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Scott's hospitality inc.

Annual Report 1984

Contents

Financial Highlights

(Dollars in thousands, except per share amounts)

	1984	1983
Sales	**$517,449**	$481,916
Net earnings	**$ 19,894**	$ 13,564
Per share	**$ 1.12**	$ .77
Dividends	**$ 4,610**	$ 4,240
Per share	**$ .26**	$ .24
Working capital from operations	**$ 58,070**	$ 45,366
Per share	**$ 3.27**	$ 2.57
Capital expenditures	**$ 46,216**	$ 49,305
Number of employees	**16,500**	15,900
Hotel rooms in operation	**12,193**	12,334
Take-out and other food operating units	**316**	301
Transportation units and warehousing facilities	**3,357**	3,245

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

Report to Shareholders

We are pleased to present the Annual Report of the Corporation for the financial year ended April 30, 1984. Following are some of the financial highlights for the period:

- Sales revenue for the year was $517,449,000, a 7.4% increase from the $481,916,000 reported last year.
- Consolidated net earnings were $19,894,000 ($1.12 per share), a 46.7% improvement from earnings of $13,564,000 (77¢ per share) in 1983.
- Cash flow from operations was $58,070,000 ($3.27 per share), an increase of 28.0% compared with $45,366,000 ($2.57 per share) in the prior year.
- $36,000,000 in floating rate debt was replaced during the year with an equal amount of long term debt at fixed rates, further reducing the Corporation's exposure to unfavourable interest rate fluctuations.

Operations

Despite a weak market for the Canadian hotel industry through much of the period, sales revenue and net earnings on a consolidated basis reached record levels. Revenues exceeded $500,000,000 and earnings per share before extraordinary items topped the $1.00 mark for the first time. These results reflect strong performances by the restaurant and transportation divisions in both Canada and the United States and by hotels operated in the United Kingdom.

Canadian hotels did not respond to the economic recovery during the first half of the year although improved occupancy levels were achieved during the second half. As this report is written, demand for hotel accommodation in Canada has continued to improve and the industry-wide discounting of room rates, which was prevalent during much of last year, appears to be moderating. This gives rise to optimism that the 1984-85 financial year will see a return to more favourable operating conditions for the industry.

Expansion and Acquisitions

In our report to you last year, mention was made of the benefit expected from expansion and acquisitions completed by the restaurant and transportation divisions during the year ended April 30, 1983. Results for the current year confirm the soundness of these investments. Since the beginning of the 1983-84 financial year, further acquisitions have been completed, most notably the addition of 354 school bus operating units in the metropolitan area of Milwaukee, Wisconsin by the transportation division and the addition of 48 food service outlets by the restaurant division which include the recent acquisition of 30 Kentucky Fried Chicken units in the states of Massachusetts and Texas. The hotel division has successfully negotiated the joint development with investors in the United Kingdom of a 190 room Holiday Inn in Cardiff, Wales. Additional information on the activities of the operating divisions during the year may be found in the division reports on pages 4 and 5 of the Annual Report.

Outlook

Based on the recent trend for the Canadian hotel industry and on the premise that both interest rates and inflation will be contained within manageable limits, we are optimistic that the 1985 financial year will show continued growth in revenue and earnings for the Corporation. Presently inflation appears to be holding at an acceptable level, however, recent upward pressure on interest rates and the continued high level of unemployment present a serious threat to the economic recovery in Canada.

Dividends

During the year dividends of 24¢ per share were paid on the issued and outstanding Class C shares and subordinate voting (common) shares of the Corporation. On May 1, 1984 the directors increased the indicated annual dividend with the declaration of a semi-annual dividend of 14¢ per share, payable July 3, 1984 to shareholders of record at the close of business on June 18, 1984.

In conclusion, we wish to acknowledge the effective financial management and advisory support provided the operating divisions throughout the year by senior corporate level executive staff. The results now reported would not have been possible without their assistance and leadership. As well, we wish to acknowledge the contribution made through the dedicated service of the Corporation's more than 16,000 employees which is so vital to a service based industry.

Chairman

President and Chief Executive Officer

Scott's Restaurants

Operating profit improved for the division during the past year and significant steps were taken to position ourselves for substantial future growth.

The increase in profits came primarily from Canadian operations where results were favourably influenced by new Kentucky Fried Chicken store openings in Ontario, as well as by the profit contribution from seating additions at a number of locations, particularly in Quebec. These factors more than offset the negative impact of dramatically higher chicken costs in the latter part of the year which resulted from inadequate quota allocations from Canadian marketing boards. Although not as significant, the full year's impact of the KFC acquisition in Austin, Texas also assisted in our profit improvement.

