

Annual Report 1982

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Financial Highlights

(Dollars in thousands, except per share amounts)

	1982	1981
Sales	\$485,440	\$442,541
Earnings before extraordinary items	\$ 16,721	\$ 15,734
Per share	\$ 0.96	\$ 0.91
Net earnings for year	\$ 31,486	\$ 13,750
Per share	\$ 1.81	\$ 0.80
Dividends	\$ 4,023	\$ 2,778
Per share	\$ 0.19	\$ 0.16
Cash flow from operations	\$ 48,281	\$ 42,183
Per share	\$ 2.77	\$ 2.44
Capital expenditures	\$ 76,149	\$ 86,251
Number of employees	16,900	16,300
Hotel rooms in operation	12,528	12,265
Take-out and other food operating units	317	306
Transportation and warehousing units	2,950	3,030

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 are pleased to present the annual report on operations and the financial statements of your Company for the year ended April 30, 1982. The following are the highlights for the period.

- Sales revenue reached \$485,440,000, an increase of 9.7% from the prior year.
- Consolidated net earnings (before extraordinary items) increased by 6.3% to \$16,721,000, or 96¢ per share compared with 91¢ per share last year.
- Cash flow from operations was \$48,281,000 or \$2.77 per share compared with \$42,183,000 or \$2.44 per share in 1981.

The Company has reassessed its remaining investment in Florida restaurant properties and in light of present depressed realty values, has made provision in the accompanying financial statements for an extraordinary loss of \$1,600,000 net of tax to reflect the present asset carrying value. This was more than offset by gains on the sale of certain fixed assets during the year and, as a result, extraordinary items for the year resulted in a gain of \$14.8 million.

Operations

The Company operated at a very satisfactory level during the first six months of the 1981-82 financial year recording a 22.5% increase in earnings. Earnings during the second half of the year, the low season for the Company's hotel and restaurant divisions, were off considerably from the last half of the prior year. The decline in the latter period reflects deepening of the current recession and the sensitivity of the hotel industry to such conditions.

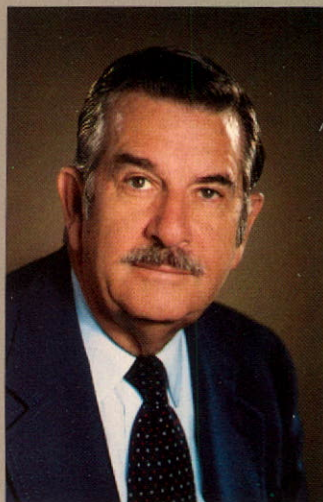
In June, 1981 the hotel division purchased the hotel at 345 rue de la Couronne, Quebec City, which it had formerly operated under a lease. In October, 1981 the division disposed of its investment in the hotel at 1133 West Hastings Street, Vancouver, British Columbia. This hotel continues to operate under the name Holiday Inn Harbourside and is managed by the Company for a fee. The net proceeds were employed to reduce floating rate bank debt.

In April, 1982 the restaurant division acquired the exclusive franchise rights together with the operation of all Kentucky Fried Chicken units in the Thunder Bay and Dryden regions of Ontario.

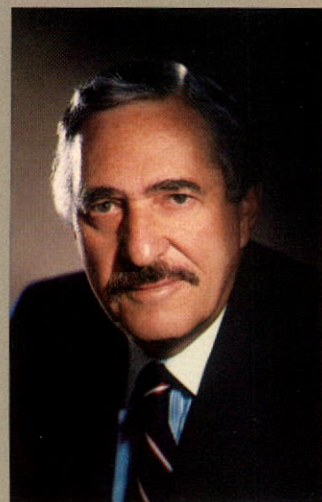
The transportation division has more than doubled in size during the last two years with sales revenue rising from \$29.7 million in 1980 to \$77.5 million in the year just ended. A large part of this increase is due to the acquisition, during the second quarter of the 1980-81 financial year, of major school bus operations in the United States. The division successfully completed assimilation of the acquisition during the year and, where appropriate, implemented certain of its operating and administrative policies and procedures into the U.S. operation.

Outlook

As this report is written, there are no indications of improvement in the Canadian economy and we cannot help but view prospects for an early recovery with pessimism. A significant and sustained lowering of inflation and interest rates is required to restore consumer confidence and, in turn, to stimulate demand for goods and services of all kinds. Growth in earnings similar to that achieved in the past several years will be difficult to maintain without an improvement in the Canadian economy. We believe the transportation and warehousing division, with its diversified revenue base, will continue to operate at a very acceptable profit level. The hotel industry and, to a lesser extent the fast food segment of the restaurant industry, closely mirror the country's economic activity and the 1982-83 financial period will present a marked challenge to management of these two divisions.



GEORGE R. GARDINER



BENSON ORENSTEIN

Dividends

Dividends of 19¢ 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 Company, an increase of 3¢ per share from that paid in the prior year. On April 27, the Directors declared a semi-annual dividend of 12¢ per share payable July 2, 1982 to shareholders of record at the close of business on June 18, 1982.

