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Scott's hospitality inc.

Annual Report 1983

Contents

Financial Highlights

(Dollars in thousands, except per share amounts)

	1983	1982
Sales	$481,916	$485,440
Earnings before extraordinary items	$ 13,564	$ 16,721
Per share	$ .77	$ .96
Net earnings	$ 13,564	$ 31,486
Per share	$ .77	$ 1.81
Dividends	$ 4,240	$ 4,023
Per share	$ .24	$ .19
Working capital from operations	$ 45,366	$ 48,281
Per share	$ 2.57	$ 2.77
Capital expenditures	$ 49,305	$ 76,149
Number of employees	15,900	16,900
Hotel rooms in operation	12,334	12,528
Take-out and other food operating units	301	317
Transportation and warehousing units	3,245	2,950

Une copie de ce rapport en français
peut être obtenue en écrivant au
Secrétaire de la Compagnie.

Report to Shareholders

On behalf of the Board of Directors we submit the annual report on operations and the financial statements of your Company for the twelve months ended April 30, 1983.

Sales revenue for the period was $481,916,000 compared with $485,440,000 in the prior year. Consolidated net earnings were $13,564,000 or 77¢ per share compared with $16,721,000 or 96¢ per share (before extraordinary items) in the 1982 financial year. Cash flow from operations was $45,366,000 or $2.57 per share compared with $48,281,000 or $2.77 per share in 1982.

Operations

The financial results now reported, while lower than those of either of the preceding two fiscal periods, must be viewed constructively considering economic conditions during the year. Fueled by both high interest rates and the level of inflation which have prevailed in recent years, business failures and unemployment reached their highest post-war levels in the period under review. The resulting erosion of personal disposable income and the curtailment of industrial activity combined to reduce real volumes of the hotel division and, to a lesser degree, unit volumes in the restaurant division. Notwithstanding these conditions, growth was maintained in each of the operating divisions, details of which may be found in reports covering their operations on pages 4 and 5 of the annual report.

The results of the past year were attained through the dedication and loyalty of employees at all levels. We wish to acknowledge their performance and extend sincere appreciation on behalf of the shareholders and directors.

During the year, the Corporation was successful in replacing $43,236,000 of floating rate debt with an equal amount of long term debt at fixed rates. Moderating interest rates present an opportunity to further reduce such exposure and this is a priority of the Corporation for the 1983-1984 financial year.

Outlook

Economic projections in both Canada and the United States confirm that the recession has bottomed and that recovery is underway. There is, however, little optimism for a dramatic decline in unemployment and based on projected public sector deficits on both sides of the border, further significant moderation in interest rates is unlikely during 1983. The recovery thus far has been gradual and some segments of the economy have been stimulated more than others.

The restaurant and transportation divisions will benefit in the current year from acquisitions and expansion completed in the 1982-83 financial period. Accordingly, we expect earnings from their operations to exceed those of the 1982-83 financial year. Hotel operating levels in Canada historically lag an economic recovery by from six months to a year and, while increased volumes are now evident, we do not forecast full recovery for this division during the year.

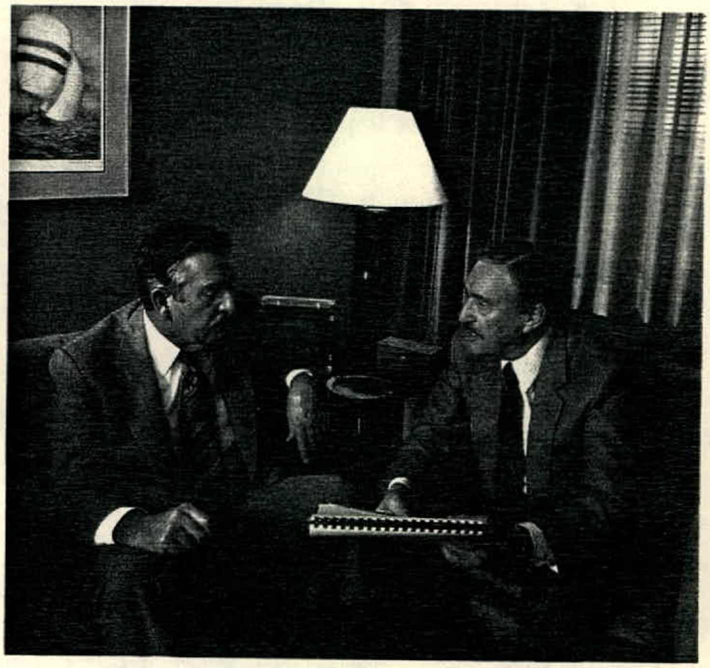
Cost reduction programs employed throughout the Corporation assisted greatly in minimizing the impact of the recession on the financial results of last year. These programs will continue in the year ahead, ensuring retention of our competitive position in the marketplace and of our ability to capitalize on opportunities arising from further improvement in the economy. Barring the unforseen, we believe growth in consolidated net earnings will return to a more normal level in the current year.

Dividends

Dividends of 24¢ per share were paid during the year on each of the issued and outstanding Class C shares and subordinate voting shares (common shares) of the Corporation, an increase of 5¢ per share from that paid in the prior year. On April 26, 1983 the directors declared a semi-annual dividend of 12¢ per share, payable July 4, 1983 to shareholders of record at the close of business on June 20, 1983.