In existing market areas, a number of opportunities for profitable in-filling with new units have been identified, in particular for KFC units. Seven new take-out operations were opened, largely as a result of our retail development market studies. A further eight KFC shopping mall units were also opened reflecting our success in fine-tuning this new marketing concept. A new KFC store was also opened in Austin, Texas and two new Soup'n Salad operations were opened by our Gold Chin division. In total 18 new units were opened during the year.

This past year saw significant progress in positioning the division's organization for future growth. Early in the year a senior executive was appointed to spearhead the KFC expansion in the United States. Our recently concluded acquisition of 24 KFC stores in the Boston area is a positive indicator of our desire to expand through acquisitions in the United States.

The appointment of another senior executive to lead a newly created Scott's Restaurants Enterprises division is designed to provide an emphasis on growth and diversification in non-KFC business segments. While the existing Food Service and Gold Chin operations will be included in this division, its primary focus will be on new business development outside of our traditional KFC business.

Commonwealth Holiday Inns

In concert with the economy, the Canadian hotel industry and Commonwealth Holiday Inns in particular found reason for cautious optimism as the past year progressed. Occupancies for the total division rose steadily over the last eight months producing a growth pattern which culminated in 15% and 16% increases for the final two quarters compared to the like periods last year. More importantly, room rates began to firm, offsetting the heavy discounting which was prevalent during the first six months of the year. At year end the average room rate for our hotels, a critical factor in profitability, showed three months of steady growth and provided a much improved base for the current year. Volumes for our hotels in the United Kingdom were extremely strong throughout the year, in part reflecting the maturing of our newer properties in that market.

Throughout the past year, we continued to move aggressively toward several major long term objectives: the upgrading of our hotels, ongoing training of our employees and fulfillment of a commitment to develop a strong marketing organization. The division invested more than $15 million in capital projects during the year including the complete renovation of lobby and restaurant areas in the Holiday Inns of Ottawa Centre, Toronto-Scarborough, Cambridge and Saskatoon. Construction has commenced on atrium leisure centre additions at the Toronto-Scarborough and Peterborough properties.

In the United Kingdom construction will commence shortly on a major addition to the Holiday Inn Slough-Windsor providing an additional 72 guest rooms and offices to allow the relocation of the division's regional offices to that property. An agreement has been negotiated for the construction and operation of a 190 room Holiday Inn at Cardiff, Wales, in which Commonwealth Holiday Inns will have a 40% interest. This is a unique project, one in which government and private enterprise will be working together to create both employment and tourism incentives to benefit the local economy.

In London, Ontario the division recently introduced the Briarwood Inn, a limited service, economically priced hotel concept which has met with enthusiastic response in that market. We shall continue to consider and, indeed, seek out similar opportunities

Charterways Transportation

During the past year the transportation division continued its growth in the school bus contract business in the United States. The acquisition of two Wisconsin companies late in 1983 added an additional 354 operating units to the United States fleet.

School boards and districts in both Canada and the United States continued their endeavours to control and reduce their costs. Despite these pressures, the division was able to record improved earnings, primarily through the efforts of our employees in improving cost efficiencies. Operating results also benefitted from stable fuel and interest costs and our dieselization program continues to improve fuel consumption and assist with maintenance costs.

During the year a new terminal and maintenance facility was opened in London, Ontario and a new Motor Express Terminals branch commenced operation in Montreal. Early in 1984 we decided to take advantage of an opportunity to divest our truck leasing division. While this operation was profitable, it did not provide opportunities for growth and a decision to reallocate those resources was made. One of our two remaining travel agency outlets was also sold during the year.

Early last year the division was unsuccessful in renewing, for a five-year period, a tendered contract for the provision of passenger services between Lester B. Pearson International Airport and downtown Toronto. This operation had provided substantial revenues in the past; however, in recent years its earnings contribution had become less significant.

Full recovery of inflationary pressure on costs through rate increases is unlikely during the current year. Contract rate increases will be difficult to achieve as contract customers continue to adhere to severe budget restraints. Additional pressure on margins may result from the potential for fuel cost increases and higher interest rates in the current year; however, the division has demonstrated an ability to meet such challenges and we are confident that we can continue to attain our profit goals this year.

We continue to seek out acquisition opportunities in order to meet our strategic growth objectives. This growth strategy is directed primarily at the contract school bus market and the United States is the most promising in terms of potential

Steps were also taken to strengthen our financial and administrative capabilities with two senior level appointments early in the year. As a result of these organizational changes, the division has recently begun the implementation of a new computer based information system, developed up-dated and more consistent personnel policies, as well as continued to provide management development and operational training.

