienced a year of controversy and confrontation almost unparallelled in the history of Canada.

In the spring of 1980, after a fiercely debated referendum, the people of Québec proclaimed their continuing support for a united Canada. The debate attracted participation throughout the country and created a sharp division of opinion. However, this polarization dissipated rapidly in Québec. The same electorate that rejected "sovereignty-association" returned to power its sponsors, the Parti Québécois, on their commitment not to hold another such referendum during their second term of office. Our hope now is that the constitutional review process will bring results satisfactory to those Quebecers–and to other Canadians as well–who look to some form of renewed federalism.

No sooner was the referendum behind us when we found ourselves plunged into the controversial debate over the patriation of the British North America Act with an amending formula and a bill of rights attached to it. The patriation of our constitution and the devising of a formula for its amending lay dormant for many years and became a subject of importance only after World War II when the provinces began to demand the powers they felt were needed. It is apparent that most Canadians want to see the constitution brought home and the last vestiges of colonialism removed from the Canadian governmental process. No one is against patriation, but many are divided on the attendant questions of an amending formula and the bill of rights. If the measure receives the approbation of the Supreme Court of Canada and is passed at Westminster, we shall then be able to continue the debate in our own country as the occasions arise. Important as it is, a constitution is made by man and it can be changed or unmade by man. It would be a mistake to assume that it will be graven in stone for all eternity. What is more important is that we conduct our discussions in a spirit of compromise and confine the expressions of our differences to civil debate.

Canada is an unusual country. It is composed of many cultures, languages and ethnic groups and the population is spread over a vast area composed of several regions, diverse in their stages of development, their interests and their plans for their future. These have been characteristics of the country almost since Confederation. Canada, almost more than any other country, is an expression of the will of its people; and it is those intangible traits in the character of its people that have rendered it a nation rather than merely a populated territory.

We have survived many divisions since Confederation. There were language controversies, religious confrontations, there was great poverty in some areas and wealth in others. Over the years we have faced these problems and solved most of them and we have done it on the whole peacefully, for Canada is a country in which the democratic process is deeply rooted.

In the controversies of this past year one of the most heartening things to observe was the participation of so many Canadians in the debates. Many persons of varying political faith put aside their differences to work for the common cause of preserving a united country. In the parliamentary committee hearings on the constitution, groups and individuals came from great distances to be heard. And most encouraging of all, many came, not to press for personal advantage, but to speak on behalf of others-fellow Canadians whose concerns, they believed, were not being adequately represented.

When a country can survive such a year of contention and discord and still go on, determined to achieve a community, one has to be optimistic about its future. In worse times we seem to have been more united. As a struggling new country, in poverty, in war we have stood as one. Now, with our unmatched resources of natural riches and human skills, in wealth, in maturity and at peace, we have every reason to reconcile our differences in the interest of building Canada's future.

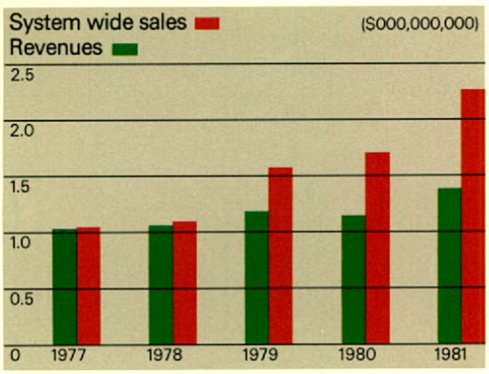
Solving the problems we face will require the combined effort of all of us. Inflation, unemployment, low productivity and the question of energy resources, to mention a few, will not yield to a force that is weakened by discord and enervated by factionalism. It is not necessary for us to forget or even overlook our differences. They contribute to the rich amalgam that makes Canada an enviable place to live and work. We have only to keep in mind what Canada is, the vision of what it can be, and play our part in its realization.

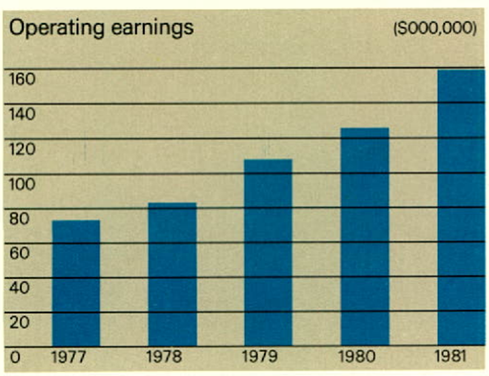
On behalf of the Board of Directors

Paul Paré

Paul Paré,
Chairman and Chief Executive Officer
Montréal, May 20, 1981

L. Edmond Ricard,
President and Chief Operating Officer





System-wide sales, which include the sales of franchised stores and restaurants, were $2,264,940,000 for fiscal 1981, an increase of 32%. Revenues were $1,423,707,000, up 24%. Revenues include franchise fees and other income from franchises and exclude the sales of franchised stores and restaurants.

Operating earnings of the four divisions were $159,543,000, compared with $127,531,000 last year, an increase of 25%.

The improvements in sales and earnings are largely attributable to the good results from the operations of Imperial Tobacco and Shoppers Drug Mart in Canada.

Imperial Tobacco

Sales of Imperial Tobacco were $952,923,000, or 15% above last year.

Operating earnings were $123,248,000, an increase of 24%. Increased earnings are attributable mainly to the increase in cigarette sales volume. Cigarette unit sales increased by 1.9 billion to 30.8 billion, an increase of 7%. Imperial's share of the Canadian cigarette market is now 46.5%.

The Canadian cigarette market continues to show moderate growth. Over the past three years industry volumes have increased by an average of 2% a year. Sales of Imperial Tobacco continue to outpace the industry, resulting in a steadily increasing share of market. Most of this increase comes from Imperial's unmatched success in meeting the demand for "light" cigarettes of high quality. During the year, Player's Extra Light was extended to further market areas and du Maurier Light was introduced nationally.

Prices have been increased in the past year but only to the extent necessary to recover the effect of inflation. In November 1980 prices were increased by four cents on a package of 25 king size cigarettes.

More significant to the consumer are the tax increases levied by the federal and various provincial governments. In the last budget, the federal government introduced an automatic, quarterly tax increase based on rises in the Consumer Price Index. Federal tax on a package of 25 king size cigarettes now amounts to more than 32 cents. Provincial taxes vary from eight cents a package in Alberta to 65 cents in Newfoundland, and average 30 cents across Canada.

Imperial's cigarette sales volume has grown from 23 billion to 31 billion or some 35% during the last five years. This increase, together with the impact of inflation, has increased the required investment in leaf tobacco and finished goods inventories by some $150 million to $296 million over the period. Inventory levels are under constant review in order to minimize working capital requirements without undue risk of shortages.

The rapid growth in sales volumes has also required extensive investment in manufacturing equipment. Capital expenditures amounted to $18,791,000 in fiscal 1981, and $16,998,000 in fiscal 1980. These levels of expenditure will continue through the next five years and are mainly for high speed cigarette making and packing modules and improved plant facilities. Canada is one of the few areas in the world where smokers prefer the slide-and-shell cigarette package. The most modern equipment available to meet the volume demands costs approximately $2.5 million for each combination of a maker and packer.

Imperial's export leaf sales were down in the past year largely because of the shortage in the Ontario leaf crop. However, the effect on earnings was not significant. The 1980 crop met expectations and export sales should return to normal. Imperial will export some 28,000,000 pounds of leaf in the current year, including some several million pounds to China.

Retail

System-wide sales of retailing operations which include those of franchised stores, were $1,016,796,000, an increase of 26%. Operating earnings were $22,455,000, an increase of 18%.

Most of the increase in earnings is attributable to the good results of Shoppers Drug Mart operations across Canada. Sales and operating earnings were particularly satisfying in British Columbia, the prairie provinces, Ontario and the Atlantic region. While sales of Pharmaprix in Québec were up substantially from last year, the region operated at a loss due to poor results of a limited number of participating outlets. Action is being taken to bring the Pharmaprix operations up to the level of Shoppers Drug Mart outlets across Canada.