Directors

On October 27, 1982 the directors appointed Joseph G. Kelnberger to fill a vacancy on the Board created by the resignation of George S. MacDonell. Mr. Kelnberger formerly served as Chairman and Managing Director of Bristol-Myers Company Limited and, most recently, as Executive Vice-President of the Bristol-Myers Consumer Products Division in the United States. He is currently pursuing equity oriented venture capital investments. His wide experience and depth of knowledge in international business are valued additions to the Board.



George Gardiner

Chairman

Simon Chenstein

President and Chief Executive Officer

Scott's Restaurants

Despite the existence of extremely harsh economic conditions during the year, the restaurant division effectively equalled last year's record earnings. These results reflect the positive impact of our advertising and promotional programs and the contribution made by new outlets including fifteen Kentucky Fried Chicken stores acquired during the year in Austin, Texas. The division benefitted as well from favourable chicken costs and from less inclement weather when compared to the prior year.

During the year the division continued to rationalize its existing business lines to ensure that only profitable concepts with growth potential remained as part of our product offerings. Accordingly, a decision was made to close the Scott's Fried Chicken operations in Florida due to continued unsatisfactory performance. All units were closed by April 30 and sale or lease of properties is being actively pursued. Similarly, our five test pizza locations were closed as operating units and leased or converted to other use. Again, operating results were not to our satisfaction.

On the other hand, the KFC shopping mall concept continued to perform satisfactorily and is being expanded to new locations in both Quebec and Ontario. A new KFC buffet concept in our Family Restaurants is also responding well during the current test phase.

We are very pleased with operating results from our Austin, Texas KFC operations. The profit performance by this acquisition once again confirms the intrinsic strength and value of the KFC franchise.

Earlier this year new advertising programs were launched in Ontario and Quebec. These programs were designed to reposition our KFC brand in a more contemporary mode in tune with today's life styles and were developed by advertising agencies recently appointed by the division for the individual markets served in these provinces.

Our retail development team has continued to open new locations as well as study existing representation patterns for

Commonwealth Holiday Inns

Travel-related industries in Canada felt the full effect of the economic recession during the past year. Airlines operated with reduced schedules and unprofitable load factors in producing record losses and Canadian hotel industry operating levels were reminiscent of the energy crisis years of 1973 through 1975. Large urban centres such as Toronto, Montreal, Ottawa and Vancouver, where hotels rely heavily on commercial and convention business, were particularly weak. The hotel division has a large concentration of rooms in these cities and, in normal times, their contribution to annual earnings is substantial. Reduced sales volumes for these hotels were a major factor in lower profits recorded by our Canadian properties in the recently ended financial period. Occupancy for the division's hotels in the United Kingdom increased by 7% during the year which is, in part, a reflection of maturing of the newer hotels at Aberdeen, Portsmouth and Glasgow. Volumes for our hotels in Bridgetown, Barbados and Port of Spain, Trinidad remain at low levels as the result of declining tourism from North America and Europe. Overheads in the Caribbean have been further reduced with the closing of the Barbados regional office.

The economic climate which confronted management during the year was not unexpected and preplanned cost control measures were placed in operation to limit its impact on earnings and to conserve cash. These measures continue in effect as we believe the economic recovery, which now appears to be underway, will be gradual and that normal industry operating levels will not return until 1984.

Management has not allowed the recession to dull its perception and enthusiasm for both short and long term strategic plans of the division. Some capital projects have, of necessity, been delayed, however priority has been given to manpower training and hotel renovation programs designed to increase our market share through improvements to guest facilities and services. In the past year, in excess of $500,000 was allocated to the training of employees at all levels and a further $16,900,000 was spent on capital projects and renovations. A 130-room addition and an outstanding atrium/

Charterways Transportation

The past year has been one of continued growth for the transportation and warehousing division in terms of both earnings and operations. Contributing factors to increased earnings during the 1982-83 fiscal period were moderating interest rates, an unusually mild and open winter with minimal disruptions to school bus schedules and efficiencies accruing from the division's diesel conversion program. Earnings were also enhanced by the acquisition in the third quarter of a group of school bus companies in the State of Wisconsin. These companies, Safeway Transport, Inc., Muskego Transport, Inc., New Berlin Bus Co., Inc., and Allyn Bus Co. Ltd. collectively operate 260 school bus runs in the suburbs of Milwaukee and in Racine, Wisconsin. In Ontario, the division also acquired a 23-unit school bus operation in the Ottawa region which was subsequently consolidated into our existing facility in that city. Of equal importance in realizing the growth and earnings improvement of last year was the outstanding performance by employees of the division at all levels.

Truck leasing operations benefitted from lower interest rates and recorded higher earnings for the period. Lower business and tourist travel, however, caused declines in real sales volume and earnings of non-contract operations such as Air Terminal Transport at the Toronto International Airport, bus charters and travel agencies. Reduced freight and retail fuel sales contributed to a small decline in earnings from the division's terminal warehousing operations as well.

The transition to newly constructed terminal and maintenance facilities was completed at Ajax and Mississauga, Ontario and in Rochester, New York for their respective school bus operations. Major renovations were also completed at three school bus facilities in Buffalo and another in Rochester.

Severe fiscal restraints have been placed on school boards in both Canada and the United States as governments continue in their efforts to control inflation. As a result, contract rate increases will not match those attained in recent years in terms of cost

highest and best use and optimum location. During the past year, five new KFC locations were opened in existing market areas.

The division's commitment to employee training and development continued during the past year. Training programs were completed in both Quebec and Ontario as well as at Head Office management level.