Our continued success this past year in coping with an increasingly harsh competitive climate, as well as the confidence we feel in our ability to provide profitable future growth, is a direct result of a unique group of employees who are dedicated to our mission of providing our customers with excellence in product, service, cleanliness and value.

Richard A. Hunter, President

for growth in this market segment.

The impact of our strengthened marketing thrust was most visible in an upbeat new advertising campaign featuring the qualities and people which make Holiday Inn "A better place to be". Our own employees' involvement with this campaign was immensely satisfying, and generated a strong commitment and determination to make the promise of the campaign theme a reality. In addition, our ongoing commitment to the skills training and professional development of our people was backed by an expenditure of just over half a million dollars.

Looking ahead, we feel cautiously optimistic about trends for the coming year. We welcome and encourage the efforts of governments at both the federal and provincial levels to promote tourism, particularly from the vital United States sector, and to lessen tax burdens.

We extend to you a sincere invitation to visit our hotels soon and often, so that you may come to share our enthusiasm for the exciting things that are happening, now and into the future.

Finally, we acknowledge the tremendous contribution, in both physical and intellectual effort, made by our employees at every level to bring us through a very challenging period to today's encouraging outlook.

Raymond R. Yelle, President

acquisitions. We believe the division is well positioned to take advantage of future opportunities for expansion and growth.

This past year we enjoyed outstanding performance by our employees at every level. The economic recovery has not been a major factor in our earnings improvement this past year and we could only have realized the required efficiency improvements through the hard work and dedication of the people in the transportation division.

Geoffrey P. Davies, President

Consolidated Balance Sheet

April 30, 1984

ASSETS	1984	1983
	(in thousands)	
Current		
Cash and short term investments	$ 21,730	$ 25,840
Accounts receivable	23,719	23,850
Inventories	6,309	6,283
Prepaid expenses	4,011	4,182
	55,769	60,155
Investments	2,365	3,431
Restaurant properties held for resale	1,562	4,664
Land, buildings and equipment (note 3)	345,010	366,812
Other assets (note 4)	12,097	12,130
	$416,803	$447,192

(See accompanying notes)

Approved on behalf of the Board

George Gardiner
Director

Simon Orenstein
Director

LIABILITIES AND SHAREHOLDERS' EQUITY	1984	1983
	(in thousands)	
Current		
Accounts payable and accrued charges	$ 41,718	$ 42,149
Taxes payable	8,021	7,397
Dividends payable	2,487	2,125
Long term debt payable within one year (note 5)	7,869	15,432
	60,095	67,103
Long term debt (note 5)	194,626	230,149
Deferred income	2,592	2,914
Deferred income taxes	41,499	35,770
Minority interest in subsidiary	778	1,210
Shareholders' equity (note 6)	117,213	110,046
	$416,803	$447,192

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, 1984 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, 1984 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, except for the change in the method of accounting for foreign currency translation as explained in note 2 to the financial statements, on a basis consistent with that of the preceding year.

Toronto, Canada.
June 15, 1984.

Clarkson Gordon
Chartered Accountants.

Consolidated Statement of Earnings

Year ended April 30, 1984

	1984	1983
	(in thousands)	
Sales		
Hotel division	$248,408	$235,102
Restaurant division	174,168	162,536
Transportation and warehousing division	94,873	84,278
	517,449	481,916
Cost of sales, operating and administrative expenses	428,741	401,497
Depreciation and amortization	33,504	32,822
Net financial expense	22,881	24,347
	485,126	458,666
Earnings before income taxes	32,323	23,250
Income taxes	12,429	9,686
Net earnings	$ 19,894	$ 13,564
Earnings per share	$ 1.12	$ .77

(See accompanying notes)

Consolidated Statement of Retained Earnings

Year ended April 30, 1984

	1984	1983
	(in thousands)	
Balance beginning of year	**$100,223**	$ 90,899
Net earnings	**19,894**	13,564
	120,117	104,463
Dividends	**4,610**	4,240
Balance end of year	**$115,507**	$100,223

(See accompanying notes)