Results of the U.S. operations were in line with plans. Sales volumes are continuing to improve, an indication of consumer acceptance of the Shoppers Drug Mart merchandising concept. However, operating results continue to show a loss, expected during this period of development and expansion. Stores in operation for two or more years are now profitable and future prospects are encouraging.

The UCS Group experienced a somewhat disappointing year in both Canadian and U.S. operations. Sales and margins in these outlets are more subject to the pressures of changing economic conditions than are drug stores where purchases tend to be less discretionary.

Sporting goods operations suffered an operating loss for a second consecutive year. Sales and margins were depressed, and inventory levels remain abnormally high. A new management team of retailing specialists is in place and measures are being taken to reduce the inventory and improve sales and margins. There will be no expansion in the number of stores in the current year, although some new stores with excellent prospects for profitability will be opened, and unprofitable stores will be closed.

Capital expenditures in the retail division were $17,796,000, primarily in the expansion of Shoppers Drug Mart stores, and were virtually all associated with store openings. Including inventory and other costs associated with the store opening programme, expenditures totalled approximately $27,000,000.

Food

Sales of food products were $141,893,000, an increase of 22% over last year.

Operating earnings for the year were $10,219,000, compared with $9,426,000 last year, an increase of 8%.

A strike at the Taillefer meat processing plant at Magog, Québec, last summer had a significant impact on this division's sales and earnings. Operating results in the Grissol division, Unico, and the Viau and Montmagny biscuit operations were satisfactory.

Acquisition of a cheese company and a biscuit manufacturer in Québec enlarged the product base of the division and provides opportunities to extend market coverage of food products. The operating results of these new companies are included from the date of acquisition; seven months in the case of the cheese company and three months for the biscuit operation. Combined cost of these acquisitions was $6,377,000.

Manufacturing facilities for the production of bread specialties and dry soups are being enlarged and modernized and concentrated at Ste-Martine, Québec.

Production capacity at the plant in Magog, Québec, was also enlarged to meet the expected increase in demand for Taillefer meat products.

Capital expenditures in the food division amounted to $6,001,000 during the year.

Restaurants

Hardee's Food Systems is now the fourth division of the Corporation. Total ownership was acquired at the end of January 1981, and two months of Hardee's results are included in the consolidation. Operating earnings for these two months amounted to Canadian $3,621,000. It should be noted that sales and earnings of the fast food industry are traditionally lowest in the first calendar quarter.

Hardee's capital expenditures in their last fiscal year, prior to our acquiring 100% ownership, were U.S. $60,764,000, including the costs of opening 57 company-owned stores. In addition, 66 franchised stores were opened during that year.

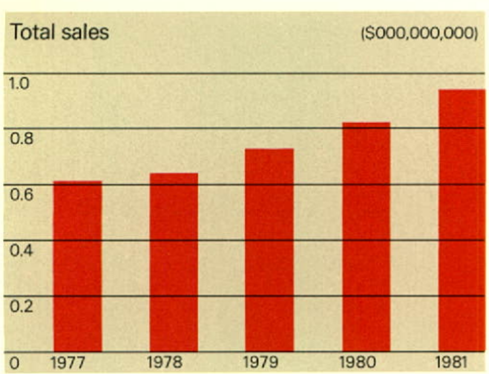
Outlook

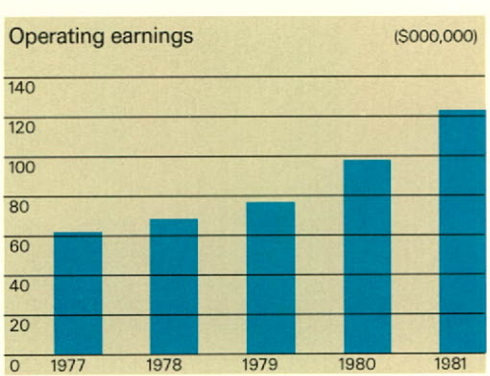
For fiscal 1982, we expect good results from tobacco, drug store and restaurant operations. Results of other retailing operations are expected to improve over last year's performance. Taillefer is expected to return to the sales and earnings position it enjoyed before the strike, and all other food operations should continue to achieve steady growth. Capital expenditures will be up moderately, but in line with the development programmes of each division in the past year.

L. E. Ricard

L. Edmond Ricard,
President and Chief Operating Officer

Jean-Louis Mercier,
President, Imperial Tobacco Limited





Cigarettes

For the fifth consecutive year, Imperial Tobacco maintained its upward sales trend and increased its share of total industry sales of cigarettes.

Consumer tastes are constantly changing and Imperal's marketing group closely monitors and analyzes these changes. The abilities of the Research and Development and Manufacturing divisions to translate marketing needs into successful new products ensures the company's continued share growth. The success of this concerted effort of all divisions is evidenced not only by the 20% share of market held by Imperial's nine "light" market entries, but also by the continued strength of the traditional brands.

The revolutionary trend to lighter cigarettes began in the early 1970s. This change in consumer taste is one of the most important in the industry's history. It is as dramatic as the change to filter tip cigarettes during the 1950s and has had more impact on the market than the introduction of king size cigarettes at the end of the same decade, or the early success of incentive brands.

Player's Light, the most successful of the lighter cigarettes, is fast becoming Canada's number one selling brand. Imperial's other light brands, introduced after 1975, are du Maurier Special Mild, Matinée Extra Mild, Player's Extra Light, Cameo Extra Mild, Medallion, Peter Jackson Extra Light, Matinée Special Filter, and the latest addition to the du Maurier family, du Maurier Light. These nine brands now account for 40% of the company's total cigarette sales.

By consistently keeping consumers' desires as the first consideration, and by modifying products to meet the changing needs of smokers, Imperial Tobacco is able to respond effectively to the consumer demand for cigarettes of the highest quality. The company's commitment to the satisfaction of consumer needs and the marketing of quality products should ensure continued growth of market share.

Cigars and cut tobacco

Although cigarettes are the principal product, the company is the market leader in the cigar, fine cut tobacco for roll-your-own cigarettes, chewing and smokeless (moist snuff) tobacco segments, and is well represented in the pipe tobacco market.

Of Canada's four major tobacco companies, Imperial Tobacco is the only one to produce and market all categories of tobacco products.

Changing lifestyles and increasing prices continued to affect both the cigar and pipe tobacco segments which declined at the rates of 2% and 11% respectively.

Nevertheless, Imperial's market share of the 415 million cigars sold in Canada remained at 89%.

Pipe tobacco sales in Canada last year were 1,054,000 kilograms. Imperial's share of this market was 30%. In an effort to capture a greater share of the imported segment, MacBaren Light Blend, the first "light" pipe tobacco in Canada, and Virginia Flake were recently launched in test markets.

Industry sales of fine cut cigarette tobacco continued to decline. Despite extensive competitive activity, Imperial maintained a 39% share of this market.

New products

One of this year's priority projects was the development of a new cigarette in regular and king size versions. This required the successful combining of the right grades of tobacco to give a traditional smoke taste with new distinctive filters, tipping materials and cigarette papers. The result was du Maurier Light, a milder cigarette with the traditional du Maurier flavour and taste.

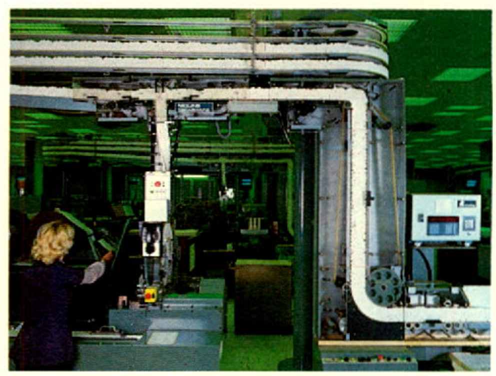
Imperial's continuing success in the lighter, and technically more complex, cigarette segment has meant great change for the manufacturing division. Increased efficiency and flexibility have been achieved with the addition of new machines and through the modernization of all stages of operations, from processing of leaf to packaging of the finished product.

