Imasco Limited Annual Report 1976

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Cover:
"The history of government intrusion into the economy is not one that inspires confidence."

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

Imasco Limited
Directors and Officers

Imasco Limited is a multi-divisional company manufacturing consumer products and supplying consumer services in Canada and the United States. Principal products are tobacco and food. Services include retail outlets and automatic vending operations.

Directors
Paul Paré[1]
John H. Coleman[2]
Purdy Crawford, Q.C.[2]
Peter Kilburn
L. Edmond Ricard[1]
Jean H. Richer
George G. Ross[1,2]
John J. Ruffo[1]
Robert T. Ruggles
Clifford Warren[1]

Officers
Paul Paré, President
Norman A. Dann, Vice-President
E. Peter Gage, Vice-President
Ian W. Murray, Vice-President
L. Edmond Ricard, Vice-President
George G. Ross, Vice-President
John J. Ruffo, Vice-President
Robert T. Ruggles, Vice-President
Clifford Warren, Vice-President
Norman J. Flynn, Secretary
Matthews Glezos, Treasurer
Ronald F. Findlay, C.A.,
Corporate Comptroller
Roger S. Ackman, General Counsel
John N. Economides, Assistant Treasurer

[1] Member of the Executive Committee
[2] Member of the Audit Committee

Head Office:
4 Westmount Square
Montréal, Canada H3Z 2S8
Tel. (514) 937-9111
Telex 05-24176

Financial Results at a Glance	1976	1975
	Thousands of dollars	
Sales	941,223	842,979
Earnings before extraordinary item	36,516	31,297
Net earnings after extraordinary item	34,564	31,297
Earned per common share before extraordinary item	$3.74	$3.20
Earned per common share after extraordinary item	$3.54	$3.20
Dividends per common share	$1.30	$1.30
Working capital	184,044	117,033
Total assets	383,750	364,696
Shareholders' equity	186,055	163,356

1975 : 12 months to March 31, unaudited

Sales for the year ended March 31, 1976 were $941,223,000, an increase of $98,244,000 or 12 per cent over 1975.

Earnings before extraordinary item were $36,516,000 or $3.74 a share, an increase of $5,219,000 or 54 cents a share. After deduction of the extraordinary item, net earnings were $34,564,000 or $3.54 a share. The extraordinary item represents the cost of transferring all cigar production to the Imperial Tobacco Company plant in Montréal and closing the General Cigar plant.

Because of last year's change in our fiscal year, the audited financial statements which form part of this report cover two dissimilar periods; 12 months to March 31, 1976 and 15 months to March 31, 1975. As these periods are not comparable, the sales and operating earnings figures above and those shown in each of the divisional reports cover the year ended March 31, 1976 and are compared with figures for the 12 months ended March 31, 1975.

Dividends

Dividends amounted to $1.30, the same as for the previous year. Permission to increase the total dividends for the year was refused by the Anti-Inflation Board.

Special general meeting

The Company is applying to the federal government for Articles of Continuance, a requirement under the new Canada Business Corporations Act. Briefly, the Act revises the legislation governing federally incorporated companies. A special general meeting will be held in conjunction with the annual meeting in July to ask shareholders to authorize the application. A copy of the Articles of Continuance is included in the Information Circular which has been sent to all shareholders.

Government and industry

The ills that beset our present economy are many and we welcome the Prime Minister's public reflections upon them and the positive actions of the Anti-Inflation measures. We have no quarrel with the intent of these measures and we fully support them in the hope that they will be effective.

There are, however, some disturbing aspects. The measures represent an intrusion into the citizen's private life unprecedented in peacetime. They cannot be more than partially effective in view of Canada's dependence on imported goods. And they appear to place on the private sector the major burden for correcting a situation to which all groups, including government, have contributed.

The history of government intrusion into the economy is not one that inspires confidence. It largely consists of a long list of regulations, each one devised to correct the disruptions resulting from the previous one, some of them producing results the opposite of what was intended. Perhaps this is because many of these regulations were devised by academics and theoreticians with little or no practical experience in the marketplace. Each one eats away a little more of the private citizen's freedom, and they are rarely revoked. The present anti-inflation measures are to be in effect for three years, but already there is talk of the possible need to extend them for a longer period.

We are told that we must change our way of life and scale down our expectations. This is good counsel. Unfortunately, there appears to be a distressing unwillingness on the part of the government to accept responsibility for its contribution to the problem and there is not clear enough indication that the government will heed its own advice.

The business community has been offering similar advice to government for years. We have pointed out the limits of the economy's capacity to pay for the increasing social programmes. The apparent government response has been to hire more civil servants and to appropriate an increasing share of the gross national product. The federal government has become much the largest employer in the country and by far the biggest spender. In the process, profound social and economic changes have been wrought.

Business has been cast in the role of public villain, in part because it has consistently warned against the adoption of social programmes that the economy cannot afford. Yet government, without adequate explanation of the financial implications, has found it expedient to accede to an increasing demand for extended services.

The government has never adequately explained the social and economic cost of these programmes. The growth of the administration has placed a demand on the human resources of the country that is impoverishing the private sector. Business finds it increasingly difficult to compete with the high salaries and the positions of power now offered by governments.

Teachers, medical workers, public service employees and other groups have been polarized into an adversary position with the governments who pay their bills. The quest for excellence is being displaced by the demand for more money. In the process, the traditional institutions that gave stability to society have lost public respect as they seek economic power in exchange for moral authority.