Consolidated Statement of Changes in Financial Position

Year ended April 30, 1984

	1984	1983
	(in thousands)	
Source of working capital		
Operations—		
Net earnings	$ 19,894	$ 13,564
Add (deduct):		
Depreciation and amortization	33,504	32,822
Deferred income taxes	4,469	524
Other	203	(1,544)
Working capital from operations	58,070	45,366
Proceeds on sale of fixed assets	8,302	9,028
Long term borrowings	7,338	20,818
Sale of Florida restaurant properties	3,102	1,669
Decrease in investments	586	8,424
Issue of shares	299	274
Foreign currency translation	537	
	78,234	85,579
Application of working capital		
Purchase of fixed assets	41,982	38,591
Reduction of long term debt	24,786	29,917
Dividends	4,610	4,240
Acquisitions	4,142	8,533
Outlays for other assets	92	451
	75,612	81,732
Increase in working capital	$ 2,622	$ 3,847

(See accompanying notes)

Notes to the Consolidated Financial Statements

April 30, 1984

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 currency translation

The accounts of foreign subsidiaries and branches which are considered to be self-sustaining operations are translated to Canadian dollars at current rates of exchange. Sales and expenses are translated at average rates of exchange for the year. Gains and losses on translation are deferred in a separate component of shareholders' equity until there is a permanent reduction in the net investment in the foreign operation.

The accounts of foreign operations which are considered to be dependent on the Company, together with foreign currency denominated balances of the Company, are translated to Canadian dollars using the temporal method. Under this method, monetary assets and liabilities, both current and long term, are translated at current rates of exchange and other assets and liabilities are translated at historical rates of exchange. Sales and expenses are translated at average rates of exchange for the year, except for depreciation and amortization which are translated at rates in effect when the related assets were acquired. Gains and losses on translation are included in earnings, except for unrealized gains and losses on long term monetary assets and liabilities which are amortized over the remaining lives of the related assets or liabilities on a straight line basis.

Inventories

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

Investments

Investments, consisting primarily of 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 and 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 $888,000.

Properties with a carrying value of $3,102,000 were sold during the year for proceeds of $3,960,000.

Land, buildings and equipment

Fixed assets are recorded at cost of acquisition. On the disposal of major assets, the resulting gains and 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. No amount has been capitalized under these policies during the year ($760,000 was capitalized during the preceding year).

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 of the particular assets assuming a total useful life as follows:

	Years
Hotels	
Buildings	40
Leasehold improvements	lease term
Furnishings and equipment	11
Franchises	to 2004
Restaurants	
Buildings	20
Leasehold improvements	lease term
Furnishings and equipment	10
Franchises	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.

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. Change in accounting policy

In April, 1984 the Company changed its method of accounting for foreign currency translation by adopting the recent Accounting Recommendations of The Canadian Institute of Chartered Accountants. The new policy, which is described in note 1, is being applied prospectively, effective May 1, 1983. The application of this change in policy as of May 1, 1983 resulted in a reduction of fixed assets of $24,268,000, an increase of other assets of $680,000, a reduction of long term debt of $17,043,000 and an increase in deferred income taxes of $152,000 at that date. This change thereby resulted in a cumulative translation adjustments account which decreased shareholders' equity at May 1, 1983 by $6,697,000.

Prior to 1984, the accounts of foreign subsidiaries and those of the Company to be settled in foreign currencies were translated to Canadian dollars at current rates of exchange except for non-current assets, long term debt and depreciation and amortization which were translated at historical rates of exchange, and sales and expenses (other than depreciation and amortization) which were translated at average rates of exchange for the year. Gains and losses on translation were included in earnings. If the new policy had been applied in the preceding year, the effect on 1983 net earnings would have been immaterial.

3. Land, buildings and equipment

	1984	1983
	(in thousands)	
Land	$ 39,295	$ 39,838
Buildings and leasehold improvements	251,850	270,788
Furnishings and equipment	84,946	83,519
Transportation equipment	82,915	68,219
	459,006	462,364
Less accumulated depreciation and amortization	113,996	95,552
	$345,010	$366,812

4. Other assets

	1984	1983
	(in thousands)	
Opening and development costs	$ 849	$ 1,709
Cost of borrowing	611	921
Franchises	4,428	4,899
Operating authorities	4,161	4,601
Unrealized foreign currency translation loss	2,048	
	$12,097	$12,130

Amortization amounted to $1,739,000 in 1984 ($1,993,000 in 1983).