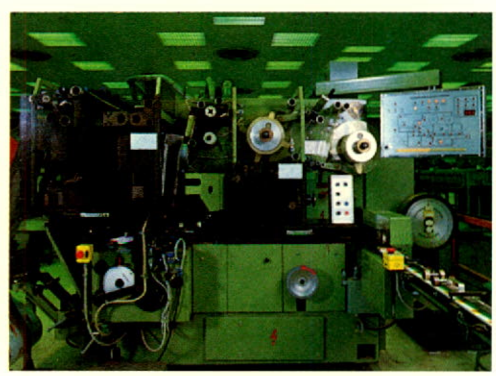
The world's first Focke slide-and-shell packing machine, and its integration with the most up-to-date cigarette making machine, was installed at Imperial Tobacco


Player's
Player's
FILTER
Player's Light
Player's
Light
Player's
Extra Light
Player's Extra Light
Player's
A taste you can call your own.


Player's
Light
du Maurier
Special Mild
Matinée
Extra Mild
Player's
Extra Light
cameo
EXTRA MILD
Medallion
Peter Jackson
SPECIAL
FILTER


NEW
du MAURIER
LIGHT
...distinctly du Maurier
du MAURIER
LIGHT
du MAURIER
du MAURIER
LIGHT
du Maurier
Special Mild
25 Cigarettes King Size





in September. This machine is capable of packing 5,000 cigarettes per minute, twice the number packed by other machines. Over the next five years, investment in high-speed equipment, capable of producing better cigarettes faster, will be in the order of $63 million.

Export market

The company entered the cigarette export market late in fiscal 1980 with du Maurier King Size and Matinée King Size, concentrating in areas where Canadians vacation in large numbers. Fiscal 1981 saw the introduction of du Maurier Light King Size, Matinée Extra Mild King Size, and expansion into more tourist areas. Export sales in the past year were some 5% higher than in the previous year.

General Cigar Company Limited exports Old Port, Reas, White Owl, Ricardo and House of Lords cigars to over 30 countries around the world. Sales volume, while relatively small, has increased by almost 100% over the past three years.

National Tobacco Company, Limited, as equal partners with United States Tobacco Company, participates in the manufacture and distribution of Copenhagen, Happy Days, and Skoal smokeless tobaccos. Based on growth rates of 2%, 3% and 5% in the past three years the company foresees attractive potential in this segment.

Leaf tobacco

The 1980 Ontario flue-cured tobacco crop amounted to 214 million pounds and was sold at an average price of $1.36 per pound. Some 141 million pounds were purchased for domestic requirements and 73 million pounds for export.

The target of the 1981 Ontario crop is 220 million pounds of which 83 million pounds have been designated for export. The guaranteed minimum average price per pound will be $1.42.

Marketing public relations

The objective of the marketing public relations department is to associate leading trademarks with major sports and cultural activities and to bring first-class spectator events to the Canadian public.

Imperial Tobacco sponsors two major tennis events: "The Player's International" for the Canadian Open Men's Tennis Championships and, added this year, the "Player's Challenge" for women. Imperial also presents the Peter Jackson Canadian Open Golf Championship, and the Peter Jackson Classic for women golfers. June 1981 will see the introduction of the Peter Jackson Champions tournament, the first Canadian event for the outstanding greats in golf.

Through grants and bursaries the du Maurier Council for the Performing Arts encourages the development of innovative and creative work in theatre, music and dance for presentation on the Canadian stage. The du Maurier Search for Stars, conducted through an annual Canada-wide audition of over 800 performers, seeks out the most talented individuals. Those selected receive bursaries and are featured in three national television shows. Six finalists are chosen through national voting to appear in a CBC national telecast.

In September 1981 Imperial Tobacco will introduce the du Maurier International jumping competition as part of the Spruce Meadows "Masters" Horse Show to be held in Calgary. The ultimate in show jumping, this event will attract competitors from six nations.

Industrial relations

During fiscal 1981 two-year agreements were signed between the company and the Bakery, Confectionery and Tobacco Workers International Union and the Energy and Chemical Workers Union representing employees in the six company plants in Québec and Ontario.

Information services division

This year saw the introduction and extension of a number of new, on-line computer systems which respond to the need for data processing and information for the Marketing, Leaf Buying, Finance, Personnel and Manufacturing divisions.

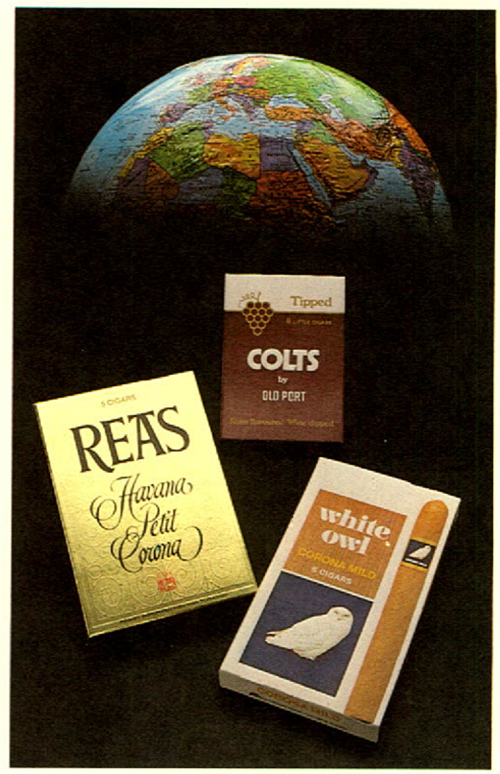
Personnel

For some years, human resources planning has been a major concern of management. The aim is to see that each position is filled by a qualified person, to train employees for positions of greater responsibility through continuous staff development and thus assure the continued success of the company.


Player's International
Canadian Open Men's Tennis Championships
AUGUST
JARRY PARK
Montréal
Player's Challenge
Canadian Open Ladies' Tennis Championships
August 15-23, 1981
Peter Jackson Classic 1981
June 29-July 5
SUMMERLEA
Golf and Country Club
Peter Jackson Champions
Wilson

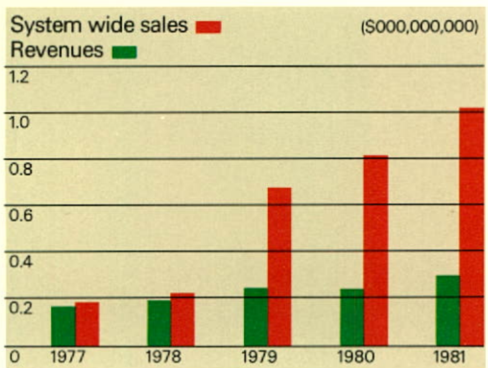

Matinée
Factory fresh from Canada

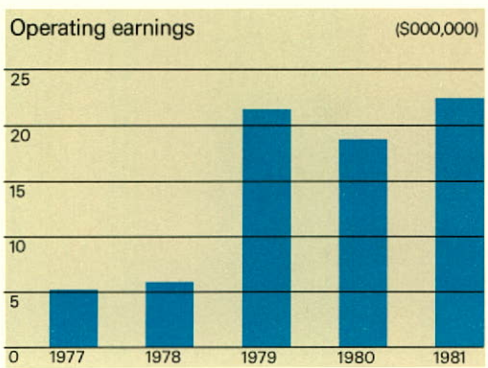

OLD PORT
BORKUM RIFF
HAVANE
BELVEDERE
REAS
PETIT CORONA
Light
COLTS MILD
SKOAL
HAPPY DAYS
Copenhagen
COLTS


Tipped
COLTS
by
OLD PORT
5 CIGARS
REAS
Havana
Petit
Corona
white owl
CORONA MILD
5 CIGARS

Anthony I. Kalhok,
President, Imasco Associated Products Limited

The graphs shown below exclude businesses sold prior to fiscal 1981.





Imasco Associated Products is the retail division of the Corporation. It operates in every province in Canada and in most of the United States, both through company-owned and franchised stores.

The division employs directly, and indirectly through franchisees, approximately 18,000 employees who serve the public in 945 locations in Canada and 238 in the United States.

Shoppers Drug Mart operates 328 franchised drug stores in Canada and 35 in the United States as well as 18 company-operated Top Drug Mart stores, and the 99 unit Embassy Cleaners chain in Ontario. In Québec, 36 drug stores are operated under the name of Pharmaprix.