The government's ready acquiescence to so many demands has led to a general conviction that any public service should be available as a right. The high cost of these services is obscured as payment goes not from hand to hand but through the circuitous route of the bureaucracy. To meet these demands on the public treasury may be good politics but it is bad business.

We recognize that a more equitable sharing of Canada's resources must be the continuing aim of all. "If a state is governed by the principles of reason, poverty and misery are subjects of shame . . . " No one can be content while there is poverty, sickness, slums. But the resources must be transformed into goods and services before they can be spent. Only business can make this transformation.

It is to be hoped that the shock of awareness of our situation will bring a realization to all of us that our demands upon the economy can be only partly met.

Governments, industry, labour, the professions – all of us must cooperate to produce the benefits we should all like to enjoy, and to bring to the problem of their distribution a spirit of magnanimity rather than of selfishness.

No scheme of controls, no matter how intricate or pervasive will achieve these aims. We lend our support to the present measures as men of reason, recognizing the seriousness of the situation and the need for some temporary restraints. We do so with misgivings, foreseeing the inequities, the inevitable injustices they will work on some. But far worse is the menace of further controls and the ever-widening reach of government into all areas of our lives. What we ask now of government is example and leadership, not tutelage.

Outlook

The United States has recovered from its recession and this should contribute to improved performance in our food operations. The next 12 months will be a difficult period for Canadian business. The new Anti-Inflation regulations, whatever form they may take, will undoubtedly have some influence on the year's results.

On behalf of the board of directors

Paul Paré

Paul Paré, President
Montréal, June 2, 1976

Tobacco Division sales for the 12 months to March 31, 1976 were $560,089,000, an increase of 12 per cent. Earnings for the period after the extraordinary item were $57,305,000, an increase of 10 per cent.

Cigarettes

Total industry sales of cigarettes for the year increased by about two per cent. Imperial Tobacco's share of the cigarette market declined slightly during the year. The main reason for this decline was the introduction to the market of several competitive brands. New brands usually attract heavy initial trial. Smokers may only temporarily abandon their regular brands but with the large number of new introductions in the period, this was enough to alter the regular growth pattern of company brands. Nevertheless, Imperial Tobacco's two most popular brands, Player's Filter and du Maurier, continue to increase their share of market. Smokers are returning to their regular brands, and Imperial Tobacco's share of the cigarette market increased in the first quarter of the current year.

Peter Jackson in a new package was successfully test marketed in 1975 and introduced nationally in early 1976.

Turret cigarettes were introduced nationally in February, 1976, after two years of success in the Québec market. Turret is a revival of an "economy" brand popular in the 1930's and retains its good value image. Inexpensively packaged and supported only by point of purchase advertising, Turret are usually sold at five cents a package less than regular brands.

A second brand of Cameo was introduced in British Columbia in January. Cameo Extra Mild will appeal to the increasing number of smokers who want a particularly mild cigarette with a menthol flavour.

Matinée Special Filter, an extension to the Matinée family with a new type of filter, was test marketed in selected areas of Ontario and Québec in late March.

Cigars and cut tobacco

The temporary disruptions occasioned by the transfer of General Cigar Company production to the main manufacturing centre on St. Antoine Street in Montréal and the closure of Simon Cigar Company combined to produce a shortage of cigars in Canada. Shortages will continue until other manufacturers begin production. Because of the shortage, sales of Colts Mild were restricted to their initial market in the Maritimes. Sales are being extended nationally this year.

Sales of fine cut tobaccos for roll-your-own cigarettes declined, also because of production shortages. All pipe tobacco sales in Canada continued their slow decline.

Advertising and promotion

The Canadian Tobacco Manufacturers Council which comprises the four major tobacco manufacturers in Canada adopted a new code effective January 1, 1976 restricting expenditures for advertising and promotion of cigarettes and cigarette tobacco.

The company is continuing its promotional support for Peter Jackson and du Maurier. The Canadian Open golf tournament and the Peter Jackson Classic women's tournament are the major golf events in Canada and attract leading international competitors. In October 1975, support for the du Maurier Council for the Performing Arts was renewed for a five year period with a grant of $1,500,000.

The name of the White Owl Conservation Awards programme has been changed to the Imperial Tobacco Environmental Awards to better reflect the corporate nature of the programme and the increasingly wider range of the eligible activities for which awards are granted.

Leaf tobacco

The yield of the Ontario flue-cured leaf tobacco crop amounted to approximately 210,000,000 pounds from 87,702 acres. Total planted acreage in Ontario declined by some 21,000 acres, but yield per acre was up appreciably.

Although there is a world surplus of flue-cured leaf, the entire crop was sold. The average price per pound was 81 cents, 13 cents below the 94 cents guaranteed by the domestic buyers. A deficiency payment of $26,731,000 was made to the growers, of which Imperial Tobacco's share was $10,571,000.