During this past year, the restaurant division's family of employees continued to provide the basic foundation for a successful operation. We have an extremely strong operational, marketing and management team which is looking forward to another successful year.

R. A. Hunter, President

restaurant facility were completed at the Holiday Inn Toronto Yorkdale as well as new restaurants and cocktail lounges at the Holiday Inns of Toronto Downtown and Sarnia. In the forthcoming year, restaurants and lounges in seven of our hotels are scheduled for conceptual and physical changes to enhance their market position. As a result of these programs and the on-going cost control measures taken last year, the hotel division is in an excellent position to benefit from improvements in the economy in 1983 and beyond.

The past year clearly demonstrated the ability of the division and its employees to operate effectively under very adverse economic conditions. The year ahead promises only modest relief from these conditions and will, no doubt, be no less challenging. I am confident the division is prepared to meet these challenges and, at the same time, obtain maximum benefit from any improvement in economic conditions.

R. R. Yelle, President

recovery. Emphasis will therefore continue to be on cost control measures to maintain margins and to assist our school board customers through these difficult times.

Growth opportunities, primarily through acquisitions, are continually being examined by management. We believe the prospects for expansion of school bus operations by this method are good. This is particularly so in the United States where the division has had major success in the past several years.

The year ahead will no doubt present both opportunities and challenges to the division. I am confident, with the continued support of our very competent management team and group of dedicated employees, of the division's ability to successfully meet the challenges and to take advantage of opportunities that lie ahead.

G. P. Davies, President

Scott's hospitality inc.

Consolidated Balance Sheet

April 30, 1983

ASSETS	1983	1982
	(in thousands)	
Current		
Cash and short term investments	$ 25,840	$ 32,671
Accounts receivable	23,850	21,328
Inventories	6,283	6,640
Prepaid expenses	4,182	3,454
	60,155	64,093
Mortgages and notes receivable	3,431	11,427
Restaurant properties held for resale	4,664	7,372
Land, buildings and equipment (note 2)	366,812	357,012
Other assets (note 3)	12,130	12,583
	$447,192	$452,487

(See accompanying notes)

Approved on behalf of the Board

George Gardiner
Director

Simeon Chertstein
Director

LIABILITIES AND SHAREHOLDERS' EQUITY	1983	1982
	(in thousands)	
Current		
Accounts payable and accrued charges	$ 42,149	$ 48,074
Taxes payable	7,397	6,679
Dividends payable	2,125	2,114
Long term debt payable within one year (note 4)	15,432	18,021
	67,103	74,888
Long term debt (note 4)	230,149	237,518
Deferred income	2,914	3,236
Deferred income taxes	35,770	35,246
Minority interest in subsidiary	1,210	1,151
Shareholders' equity (note 5)	110,046	100,448
	$447,192	$452,487

AUDITORS' REPORT

To the Shareholders of
Scott's Hospitality Inc.

We have examined the consolidated balance sheet of Scott's Hospitality Inc. as at April 30, 1983 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at April 30, 1983 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.

Toronto, Canada.
June 17, 1983.

Clarkson Gordon
Chartered Accountants.

Consolidated Statement of Earnings

Year ended April 30, 1983

	1983	1982
	(in thousands)	
Sales		
Hotel division	$235,102	$249,358
Restaurant division	162,536	158,615
Transportation and warehousing division	84,278	77,467
	481,916	485,440
Cost of sales, operating and administrative expenses	401,497	401,835
Depreciation and amortization	32,822	27,043
Net financial expense	24,347	27,991
	458,666	456,869
Earnings before income taxes and extraordinary items	23,250	28,571
Income taxes	9,686	11,850
Earnings before extraordinary items	13,564	16,721
Extraordinary items		14,765
Net earnings	$ 13,564	$ 31,486
Earnings per share		
Earnings before extraordinary items	$ .77	$ .96
Net earnings	$ .77	$ 1.81

(See accompanying notes)

Consolidated Statement of Retained Earnings

Year ended April 30, 1983

	1983	1982
	(in thousands)	
Balance beginning of year	$ 90,899	$ 63,436
Net earnings	13,564	31,486
	104,463	94,922
Dividends	4,240	4,023
Balance end of year	$100,223	$ 90,899

(See accompanying notes)

Consolidated Statement of Changes in Financial Position

Year ended April 30, 1983

	1983	1982
	(in thousands)	
Source of working capital		
Operations—		
Earnings before extraordinary items	$ 13,564	$ 16,721
Add (deduct):		
Deferred income taxes	524	3,275
Depreciation and amortization	32,822	27,043
Other	(1,544)	1,242
Working capital from operations	45,366	48,281
Long term borrowings	20,818	58,607
Proceeds on sale of fixed assets	9,028	30,451
Decrease in mortgages and notes receivable	8,424	
Proceeds on sale of Florida restaurant properties	1,669	2,440
Issue of shares	274	1,317
	85,579	141,096
Application of working capital		
Acquisitions	8,533	
Purchase of fixed assets	38,591	73,605
Reduction of long term debt	29,917	57,371
Dividends	4,240	4,023
Outlays for other assets	451	2,544
Increase in mortgages and notes receivable		8,408
Carrying costs of restaurant properties held for resale		910
	81,732	146,861
Increase (decrease) in working capital	$ 3,847	$ (5,765)

(See accompanying notes)

Notes to the Consolidated Financial Statements

April 30, 1983

1. Significant accounting policies

Principles of consolidation

The accounts of all subsidiaries are consolidated to the extent that they are owned by the Company. All material intercompany transactions and balances have been eliminated.