In the Canadian operations of Shoppers Drug Mart, the highly successful launch of the "Shoppers Three" advertising campaign, coupled with the national promotion celebrating the opening of the four hundredth store, in Kildonan Place, Winnipeg, were two of many marketing activities which gave substantial impetus to sales and operating earnings for the year.

Since the acquisition of Pharmaprix in 1980, average sales per store have increased by some 40%. The group is expected to be profitable within the current year as a result of improved operating efficiency.

During the year operations in Florida were further expanded by 12 stores, including two under construction, bringing the total to 37 in the United States. While this expansion does not yet contribute to corporate profit, the sales increases and the development of an effective management team are on plan. As the individual locations mature, they are generating a satisfactory level of income.

Embassy Cleaners Limited opened 11 new stores in 1981, continuing its pattern of consistent profitable expansion in southern Ontario.

In Canada The UCS Group Limited operates tobacco shops, gift stores and newsstands in major hotels, shopping centres and airports, as well as the Smoke Shops in the Woolco department stores. With 27 stores opened in the year, there are currently 428 stores operating from coast to coast.

Sales and margins experienced the same pressures and performances as Canadian retailing in general. As the retail outlook improves, a return to normal growth in sales and earnings is expected.

During the year The UCS Group entered into an agreement to purchase the six-store chain of Cavalier China & Gift Shops Ltd. This long established firm retails fine quality china, crystal and gifts in Calgary, Alberta. This acquisition is subject to approval of the Foreign Investment Review Agency.

In the United States, The Tinder Box International, Ltd. operates a chain of 203 franchised and company-owned specialty tobacco shops. An extensive selection of pipes, cigars, tobaccos and quality gift items is attractively presented to the public in many major malls throughout the United States.

The Collegiate/Arlington Sports/Outdoor Stores 36-store chain, extending from Québec to British Columbia, specializes in mass merchandising of name brand quality sporting goods.

During the year, the integration of the 11-store chain of The Outdoor Stores into the sporting goods operations was completed, and the attendant cost absorbed.

Inventory problems accumulated from poor seasonal conditions in recent years were defined and, in part, resolved. New store formats were tested in 1981 with satisfactory results.

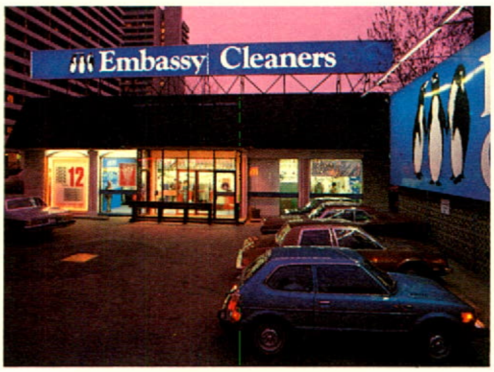
While sales in some stores suffered from the general weakness in the retail marketplace, the acquisition of The Outdoor Stores chain led to an overall increase of 50% in sales.

There will be no increase in the number of sporting goods stores in fiscal 1982. Six new stores will be opened, an equal number of unprofitable locations will be closed, and the new store format will be extended to existing stores.


SHOPPERS DRUG MART


PHARMAPRIX


's great drug values
household


Embassy Cleaners

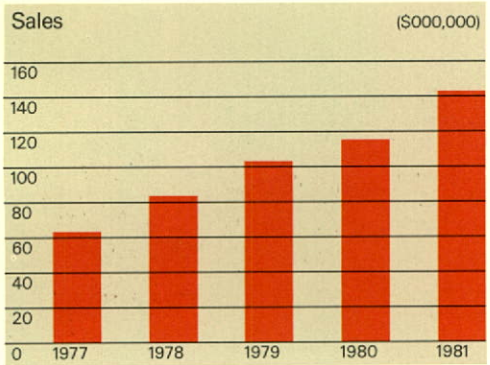

Piccadilly Place


collegiate
sportsworld
collegiate


The Den for Men

Yves Hudon,
President, Imasco Foods (1980) Limited

The graphs shown below exclude businesses sold prior to fiscal 1981.



Imasco Foods embraces a group of companies situated in Québec and Ontario which manufacture biscuits, candies, prepared meat products, dry bread specialties, and dehydrated soups, and Italian-type foods.

During the past year, the food operations were hard-hit by inflation and experienced cost increases of some 3% over the general inflation rate. In addition, there was a six-week strike which paralysed the prepared meat operations. The strike, which took place during the summer, one of the busiest times of the year, caused substantial sales volume and profit reductions.

Acquisitions

During the past fiscal year, the division made two acquisitions: Anco Food Products Ltd. and Lido Biscuits.

Anco was acquired as of August 31, 1980, and its operating results are included from that date.

Anco manufactures, imports and exports a range of fine cheeses. Principal products made in Canada are Anfrom, Camembert, Brie and St-Paulin. Among the company's imported cheeses is the popular line "La vache qui rit." Anco provides direct access to a food marketing sector under study for several years. Its outlook appears extremely bright. The company is located in Montréal, its production plant, Fromagerie de Corneville, is in St-Hyacinthe, Québec, and it has warehouses in Toronto, Québec, Vancouver and Ottawa.

Anco is equipped with one of the best distribution systems for this type of industry in Canada and the capacity of Fromagerie de Corneville will permit production of a much larger range of fine cheeses.

Lido was acquired in December 1980 and its results have been included from that date.

Lido is located in St-Lambert, a Montréal suburb. It is an important addition to the present operations of Viau and Biscuits Montmagny which produce sweet biscuits and candies. Among its many brands, Viau produces one of the most popular biscuits, chocolate marshmallow "Whippets."

The acquisition of Lido now gives the division a 35% share of the biscuit market in Québec and the potential to become the leader of this industry in Canada. The best known Lido brands, "Ti-Coq" and "Goglu" are highly popular in Québec and represent a valuable addition to the division's product lines.

Unico Foods packs and distributes a wide range of Italian-type foods. Well known in central Canada, the company's products are being steadily extended to wider Canadian markets. Unico sunflower oil is one of the largest-selling vegetable oils for both domestic and commercial use and it is the company's principal product.

A solid base was established in the Vancouver region where Unico now has a warehouse and a bottling line for Unico vegetable oil to meet the needs of the western part of the country.

Manufacturing facilities of the Grissol division were completely reorganized during the year. This large-scale undertaking included the expansion and modernization of the Ste-Martine plant, which produces bread sticks, Melba toast, rusks and dry soup mixes, and the purchase of new machinery and the centralization of all operations under one roof. This will provide a modern plant equipped with an increased production capacity and higher efficiency. The plant is expected to be in full production before the end of the current fiscal year.

The second phase of the expansion project of the Taillefer meat processing plant at Magog, Québec, was completed. The Taillefer division now has the production capacity to meet the demands of this market for the next few years.


Unico
Red Kidney Beans
ANFROM
Unico
GRISSOL
34
Fromage St-Paulin Cheese
L'Eastra
CORNEVILLE
Unico
Olives
Babybel


GRISSOL
croutons
GRISSOL
34 rusks
Melba


VIAU
VILLAGE
Chocolat-e Whipper


Gallo
OLIVE OIL
Unico
Vegetable Oil
Unico
Sunflower Oil
Unico
Chick Peas
Garbanzos
Unico
Red Kidney Beans
Unico
Chick Peas
Garbanzos
Unico
Red Kidney Beans


BACON
BACON
EXTRA MAIGRE
Jambon Cuit
EXTRA LEAN
Cooked Ham
Taillefer
Bologne
cretons


METEO
CARAMEL
Goglu
Goglu
Pinocchio

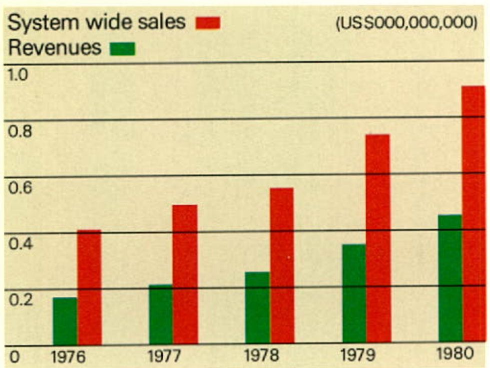

CORNEVILLE
CAMEMBERT
L'Eastra
12
La vache qui rit
ANFROM
ANCO
Fromage St-Paulin Cheese
L'Eastra
mini BONBEL
Babybel


Loney's
mélange pour soupe
BEEF NOODLE
soup mix
TOMATE ET LÉGUMES
TOMATO VEGET
Loney's
mélange pour soupe
POULET ET NOUILLES
CHICKEN NOODLE
soup mix
SOUPE À L'
ONION


BISCUITS
RIVIERA
BISCUITS
Lunch Sandwich
Feuille d'Erable
Maple Creams

Jack A. Laughery,
Chairman of the Board,
President and Chief Executive Officer
Hardee's Food Systems, Inc.

