Scott's hospitality inc.

Annual Report 1981

Financial Highlights

(Dollars in thousands, except per share amounts)

	1981	1980
Sales	**$442,541**	$375,874
Earnings before extraordinary loss	**$ 15,734**	$ 12,428
Per share	**$ 0.91**	$ 0.72
Net earnings for year	**$ 13,750**	$ 12,428
Per share	**$ 0.80**	$ 0.72
Dividends per share	**$ 0.16**	$ 0.16
Total funds from operations	**$ 42,183**	$ 32,828
Capital expenditures	**$ 86,251**	$ 44,221
Number of employees	**16,300**	15,500
Hotel rooms in operation	**12,265**	11,934
Take-out and other food operations	**306**	315
Transportation and warehousing units	**3,030**	1,287

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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 on operations and the financial statements of your Company for the year ended April 26, 1981. Consolidated revenue from the Company's three operating divisions was $442,541,000 compared with $375,874,000 in the prior year. Net earnings (before an extraordinary loss) reached $15,734,000 or 91c per share compared with $12,428,000 or 72c per share during the financial period ended in 1980. Real estate forms a substantial portion of the Company's assets, hence cash flow which increased to $42,183,000 in 1981 from $32,828,000 in 1980 is a significant measure of our financial strength. These results are very satisfactory considering the economic climate in which they were achieved.

The contribution made during the year by employees at all levels throughout the Company is gratefully acknowledged. The foundation for continued sound growth within our industry is firmly established by the high standards maintained within the Company's human resources.

During the year under review, the Company's transportation division successfully negotiated the acquisition of major school bus operations in the United States. The operating results of the acquisition for the months of October 1980 through April 1981 (each of which returned significant earnings) are included in the financial statements now presented. Future statements will include the school vacation months of July and August which are unprofitable for school bus operators.

In recent Interim Reports, shareholders were advised of the restructuring of the Company's operations in Florida and of a provision which would be made in year end statements for a loss on the sale of unprofitable units. Property disposals to date and negotiations with parties interested in the remaining units are encouraging; however, in view of the effect of current interest rates on the real estate market, management has established a provision for a loss of $1,984,000 net of tax. Continuing operations in Florida are expected to be profitable in the 1981-82 financial year. Canadian operations of the restaurant division continued their strong performance during the year reporting significant increases in both revenue and earnings.

Hotel division results for the year were very satisfactory despite lower occupancy levels experienced by the Company's properties in the United Kingdom and in the Caribbean. Tourism to both regions has declined as the result of economic conditions prevalent in North America and Europe. Recent decreases in the value of sterling currency are expected to have a positive effect on hotel operating levels in the United Kingdom during the forthcoming year. The Company's Canadian hotels, by contrast, recorded a significant increase in earnings for the year. Unlike offshore properties, the Canadian hotel industry has benefited throughout the period from a devalued currency and significantly lower gasoline costs, making the cost of hotel accommodation and travel in Canada more attractive for both foreign and domestic tourists.

The Company has undergone significant change during the past several years through acquisitions and entry into additional fast food product lines. A decentralized form of management has been adopted at the division level providing a high degree of autonomy in day to day operations. A small executive group has been established with overall responsibility for corporate, financial and legal matters. This management concept is functioning well, and is particularly appropriate, considering the diversified nature of the Company.

In January of this year John (Jack) Leon, who has served Scott's as President since 1965 and in other executive positions dating to 1952, retired from active employment with the Company to accept the presidency of Colonel Sanders Kentucky Fried Chicken Ltd. which owns the franchise rights in Canada. We are pleased that he has continued as a director of your Company and has agreed to remain as a nominee for re-election at the forthcoming annual meeting.

The death, in December of last year, of Colonel Harland Sanders, the founder of Kentucky Fried Chicken, is recorded with sadness. His legacy is a unique worldwide fast food system, employing many thousands and a continuing philanthropic foundation in Canada, supported by royalties from franchised outlets throughout the country.

On behalf of the Board

George Gardiner

Chairman

Simon Orenstein

President and Chief
Executive Officer

Scott's Restaurants

The past fiscal year has been the most profitable in the history of the restaurant division. Profits improved significantly toward the latter part of the year, a reflection of sales gains in both Ontario and Quebec, margin management and improved productivity. We continue to be in a strong position going into the 1981-82 fiscal year.

The profit improvement also reflects the results of diversification efforts over the past year. The Gold Chin Chinese food chain has performed at a very satisfactory profit level. Additional units will be opened this coming year in Ontario. New markets are also being closely studied for expansion possibilities.

Three more pizza test units have been opened this past fiscal year including one in Quebec. All six test sites have now been opened. They incorporate a variety of facility concepts in order to permit a comprehensive test. At this early stage of development, all of the units are not yet profitable. We shall continue to carefully evaluate these units over the next few months before committing to additional locations.