Directors

On September 27, 1981 we recorded with deep regret the untimely death of Albert Edwin Shepherd, Q.C. Mr. Shepherd had served as a director of your Company since October 1980 and as a director and senior officer of Commonwealth Holiday Inns of Canada Limited from its incorporation in 1964.

In December last, David R. Beatty was appointed by the Directors to fill the vacancy on the Board created by Mr. Shepherd's death. Mr. Beatty has served as an economic advisor and strategic planning consultant to industry and to various levels of government in Canada and abroad. His expertise in these areas provides additional strength to your Board of Directors.

On behalf of the Directors, we extend sincere appreciation to the Company's 16,900 employees for their loyalty and service during the year. Their ability to respond to the constant changes in operating conditions which prevailed was, to a large degree, responsible for making the year a financial and operating success for the Company.

Chairman

President and Chief Executive Officer



The restaurant division again achieved record sales and earnings during the 1981-82 financial year. This was accomplished despite reduced volumes which occurred during the winter and early spring due to inclement weather and very soft economic conditions in all market areas. While the outlook is for further decline in the Canadian economy, we believe our value-oriented product will not be affected to the same extent as other segments of the restaurant industry.

This past year, the division undertook many activities designed to strengthen both its marketing and operational positions for the 1980's. Our marketing group was involved in a wide variety of new concept and strategy developments over this past year. A Polynesian fast food concept — Wiki Wiki — has been successfully tested and will be expanded. Similar conclusions have been drawn on our new Soup 'n Salad concept. Our KFC mall unit test (formerly "The Colonel's Counter") has been successfully completed and will be expanded on a selective basis. In confirmation of our continued

interest in the pizza take-out and delivery business, test locations have been opened in the Toronto area under the Pizza Pizza ("967-11-11") franchise.

On the operational side of the business, the opening of a new commissary in the summer of 1982 will improve both efficiency and product consistency in the Gold Chin product line. Extensive training programs have been completed at all levels of store and middle management this year. The real estate function has been reorganized and now provides the division with fully professional retail development services. The appointment of new advertising agencies to separately serve Ontario and Quebec, was also a significant marketing development during the year.

The division had an excellent year in developing new locations and increasing its market penetration in the fast food segment. Six KFC take-outs were acquired through purchase of existing franchises along with the opening of a further five new KFC units.



Earnings for the hotel division are somewhat lower than those of the prior year; however, in light of the economy, one cannot help but view the operating results for the 1981-82 financial year with a degree of satisfaction.

Occupancy levels of Canadian hotels remained firm during the first half of the year; but, as the recession deepened, volumes began to erode. This trend continued during the second half and into the 1982-83 financial year. Presently, there are no indications of an economic recovery in Canada which would return volumes to more acceptable levels.

Historically, tourism to the United Kingdom has increased significantly with devaluation of sterling currency. Such was not the case in the period under review. The modest increase in occupancy reported in the six-month Interim Report has, however, been maintained, giving rise to optimism that recovery in this market is underway.



Charterways recorded a strong performance during the past fiscal period from both financial and operational perspectives. Earnings for the year were significantly enhanced by the division's U.S. operations which were acquired in October, 1980. Much was accomplished during the year in consolidating certain administrative and operating systems and procedures of U.S. operations with those of the corporate office in London. In addition, substantial capital outlays were made to upgrade the acquired fleet and terminal facilities. Such outlays will continue into the 1982-83 financial year as further fleet retirement and facility policies are introduced.

The success of U.S. operations is due, in large part, to its highly qualified and professional management team which is supported by a very competent and dedicated employee group. We are very pleased with their contribution to the overall results of the division. The prospects for future growth in the U.S. market are excellent.

In both Canada and the U.S. we have continued our diesel

conversion program in school bus operations. When school reopens in September over 30% of the operating fleet in the full-size weight class will be diesel powered. The performance efficiency of these vehicles continues to meet our projections with respect to reducing total fuel consumption, maintenance expense and overall operating costs.

Through continued emphasis on cost control and efficiency we have, to the extent possible, minimized the impact of the poor economy and the continued high cost of money. The non-contract segments of our operations are the most sensitive to these conditions. These include our airport and charter bus operations, truck leasing and travel agencies. Our terminal warehousing operation achieved good results in contrast to the general economic status of the trucking and freight industries for the period.

The Canadian management group, with its contribution to the financial success of the past year, has again demonstrated its

Two new Gold Chin locations were opened as well as two new food service units.

The Florida operation has continued to perform below our expectations and was not profitable this past year. Accordingly we shall continue to restructure our representation by divesting or converting unprofitable stores.

The success of the past year would not have been possible without the hard work and dedication of an exceptional group of employees. I wish to extend my heartfelt thanks to them and look forward, with their continued assistance, to another successful year.

Richard A. Hunter,
President



Caribbean properties also felt the effects of the current recession with a decline in tourism to Barbados. The Company's hotel in Grenada was closed throughout the winter season as a result of extensive fire damage in October. High air fares, a decline in disposable income in North America and a relative softening of most currencies on the European continent have precluded any significant travel growth to either the United Kingdom or the Caribbean.