The graphs shown below represent the fiscal years ended October 31.



Hardee's Food Systems, Inc. is the newest addition to the Imasco Limited group of operating companies. Hardee's Food Systems is a fast service, family restaurant chain of 1,338 restaurants in 35 states in the U.S., mainly in the south and the west, and in several foreign countries. The company operates 501 restaurants and licensees operate 837 restaurants. Hardee's currently ranks fourth among hamburger restaurant chains in the United States and eighth among all fast food restaurant chains.

Hardee's has enjoyed excellent performance over the past five years. Hardee's momentum in the food service industry has substantially increased and the company has been able, over this period, to achieve increases in market share and increases in average sales volume per restaurant. Restaurant volumes have increased at a rate in excess of 15% a year and currently average approximately $600,000 per unit. Hardee's has been among a very select group of fast food restaurant chains that have been able to exhibit real growth in average unit volumes over the past three years.

Besides operating and licensing fast service restaurants, Hardee's also operates manufacturing and distribution facilities throughout the United States. Two manufacturing plants are located in North Carolina, and seven distribution centres are located in North Carolina, Kentucky, Pennsylvania, Missouri, Iowa, Georgia and Florida.

Manufacturing and distribution facilities account for approximately 85% of all products purchased and utilized within the entire restaurant chain. This unique combination of manufacturing and distribution has ensured Hardee's ability to maintain superior quality in all food and related products. The system currently produces in excess of 35,000,000 pounds of hamburger, 15,000,000 pounds of roast beef, 7,000,000 apple turnovers, 2,000,000 pounds of chili and over 6,000,000 pounds of ham, sausage and related pork products.

During the latter part of the 1970s Hardee's underwent significant changes in its scope and position as a company. Restaurant facilities, packaging, menu, uniforms and overall corporate appearance were totally redesigned. The company undertook an aggressive development program with over 200 new company-operated restaurants being developed over the past five years and 300 remodelled during that same period. Licensees, over the past five years, have developed in excess of 300 new restaurants and have remodelled some 200. In concert with these development efforts, an aggressive acquisition program has been maintained related to the purchase of over 80 franchised restaurants during this period.

One key corporate objective over the past five years has been to continue to increase restaurant volumes at an above average rate. This has been accomplished through the redesign of many business elements, as well as the creation and use of a unique marketing program. The marketing thrust is aimed at adults between the ages of 25 and 49. This group accounts for the largest share of fast food restaurant expenditures and will be an increasingly important market during the '80s. The marketing program is aimed at providing this group of consumers with extremely high quality sandwich products and increased variety. This strategy has been effective through the addition of several menu items in recent years. These are the Roast Beef Sandwich, Hot Ham 'n' Cheese Sandwich, Homemade Biscuit Breakfast and, most recently introduced, the Chicken Filet Sandwich. These quality products have enhanced Hardee's image among consumers and have accounted for a significant portion of volume growth in company and licensed restaurants.

As Hardee's participates in the dynamic 1980s, the company is uniquely positioned to share in future industry and overall consumer spending growth. The balance of quality products, fast service, attractive buildings, innovative and effective marketing programs and support facilities in manufacturing and distribution positions Hardee's well for future success.


Hardee's

Imperial Tobacco Limited
Montréal, Québec
Manufactures and distributes cigarettes, fine cut tobaccos, pipe tobaccos, chewing tobaccos and snuff.
L. Edmond Ricard, Chairman of the Board
Jean-Louis Mercier, President
Wilmat Tennyson, Executive Vice-President
Clifford Warren, Executive Vice-President
Robert C. Bégin, C.A., Vice-President
Marius Dagneau, Vice-President
E. Peter Gage, Vice-President
Robertson M. Gibb, Vice-President
André Laporte, Vice-President
Claude Mercier, Vice-President
William J. Ross, Vice-President
Roland Bouchard, Secretary
John Gerlich, Comptroller

General Cigar Company Limited
Montréal, Québec
Manufactures and distributes cigars.

Imperial Leaf Tobacco Division of Imasco Limited
Aylmer, Ontario
Purchases and processes leaf tobacco for Imperial Tobacco and for export.

Imasco Associated Products Limited
Toronto, Ontario
L. Edmond Ricard, Chairman
Anthony I. Kalhok, President
John J. Ruffo, Executive Vice-President
John F. Mathers, C.A., Vice-President and Treasurer
Stella M. Pavic, Secretary

The UCS Group Limited
Toronto, Ontario
A chain of 428 retail tobacco and gift shops.
Frederick C. Van Parys, President

The Tinder Box International, Ltd.
Santa Monica, California
A franchisor of 203 retail specialty tobacco shops in the United States.
Laurence H. Simpson, President

Collegiate/Arlington Sports
Toronto, Ontario
A chain of 36 retail sporting goods stores.
John J. Ruffo, President

Shoppers Drug Mart
Toronto, Ontario
A group of 417 franchised and company-owned drug stores operating in Canada and the United States under the names of Shoppers Drug Mart, Top Drug Mart and Pharmaprix.
Murray B. Koffler, C.M., Chairman of the Board
Jack Gwartz, President, Chief Executive and Operating Officer

Embassy Cleaners Limited
Toronto, Ontario
A chain of 99 dry cleaning outlets in Ontario.
Emile Haick, President

Imasco Foods (1980) Limited
Montréal, Québec
Manufactures and distributes a variety of food products through several divisions.
Anco: specialty cheese products.
Grissol: bread specialties and soups.
Lido: biscuits, candies.
Montmagny: biscuits, candies.
Taillefer: prepared meat products.
Unico: Italian food products.
Viau: biscuits, candies.
L. Edmond Ricard, Chairman of the Board
Yves Hudon, President.
Yves Bertrand, C.A., Vice-President, Secretary and Treasurer
Pierre Denault, Vice-President
Raymond Denis, Vice-President
Romuald Frenette, Vice-President
Robert C. Nadeau, Vice-President
Edward C. Pasquale, Jr., Vice-President
Gérald Pelletier, Vice-President

Hardee's Food Systems, Inc.
Rocky Mount, North Carolina, U.S.A.
Operates and licenses 1,338 fast food restaurants in the U.S.A., Japan, the Middle East, Caribbean Islands and Central America.
Jack A. Laughery, Chairman of the Board, President and Chief Executive Officer
Robert B. Batchelder Executive Vice-President, Marketing
Roger W. Kisiel Executive Vice-President, Operations
Richard F. Sherman Executive Vice-President, Administration
Hugh Todd, Jr. President, Fast Food Merchandisers
Gene G. Arnold Senior Vice-President, Development
Spruill G. Bunn Senior Vice-President, Development Services
Gerald R. Richards Senior Vice-President, Operations
Benton Silloway Senior Vice-President, Marketing
Daniel E. Somers Senior Vice-President, Finance and Chief Financial Officer

Auditors' Report

To the Shareholders of Imasco Limited

We have examined the consolidated balance sheet of Imasco Limited as at March 31, 1981 and the consolidated statements of earnings, retained earnings and of 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 corporation as at March 31, 1981 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.