Foreign exchange

The accounts of foreign subsidiaries and those of the Company to be settled in foreign currencies are translated into Canadian dollars at current rates of exchange except for non-current assets, long term debt and depreciation and amortization which are translated at historical rates of exchange, and sales and expenses (other than depreciation and amortization) which are translated at average rates of exchange for the year. Gains or losses on translation are included in earnings.

Inventories

Inventories are valued at the lower of cost, determined on a first-in, first-out basis, and replacement cost.

Mortgages and notes receivable

Mortgages and notes receivable are carried at the lower of cost and estimated realizable value.

Restaurant properties held for resale

The Company's properties in Florida are carried at the lower of cost and estimated realizable value. Gains or losses resulting from the sale of these properties are deferred until all properties held for resale are sold. The cumulative net effect to date is a deferred gain of $30,000.

Land, buildings and equipment

Fixed assets are recorded at cost of acquisition. On the disposal of major assets, the resulting gains or losses are included in earnings. Proceeds arising on disposals in the course of major hotel renovation programs reduce the capital cost of such programs.

Interest and property taxes relating to owned hotels and costs incurred relating to leased hotels, which are not paid for by the owners, are capitalized during the construction period. Additionally, the Company capitalizes rent, interest, insurance and property taxes and reduces depreciation and amortization during a period not exceeding twelve months following the date on which rooms in newly constructed hotels are first available to be rented for both owned and leased hotels (subject to predetermined maximum amounts) in accordance with a scale established by reference to occupancy. In both cases, expenditures in respect of leased hotels are carried as leasehold improvements. Amounts capitalized under these policies totalled $760,000 in 1983 ($1,364,000 in 1982).

The cost of major hotel renovation programs, consisting primarily of replacement of furnishings and equipment, major maintenance and improvements, is capitalized and amortized over a five year period. Normal repairs and maintenance are charged to expense as incurred.

Depreciation and amortization

Depreciation and amortization are computed on a straight line basis (with minor exceptions). Depreciation and amortization rates are based on the estimated remaining useful life for the particular assets assuming a total useful life as follows:

	Years
Hotels	
Buildings	40
Leasehold improvements	lease term
Furnishings and equipment	11
Franchises (Holiday Inns, Inc.)	20
Restaurants	
Buildings	20
Leasehold improvements	lease term
Furnishings and equipment	10
Franchises (Colonel Sanders Kentucky Fried Chicken Ltd.)	to 2001
Transportation and warehousing	
Buildings	25 - 40
Equipment	7½ - 12
Operating authorities	20

Opening and development costs of the hotel division are amortized over the first sixty months of operation whereas similar costs incurred by the restaurant division are written off as incurred. Costs incurred in connection with major financing are amortized over the lesser of the term of borrowing or ten years.

Deferred income

Gains realized on the sale and leaseback of real estate are deferred and transferred to earnings over the term of the applicable leases.

A portion of the gain on sale of real estate is deferred and included in earnings over the term of hotel management agreements that provide for a rate of return below market levels.

Interest rate futures

Interest rate futures contracts are considered to be commitments only, and the related asset and liability are not recorded in the accounts of the Company. Gains or losses arising from these transactions are included in interest expense.

Earnings per share

Earnings per share have been calculated on the basis of the weighted average number of shares outstanding during the year. The dilutive effect of employee options is immaterial.

2. Land, buildings and equipment

	1983	1982
	(in thousands)	
Land	$ 39,838	$ 38,438
Buildings and leasehold improvements	270,788	259,005
Furnishings and equipment	83,519	71,995
Transportation equipment	68,219	53,333
	462,364	422,771
Less accumulated depreciation and amortization	95,552	65,759
	$366,812	$357,012

3. Other assets

	1983	1982
	(in thousands)	
Opening and development costs	$ 1,709	$ 2,245
Cost of borrowing	921	910
Franchises	4,899	4,159
Transportation operating authorities	4,601	5,269
	$12,130	$12,583

Amortization amounted to $1,993,000 in 1983 ($999,000 in 1982), and included an amount of $650,000 related to the Company's revaluation of the carrying values of certain transportation operating authorities.

The Company has also reassessed the estimated period over which the operating authorities would provide future benefit and as a result decided to charge their remaining carrying value to operations over twenty years. All operating authorities acquired subsequent to April 30, 1983 will be amortized on the same basis.

4. Long term debt

	1983		1982
	Payable within one year	Total	Total
	(in thousands)		
Term bank loans Prime + ¾% to 14⅛% Maturing on varying dates to 1990 Including payable in foreign currency U.S. $14,500 (Cdn. $16,950)	$ 310	$ 17,811	$ 20,137
Bank loans and bankers acceptances Loans at prime + ¼% to prime + ⅜% Acceptances at 10.05% to 10.67% Maturing on varying dates to 1991	5,960	71,790	70,750
Real estate mortgages 8% to 14¼% Maturing on varying dates to 2006 Including payable in foreign currency U.S. $14,885 (Cdn. $17,420) T.T. $ 3,344 (Cdn. $ 1,646) U.K. £23,571 (Cdn. $62,449)	3,391	111,194	115,732
Specific charge debt 10¾% to 14¼% Maturing on varying dates to 1990 Including payable in foreign currency U.S. $6,500 (Cdn. $7,995)	1,752	20,403	21,821
Secured notes 6⅞% to 15% Maturing on varying dates to 1989 Including payable in foreign currency U.S. $4,225 (Cdn. $4,953)	1,345	5,591	6,746
Other secured debt Prime + 1% Maturing on varying dates to 1986 Including payable in foreign currency U.S. $1,600 (Cdn. $1,929)	1,484	6,429	5,902
Unsecured notes 8% to 9% Maturing on varying dates to 1987 Including payable in foreign currency U.S. $42 (Cdn. $50)	43	160	347
Obligations under capital leases 8¾% to 12¼% Maturing on varying dates to 2003 Including payable in foreign currency U.K. £5,325 (Cdn. $12,203)	1,147	12,203	14,104
	$15,432	245,581	255,539
Less payable within one year		15,432	18,021
		$230,149	$237,518