In April, 1982 Her Royal Highness, The Princess Margaret, Countess of Snowdon, assisted in the official opening of our 300-room hotel in Glasgow, Scotland. Public acceptance of this fine new hotel has been excellent. Construction of a 130-room addition to the Holiday Inn Yorkdale (Toronto) is well advanced and scheduled for completion in late autumn this year. Included in the addition is an all-weather recreational facility covered by a Holidome atrium.

In the past year, new restaurant and/or lounge concepts were

completed at the Holiday Inns at Toronto International Airport, Yorkdale (Toronto), and more recently at the Holiday Inn Toronto Downtown. Each has been favourably received by our guests and is proving highly successful in its market. This program has a high priority within the division and additional locations are now being considered for similar upgrading.

Our management organization at the corporate level has recently been strengthened in support of the Corporation's policy of decentralization. I am particularly pleased with the positive reaction by staff at all levels to the challenges we faced during the past year. No doubt the year ahead will be equally difficult; however, I am confident in the division's ability to successfully meet both the challenges and opportunities that lie ahead.

Raymond R. Yelle,
President

ability to achieve the corporate objectives of the division. The support received from all employees during the year is very gratifying and much credit is due them for our overall performance in a difficult economic environment.

The current year, with its prospects for further deterioration in the economy and escalating Canadian fuel costs, will be no less challenging than last year. The division is well positioned to meet these challenges.

Geoffrey P. Davies,
President



Consolidated balance sheet

April 30, 1982

ASSETS	1982	1981
	(in thousands)	
Current:		
Cash and short term investments	\$ 32,671	\$ 35,879
Accounts receivable	21,328	18,815
Inventories (note 2)	6,640	6,725
Prepaid expenses	3,454	3,766
	64,093	65,185
Mortgages and notes receivable	11,427	3,019
Restaurant properties held for resale (note 3)	7,372	7,166
Land, buildings and equipment — net (note 4)	356,102	325,910
Other assets — less amortization (note 5)	12,583	11,038
	\$451,577	\$412,318

(See accompanying notes)

Approved on behalf of the Board

George Sander

Director

Bruno Chastain

Director

LIABILITIES AND SHAREHOLDERS' EQUITY**1982****1981**

(in thousands)

Current:

Accounts payable and accrued charges	\$ 48,074	\$ 47,002
Taxes payable	6,679	5,719
Dividends payable	2,114	1,392
Long term debt payable within one year (note 6)	18,021	16,102

74,888**70,215****Long term debt (note 6)****237,518****236,282****Deferred income****2,326****954****Deferred income taxes****35,246****31,918****Minority interest in subsidiary****1,151****1,281****Shareholders' equity (note 7)****100,448****71,668****\$451,577****\$412,318**

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, 1982 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, 1982 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 16, 1982.

Clarkson Gordon
Chartered Accountants.

Consolidated statement of earnings

Year ended April 30, 1982

	1982	1981
	(in thousands)	
Sales:		
Hotel division	\$249,358	\$237,654
Restaurant division	158,615	144,938
Transportation and warehousing division	77,467	59,949
	485,440	442,541
Cost of sales, operating and administrative expenses	401,835	365,999
Depreciation and amortization	27,043	21,467
Net financial expense	27,991	25,984
	456,869	413,450
Earnings before income taxes and extraordinary items	28,571	29,091
Income taxes	11,850	13,357
Earnings before extraordinary items	16,721	15,734
Extraordinary items (note 8)	14,765	(1,984)
Net earnings for year	\$ 31,486	\$ 13,750
Earnings per share:		
Earnings before extraordinary items	\$ 0.96	\$ 0.91
Net earnings for year	\$ 1.81	\$ 0.80

(See accompanying notes)

Consolidated statement of retained earnings

Year ended April 30, 1982

	1982	1981
	(in thousands)	
Balance beginning of year	\$ 63,436	\$52,464
Net earnings for year	31,486	13,750
	94,922	66,214
Dividends	4,023	2,778
Balance end of year	\$90,899	\$63,436

(See accompanying notes)

Consolidated statement of changes in financial position

Year ended April 30, 1982

	1982	1981
	(in thousands)	
Source of working capital:		
Operations—		
Earnings before extraordinary items	\$ 16,721	\$ 15,734
Add:		
Deferred income taxes	3,275	5,046
Depreciation and amortization	27,043	21,467
Other	1,242	(64)
Total working capital from operations	48,281	42,183
Long term borrowings	58,607	80,878
Proceeds on sale of fixed assets	30,451	1,964
Proceeds on sale of Florida restaurant properties	2,440	1,221
Issue of shares	1,317	742
	141,096	126,988
Application of working capital:		
Acquisitions		18,186
Carrying costs of restaurant properties held for resale	910	753
Increase in mortgages and notes receivable	8,408	1,386
Reduction of long term debt	57,371	34,121
Purchase of fixed assets	73,605	64,297
Outlays for other assets	2,544	2,110
Dividends	4,023	2,778
	146,861	123,631
Increase (decrease) in working capital	\$ (5,765)	\$ 3,357

(See accompanying notes)

Notes to the consolidated financial statements

April 30, 1982

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 fair value.