5. Long term debt

	1984 Payable within one year	1984 Total	1983 Total
(dollars in thousands)			
Term bank loans and bankers acceptances 10½% to 14⅛% (average 12.67%) Maturing on varying dates to 1994 Including payable in foreign currency U.S. $14,500 (Cdn. $18,560)	$ 2,460	$ 95,890	$ 89,601
Real estate mortgages 6⅞% to 14¼% (average 11.87%) Maturing on varying dates to 2006 Including payable in foreign currency U.S. $18,000 (Cdn. $23,040) T.T. $ 2,963 (Cdn. $ 1,570) U.K. £16,044 (Cdn. $28,878)	2,395	82,166	123,214
Specific charge debt 11½% to 14¼% (average 12.09%) Maturing on varying dates to 1990 Including payable in foreign currency U.S. $5,200 (Cdn. $6,656)	1,690	14,930	20,403
Unsecured notes 8% to 9% (average 8.67%) Maturing on varying dates to 1987 Including payable in foreign currency U.S. $31 (Cdn. $39)	43	120	160
Obligations under capital leases 8¾% to 12¾% (average 9.60%) Maturing on varying dates to 2003 Including payable in foreign currency U.K. £4,913 (Cdn. $8,844)	1,281	9,389	12,203
	$ 7,869	202,495	245,581
Less payable within one year		7,869	15,432
		$194,626	$230,149

Net financial expense consists of the following:

	1984	1983
	(in thousands)	
Interest on long term debt	$23,277	$25,457
Interest on short term debt	1,513	1,214
Interest income	(1,909)	(2,324)
	$22,881	$24,347

Annual repayments 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)				
1985	$2,134	$ 853	$1,281	$ 6,588	$ 7,869
1986	2,134	726	1,408	29,811	31,219
1987	2,120	587	1,533	9,685	11,218
1988	1,824	438	1,386	8,793	10,179
1989	1,478	262	1,216	28,637	29,853

Total future minimum lease payments to 2003 amount to $12,722,000 and based on imputed interest rates varying from 8¾% to 12¾%, the present value of these minimum lease payments is $9,389,000.

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

Term bank loans and bankers acceptances

As security for $18,560,000 (U.S. $14,500,000) the Company has pledged its shares in certain of its United States transportation subsidiaries.

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 $44,750,000. The average interest rate on this indebtedness was 11.50% in 1984 (13.53% in 1983). Quarterly repayments are $250,000 from June 30, 1984 to December 31, 1988, and $1,250,000 from March 31, 1989 to December 31, 1990. In addition, there is a repayment of $20,000,000 due on October 17, 1988 and a final payment of $10,000,000 on 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 pledged two hotels as security for a bank loan and bankers acceptances totalling $22,080,000. The average interest rate on this indebtedness was 10.77% in 1984 (14.24% in 1983). Principal repayments are $480,000 semi-annually, with the balance due September 1, 1990.

The Company has also pledged its accounts receivable and lodged as collateral floating charge debentures totalling $7,500,000.

Real estate mortgages

A major portion of the hotel real estate, furnishings and equipment and certain transportation and warehousing properties are pledged as security for these mortgages. 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 $8,248,000 on which the Company may delay monthly repayments to a maximum cumulative period of twelve months. In the accompanying consolidated financial statements $3,153,000 has been excluded from principal payments due within one year in respect of these amounts.

6. Shareholders' equity

	1984	1983
	(in thousands)	
Stated capital	$ 10,122	$ 9,823
Cumulative translation adjustments	(8,416)	
Retained earnings	115,507	100,223
	$117,213	$110,046

Stated capital

Authorized and issued

	Number of shares Authorized 1984	Authorized 1983	Issued 1984	Issued 1983
Class C shares	8,523,525	8,787,100	8,074,494	8,323,569
Subordinate voting shares	30,476,475	30,212,900	9,684,298	9,370,223

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 14,500 Class C and 50,500 subordinate voting shares were issued under the terms of a stock option plan for a total consideration of $298,800. As well, 263,575 Class C shares were converted to subordinate voting shares during the year, resulting in a corresponding change in the authorized capital.

Stock options

At April 30, 1983 there were 135,000 subordinate voting shares reserved for issuance under the employee stock option plan. During the year the Company reserved for issuance an additional 129,500 subordinate voting shares, and granted to employees options to purchase a total of 257,000 shares, under this plan. At April 30, 1984 there were 7,500 subordinate voting shares reserved for issuance.

After the exercise of the options for 65,000 shares during the year and the granting of the options referred to above, there were outstanding at April 30, 1984 options to purchase 321,000 subordinate voting shares and 70,000 Class C shares which are exercisable to 1994 at prices ranging from $3.60 per share to $12.50 per share.