The Company is continuing to actively pursue future growth and diversification within the restaurant division. "The Colonel's Counter" — a new Kentucky Fried Chicken concept designed for shopping malls — was recently opened on an experimental basis in Toronto. We will be closely monitoring its market acceptance. Concurrent with this development activity, existing operations are being positioned to withstand new competitive pressures.

A decision to divest a number of Florida outlets has resulted in a substantial improvement in earnings of the ongoing operation. As a result, the Florida operation is expected to be profitable in the forthcoming year.

The division's organizational structure and management team have recently been strengthened. This, coupled with the dedication and commitment of excellent operating personnel, will put the division in a strong position for the forthcoming year.

Richard A. Hunter,
Executive Vice-President

Commonwealth Holiday Inns of Canada Limited

The past year has been the most profitable on record for the hotel division of the Company. Occupancy levels for Canadian hotels remained firm throughout much of the year, and the industry generally was able to maintain selling prices at levels sufficient to cover the effects of inflation on operating costs. The division's properties in the United Kingdom and the Caribbean reported lower operating profits, primarily due to a decline in tourism to both regions. In the forthcoming year, we expect a modest improvement for the off-shore properties with a more favourable exchange rate on sterling currency and strengthening of the European economy, which is a prime source of Caribbean tourism.

In December, the new hotels at Aberdeen, Scotland and Portsmouth, England were opened to the public. Both have been well received in their marketing areas. Construction is progressing favourably on the hotels at Glasgow, Scotland (scheduled to open mid 1982) and at Prince George,

From left to right:
Richard A. Hunter
Raymond R. Yelle
Geoffrey P. Davies

British Columbia (scheduled to open September 1981). A 47-room addition to the Holiday Inn Guelph, Ontario is also nearing completion.

Capital expenditures by the division during the year totalled $47,235,000 compared with $26,925,000 in the prior year. A significant portion of the increase was allocated to the renovation and modernization of existing hotels. New restaurant concepts recently introduced under this program have proven quite successful and will be added to the facilities of other hotels during the current year.

In a service industry such as ours, a high standard human resource element is paramount to the achievement of corporate objectives. Manpower development and training programs under the corporation's policy of decentralization have recently been intensified to assist management at all levels in their daily operational decisions. Notwithstanding today's rate of inflation and high interest rates, I am confident in the division's ability to meet the challenges we will face in the 1981-82 financial year.

Raymond R. Yelle,
President

Charterways Transportation Limited

Despite significant impact on operating costs, inherent with record high fuel costs and interest rates, the transportation and warehousing division recorded very satisfactory financial results for the twelve months ended April, 1981. Both revenue and earnings were enhanced substantially by the acquisition, effective October 1, 1980, of the net assets of National School Bus Service Inc. in the United States.

The U.S. operation is primarily engaged in school contract transportation in New York State, Illinois, Missouri, Wisconsin and Michigan. The acquisition establishes the division with a prime presence in the U.S. market and provides a strong base for further expansion.

Based on very favourable maintenance and fuel efficiency experience, obtained during the year in testing of diesel powered school buses, we will shortly take delivery of 375 such units. However, testing of propane powered units has been disappointing on larger vehicles; accordingly, we intend to specify conversions only on minibus and van equipment.

During the 1980-81 school year, the division had in operation a total of 3,030 transportation and warehousing units compared with 1,287 in the prior year. Included in the current total are 2,693 school buses, 64 highway coaches, 60 delivery trucks, 33 tractor trailer units, 14 transit vehicles and 166 support units.

Inflationary pressures, combined with a unique competitive environment in the United States market, will present a constant challenge in the forthcoming year. The division is fortunate to have an extremely competent management team, together with a dedicated group of employees. I am confident in the division's prospects for future growth and in the ability of both management and staff to meet the challenges we will face in the forthcoming year.

Geoffrey P. Davies,
President

Scott's Hospitality Inc.
(formerly Scott's Restaurants Co. Limited)

Consolidated balance sheet

April 26, 1981

ASSETS	1981	1980
	(in thousands)	
Current:		
Cash and short term investments	$ 35,879	$ 28,481
Accounts receivable	18,815	14,320
Inventories (note 2)	6,725	5,275
Prepaid expenses	3,766	3,205
	65,185	51,281
Investments — at cost which approximates market	3,019	1,633
Restaurant properties held for resale (note 3)	7,166	
Land, buildings and equipment — net (note 4)	325,910	276,322
Other assets — less amortization (note 5)	11,038	8,704
	$412,318	$337,940

(see accompanying notes)

Approved on behalf of the Board

George Gardiner
Director

Simon Orenstein
Director

LIABILITIES AND SHAREHOLDERS' EQUITY	1981	1980
	(in thousands)	
Current:		
Accounts payable and accrued charges	$ 47,002	$ 36,887
Taxes payable	5,719	10,946
Dividends payable	1,392	1,376
Provision for cost of acquiring minority interest		438
Long term debt payable within one year (note 6)	16,102	10,021
	70,215	59,668
Long term debt (note 6)	236,282	189,088
Deferred gains	954	1,010
Deferred income taxes	31,918	26,931
Minority interest in subsidiary	1,281	1,289
Shareholders' equity:		
Capital (note 7)	8,232	7,490
Retained earnings	63,436	52,464
	71,668	59,954
	$412,318	$337,940

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 26, 1981 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 26, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada.
June 23, 1981.