Land, buildings and equipment

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 \$1,364,000 in 1982 (\$2,139,000 in 1981).

The cost of major hotel renovation programs, consisting primarily of replacement of furnishings and equipment, major maintenance and the cost of improvements, are 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:

Hotels	Years
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 1994
Transportation and warehousing	
Buildings	25 - 40
Equipment	7½ - 12
Operating authorities	40

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.

Capital leases

Lease agreements which transfer substantially all of the benefits and risks of ownership of the asset to the Company are accounted for as capital leases. Accordingly, at the inception of the leases the assets and related obligations are recorded at an amount equal to the present value of future lease payments discounted at the interest rates inherent in the lease contracts.

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 investment and hotel management agreements that provide for a rate of return below current 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. Inventories

	1982	1981
	(in thousands)	
Hotels		
Food, beverage and operating supplies	\$4,138	\$4,151
Restaurants		
Food and packaging	1,190	1,197
Transportation and warehousing		
Operating supplies	1,312	1,377
	\$6,640	\$6,725

3. Restaurant properties held for resale

At April 30, 1981 the Company assessed the history of unsatisfactory performance of its Florida restaurant properties and determined that an extraordinary write-down was required in respect of certain of these locations. During 1982, properties with a carrying value of \$2,373,000 were sold for proceeds of \$2,440,000. In addition, certain other properties with a carrying value of \$1,370,000 were transferred to operating fixed assets as a result of the Company negotiating long term rental leases at these locations.

The Company has reassessed its current position in the Florida market, and has determined that an adjustment is now required to the carrying value of its remaining investment in Florida locations to reflect their present depressed realty values. Accordingly the carrying value of such properties is the estimated market value of \$3,949,000 and has been transferred from operating fixed assets into restaurant properties held for resale. The corresponding write-down, including a provision for carrying costs projected for 1983, amounts to \$2,850,000 and has been presented in the consolidated statement of earnings, net of income taxes of \$1,250,000, as an extraordinary loss in the amount of \$1,600,000.

4. Land, buildings and equipment

	1982	1981
	(in thousands)	
Land	\$ 38,438	\$ 41,643
Buildings and leasehold improvements	258,095	231,114
Furnishings and equipment	71,995	64,868
Transportation equipment	53,333	40,524
	421,861	378,149
Less accumulated depreciation and amortization	65,759	52,239
	\$356,102	\$325,910

5. Other assets

	1982	1981
	(in thousands)	
Opening and development costs	\$ 2,245	\$ 1,579
Cost of borrowing	910	682
Franchises	4,159	3,298
Transportation operating authorities	5,269	5,479
	\$12,583	\$11,038

Amortization amounted to \$999,000 in 1982 (\$625,000 in 1981).

6. Long term debt

	1982		1981
	Payable within one year	Total	Total
	(in thousands)		
Term bank loans:			
14½% to prime + ¾%			
Repayment terms extending to 1990	\$ 1,480	\$ 20,137	\$ 21,280
Including payable in foreign currency			
U.S. \$16,250 (Cdn. \$18,997)			
Bank loan and banker's acceptances	5,960	70,750	60,540
Real estate mortgages:			
8% to 18½%			
Maturing on varying dates to 2006	4,179	115,732	139,561
Including payable in foreign currency			
U.S. \$14,747 (Cdn. \$17,195)			
T.T. \$ 3,688 (Cdn. \$ 1,818)			
U.K. £24,588 (Cdn. \$65,391)			
Specific charge debt:			
9¾% to prime + 1%			
Maturing on varying dates to 1990	2,531	21,821	13,503
Including payable in foreign currency			
U.S. \$6,400 (Cdn. \$7,712)			
Secured notes:			
6¾% to 15%			
Maturing on varying dates to 1989	1,194	6,746	6,141
Including payable in foreign currency			
U.S. \$4,763 (Cdn. \$5,569)			
Other secured debt:			
Prime + 1%			
Repayment terms extending to 1986	1,083	5,902	4,887
Including payable in foreign currency			
U.S. \$2,400 (Cdn. \$2,866)			
Unsecured notes:			
4% to 9%			
Maturing on varying dates to 1987	188	347	1,490
Including payable in foreign currency			
U.S. \$78 (Cdn. \$94)			
U.K. £10 (Cdn. \$22)			

Obligations under capital leases:

8¼% to 12%

Maturing on varying dates to 2003

1,406 14,104 4,982

Including payable in foreign currency

U.S. \$ 158 (Cdn. \$ 185)

U.K. £5,960 (Cdn. \$13,919)

\$18,021 255,539 252,384

Less payable within one year

18,021 16,102

\$237,518 \$236,282

Had the portion of long term debt carried in foreign currencies been translated at the rates of exchange prevailing at April 30, 1982, long term debt would have decreased by \$9,970,000 (\$1,766,000 in 1981).