Employee relations

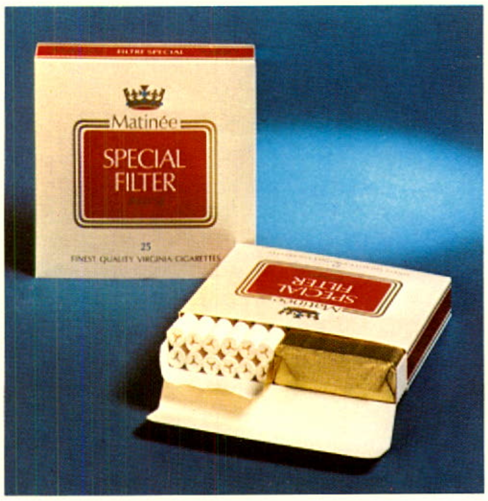
The company's agreements with the Tobacco Workers International Union covering some 2,600 employees in five manufacturing plants will expire in July 1976.

Distribution and packaging

Inflation added several million dollars to packaging and distribution costs during the year. In addition, strikes among paper, board and foil manufacturers made the supply situation difficult although the company's production schedules were maintained. Packaging cost increases during fiscal 1977 are inevitable. These should be at least partially offset by new materials and processes which are under constant study.

Outlook

Through continuing market testing and research and development, the company maintains a complete range of brands of cigarettes to satisfy all Canadian tastes. The new brands recently introduced were launched after careful study of the market and were developed to satisfy an identifiable demand for specially mild cigarettes with good taste. Sales of these and of established brands should increase in fiscal 1977.



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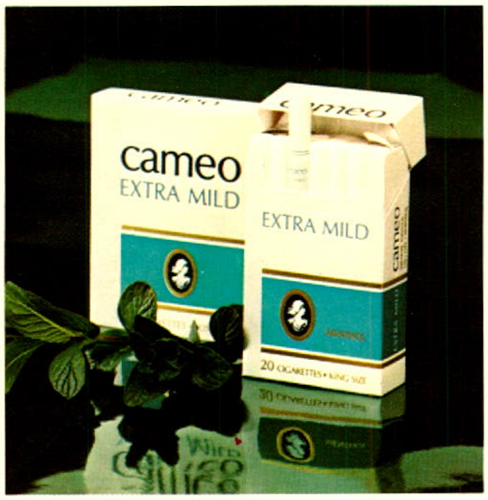

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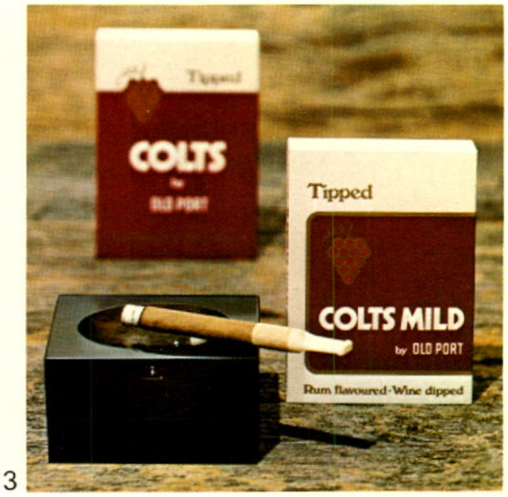

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1 A new, milder Matinée available in king size and 100 mm.

2 New Cameo Extra Mild gives milder taste with fresh menthol flavour.

3 Colts Mild. A new little cigar by Old Port.

4 Modernization of Montréal plant improves both appearance and manufacturing facilities.

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Total sales of the division increased in the year, but earnings did not keep pace. Earnings of the companies in the United States were disappointing. Divisional sales were $218,809,000, up 11 per cent. Earnings were $7,025,000, down 18 per cent.

The processed food industry in both the United States and Canada suffered a particularly difficult year. At the beginning of the year, the industry found itself heavily stocked with a costly inventory of canned goods. This was the result of strong efforts to replace inventories depleted by previous crop shortages. The arrival of the 1975 bumper crop reduced commodity prices and the industry began to cut down its inventories. Goods packed at high cost were disposed of at cut prices and losses. Even these bargains met resistance as retailers, faced with a reduced consumer demand because of the recession, cut back their own inventories. Both S and W Fine Foods and Unico Foods suffered inventory losses compared with gains in the previous year.

S. & W Fine Foods, Inc.

S & W's sales were down because of the recession and the general conditions in the processed foods industry.

The Mexican foods division, however, continues to make encouraging progress. The Pinata Foods Division has been established to manufacture and market these foods. Sales have increased in the established markets and Pinata products have been extended into new areas of the United States. No longer considered a southern ethnic food, Mexican table and snack foods are rapidly penetrating the eastern areas of the U.S. Pinata presently manufactures a wide range of these foods and will soon produce a complete line of frozen foods, shelf-stable items for home preparation and snack foods. High-speed production machinery is now in operation and several new products have been test-marketed with promising results. Among them are whole-wheat tortillas, tortilla chips, taco and burrito kits, ready-fried tortillas, and sauces and seasoning mixes. A satellite plant to manufacture tortillas has been opened in Dallas to serve the large Texas market, and production of some items at the Progresso plant in New Jersey is under development.

Progresso Foods Corp.

Progresso Foods was also affected by the generally poor economic conditions. Sales increased but earnings declined. The percentage of products manufactured in the company's plant and the turnover of inventory increased.

New sea food sauces and a rock lobster spaghetti sauce were introduced and products were extended to new market areas. Four new soups were successfully introduced to large market areas in the eastern states, and a new clam chowder was launched in New York and Philadelphia areas.

Tic Tac sales increased and the new orange flavour introduced last year is highly popular. Two new flavours will be introduced this year.