Deloitte Haskins & Sells
Chartered Accountants
Montréal, Canada

May 19, 1981

Consolidated Statement of Earnings

	1981	1980
	Thousands of dollars	
Revenues	1,423,707	1,150,538
Sales and excise taxes	458,243	396,934
	965,464	753,604
Operating costs	805,921	626,073
Earnings from operations	159,543	127,531
Corporate expenses	9,634	7,424
Interest–net	18,128	13,308
	131,781	106,799
Equity in income of associated companies	9,290	4,554
Earnings before income taxes	141,071	111,353
Income taxes	51,521	43,125
Net earnings	89,550	68,228
Earnings per common share:		
basic	$4.27	$3.30
fully diluted	$4.25	$3.27

Consolidated Statement of Retained Earnings

	1981	1980
Retained earnings, beginning of year	266,317	219,147
Net earnings	89,550	68,228
Dividends	(26,032)	(21,058)
Retained earnings, end of year	329,835	266,317

Consolidated Balance Sheet

		1981	1980
		Thousands of dollars	
Current assets	Cash and term deposits	44,331	16,446
	Accounts and notes receivable	96,178	59,193
	Inventories	390,173	326,276
	Prepaid expenses	6,547	3,677
	Total current assets	537,229	405,592
Current liabilities	Bank and other short term loans	178,536	117,944
	Accounts payable and accrued liabilities	114,522	59,843
	Income, excise and other taxes	45,189	37,540
	Current portion of long term debt and capital leases	26,633	2,703
	Total current liabilities	364,880	218,030
	Working capital	172,349	187,562
Other assets	Investments in associated companies	11,206	52,723
	Other investments and receivables	62,403	53,002
	Fixed assets	377,492	116,955
	Deferred charges	16,744	10,547
	Goodwill	81,289	38,438
	Total other assets	549,134	271,665
	Excess of assets over current liabilities	721,483	459,227
Other liabilities	Long term debt	153,936	96,921
	Long term obligations under capital leases	31,462	–
	Deferred income taxes	23,737	18,001
	Total other liabilities	209,135	114,922
	Excess of assets over liabilities	512,348	344,305
Shareholders' equity	Capital stock	182,513	77,988
	Retained earnings	329,835	266,317
	Total shareholders' equity	512,348	344,305

Approved by the Board,

Paul Paré, Director

Purdy Crawford, Q.C., Director

Consolidated Statement of Changes in Financial Position

		1981	1980
		Thousands of dollars	
Source of funds	Net earnings	89,550	68,228
	Non-cash items	20,358	20,128
	Funds provided from operations	109,908	88,356
	Issuance of series B preference shares	104,525	–
	Other investments and receivables	2,623	3,125
	Sale of fixed assets	1,713	3,627
	Total source of funds	218,769	95,108
Application of funds	Purchase of businesses	101,138	4,378
	Working capital acquired	(8,637)	(751)
		92,501	3,627
	Fixed assets	53,686	37,102
	Dividends	26,032	21,058
	Long term debt	42,641	4,344
	Obligations under capital leases	925	–
	Other investments and receivables	6,358	25,543
	Investments in associated companies	6,531	4,251
	Deferred charges	5,863	3,583
	Redemption of series A preference shares	–	839
	Unrealized foreign exchange	(555)	195
	Total application of funds	233,982	100,542
Working capital	Decrease in working capital	15,213	5,434
	Beginning of year	187,562	192,996
	End of year	172,349	187,562

Notes to the Consolidated Financial Statements

1. Summary of accounting policies

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and reflect the following policies:

a) Basis of consolidation
The consolidated financial statements include the accounts of all subsidiaries. Acquisitions are accounted for as purchases and the results of operations of acquired businesses are included from their effective dates of acquisition. Goodwill and related costs arising from acquisitions of subsidiaries are capitalized and amortized, on a straight-line basis, over their estimated useful lives not exceeding 40 years.

b) Foreign exchange
Foreign currency amounts are translated into Canadian dollars on the following basis:
Current assets, current liabilities, other investments and receivables, deferred charges and non-current liabilities at exchange rates in effect at year end.
Fixed assets and goodwill at exchange rates in effect at the relevant acquisition dates.
Earnings accounts at average exchange rates for the year, except that provisions for depreciation and amortization of goodwill are translated at rates used to translate the related assets.
Net gains arising on translation of foreign currency amounts are deferred.

c) Inventories
Inventories are valued at the lower of cost and net realizable value. Cost is determined for each division substantially as follows:
Imperial Tobacco: Average cost
Retail: Retail inventory method
Food: First-in, first-out
Restaurant: First-in, first-out.

d) Investments in associated companies
Investments in associated companies are accounted for on the equity method based on their latest audited financial statements.

e) Other investments and receivables
Investments and receivables are shown at cost or have been reduced to their estimated realizable value.

f) Fixed assets
Fixed assets are stated at cost. Depreciation is calculated on the straight-line basis over the estimated useful lives of the assets. Leases which meet certain criteria are designated as capital leases and are recorded as if the Corporation had acquired the related assets through debt financing. Leased property under capital leases is amortized on a straight-line basis over the estimated useful life of the asset. The estimated useful lives of the principal classes of assets range from 14 to 40 years for buildings and from 5 to 20 years for equipment. Leasehold improvements are amortized on a straight-line basis over the lesser of the estimated useful life of the asset or the term of the respective lease.

g) Deferred charges
Deferred charges are stated at cost less amortization accumulated on a straight-line basis. The amortization periods for the principal elements of deferred charges are: Deferred financing expense–ten years; retail store opening costs–the second to the fourth year of operation; retail and restaurant leases acquired–the term of the lease; other deferred charges–three to ten years.

h) Income taxes
Income taxes are accounted for using the tax-allocation basis under which income taxes are provided in the year transactions affect net income regardless of when such transactions are recognized for tax purposes. Timing differences giving rise to deferred income taxes relate primarily to claiming capital cost allowances for income tax purposes in excess of depreciation recorded in the financial statements.

All tabular figures are in thousands of dollars

Notes to the Consolidated Financial Statements

2. Segmented financial information

Financial information is presented according to the following industry segments.
Imperial Tobacco–manufactures and distributes a complete range of tobacco products.
Retail–retail operations which specialize in prescription drugs, health and beauty aids, tobacco products and gifts, dry cleaning and sporting goods.
Food–manufactures, processes and distributes a variety of food products.
Restaurant–operates, licenses, supplies and services a system of limited menu restaurants primarily in the United States.

Industry segments	Consolidated 1981	1980
Revenues		
Sales	1,412,622	1,147,463
Franchise fees and other income	42,172	31,270
Inter-company	(31,087)	(28,195)
	1,423,707	1,150,538
Earnings from operations	159,543	127,531
Capital employed[2]		
Net assets	772,374	445,749
Goodwill	81,289	38,438
	853,663	484,187
Inventories		
Finished goods	161,403	134,332
Raw materials	228,770	191,944
	390,173	326,276
Net fixed assets	377,492	116,955
Depreciation and amortization		
Fixed assets	19,507	13,178
Capital leases	232	–
Goodwill	1,347	1,118
Deferred charges	1,905	1,552
	22,991	15,848
Capital expenditures	53,686	37,102

Reconciliation of capital employed and excess of assets over current liabilities	1981	1980
Capital employed	853,663	484,187
Corporate assets	61,000	107,890
	914,663	592,077
Less: Corporate current liabilities	193,180	132,850
Excess of assets over current liabilities	721,483	459,227

Imperial Tobacco 1981	1980	Retail 1981	1980	Food 1981	1980	Restaurant[1] 1981	1980
952,923	826,665	231,962	204,779	141,893	116,019	85,844	–
–	–	39,358	31,270	–	–	2,814	–
–	–	–	–	–	–	–	–
952,923	826,665	271,320	236,049	141,893	116,019	88,658	–
123,248	99,137	22,455	18,968	10,219	9,426	3,621	–
326,050	291,896	138,371	121,453	50,234	32,400	257,719	–
–	–	37,203	38,279	1,972	159	42,114	–
326,050	291,896	175,574	159,732	52,206	32,559	299,833	–
82,116	73,440	51,129	52,626	10,680	8,266	17,478	–
214,274	187,520	–	–	5,244	4,424	9,252	–
296,390	260,960	51,129	52,626	15,924	12,690	26,730	–
64,535	52,349	58,478	49,410	26,823	15,196	227,656	–
6,279	5,213	8,042	6,473	1,706	1,492	3,480	–
–	–	–	–	–	–	232	–
–	–	1,080	1,094	90	24	177	–
335	449	751	498	509	605	310	–
6,614	5,662	9,873	8,065	2,305	2,121	4,199	–
18,791	16,998	17,796	15,970	6,001	4,134	11,098	–

[1] Revenues and earnings of the restaurant segment are for the two months from January 29, 1981, when Hardee's Food Systems, Inc. became a wholly owned subsidiary, to March 31, 1981.