Net financial expense consists of the following:

	1982	1981
	(in thousands)	
Interest on long term debt	\$29,793	\$26,265
Interest on short term debt	889	1,151
Interest income	(2,691)	(1,432)
	\$27,991	\$25,984

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	Debt	Total
			(in thousands)		
1983	\$2,394	\$ 988	\$1,406	\$16,615	\$18,021
1984	2,612	1,138	1,474	25,287	26,761
1985	2,612	995	1,617	20,636	22,253
1986	2,612	839	1,773	31,004	32,777
1987	2,590	668	1,922	12,848	14,770

Total future minimum lease payments to 2003 amount to \$20,348,000 and based on imputed interest rates varying from 8¼% to 12%, the present value of these minimum lease payments is \$14,104,000.

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 loan and banker's acceptances:

The Company has pledged all of the shares of Commonwealth Holiday Inns of Canada Limited as security for a bank loan and banker's acceptances totalling \$53,750,000. At April 30, 1982 the interest rate on this bank loan was prime plus ¾ of 1% and the interest rates on the banker's acceptances averaged 15.8%. The average interest rate for the year ended April 30, 1982 was 18.4%.

Under the agreement relating to the 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 in the amount of \$17,000,000. At April 30, 1982 the interest rate on this bank loan was prime plus ¾ of 1%, and the average interest rate for the year ended April 30, 1982 was 17.1%.

Real estate mortgages:

A major portion of the hotel real estate, furnishings and equipment and transportation equipment is pledged to secure 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 \$11,663,000 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 due within one year in respect of these amounts.

Secured notes:

These notes are secured by mortgages and a first floating charge on certain properties.

Other secured debt:

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

7. Shareholders' equity

	1982	1981
	(in thousands)	
Capital	\$ 9,549	\$ 8,232
Retained earnings	90,899	63,436
	\$100,448	\$71,668

The Common shares of the Company are referred to as subordinate voting shares as required by Policy Statement 3-58 of the Ontario Securities Commission issued on January 22, 1982.

Authorized and issued

	Number of shares			
	Authorized		Issued	
	1982	1981	1982	1981
8% First Preference shares, \$10 par value		80,000		
Class C shares, no par value	8,940,196	8,783,683	8,438,665	8,477,579
Subordinate voting shares, no par value	30,059,804	30,216,317	9,179,127	8,910,213

The authorized capital of the Company was amended on June 22, 1981 to exclude the 8% First Preference shares and to restate the Class C and subordinate voting shares at 9,000,000 and 30,000,000 respectively.

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 197,500 subordinate voting shares and 32,500 Class C shares were issued for a total consideration of \$1,317,375. Also, 11,610 Class C shares were converted to subordinate voting shares up to June 22, 1981 and 59,804 were converted subsequent to that date.

Stock options

The Company has an employee stock option plan and during the year

- i) an additional 258,000 subordinate voting shares were reserved
- ii) options to purchase 165,000 subordinate voting shares at \$6.075 were granted to certain senior officers of the Company and its subsidiaries
- iii) options on 197,500 subordinate voting shares and 32,500 Class C shares were exercised for a total consideration of \$1,317,375.

At April 30, 1982 there were 135,000 subordinate voting shares reserved for issuance under the employee stock option plan and options to purchase 152,500 subordinate voting shares and 122,500 Class C shares were outstanding and exercisable to 1990 at prices ranging from \$3.60 per share to \$5.625 per share.

8. Extraordinary items

	1982	1981
	(in thousands)	
Write-down of Florida properties (note 3)	\$ (1,600)	\$ (1,984)
Gain on disposal of fixed assets	16,365	
	\$14,765	\$ (1,984)

During the year ended April 30, 1982, the Company disposed of certain fixed assets for total proceeds of \$27,680,000. The resulting gain has been presented in the consolidated statement of earnings, net of applicable income taxes of \$3,626,000, as an extraordinary item.

9. Contingent liabilities and commitments

(a) The Company is subject from time to time to various claims and disputes. As at April 30, 1982, 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 \$8,000,000 action previously raised by KFC Corporation was settled during the year at no cost to the Company.

(c) Contingent liabilities with respect to guarantees amount to approximately \$2,000,000 at April 30, 1982.

(d) The Company has commitments for fixed asset additions amounting to approximately \$15,763,000 as at April 30, 1982. No portion of this amount is reflected in the accompanying consolidated financial statements. The Company has arranged for financing in respect of these commitments.

(e) As at April 30, 1982 the Company has commitments for the delivery of Government of Canada Treasury Bills under three consecutive interest rate futures contracts in the amount of \$15,000,000 each. The Company entered into these commitments in order to

stabilize interest costs on \$15,000,000 of floating rate long term bank debt. These interest rate futures contracts expire in March, 1983.

(f) The Company has an unfunded pension liability of approximately \$735,000 which is being reduced annually by payments recommended by the Company's actuaries.