Distribution costs have been reduced through the closing of the Jersey City warehouse and production costs have been lowered at the Vineland plant.

Some 70 per cent of Progresso's sales are in the north-eastern States where unemployment is high and recovery from the recession is proceeding at a slower pace than in the rest of the country. However, as established lines and new products are introduced to new market areas, Progresso's sales and earnings should increase.

Unico Foods Limited

Unico Foods experienced a profitable year. Volume sales of vegetable oil should increase in 1976-7 because of lower prices.

More Unico products are being handled by chain stores and the company is expanding into the Montréal area. Sales growth in western Canada is satisfactory and Unico is introducing some Progresso products into Canada.

Tic Tac sales continue to increase in Canada and new flavours are also being introduced here. Confectionery sales are increasing, new products are being introduced, and a specialized sales staff has been trained to handle this line.

Grissol Foods

All divisions of Grissol Foods enjoyed an exceptionally good year.

Viau's biscuit sales were up while industry sales declined some 13 per cent. Sales of Melba Toast increased and this product is now being marketed in Ontario and British Columbia.

Taillefer's sales for the year were up 15 per cent. High speed sausage making machinery has been installed in the new Ville d'Anjou plant and sales should continue to increase. Loney's also increased its sales of soup bases during the year.

In February, Grissol purchased a meat processing plant in Magog, Québec. A management team has been engaged and commercial operations at the plant should begin in the fall. The plant will employ some 250 people and products will include weiners, bologna, pâtés, sausages, bacon, ham and a broad range of luncheon meats. The company will be operated as a division of Taillefer.

Outlook

Sales and earnings should improve in fiscal 1977, particularly in the United States as the economy pulls out of its recession. A good year is expected for the Canadian companies.

Research and development, quality assurance and the highest standards of procurement and manufacturing efficiency at all companies in the Imasco Food Division assure the consumer of the finest products.

The results of divisional operations were satisfactory. Total sales were $187,612,000, up 10 per cent. Earnings were $7,245,000, an increase of 36 per cent.

Tobacco retailing operations continue their profitable growth at United Cigar Stores and at The Tinder Box International. A shortage of cigars in the latter part of calendar 1975 and a mail strike near the Christmas season depressed tobacco and greeting card sales at United Cigar Stores. These sales should return to their normal growth pattern this year. United Cigar Stores now operates over 350 stores. The group is presently studying the practicability of establishing stores in partnership with the operators. Several such stores are now in operation in the Toronto area.

Piccadilly Place, Inc. was established to operate hotel tobacco and gift shops in the United States. Two high quality shops were opened in downtown Atlanta, Georgia, and a third is planned for opening in early summer. A number of Turnpike Cigar Stores were closed, some because profitability was not up to expectations and others because of the bankruptcy of Klein's and the W. T. Grant organization. Turnpike operated tobacco counters in some of the stores in these chains.

The Tinder Box International now has 130 franchised and four company-owned stores. A number of new franchised stores will be opened in 1976 and 1977. Store design is being improved for greater customer appeal, and store operators are being provided with a comprehensive merchandising and operating programme to increase sales and profits.

Results of automatic vending were less than satisfactory largely because of lower sales in economically depressed areas. Labour disputes in Ontario, Québec and particularly in British Columbia contributed to the decline in vending sales. Cigarette sales were slower for all Canadian vending operations because of the combination of recession and consumer resistance to the higher prices.

Amco's coffee services expanded and now total some 7,700 units extending from Québec to British Columbia. Vending operations were extended to new areas, and established markets were expanded. Amco Services now has over 15,000 machines in service. Growth of full line vending continued and these machines now number over 2,000.

Top Drug Mart had a profitable year and continues to expand. A number of health and beauty aid discount operations were discontinued or converted to full line pharmacies. The attractiveness of these stores, their wide selection of goods and their low prices continue to attract a growing clientele.

Ideal weather conditions in 1975 for both winter and summer sports contributed to a good year for sporting goods retailing. The profitability of Collegiate Sports increased and Arlington Sports is now a profitable operation. Arlington is rapidly developing year-round sporting goods merchandising to complement its primacy in the winter sports market. The outlook for sporting goods sales in 1976-7 is promising.

Editel has discontinued the manufacture of television mobile units. It is now concentrating on its service activities which include equipment rental and video-tape editing. Earnings in these areas have improved.

Amco Services, United Cigar Stores, Top Drug Mart and Collegiate Sports now have mini-computers in operation. These have cut down on clerical work while improving administrative control.

Security measures in all the division's retail operations are being intensified in order to reduce inventory losses or "shrinkage" which is a common problem in the retail trade.

Outlook

The sales of this division depend to a large extent on the expectations and confidence of the consumer. As the economy improves, sales should increase. Expectations for long term growth and profitability are good, and everything possible will be done to maintain the rate of improvement.

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1 Piccadilly Place gift shop in Atlanta, Georgia.