Had the portion of long term debt carried in foreign currencies been translated at the rates of exchange prevailing at April 30, 1983, long term debt would have decreased by $17,043,000 ($9,970,000 in 1982).

Net financial expense consists of the following:

	1983	1982
	(in thousands)	
Interest on long term debt	$25,457	$29,793
Interest on short term debt	1,214	889
Interest income	(2,324)	(2,691)
	$24,347	$27,991

Annual repayment of long term debt (instalments and maturing balances) for the next five years will be as follows:

	Minimum lease payments	Imputed interest	Principal Capital leases	Principal Debt	Principal Total
	(in thousands)				
1984	$2,067	$ 920	$1,147	$14,285	$15,432
1985	2,588	982	1,606	27,207	28,813
1986	2,588	826	1,762	31,671	33,433
1987	2,574	664	1,910	15,437	17,347
1988	2,337	714	1,623	14,098	15,721

Total future minimum lease payments to 2003 amount to $17,612,000 and based on imputed interest rates varying from 8¾% to 12¼%, the present value of these minimum lease payments is $12,203,000.

Particulars with respect to security lodged against the long term debt are as follows:

Term bank loans

As security for $16,950,000 (U.S. $14,500,000) the Company has pledged its shares in its U.S. transportation subsidiaries.

Bank loans and bankers acceptances

The Company has pledged all of the shares of Commonwealth Holiday Inns of Canada Limited as security for a bank loan and bankers acceptances totalling $48,750,000. The average interest rate for the year ended April 30, 1983 on this indebtedness was 13.53%.

Under the agreement relating to the above loan and acceptances, quarterly repayments of $1,250,000 are required each year with the balance due February 15, 1991. As well, the agreement relating to the Company's bank loan contains certain restrictions relating to dividends and additional covenants with respect to the debt-equity ratio of the Company and its designated subsidiaries. The Company is in compliance with these restrictions and covenants.

The Company has also pledged two hotels as security for a bank loan and bankers acceptances totalling $23,040,000. The average interest rate for the year ended April 30, 1983 on this indebtedness was 14.24%. Principal repayments are $480,000 semi-annually, with the balance due September 1, 1990.

Real estate mortgages

A major portion of the hotel real estate, furnishings and equipment and transportation equipment is pledged as security for mortgages and other long term debt. As additional security, the Company has given a floating charge on its United Kingdom assets. Certain mortgages contain participation clauses which may increase interest payable thereon. The restaurant properties are unencumbered.

Specific charge debt

Specific charge debt on transportation equipment includes $12,112,000 on which the Company may delay monthly repayments to a maximum cumulative period of twelve months. In the accompanying consolidated financial statements no amount is included as payable within one year in respect of these amounts.

Secured notes

The Company has pledged mortgages and a first floating charge on certain properties as collateral for these notes.

Other secured debt

The Company has pledged its accounts receivable and lodged as collateral floating charge debentures totalling $15,500,000.

5. Shareholders' equity

	1983	1982
	(in thousands)	
Capital	$ 9,823	$ 9,549
Retained earnings	100,223	90,899
	$110,046	$100,448

Details of capital are as follows:

Authorized and issued

	Number of shares			
	Authorized		Issued	
	1983	1982	1983	1982
Class C shares, no par value	8,787,100	8,940,196	8,323,569	8,438,665
Subordinate voting shares, no par value	30,212,900	30,059,804	9,370,223	9,179,127

Each Class C share entitles the owner to one hundred votes whereas each subordinate voting share entitles the owner to one vote. The subordinate voting and Class C shares participate equally as to cash dividends. Class C shares may be converted at any time into subordinate voting shares on the basis of one subordinate voting share for each Class C share. During the year 38,000 Class C and 38,000 subordinate voting shares were issued under the terms of a stock option plan for a total consideration of $273,600. As well, 153,096 Class C shares were converted to subordinate voting shares during the year, resulting in a corresponding change in the authorized capital.

Stock options

After the exercise of the options for 76,000 shares referred to above, there were outstanding at April 30, 1983 options to purchase 114,500 subordinate voting shares and 84,500 Class C shares which are exercisable to 1990 at prices ranging from $3.60 per share to $5.625 per share.

At April 30, 1983 there were 135,000 subordinate voting shares reserved for issuance under the employee stock option plan.