10. Long term leases

Operating leases

At April 30, 1982, the Company was committed to annual operating lease obligations of approximately \$14,234,000 for each of the next five years. Total minimum lease payments for the remaining term of the operating leases aggregate approximately \$233,939,000. 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

Certain of the leases entered into by the Company prior to January 1, 1979 qualify as capital leases under recommendations of the Canadian Institute of Chartered Accountants which came into effect on that date. If these leases had been recorded in the consolidated financial statements as capital leases, the following adjustments would have been required:

	1982	1981
	(in thousands)	
Assets:		
Hotel buildings and furnishings under capital leases (net of accumulated depreciation of \$12,641,000 in 1982 and \$8,334,000 in 1981)	\$ 62,135	\$ 66,442
Liabilities and shareholders' equity:		
Current lease obligation	\$ 3,098	\$ 3,121
Non-current lease obligation	65,014	67,384
Deferred income taxes	(3,168)	(2,160)
Reduction of retained earnings	(2,809)	(1,903)
	\$ 62,135	\$ 66,442
Reduction of net earnings for year	\$ 906	\$ 971

Leases entered into in 1979 and subsequent years which have the characteristics of capital leases have been recorded as such in the accounts of the Company. At April 30, 1982, the value of assets under capital leases and included in land, buildings and equipment amounts to \$14,719,000 net of accumulated depreciation of \$678,000.

11. Segmented information (in thousands)

Industry

	Hotels		Restaurants		Transportation and warehousing		Consolidated	
	1982	1981	1982	1981	1982	1981	1982	1981
Sales	\$249,358	\$237,654	\$158,615	\$144,938	\$ 77,467	\$ 59,949	\$485,440	\$442,541
Segmented operating earnings	\$ 21,497	\$ 27,277	\$ 20,349	\$ 16,446	\$ 14,716	\$ 11,352	\$ 56,562	\$ 55,075
Net financial expense							(27,991)	(25,984)
Income taxes							(11,850)	(13,357)
Earnings before extraordinary items							\$ 16,721	\$ 15,734
Fixed assets	\$253,839	\$231,783	\$ 49,934	\$ 51,907	\$ 52,329	\$ 42,220	\$356,102	\$325,910
Other assets	22,403	21,833	6,938	4,582	14,664	13,930	44,005	40,345
Total identifiable assets	\$276,242	\$253,616	\$ 56,872	\$ 56,489	\$ 66,993	\$ 56,150	400,107	366,255
Corporate assets							51,470	46,063
Total assets							\$451,577	\$412,318
Capital expenditures	\$ 47,236	\$ 47,235	\$ 8,173	\$ 7,055	\$ 20,740	\$ 31,961	\$ 76,149	\$ 86,251
Depreciation and amortization	\$ 15,167	\$ 11,717	\$ 4,513	\$ 4,507	\$ 7,363	\$ 5,243	\$ 27,043	\$ 21,467