2 Snow Bird offers the finest examples of the arts of the North.

3 Efficient pharmacies are an important part of Top Drug Marts.

4 Le Circuit bicycle is sold exclusively by Arlington Sports and Collegiate Sports.

Imasco Limited
Subsidiary Companies

Imperial Tobacco Division

Imperial Tobacco Limited
Montréal, Québec
Paul Paré, Chairman of the Board
L. Edmond Ricard, President
Marius Dagneau, Vice-President
E. Peter Gage, Vice-President
Robertson M. Gibb, Vice-President
Anthony I. Kalhok, Vice-President
André Laporte, Vice-President
Claude Mercier, Vice-President
Jean-Louis Mercier, Vice-President
William J. Ross, Vice-President
J. I. Leonard Storey, Vice-President
Georges A. Dufort, Secretary
Robert Bégin, C.A., Comptroller

Imperial Leaf Tobacco Company of Canada Limited
Aylmer, Ontario

Imasco Food Division

Imasco Foods Limited
Montréal, Québec
Clifford Warren, President
Gordon W. Fuller, Vice-President
Ronald M. Statham, C.G.A., Comptroller

Unico Foods Limited
Toronto, Ontario
Edward C. Pasquale, Jr., President
Frank Mattucci, Vice-President
Nito Pasquale, Vice-President
Mrs. Georgina Madott, Secretary/Treasurer

Grissol Foods (1975) Limited
Montréal, Québec
Yves Hudon, President
Roderick C. Foster, C.A., Vice-President and Secretary/Treasurer

Progresso Foods Corp.
Jersey City, New Jersey
Nicholas R. Marona, President
Edward R. Granser, Vice-President
Robert W. Novak, Vice-President
Joseph F. Puglisi, Vice-President
F. John Simpson, Vice-President
Gasper Taormina, Vice-President and Secretary/Treasurer
George J. Torggler, Vice-President
Dennis Sullivan, Comptroller

S and W Fine Foods, Inc.
San Mateo, California
Ian W. Murray, President
Charles R. Angin, Vice-President
Norman L. Correia, Vice-President, Finance and General Manager
R. Bruce Fraser, Vice-President
H. Ben Green, Vice-President
Irving J. Manning, Vice-President
Peter H. Mattson Vice-President
Alvin D. Thomas, Secretary

Pinata Foods, Inc.
San Mateo, California
Ted Nelson, Jr., President
David Hash, Vice-President
Chris Nelson, Vice-President

Imasco Associated Products Division

Imasco Associated Products Limited
Toronto, Ontario
John J. Ruffo, President
Robert J. Blake, Vice-President
John F. Mathers, C.A., Vice-President and Treasurer
R. Bruce Johnstone, C.A., Vice-President and Comptroller
Peter A. Thomson, Vice-President
Lorne B. Tick, Vice-President
Stella M. Pavic, Secretary

Group Vice-Presidents

Hubert B. Wells
United Cigar Stores Limited
Toronto, Ontario
Turnpike Cigar Stores, Inc.
Freeport, New York
Piccadilly Place, Inc.
Freeport, New York

The Tinder Box International, Ltd.
Santa Monica, California

Kauko A. Aronaho
Amco Services
Toronto, Ontario

Dr. Brian McGrath
Top Drug Mart Limited
Toronto, Ontario

Bruce S. McCubbin
Collegiate Sports
Toronto, Ontario
Arlington Sports
Montréal, Québec

Television

G. Ross Jebson, President
Editel, Inc.
Hollywood, California

Imasco Limited
and Subsidiary Companies
For the year ended March 31, 1976
(With figures for the 15 months ended March 31, 1975)

Consolidated Statement of Earnings

	1976 12 months	1975 15 months
	Thousands of dollars	
Sales (Note 3)	941,223	1,030,293
Sales and excise taxes	293,942	330,771
	647,281	699,522
Operating costs	576,260	625,221
Earnings from operations (Note 3)	71,021	74,301
Interest expense	(6,648)	(9,792)
Earnings before income taxes	64,373	64,509
Income taxes (deferred $1,503; 1975 $1,316)	27,677	27,553
	36,696	36,956
Minority interest	180	178
Earnings before extraordinary item	36,516	36,778
Extraordinary item (Note 4)	1,952	—
Net earnings after extraordinary item	34,564	36,778
Earnings per common share		
Before extraordinary item	$3.74	$3.76
After extraordinary item	$3.54	$3.76

Consolidated Statement of Retained Earnings

	1976	1975
Retained earnings, beginning of period	106,973	84,963
Net earnings after extraordinary item	34,564	36,778
Goodwill on consolidation of subsidiaries (Note 2)	1,038	676
Dividends (Note 5)	(12,903)	(15,444)
Retained earnings, end of period	129,672	106,973

The attached notes form an integral part of these statements.

Imasco Limited
and Subsidiary Companies
March 31, 1976
(With figures at March 31, 1975)

Consolidated Balance Sheet

		1976	1975
		Thousands of dollars	
Current assets	Cash and term deposits	13,603	3,580
	Accounts and notes receivable	53,134	57,811
	Inventories (Note 6)	226,099	215,773
	Prepaid expenses	2,923	2,570
	Total current assets	295,759	279,734
Current liabilities	Bank and other short term loans	15,948	93,769
	Accounts payable and accrued liabilities	46,037	42,497
	Income, excise and other taxes	46,382	24,277
	Current portion of long term debt (Note 8)	3,348	2,158
	Total current liabilities	111,715	162,701
	Working capital	184,044	117,033
Other assets	Investments – at cost (market value $8,665, 1975 – $7,352)	6,756	7,352
	Deferred charges	5,236	5,897
	Fixed assets (Note 7)	75,816	71,712
	Goodwill	183	1
	Excess of assets over current liabilities	272,035	201,995
Other liabilities	Long term debt (Note 8)	79,768	31,882
	Deferred income taxes	5,473	6,187
	Minority interest	739	570
		85,980	38,639
	Excess of assets over liabilities	186,055	163,356
Shareholders' equity	Capital stock (Note 9)	54,153	54,153
	Capital surplus (Note 9)	2,230	2,230
	Retained earnings	129,672	106,973
		186,055	163,356

Approved by the Board,
Paul Paré, Director
G. G. Ross, Director

The attached notes form an integral part of these statements.