Cumulative translation adjustments

	(in thousands)
Balance beginning of year (note 2)	$(6,697)
Balance sheet translation adjustments and deferred income tax charges during the year	(1,719)
Balance end of year	$(8,416)

7. Income taxes

The details of the reconciliation of statutory and effective rates of income taxes are as follows:

	1984		1983	
	(dollars in thousands)			
Earnings before income taxes	$32,323		$23,250	
Income taxes at estimated combined basic federal and provincial income tax rate	$16,646	51.5%	$12,090	52.0%
Add (deduct) the effect of:				
Lower foreign income tax rates	(1,438)	(4.4)	(1,037)	(4.5)
Investment tax credits	(886)	(2.7)	(1,335)	(5.7)
Manufacturing and processing profits deduction	(817)	(2.6)	(1,118)	(4.8)
Small Business Development Bond income	(614)	(1.9)	(73)	(.3)
Other	(462)	(1.4)	1,159	5.0
Income taxes reported	$12,429	38.5%	$ 9,686	41.7%

8. Acquisitions

During the year the Company acquired the shares of a transportation company and the assets of two other transportation operations in Wisconsin, as well as the assets of a bus line in Ontario. Particulars of these acquisitions are as follows:

	(in thousands)	
Non-current assets acquired		
Fixed	$3,927	
Other	215	$4,142
Working capital acquired		479
Total consideration		$4,621

9. Contingent liabilities and commitments

(a) The Company is subject from time to time to various claims and disputes. It is the opinion of management that as at April 30, 1984 the final determination of any unsettled claims or disputes will not result in material cost to the Company.

(b) The Company has commitments for fixed asset additions amounting to approximately $18,600,000 as at April 30, 1984. No portion of this amount is reflected in the accompanying consolidated financial statements.

The Company is also committed to invest $1,440,000 as its 40% equity interest in a United Kingdom limited partnership which will construct a hotel to be managed by the Company.

(c) The Company has undertaken to fund past service pension costs of which approximately $670,000 remains to be charged to operations over the next twenty-one years.

10. Long term leases

Operating leases

At April 30, 1984, the Company was committed to annual operating lease obligations of approximately $13,976,000 for each of the next five years. Total minimum lease payments for the remaining term of the operating leases aggregate approximately $217,798,000. 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, 1984, the value of assets under capital leases and included in land, buildings and equipment amounts to $10,162,000 net of accumulated depreciation of $2,170,000. If the capital leases entered into prior to January 1979 had been recorded as such in the consolidated financial statements, the following adjustments would have been required:

	1984	1983
	(in thousands)	
Assets		
Hotel buildings and furnishings under capital leases, net of accumulated depreciation of $19,478,000 ($16,557,000 at April 30, 1983)	$51,598	$57,925
Liabilities and shareholders' equity		
Current lease obligation	$ 3,433	$ 3,377
Non-current lease obligation	56,882	62,126
Deferred income taxes	(4,620)	(4,016)
Reduction of retained earnings	(4,227)	(3,562)
Cumulative translation adjustments	130	
	$51,598	$57,925
Reduction of net earnings	$ 665	$ 753

11. Subsequent event

Subsequent to year end, the Company acquired a number of Kentucky Fried Chicken stores in greater Boston, Massachusetts and entered into agreements to acquire additional Kentucky Fried Chicken stores in Texas and Louisiana. The total cash consideration for these acquisitions amounts to approximately $19,100,000.

12. Segmented information (in thousands)

Industry

	Hotels		Restaurants		Transportation and warehousing		Consolidated	
	1984	1983	**1984**	1983	**1984**	1983	**1984**	1983
Sales	**$248,408**	$235,102	**$174,168**	$162,536	**$ 94,873**	$ 84,278	**$517,449**	$481,916
Segmented operating earnings	**$ 13,393**	$ 9,934	**$ 20,421**	$ 20,149	**$ 21,390**	$ 17,514	**$ 55,204**	$ 47,597
Net financial expense							**(22,881)**	(24,347)
Income taxes							**(12,429)**	(9,686)
Net earnings							**$ 19,894**	$ 13,564
Fixed assets	**$214,961**	$248,379	**$ 58,248**	$ 55,614	**$ 71,801**	$ 62,819	**$345,010**	$366,812
Other assets	**22,733**	21,712	**7,024**	7,416	**14,795**	15,208	**44,552**	44,336
Total identifiable assets	**$237,694**	$270,091	**$ 65,272**	$ 63,030	**$ 86,596**	$ 78,027	**389,562**	411,148
Corporate assets							**27,241**	36,044
Total assets							**$416,803**	$447,192
Capital expenditures	**$ 15,069**	$ 16,898	**$ 10,157**	$ 10,665	**$ 20,990**	$ 21,742	**$ 46,216**	$ 49,305
Depreciation and amortization	**$ 17,316**	$ 17,908	**$ 5,194**	$ 5,039	**$ 10,994**	$ 9,875	**$ 33,504**	$ 32,822