Geographic

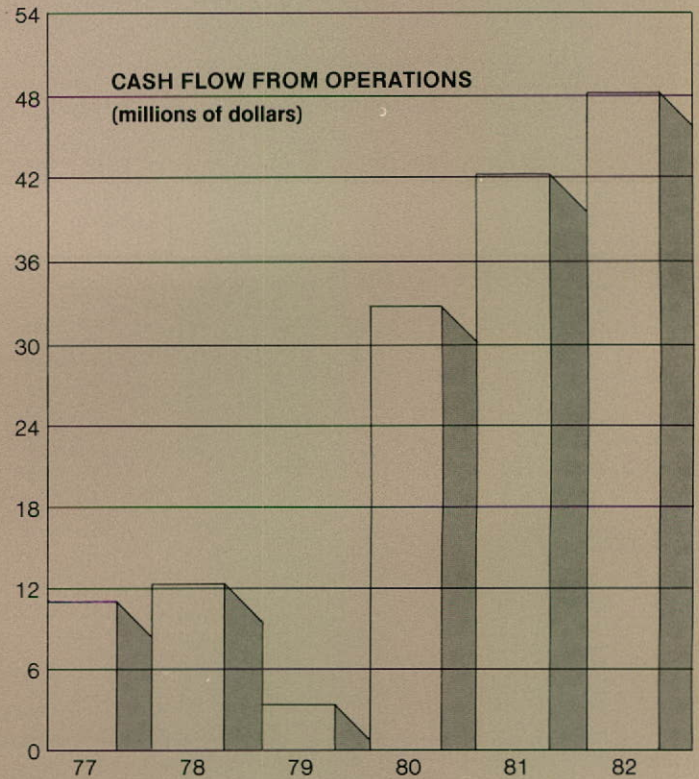
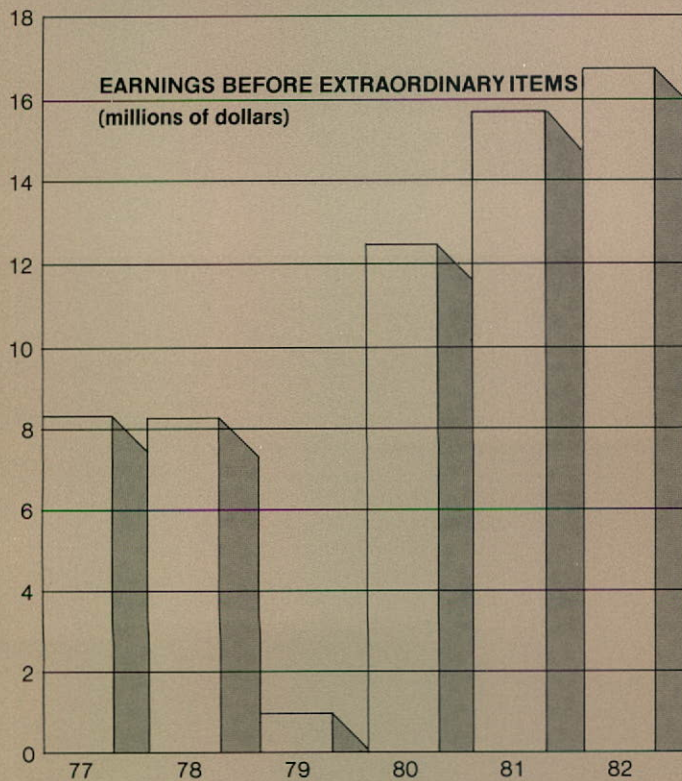
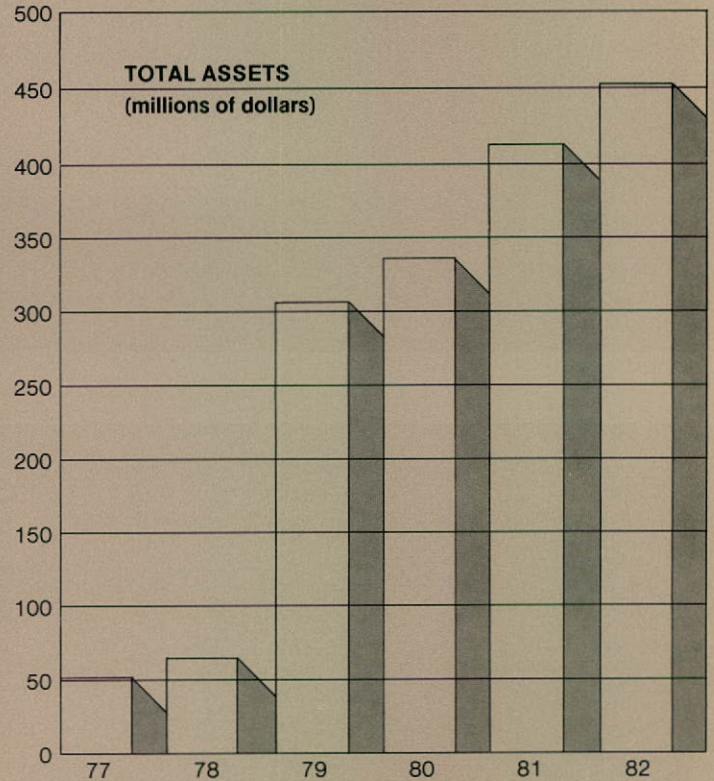
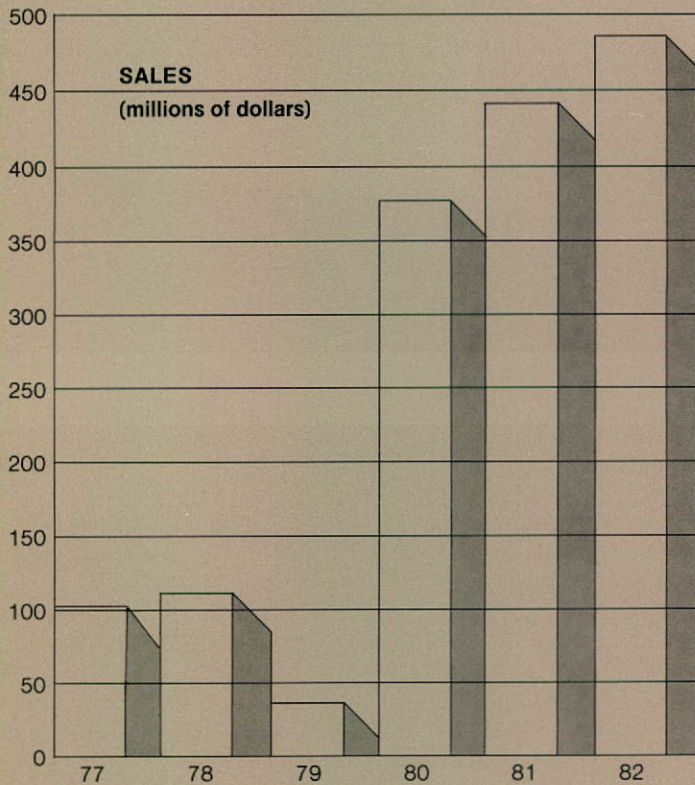
	Canada		United States		United Kingdom and Caribbean		Consolidated	
	1982	1981	1982	1981	1982	1981	1982	1981
Sales	\$376,541	\$339,058	\$ 46,702	\$ 37,417	\$ 62,197	\$ 66,066	\$485,440	\$442,541
Segmented operating earnings	\$ 45,751	\$ 39,802	\$ 7,811	\$ 5,333	\$ 3,000	\$ 9,940	\$ 56,562	\$ 55,075
Net financial expense							(27,991)	(25,984)
Income taxes							(11,850)	(13,357)
Earnings before extraordinary items							\$ 16,721	\$ 15,734
Fixed assets	\$198,228	\$183,933	\$ 27,478	\$ 25,368	\$130,396	\$116,609	\$356,102	\$325,910
Other assets	29,695	26,362	5,232	5,522	9,078	8,461	44,005	40,345
Total identifiable assets	\$227,923	\$210,295	\$ 32,710	\$ 30,890	\$139,474	\$125,070	400,107	366,255
Corporate assets							51,470	46,063
Total assets							\$451,577	\$412,318