Imasco Limited
and Subsidiary Companies
For the year ended March 31, 1976
(With figures for the 15 months ended March 31, 1975)

Consolidated Statement of Changes in Financial Position

		1976 12 months	1975 15 months
		Thousands of dollars	
Source of funds	Earnings before extraordinary item	36,516	36,778
	Non-cash items	10,095	10,445
	Funds provided from operations	46,611	47,223
	Net proceeds on issue of debentures	49,807	—
	Sale of fixed assets	1,335	991
	Investments	637	4,830
		98,390	53,044
Application of funds	Dividends	12,903	15,444
	Fixed assets	12,749	15,130
	Long term debt	3,655	3,116
	Purchase of subsidiaries	1,100	798
	Extraordinary item (Note 4)	619	—
	Other	353	228
		31,379	34,716
Working capital	Increase in working capital	67,011	18,328
	Beginning of period	117,033	98,705
	End of period	184,044	117,033

The attached notes form an integral part of these statements.

Notes to the Consolidated Financial Statements

Thousands of dollars

1. Summary of accounting policies

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

a) Principles of consolidation
The consolidated financial statements include the accounts of Imasco Limited and all subsidiaries. All acquisitions have been accounted for as purchases and the results of operations of acquired businesses have been included from their effective dates of acquisition.
The Company has adopted a policy of capitalizing goodwill on consolidation of subsidiaries for acquisitions subsequent to March 31, 1974. These amounts will be amortized over the estimated life of the acquired goodwill. For acquisitions prior to April 1, 1974, goodwill on consolidation of subsidiaries was charged directly to retained earnings. Subsequent adjustments of such goodwill including payments to previous owners contingent upon continuing performance of acquired businesses are reflected in retained earnings.

b) Foreign exchange
United States dollar amounts have been translated to Canadian dollars on the following bases: fixed assets and depreciation at exchange rates in effect at the appropriate acquisition dates; all other assets and liabilities at exchange rates in effect at year-end; all earnings accounts, other than depreciation, at average exchange rates for the period. Net accumulated unrealized gains on translation have been deferred.

c) Inventory valuation
Inventories are valued at the lower of cost or net realizable value. Cost is determined for each division substantially as follows:
Imperial Tobacco Division: Average cost
Imasco Food Division: First in, first out
Imasco Associated Products Division: Average cost

d) Fixed assets
Fixed assets are stated at cost. Depreciation is calculated on the straight line basis over the estimated useful lives of the assets. The estimated useful lives of the principal classes of assets are:
Buildings: 40 years
Equipment: 8 to 13 years

e) Pension plans
The companies have pension and retirement plans available to substantially all their employees. Current service costs are charged to income as they accrue. The unfunded liability for past service benefits is estimated at $19,982 as at March 31, 1976 (March 31, 1975 $15,160). This amount, with interest, will be funded and charged to earnings annually through 1990. An amount of $3,532 (March 31, 1975 $3,771) included in deferred charges and representing the balance of a lump sum payment made in 1972, will be absorbed on the same basis.

f) Income taxes
Income taxes are accounted for on the tax allocation basis. The major portion of accumulated deferred income taxes arises from differences between the amounts of depreciation claimed for income tax purposes and those recorded in the financial statements.

Notes to the Consolidated Financial Statements

Thousands of dollars

2. Acquisitions

During the year, three businesses were acquired for a total cash consideration of $968. Goodwill on these acquisitions is being amortized over their estimated lives. Goodwill on consolidation of subsidiaries reflected in retained earnings consists of the following:

	1976 12 months	1975 15 months
Income tax savings related to prior years' acquisitions (goodwill written off)	1,273	1,044
Goodwill arising prior to April 1, 1974 and adjustments thereto	(235)	(368)
	1,038	676

3. Operating results by division

	1976	1975
Sales		
Imperial Tobacco	560,089	610,493
Imasco Food	218,809	242,037
Imasco Associated Products	187,612	206,594
Interdivisional transactions	(25,287)	(28,831)
	941,223	1,030,293
Earnings from operations		
Imperial Tobacco	60,700	62,015
Imasco Food	7,025	10,398
Imasco Associated Products	7,245	6,047
	74,970	78,460
General administration	(3,949)	(4,159)
	71,021	74,301

4. Extraordinary item

The extraordinary item represents the cost of closing the Imperial Tobacco Division's former cigar manufacturing plant and relocating these production facilities in an existing plant. These costs consist of the following:

Severance payments to former employees	2,448
Other	947
	3,395
Income tax savings (deferred $994)	1,443
Extraordinary item	1,952

Disbursements during the year (net of income taxes) amounted to $619. The balance represents losses on disposal of fixed assets and separation allowances to be paid over future years.