[2] Capital employed consists of directly identifiable assets, at net book value, less the current liabilities of each segment at year end exclusive of short term borrowings and corporate items.

All tabular figures are in thousands of dollars

Notes to the Consolidated Financial Statements

3. Acquisitions

On January 29, 1981, the Corporation acquired the remaining shares of Hardee's Food Systems, Inc. Prior to that date, the investment in Hardee's was accounted for on the equity method. Accordingly, the equity in the earnings of Hardee's for its year ended October 31 1980 and for the three months ended January 29, 1981 have been reflected in the accompanying financial statements as equity in income of associated companies. Subsequent to January 29, 1981, the operations of Hardee's have been consolidated. In addition, the food division acquired two businesses for a total cash consideration of $6,377,000.

Details of the Hardee's acquisition are as follows:

	1981
Working capital	9,160
Fixed assets	220,945
Other assets	15,196
	245,301
Non-current liabilities	128,380
Net assets acquired	116,921
Less: Prior investment	56,583
	60,338
Goodwill	34,423
Total consideration in cash	94,761

4. Corporate expenses

	1981	1980
General and administration expenses	10,171	8,153
Other charges (gains)		
Write-down of investment	–	3,974
Foreign exchange	(537)	(2,146)
Recovery from the pension funds of discontinued operations	–	(2,083)
Insurance proceeds in excess of book value of assets destroyed	–	(474)
	9,634	7,424

5. Interest expense–net

	1981	1980
Interest on long term debt and capital leases	11,187	9,481
Other interest expense	11,221	4,406
Income from other investments	(2,546)	(579)
Gain on securities transactions	(1,734)	–
	18,128	13,308

6. Investments in associated companies

	% interest in common shares	1981	1980
Canada Northwest Land Limited (market value at March 31, 1981–$48,302)	20	11,206	9,522
Hardee's Food Systems, Inc.	–	–	43,201
		11,206	52,723

Refer to Note 3 with respect to the acquisition of Hardee's Food Systems, Inc.

All tabular figures are in thousands of dollars

Notes to the Consolidated Financial Statements

		1981	1980
7. Other investments and receivables	Investments	27,343	26,940
	Receivables	35,060	26,062
		62,403	53,002

Included in investments is $20,000,000 of cumulative redeemable non-voting variable rate (1981–10.6%; 1980–10.7%) second preference shares of BAC Cosmetiques Inc.– a related company. Receivables consist primarily of notes due from franchisees which are non-interest bearing with no fixed maturity.

		1981	1980
8. Fixed assets	Land	36,576	2,670
	Buildings	117,302	42,438
	Equipment	272,803	136,915
	Leasehold improvements	103,983	30,748
		530,664	212,771
	Accumulated depreciation	175,791	95,816
		354,873	116,955
	Leased property under capital leases	36,661	–
	Accumulated amortization	14,042	–
		22,619	–
	Net fixed assets	377,492	116,955

		1981	1980
9. Long term debt	Sinking fund debentures		
	8½% Series A due March 1991	24,500	25,550
	10⅞% Series B due August 1995	24,300	25,500
	10¼% Series C due October 1990 (U.S. $20,000)	23,688	23,924
	9% due July 1992	6,873	6,876
		79,361	81,850
	Notes payable		
	7⅞% note due February 1982 (U.S. $15,000)	17,766	17,943
	10¾% payable in ten annual instalments beginning in 1985 (U.S. $40,000)	47,376	–
	9¼% payable in eleven annual instalments beginning in 1983 (U.S. $11,000)	13,028	–
	9¾% payable in annual instalments to 1986 (U.S. $3,475)	4,116	–
		82,286	17,943
	Other long term obligations	19,140	2,141
		180,787	101,934
	Less: Sinking fund debentures held in Treasury	(1,778)	(2,310)
	Payments due within one year	(25,073)	(2,703)
		153,936	96,921

Required payments during the next five years, including the 7⅞% note due in 1982 for $17,766,000, amount to: 1982, $25,073,000; 1983, $9,363,000; 1984, $10,527,000; 1985, $8,056,000; 1986, $12,618,000.
The application of funds for long term debt in 1981 of $42,641,000 includes the required payments during 1982 of $25,073,000 and the repayment in 1981 of long term bank debt of $17,970,000 outstanding at the date of acquisition of acquired businesses. The net book value of properties securing mortgage and other debt obligations at March 31, 1981 was approximately $20,246,000.

All tabular figures are in thousands of dollars

Notes to the Consolidated Financial Statements

10. Capital lease commitments

The Corporation has commitments with respect to property recorded under capital leases expiring on various dates through 2000. The minimum annual commitment under such leases is approximately as follows:

	1981	1980
1982	5,500	
1983	5,493	
1984	5,423	
1985	5,363	
1986	5,351	
1987 and thereafter	37,755	
Total minimum commitment	64,885	
Less: Imputed interest	31,863	
Payments due within one year	1,560	
Long term obligations under capital leases	31,462	

11. Capital stock

The authorized capital consists of:
a) 1,650,000–6% cumulative preference shares
b) An unlimited number of preference shares, issuable in series, with the stated value of each series to be fixed by the Board of Directors.
On February 3, 1981, 2,825,000 Series B preference shares, with an annual cumulative dividend of $3.06, were authorized having a stated value of $37.00, convertible into common shares on a one-for-one basis until 1991 and redeemable after March 1, 1984 at varying prices from $37.00 to $38.85.
c) An unlimited number of common shares.

Issued and outstanding after giving retroactive effect to the two-for-one stock split of the common shares in July 1980:

	1981	1980
1,191,888–6% preference shares	5,800	5,800
2,825,000–Series B preference shares	104,525	–
20,703,074–Common shares	72,188	72,188
	182,513	77,988

Weighted average number of shares outstanding used in determining earnings per common share

	1981	1980
Basic	20,703,074	20,527,802
Fully diluted	20,977,805	20,722,250

During the year 2,825,000 Series B preference shares were issued for cash and 17,850 common shares were purchased at $31.875 each for cancellation. In March, the Corporation made an offer of unissued common shares to certain employees to enable them to benefit from the tax legislation of the Province of Québec. A total of 17,850 shares were issued under this offering for a price of $31.875 each.

12. Dividends

	1981	1980
6% preference shares	348	348
Series A preference shares	–	70
Series B preference shares	840	–
Common shares	24,844	20,640
	26,032	21,058

During fiscal 1980, all remaining Series A preference shares outstanding were either converted to common shares or redeemed.
Dividends on the Series B preference shares have been accrued from the date of issue February 24 to March 31, 1981.
The trust agreements relating to the Series A, B and C sinking fund debentures contain restrictions regarding the payment of dividends on common shares. At March 31, 1981, $236,034,000 of retained earnings was free from such restrictions.

All tabular figures are in thousands of dollars

Notes to the Consolidated Financial Satements

13. Lease commitments

The Corporation has commitments with respect to operating leases, primarily involving real estate, most of which are for terms of from 5 to 20 years. The minimum annual commitment under such leases is approximately as follows:

	Rental commitment	Rental commitment assumed by franchisees	Net rental commitment
1982	34,376	19,828	14,548
1983	33,073	19,691	13,382
1984	31,217	19,345	11,872
1985	29,129	18,615	10,514
1986	27,149	17,819	9,330

The minimum annual rental commitment as listed above does not give effect to escalation and percentage-of-sales clauses in certain of the leases. Net rentals under leases including escalation and percentage-of-sales clauses amounted to $14,711,000 in 1981 and $10,247,000 in 1980.