6. Acquisitions

During the year the Company acquired the shares of a transportation operation in Wisconsin, the assets of a bus line in Ontario and fifteen Kentucky Fried Chicken stores in Texas. Particulars of these acquisitions are as follows:

		(in thousands)
Non-current assets acquired		
Fixed	$9,174	
Other	1,089	$10,263
Less long term debt assumed		1,730
Funds applied to acquisitions		8,533
Working capital acquired		1,071
Total consideration		$9,604

7. Contingent liabilities and commitments

(a) The Company is subject from time to time to various claims and disputes. As at April 30, 1983, there are no unsettled claims or disputes of a material nature against the Company which have not been provided for or which, in the opinion of management, will result in material cost to the Company.

(b) The Company has commitments for fixed asset additions amounting to approximately $11,285,000 as at April 30, 1983. No portion of this amount is reflected in the accompanying consolidated

financial statements. The Company has arranged for financing in respect of these commitments.

(c) The Company has undertaken to fund past service pension costs of which approximately $738,000 remains to be charged to operations over the next twenty-two years.

8. Long term leases

Operating leases

At April 30, 1983, the Company was committed to annual operating lease obligations of approximately $13,455,000 for each of the next five years. Total minimum lease payments for the remaining term of the operating leases aggregate approximately $223,343,000. Rentals that are determined as a percentage of revenues with no minimum amounts are excluded from these figures.

Hotels

Hotel leases, generally, are for original periods varying from ten to thirty years with renewal options extending from five to twenty-five years (land leases in the United Kingdom are for longer periods) at rentals determined as a percentage of revenue subject to minimum stated amounts.

Restaurants

Ground leases for restaurant sites generally do not exceed twenty years, including renewal options.

Transportation and warehousing

Leases for transportation terminals generally do not exceed ten years.

Capital leases

Leases entered into by the Company since January 1979 which have the characteristics of capital leases have been recorded as such in the accounts of the Company. At April 30, 1983, the value of assets under capital leases and included in land, buildings and equipment amounts to $13,403,000 net of accumulated depreciation of $1,800,000. If those leases entered into prior to January 1, 1979 which have the characteristics of capital leases had been recorded as such in the consolidated financial statements, the following adjustments would have been required:

	1983	1982
	(in thousands)	
Assets		
Hotel buildings and furnishings under capital leases, net of accumulated depreciation of $16,557,000 ($12,641,000 at April 30, 1982)	$57,925	$62,135
Liabilities and shareholders' equity		
Current lease obligation	$ 3,377	$ 3,098
Non-current lease obligation	62,126	65,014
Deferred income taxes	(4,016)	(3,168)
Reduction of retained earnings	(3,562)	(2,809)
	$57,925	$62,135
Reduction of net earnings	$ 753	$ 906

9. Related party transactions

In order to take advantage of interest rates slightly lower than those available commercially, the Company borrowed funds from shareholders and related corporations by way of demand promissory notes. Total interest paid during the year amounted to $67,000 on notes varying between $1,300,000 and $4,800,000. At April 30, 1983 the amount of such notes was $1,800,000, included in accounts payable and accrued charges.

10. Segmented information (in thousands)

Industry

	Hotels 1983	Hotels 1982	Restaurants 1983	Restaurants 1982	Transportation and warehousing 1983	Transportation and warehousing 1982	Consolidated 1983	Consolidated 1982
Sales	**$235,102**	$249,358	**$162,536**	$158,615	**$ 84,278**	$ 77,467	**$481,916**	$485,440
Segmented operating earnings	**$ 9,934**	$ 21,497	**$ 20,149**	$ 20,349	**$ 17,514**	$ 14,716	**$ 47,597**	$ 56,562
Net financial expense							**(24,347)**	(27,991)
Income taxes							**(9,686)**	(11,850)
Earnings before extraordinary items							**$ 13,564**	$ 16,721
Fixed assets	**$248,379**	$254,749	**$ 55,614**	$ 49,934	**$ 62,819**	$ 52,329	**$366,812**	$357,012
Other assets	**21,712**	22,403	**7,416**	6,938	**15,208**	14,664	**44,336**	44,005
Total identifiable assets	**$270,091**	$277,152	**$ 63,030**	$ 56,872	**$ 78,027**	$ 66,993	**411,148**	401,017
Corporate assets							**36,044**	51,470
Total assets							**$447,192**	$452,487
Capital expenditures	**$ 16,898**	$ 47,236	**$ 10,665**	$ 8,173	**$ 21,742**	$ 20,740	**$ 49,305**	$ 76,149
Depreciation and amortization	**$ 17,908**	$ 15,167	**$ 5,039**	$ 4,513	**$ 9,875**	$ 7,363	**$ 32,822**	$ 27,043

Geographic

	Canada 1983	Canada 1982	United States 1983	United States 1982	United Kingdom and Caribbean 1983	United Kingdom and Caribbean 1982	Consolidated 1983	Consolidated 1982
Sales	**$360,475**	$376,541	**$ 53,319**	$ 46,702	**$ 68,122**	$ 62,197	**$481,916**	$485,440
Segmented operating earnings	**$ 31,927**	$ 45,751	**$ 10,964**	$ 7,811	**$ 4,706**	$ 3,000	**$ 47,597**	$ 56,562
Net financial expense							**(24,347)**	(27,991)
Income taxes							**(9,686)**	(11,850)
Earnings before extraordinary items							**$ 13,564**	$ 16,721
Fixed assets	**$199,793**	$198,228	**$ 40,391**	$ 27,478	**$126,628**	$131,306	**$366,812**	$357,012
Other assets	**27,578**	29,695	**9,081**	5,232	**7,677**	9,078	**44,336**	44,005
Total identifiable assets	**$227,371**	$227,923	**$ 49,472**	$ 32,710	**$134,305**	$140,384	**411,148**	401,017
Corporate assets							**36,044**	51,470
Total assets							**$447,192**	$452,487