5. Dividends

	1976	1975
6% cumulative preference shares	348	435
Common shares – Class A	12,370	14,898
– Class B	171	78
Tax paid to create tax-paid undistributed surplus	14	33
	12,903	15,444

The trust agreements relating to the series A, B and C debentures contain restrictions regarding the payment of dividends. At March 31, 1976 $36,661 of retained earnings was free from such restrictions.

Notes to the Consolidated Financial Statements

		1976	1975
		Thousands of dollars	
6. Inventories	Imperial Tobacco Division		
	Finished goods	43,053	36,760
	Raw material, supplies and work in process	102,725	91,863
		145,778	128,623
	Imasco Food Division	48,390	54,551
	Imasco Associated Products Division	31,931	32,599
		226,099	215,773
	Inventories of the Imasco Food Division and Imasco Associated Products Division are made up mainly of finished goods.		
7. Fixed assets and accumulated depreciation	Land	4,955	4,837
	Buildings	44,093	42,704
	Equipment	97,344	89,636
		146,392	137,177
	Accumulated depreciation	70,576	65,465
	Net fixed assets	75,816	71,712
	Depreciation expense	7,526	8,874
8. Long term debt	8½% sinking fund debentures series A due March 15, 1991	29,750	30,800
	Less held in treasury	1,084	1,140
		28,666	29,660
	10⅞% sinking fund debentures series B due August 1, 1995	30,000	—
	10¼% sinking fund debentures series C due October 1, 1990 (payable in U.S. funds)	19,716	—
	Other long term obligations	4,734	4,380
		83,116	34,040
	Less current portion	3,348	2,158
		79,768	31,882
	Interest on long term debt	5,934	3,771
	Required payments during the next five years including $1,050 annual sinking fund payments on the 8½% sinking fund debentures and $900 on the 10⅞% sinking fund debentures amount to: 1977, $3,348; 1978, $3,140; 1979, $2,735; 1980, $2,686; 1981, $2,488. No sinking fund payments are required on the series C debentures until October 1981.		
9. Capital stock	6% cumulative preference shares, par value $4.86⅔ each		
	Authorized and issued 1,650,000 shares		
	Less purchased for cancellation 458,112 shares		
	Outstanding 1,191,888 shares	5,800	5,800
	Class A and Class B convertible common shares, no par value		
	Authorized 10,800,000 shares		
	Issued 9,670,532 shares	48,353	48,353
		54,153	54,153

Notes to the Consolidated Financial Statements

		1976	1975
		Thousands of dollars	
9. Capital stock (cont'd)	Class A and Class B common shares are interconvertible on a one for one basis. Class B shareholders are entitled to dividends out of tax-paid undistributed surplus and 1971 capital surplus on hand. These dividends are an amount equivalent to the dividends paid on Class A common shares less any applicable income taxes. At March 31, 1976 the number of shares outstanding were: Class A 9,404,408 Class B 266,124 9,670,532		
	Capital surplus consists of amounts transferred from retained earnings, as required by the Canada Corporations Act, in respect of 6% cumulative preference shares purchased for cancellation.		
10. Remuneration of directors and senior officers	Directors Number at March 31, 1976, 10; March 31, 1975, 10. Number during the year, 11; 1975, 11. At March 31, 1976, six directors were officers (March 31, 1975, six directors were officers) Aggregate remuneration of directors as directors	21	25
	Officers Number at March 31, 1976 14; March 31, 1975, 14. Number during the year, 14; 1975, 15. Aggregate remuneration of officers including directors who are also officers	2,009	2,308
11. Long term leases	The companies have commitments with respect to real estate leases most of which are for terms of from five to ten years. Rentals for such leases amounted to $7,912 (1975 $8,829) and the minimum annual rental under such leases amounts to approximately $6,154 before giving effect to escalation and percentage of sales clauses in certain of the leases.		
12. Anti-inflation legislation	The companies are subject to the Federal Anti-Inflation Act which provides for the restraint of profit margins, prices, dividends and compensation. The effect of this legislation with respect to the companies' first compliance period ended March 31, 1976 cannot be accurately determined at this date. It is management's opinion that the companies have complied with the intent of the legislation and that no significant liability will arise. Under the present legislation, the company is not permitted to declare or pay dividends in excess of $1.30 per Class A share or $1.105 per Class B share during the twelve-month period ending October 14, 1976. Effective October 15, 1976 the Company will be permitted to increase annual dividends by 8%.		

Statistical Highlights – Ten Year Review

		1976	1975
Sales and earnings	Sales	941,223	1,030,293
	Depreciation	7,526	8,874
	Earnings before income taxes	60,978	64,509
	Income taxes	26,234	27,553
	Earnings before extraordinary items	36,516	36,778
	Net earnings after extraordinary items	34,564	36,778
	Earned on common shares before extraordinary items	36,168	36,343
	Per common share (in dollars)	3.74	3.76
Dividend record	On preference shares	348	435
	On common shares	12,555	15,009
	Per common share (in dollars)	1.30	1.55
Capital expenditures	On fixed assets	12,749	15,130
Financial position	Current assets	295,759	279,734
	Current liabilities	111,715	162,701
	Working capital	184,044	117,033
	Investment in non-consolidated subsidiaries including loans and advances	—	—
	Fixed assets (before depreciation)	146,392	137,177
	Fixed assets (less depreciation)	75,816	71,712
	Long term debt	79,768	31,882
	Excess of assets over liabilities	186,055	163,356
Shareholders' equity	Preference share holders	5,800	5,800
	Common share holders	180,255	157,556
	Per common share (in dollars)	18.64	16.29

1976 : 12 months ended March 31.
1975 : 15 months ended March 31.
1966-73 : 12 months ended December 31.
1966-68 revised in accordance with 1969 presentation.
1966 and 1968 revised to include subsidiaries not consolidated in those years.