Geographic

	Canada		United States		United Kingdom and Caribbean		Consolidated	
	1984	1983	**1984**	1983	**1984**	1983	**1984**	1983
Sales	**$380,708**	$360,475	**$ 64,070**	$ 53,319	**$ 72,671**	$ 68,122	**$517,449**	$481,916
Segmented operating earnings	**$ 31,553**	$ 31,927	**$ 13,583**	$ 10,964	**$ 10,068**	$ 4,706	**$ 55,204**	$ 47,597
Net financial expense							**(22,881)**	(24,347)
Income taxes							**(12,429)**	(9,686)
Net earnings							**$ 19,894**	$ 13,564
Fixed assets	**$204,616**	$199,793	**$ 46,741**	$ 40,391	**$ 93,653**	$126,628	**$345,010**	$366,812
Other assets	**28,546**	27,578	**8,444**	9,081	**7,562**	7,677	**44,552**	44,336
Total identifiable assets	**$233,162**	$227,371	**$ 55,185**	$ 49,472	**$101,215**	$134,305	**389,562**	411,148
Corporate assets							**27,241**	36,044
Total assets							**$416,803**	$447,192

Financial and Statistical Review

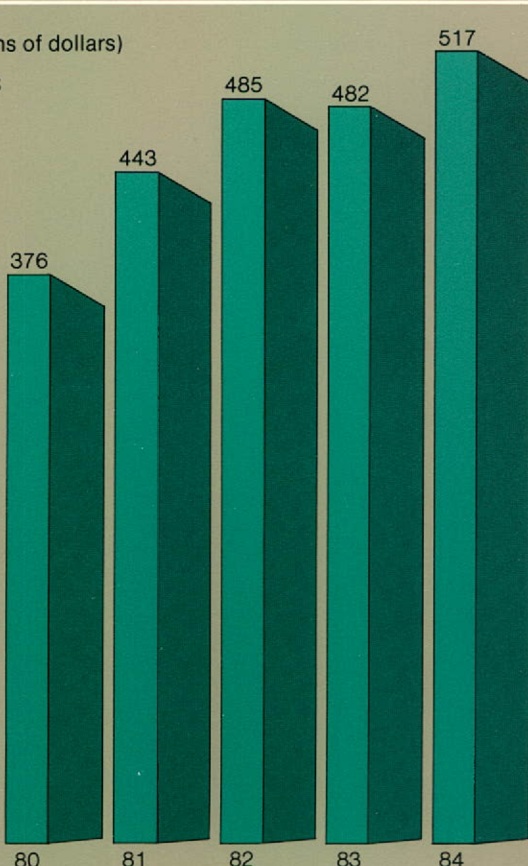
(Dollars in thousands, except per share amounts)

	1984	1983	1982	1981	1980
Sales	$517,449	$481,916	$485,440	$442,541	$375,874
Earnings before extraordinary items	$ 19,894	$ 13,564	$ 16,721	$ 15,734	$ 12,428
Per share	$ 1.12	$ .77	$ .96	$ .91	$ .72
Net earnings	$ 19,894	$ 13,564	$ 31,486	$ 13,750	$ 12,428
Per share	$ 1.12	$ .77	$ 1.81	$ .80	$ .72
Dividends per share	$ .26	$ .24	$ .19	$ .16	$ .16
Working capital from operations	$ 58,070	$ 45,366	$ 48,281	$ 42,183	$ 32,828
Per share	$ 3.27	$ 2.57	$ 2.77	$ 2.44	$ 1.91
Capital expenditures	$ 46,216	$ 49,305	$ 76,149	$ 86,251	$ 44,221
Total assets	$416,803	$447,192	$452,487	$412,318	$337,940
Shareholders' equity	$117,213	$110,046	$100,448	$ 71,668	$ 59,954
Number of employees	16,500	15,900	16,900	16,300	15,500
Take-out and other food operations	316	301	317	306	315
Hotel rooms in operation	12,193	12,334	12,528	12,265	11,934
Transportation and warehousing units	3,357	3,245	2,950	3,030	1,287