Financial and Statistical Review

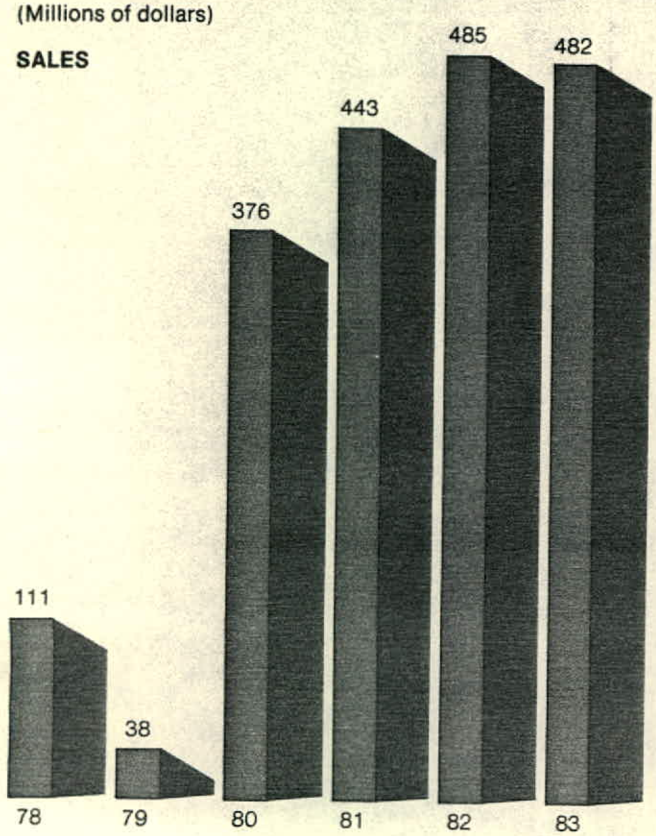
(Dollars in thousands, except per share amounts)

	Fiscal Year April 30, 1983	Fiscal Year April 30, 1982	Fiscal Year April 26, 1981	Fiscal Year April 27, 1980	Seventeen Weeks to April 29, 1979	Fiscal Year December 31, 1978
Sales	$481,916	$485,440	$442,541	$375,874	$ 38,167	$111,401
Earnings before extraordinary items	$ 13,564	$ 16,721	$ 15,734	$ 12,428	$ 885	$ 8,328
Per share	$ .77	$ .96	$ .91	$ .72	$ .05	$ .49
Net earnings	$ 13,564	$ 31,486	$ 13,750	$ 12,428	$ 885	$ 8,328
Per share	$ .77	$ 1.81	$ .80	$ .72	$ .05	$ .49
Dividends per share	$ .24	$ .19	$ .16	$ .16	$ .08	$ .15
Working capital from operations	$ 45,366	$ 48,281	$ 42,183	$ 32,828	$ 3,397	$ 12,215
Per share	$ 2.57	$ 2.77	$ 2.44	$ 1.91	$ .20	$ .73
Capital expenditures	$ 49,305	$ 76,149	$ 86,251	$ 44,221	$ 2,387	$ 18,901
Total assets	$447,192	$452,487	$412,318	$337,940	$300,898	$ 66,020
Shareholders' equity	$110,046	$100,448	$ 71,668	$ 59,954	$ 49,769	$ 50,227
Number of employees	15,900	16,900	16,300	15,500	3,800	3,600
Take-out and other food operations	301	317	306	315	295	294
Hotel rooms in operation	12,334	12,528	12,265	11,934		
Transportation and warehousing units	3,245	2,950	3,030	1,287		

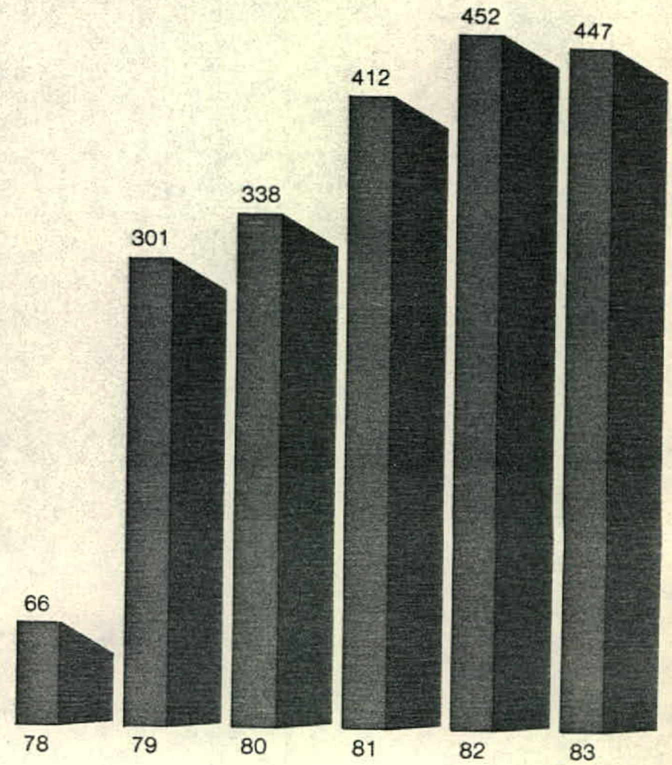
Five Year Review

(Millions of dollars)