Thousands of dollars, except 'per common share' statistics

1973	1972	1971	1970	1969	1968	1967	1966
717,102	625,613	569,629	582,163	512,987	421,265	393,315	373,069
6,642	5,497	4,431	4,132	4,371	4,075	4,135	3,835
49,715	40,761	34,176	31,110	26,016	24,730	25,237	24,637
21,571	18,536	16,349	15,154	12,540	12,207	11,656	11,624
28,036	22,162	17,661	15,691	13,383	12,465	13,581	13,013
28,036	22,162	17,539	15,691	12,226	12,646	13,581	13,013
27,688	21,814	17,313	15,343	13,035	12,112	13,215	12,619
2.86	2.26	1.79	1.59	1.35	1.25	1.37	1.30
348	348	348	348	348	353	366	394
11,605	10,638	9,671	7,736	7,736	7,736	7,736	8,461
1.20	1.10	1.00	.80	.80	.80	.80	.87½
13,203	5,185	6,642	12,104	4,033	4,404	5,187	8,451
209,916	186,458	174,230	173,779	167,818	125,562	124,295	115,964
111,211	89,193	68,887	74,692	72,168	36,465	32,507	27,786
98,705	97,265	105,343	99,087	95,650	89,097	91,788	88,178
—	—	—	—	—	17,855	14,821	13,425
126,145	118,368	104,563	98,031	89,360	81,257	78,044	75,215
66,843	62,826	56,087	53,508	47,056	40,221	38,845	38,198
35,005	36,667	37,349	34,476	36,956	2,261	2,261	2,261
141,346	131,212	131,556	127,031	119,221	139,746	137,929	133,366
5,800	5,800	5,800	5,800	5,800	5,830	5,973	6,518
135,546	125,412	125,756	121,231	113,421	133,916	131,956	126,848
14.02	12.97	13.00	12.54	11.73	13.85	13.65	13.12

Auditors' Report

To the Shareholders of Imasco Limited	We have examined the consolidated balance sheet of Imasco Limited and subsidiary companies as at March 31, 1976 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. In our opinion these consolidated financial statements present fairly the financial position of the companies as at March 31, 1976 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period. **Deloitte, Haskins & Sells** Chartered Accountants 3210 The Royal Bank of Canada Building 1 Place Ville Marie Montréal, Canada H3B 2W3 May 21, 1976
Transfer agents	Crown Trust Company, Montréal The Royal Trust Company, Halifax, Toronto, Winnipeg, Regina, Calgary, Vancouver
Registrars	Montreal Trust Company, Halifax National Trust Company, Limited, Montréal, Toronto, Vancouver The Bankers' Company, Winnipeg, Regina, Calgary
Stock exchange listings	Montréal, Toronto, Vancouver and London, England
Banks	The Royal Bank of Canada Canadian Imperial Bank of Commerce The Bank of Nova Scotia Bank Canadian National Bank of Montreal Morgan Guaranty Trust Company of New York Bank of America
Financial calendar 1976/7	Annual and Special General Meeting: July 7, 1976 Quarterly reports mailed: August, November 1976, March 1977 Dividend declaration dates: Common shares June 2, 1976; August 5, 1976; November 4, 1976; February 17, 1977 6% cumulative preference shares August 5, 1976; February 17, 1977 Interest on debentures payable: Series A 8 ½%: March 15, September 15 Series B 10 ⅞%: February 1, August 1 Series C 10 ¼%: April 22, October 22

Imasco Limited
Principal Operating Groups

Imperial Tobacco Limited
Manufactures and distributes cigarettes, cigars, fine cut tobaccos, pipe tobaccos, chewing tobaccos and snuff.

General Cigar Limited
Manufactures cigars

Imperial Leaf Tobacco Company of Canada Limited
Purchases and processes leaf tobacco for Imperial Tobacco Limited and for export

Unico Foods Limited
Markets over 200 Italian food products.

Grissol
Manufactures bread specialties.

Viau
Manufactures biscuits and candies.

Taillefer
Manufactures prepared meat products.

Loney
Manufactures dried soup mixes and soup bases

Progresso Foods Corp.
Manufactures over 150 Italian food products.

S and W Fine Foods, Inc.
Markets "fancy" grade canned fruits, vegetables, fish, coffee, nuts, juices and nectars.

Pinata Foods, Inc.
Manufactures Mexican foods

United Cigar Stores Limited
A chain of 350 retail tobacco and gift shops.

The Tinder Box International Ltd.
A chain of over 130 franchised retail specialty tobacco shops.

Amco Services
Automatic vending, music services and office coffee services.

Top Drug Mart Limited
A chain of 67 stores offering prescription and non-prescription drugs and personal care products.

Collegiate Sports
Arlington Sports
A chain of 16 retail sporting goods stores.

Editel, Inc.
Specialized television equipment and services for the broadcasting industry.

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