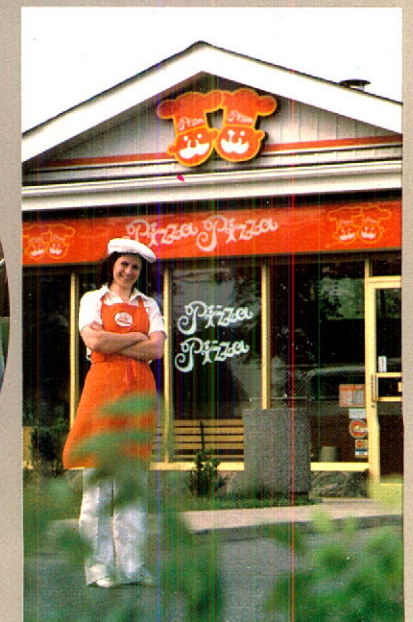
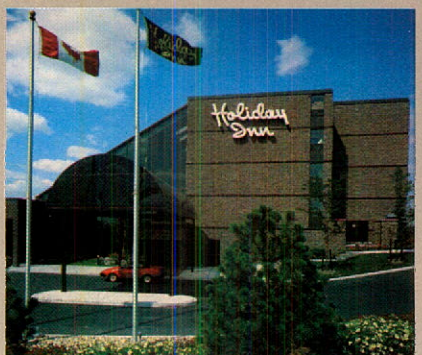
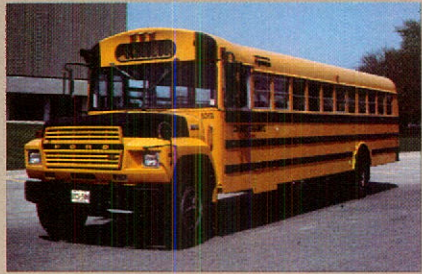
Financial and statistical review

(Dollars in thousands, except per share amounts)

	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	Fiscal Year January 1, 1978
Sales	\$485,440	\$442,541	\$375,874	\$ 38,167	\$111,401	\$100,905
Earnings before extraordinary items	\$ 16,721	\$ 15,734	\$ 12,428	\$ 885	\$ 8,328	\$ 8,426
Per share	\$ 0.96	\$ 0.91	\$ 0.72	\$ 0.05	\$ 0.49	\$ 0.50
Net earnings	\$ 31,486	\$ 13,750	\$ 12,428	\$ 885	\$ 8,328	\$ 8,426
Per share	\$ 1.81	\$ 0.80	\$ 0.72	\$ 0.05	\$ 0.49	\$ 0.50
Dividends per share	\$ 0.19	\$ 0.16	\$ 0.16	\$ 0.08	\$ 0.15	\$ 0.14
Cash flow from operations	\$ 48,281	\$ 42,183	\$ 32,828	\$ 3,397	\$ 12,215	\$ 11,094
Per share	\$ 2.77	\$ 2.44	\$ 1.91	\$ 0.20	\$ 0.73	\$ 0.66
Capital expenditures	\$ 76,149	\$ 86,251	\$ 44,221	\$ 2,387	\$ 18,901	\$ 8,709
Total assets	\$451,577	\$412,318	\$337,940	\$300,898	\$ 66,020	\$ 51,400
Shareholders' equity	\$100,448	\$ 71,668	\$ 59,954	\$ 49,769	\$ 50,227	\$ 43,181
Number of employees	16,900	16,300	15,500	3,800	3,600	3,380
Take-out and other food operating units	317	306	315	295	294	257
Hotel rooms in operation	12,528	12,265	11,934			
Transportation and warehousing units	2,950	3,030	1,287			

Five year review





Directors and Corporate Officers

Directors

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

*Members of the Executive Committee

†Members of the Audit 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 Finance
and Chief Financial Officer
Jacob Greydanus
Vice-President and Treasurer
J. Boyd Simpson
Vice-President and General Counsel
Charles H. King
Secretary

Corporate Information

Corporate Offices

970 Dixon Road
Rexdale, Ontario M9W 1J9

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 and Montreal Stock Exchanges.

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

Central photograph, opposite page.

Her Royal Highness, The Princess Margaret, Countess of Snowdon, and Mr. George R. Gardiner, Chairman of the Board, officiating at the opening of the Holiday Inn, Glasgow, Scotland, April, 1982.