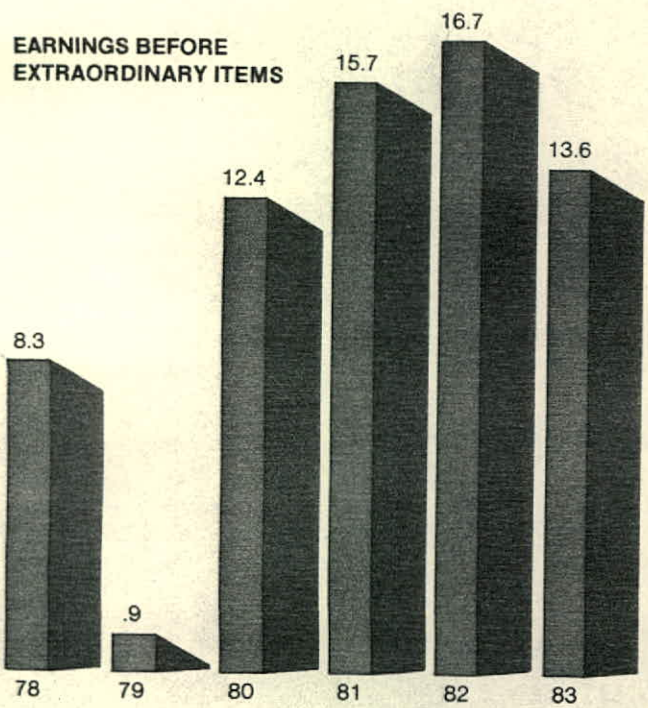
SALES



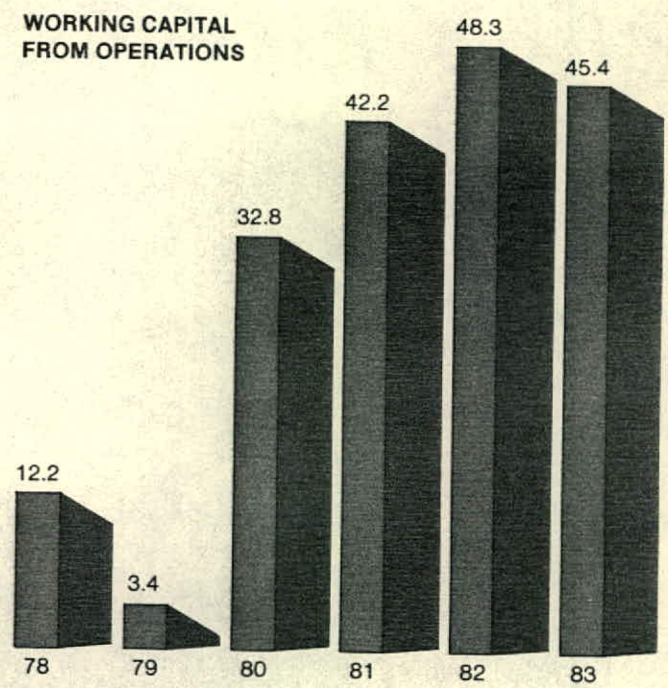
TOTAL ASSETS



EARNINGS BEFORE EXTRAORDINARY ITEMS



WORKING CAPITAL FROM OPERATIONS




Kentucky Fried Chic
Holiday Inn
534
CHARTERWAYS

Directors and Corporate Officers

Directors

H. Anthony Arrell†
David R. Beatty
Geoffrey P. Davies
George R. Gardiner*•
Michael R. Gardiner*†
Dr. James M. Gillies†
F. Ronald Graham*•
William C. Graham, Q.C.*
Richard A. Hunter
Joseph G. Kelnberger
Dr. David S. R. Leighton
John J. Leon
Benson Orenstein*
Helen D. Phelan
Robert A. Stevens•
Raymond R. Yelle

*Member of the Executive Committee
†Member of the Audit Committee
•Member of the Manpower Resources Committee

Corporate Officers

George R. Gardiner
Chairman of the Board

F. Ronald Graham
Vice-Chairman of the Board

Benson Orenstein
President and Chief Executive Officer

Bruce R. Dodds, C.A.
Senior Vice-President
and Chief Financial Officer

Douglas G. Shields, C.A.
Vice-President and Treasurer

J. Boyd Simpson
Vice-President and General Counsel

Charles H. King
Secretary

Corporate Offices

~~970 Dixon Road~~ 89 CHESTNUT STREET
~~Rexdale, Ontario M9W~~ 1J9
TORONTO, ONTARIO
M5G 1R1

Division Offices

Scott's Restaurants
2000 Jane Street
Weston, Ontario M9N 2V2

Commonwealth Holiday Inns
of Canada Limited
970 Dixon Road
Rexdale, Ontario M9W 1J9

Charterways Transportation Limited
201 Queens Avenue
London, Ontario
N6A 4Z3

Common Shares and Class C Shares

The subordinate voting shares (common shares) and Class C shares of the Corporation are listed on The Toronto Stock Exchange and the Montreal Stock Exchange.

Registrar and Transfer Agent

The Registrar and Transfer Agent for the subordinate voting shares (common shares) and Class C shares is Montreal Trust Company at its principal offices in Toronto, Montreal and Calgary.

Solicitors

McCarthy & McCarthy

Bankers

The Royal Bank of Canada

Auditors

Clarkson Gordon