Five Year Review

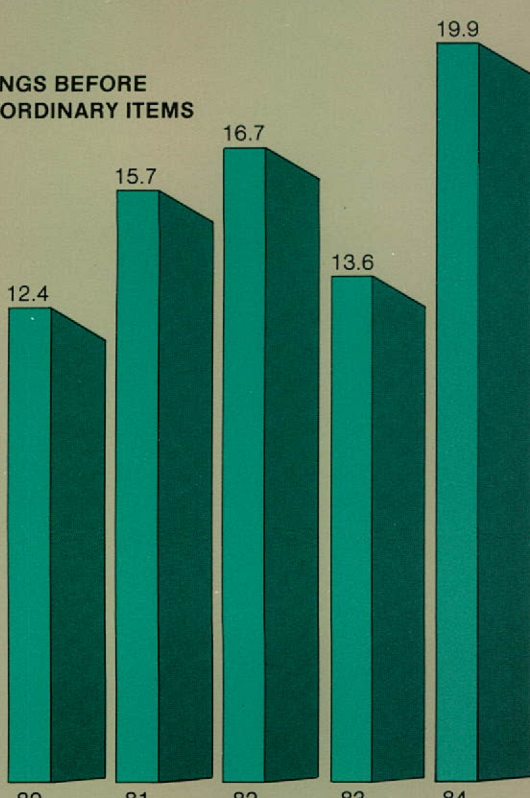
(Millions of dollars)

SALES

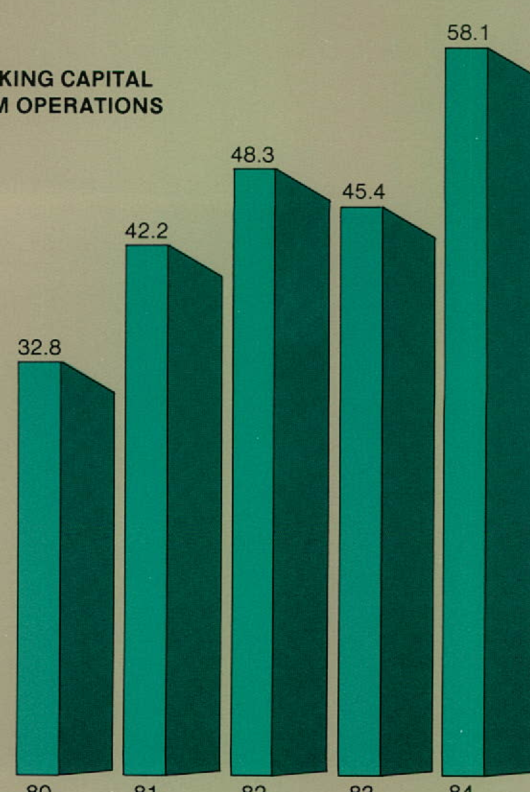


TOTAL ASSETS

EARNINGS BEFORE EXTRAORDINARY ITEMS

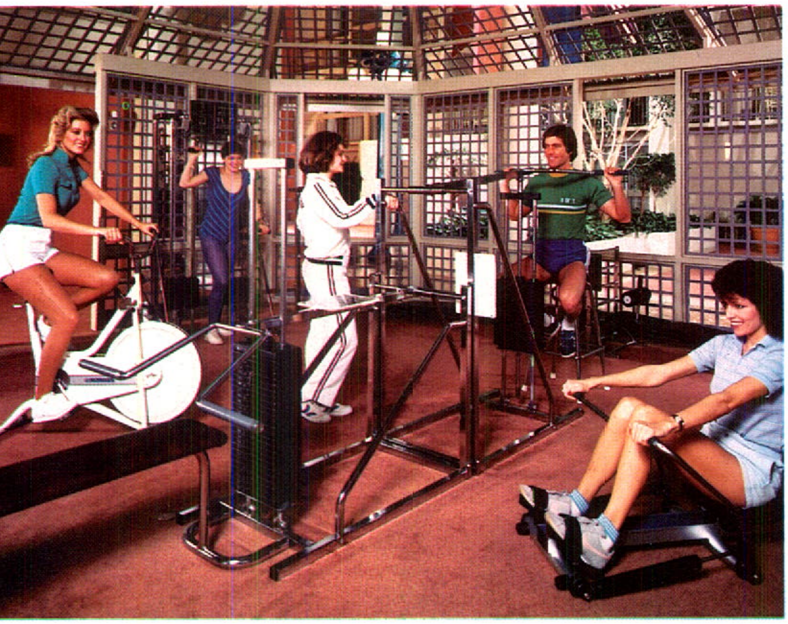


WORKING CAPITAL FROM OPERATIONS



Kentucky Fried Chicken Shopping Mall Unit — Bramalea City Centre

Gold Chin Shopping Mall Unit — Scarborough Town Centre



Leisure Club — Holiday Inn Yorkdale, Toronto, Ontario

Café Toulouse — Holiday Inn Ottawa-Centre, Ottawa, Ontario

Charterways Operating Terminal — London, Ontario

Charterways Operating Terminal — Mississauga, Ontario

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 Information

Corporate Offices

89 Chestnut Street
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