14. Other information

a) Pension plans
The companies have pension and retirement plans available to substantially all their employees. Current service costs are charged to earnings as they accrue. The unfunded liability for past service benefits is estimated at $8,000,000 as at March 31, 1981 and will be funded and charged to earnings, with interest, over periods up to 15 years.

b) Research and development costs
Research and development costs charged to earnings during the year amounted to $2,908,000.

c) Related party transactions
B·A·T Industries Limited, through the ownership of shares of the Corporation, is defined as a related party. Transactions with B·A·T Industries Limited and/or its subsidiaries for the year ended March 31, 1981 consisted of:
i. Payment of fees for research and development, marketing and manufacturing services aggregating $1,016,000.
ii. Export sales of leaf tobacco of $5,203,000.
iii. Dividend income from BAC Cosmetiques Inc. $2,113,000.
iv. Purchases of materials $5,742,000.

d) Contingent liabilities
The Corporation has provided guarantees to various banks in respect of borrowing by franchisees. The total of these guarantees at March 31, 1981 was $31,519,000 of which the outstanding indebtedness of the franchisees was $19,793,000.

e) The Companies Act (British Columbia)
The consolidated financial statements include the accounts of all subsidiary companies but only some of the principal operating subsidiaries have been named elsewhere in this report. A list of all of the subsidiaries of the Corporation is available for inspection at the Corporation's registered office in British Columbia.

f) Prior year's figures
Certain of these have been reclassified to conform to the current presentation.

Statistical Highlights
Five Year Review for years ended March 31

		1981	1980	1979	1978	1977
		Thousands of dollars, except "per common share" statistics				
Sales and earnings	System-wide sales	2,264,940	1,721,809	1,586,748	1,070,687	1,044,751
	Revenues	1,423,707	1,150,538	1,161,526	1,049,421	1,031,642
	Depreciation	19,739	13,178	11,984	8,050	8,456
	Earnings from operations	159,543	127,531	114,378	83,369	74,423
	Corporate expenses	9,634	7,424	6,584	5,729	4,494
	Interest	18,128	13,308	11,339	7,955	8,756
	Equity income	9,290	4,554	407	879	–
	Income taxes	51,521	43,125	40,455	27,486	26,252
	Earnings before extraordinary items	89,550	68,228	56,407	43,078	34,921
	Net earnings after extraordinary items	89,550	68,228	57,721	40,734	35,215
	Earnings per common share before extraordinary items, fully diluted	4.25	3.27	2.70	2.21	1.79
Dividend record	On preference shares	1,188	418	1,281	348	348
	On common shares	24,844	20,640	16,016	13,921	13,071
	Per common share	1.20	1.00	0.82	0.72	0.675
Funds provided	From operations	109,908	88,356	76,074	54,896	47,392
Capital expenditures	On fixed assets	53,686	37,102	31,055	17,170	17,118
Financial position	Current assets	537,229	405,592	386,403	354,351	326,930
	Current liabilities	364,880	218,030	193,407	138,258	142,415
	Working capital	172,349	187,562	192,996	216,093	184,515
	Investments in associated companies	11,206	52,723	53,139	35,856	15,173
	Fixed assets (before depreciation)	567,325	212,771	179,980	140,584	146,375
	Fixed assets (less depreciation)	377,492	116,955	93,826	70,221	74,973
	Long term debt	153,936	96,921	99,967	95,511	95,920
	Excess of assets over liabilities	512,348	344,305	297,974	232,876	206,411
Shareholders' equity	Preference shareholders	110,325	5,800	17,483	5,800	5,800
	Common shareholders	402,023	338,505	280,491	227,076	200,611
	Per common share	19.42	16.35	13.96	11.74	10.37

Statistical Highlights–Continuing Operations
Five Year Review for years ended March 31

		1981	1980	1979	1978	1977
		Thousands of dollars, except "number of outlets"				
Imperial Tobacco	Sales	952,923	826,665	741,405	655,010	605,411
	Sales and excise taxes	458,243	396,934	363,180	330,258	316,378
	Earnings from operations	123,248	99,137	78,839	68,322	60,891
	Inventories	296,390	260,960	228,835	191,554	161,065
	Fixed assets–net	64,535	52,349	41,108	31,898	26,190
	Depreciation expense	6,279	5,213	4,509	3,330	2,938
	Capital expenditures	18,791	16,998	14,208	9,572	4,185
Retail	System-wide sales	1,016,796	807,320	674,314	218,085	192,185
	Revenues: sales	231,962	204,779	221,855	198,276	178,257
	franchise fees	39,358	31,270	27,237	1,164	819
	Earnings from operations	22,455	18,968	21,691	6,312	5,140
	Inventories	51,129	52,626	42,432	44,738	36,081
	Fixed assets–net	58,478	49,410	39,964	12,296	11,230
	Depreciation expense	8,042	6,473	5,020	1,783	1,306
	Capital expenditures	17,796	15,970	12,903	3,045	2,485
	Number of outlets					
	Pharmacies	417	391	365	64	67
	Tobacco, sundry and gift	631	594	560	545	527
	Sporting goods	36	27	25	21	17
	Dry cleaners	99	88	84	–	–
		1,183	1,100	1,034	630	611
	Company-owned	609	547	502	471	461
	Franchised	574	553	532	159	150
		1,183	1,100	1,034	630	611
Food	Sales	141,893	116,019	101,474	83,011	63,824
	Earnings from operations	10,219	9,426	8,258	5,072	4,257
	Inventories	15,924	12,690	10,948	8,677	8,348
	Fixed assets–net	26,823	15,196	12,754	11,028	10,440
	Depreciation expense	1,706	1,492	1,200	1,132	891
	Capital expenditures	6,001	4,134	3,094	1,811	2,358

Note: The above divisional statistical highlights exclude the operating results of businesses sold prior to fiscal 1981.

Five year Review for years ended October 31

		1980	1979	1978	1977	1976
		Thousands of U.S. dollars, except "number of restaurants"				
Restaurant[1]	System-wide sales	922,300	750,000	564,600	496,400	406,264
	Revenues:					
	Sales:					
	Company restaurants	262,522	204,280	154,753	130,776	112,131
	Food processing, supplies and equipment	157,484	140,186	94,229	75,405	69,059
	Service and licence fees	13,252	11,067	8,662	7,299	6,085
	Earnings from operations	32,981	25,025	18,888	16,531	12,876
	Inventories	22,313	19,846	16,145	10,213	9,687
	Fixed assets–net	173,025	133,369	96,259	48,743	36,528
	Depreciation expense	15,893	11,866	8,837	5,319	4,173
	Capital expenditures	60,764	52,614	33,893	15,429	8,461
	Number of restaurants					
	Company-owned	484	449	417	357	328
	Licensed	820	782	708	665	625
		1,304	1,231	1,125	1,022	953

[1] Represents Hardee's Food Systems, Inc. which became a wholly owned subsidiary January 29, 1981.

Corporate Information

	Incorporated under Federal Charter April 3, 1912 Continued under the Canada Business Corporations Act August 6, 1976
Auditors	Deloitte Haskins & Sells Chartered Accountants 1 Place Ville-Marie Montréal, Canada H3B 2W3
Transfer agent and registrar	Montreal Trust Company, Halifax, Montréal, Toronto, Winnipeg, Regina, Calgary, Vancouver
Stock exchange listings	Montréal, Toronto, Vancouver
Banks	The Royal Bank of Canada Canadian Imperial Bank of Commerce The Bank of Nova Scotia National Bank of Canada Bank of Montreal First Union National Bank The Continental Bank Morgan Guaranty Trust Company of New York Bank of America
Financial calendar 1981/1982	Fiscal Year End: March 31
	Interim reports mailed: August, November, February
	Dividend dates: Common shares Series B preference shares Quarterly: June, September, December, March 6% preference shares Semiannually: September, March
	Interest on debentures payable: Series A $8\frac{1}{2}$%: March 15, September 15 Series B $10\frac{7}{8}$%: February 1, August 1 Series C $10\frac{1}{4}$%: April 22, October 22

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