Clarkson Gordon
Chartered Accountants.

Consolidated statement of earnings

Year ended April 26, 1981

	1981	1980
	(in thousands)	
Sales:		
Hotel division	$237,654	$215,759
Restaurant division	144,938	130,434
Transportation and warehousing division	59,949	29,681
	442,541	375,874
Cost of sales, operating and administrative expenses	365,999	312,682
Depreciation and amortization	21,467	17,362
Net financial expense	25,984	20,830
	413,450	350,874
Earnings before income taxes and extraordinary loss	29,091	25,000
Income taxes	13,357	12,572
Earnings before extraordinary loss	15,734	12,428
Extraordinary loss (note 3)	1,984	
Net earnings for year	$ 13,750	$ 12,428
Earnings per share:		
Earnings before extraordinary loss	$ 0.91	$ 0.72
Net earnings for year	$ 0.80	$ 0.72

(see accompanying notes)

Consolidated statement of retained earnings

Year ended April 26, 1981

	1981	1980
	(in thousands)	
Balance beginning of year	$ 52,464	$ 42,789
Net earnings for year	13,750	12,428
	66,214	55,217
Dividends	2,778	2,753
Balance end of year	$ 63,436	$ 52,464

(see accompanying notes)

Consolidated statement of changes in financial position

Year ended April 26, 1981

	1981	1980
	(in thousands)	
Source of funds:		
Operations —		
Earnings before extraordinary loss	$ 15,734	$ 12,428
Add:		
Deferred income taxes	5,046	3,107
Depreciation and amortization	21,467	17,362
Other	(64)	(69)
Total funds from operations	42,183	32,828
Borrowings	80,878	21,496
Reduction of investments		2,341
Proceeds on sale of fixed assets	1,964	846
Proceeds on sale of Florida restaurant properties	1,221	
Issue of shares	742	510
	126,988	58,021
Application of funds:		
Acquisitions	18,186	
Carrying costs of restaurant properties held for resale	753	
Increase in investments	1,386	
Reduction of long term debt	34,121	14,964
Purchase of fixed assets	64,297	43,849
Outlays for other assets	2,110	372
Dividends	2,778	2,753
	123,631	61,938
Increase (decrease) in working capital	$ 3,357	$ (3,917)

(see accompanying notes)

Notes to the consolidated financial statements

April 26, 1981

1. Significant accounting policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries all of which are wholly owned except for Allied Inn Keepers of Trinidad and Tobago Limited in which a minority interest of 35% is held by the government of Trinidad and Tobago. The principal subsidiaries are Commonwealth Holiday Inns of Canada Limited ("Commonwealth") and its subsidiary Charterways Co. Limited which were acquired on April 29, 1979. Full provision for the cost of acquiring the minority interest in Commonwealth was made at the time of the acquisition. Under an arrangement approved by shareholders of Commonwealth on June 9, 1980, the balance of the outstanding shares was purchased for cancellation by Commonwealth.

On the acquisition of the shares of a subsidiary company, tangible assets are valued at fair market value and goodwill is recognized as the difference between the purchase price and the fair market value of the net underlying tangible assets. All acquisitions of subsidiary companies have been accounted for by the purchase method and accordingly the operations and net earnings of such subsidiaries have been included only from the date of acquisition. All material inter-company transactions have been eliminated on consolidation.

(b) 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 period. Gains or losses on translation are included in earnings.

(c) Inventories

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

(d) 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 $2,139,000 in 1981 ($208,000 in 1980).

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.

(e) 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 1994
Transportation and warehousing	
Equipment	7½ - 12
Buildings	25 - 40
Operating authorities	40

Hotel opening and development costs are amortized over the first sixty months of operation. Restaurant opening and development costs 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.

(f) Capital leases

Assets leased by the Company subsequent to April 29, 1979 under 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.

(g) Deferred gains

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

(h) 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

	1981	1980
	(in thousands)	
Hotels		
Food, beverage and operating supplies	$4,151	$3,652
Restaurants		
Food and packaging	1,197	1,240
Transportation and warehousing		
Operating supplies	1,377	383
	$6,725	$5,275

3. Restaurant properties held for resale

The Company decided during the year to substantially reduce its investment in Florida operations due to the continuing unsatisfactory performance of many of the restaurant division's properties in that market. Accordingly the carrying value of such properties offered for sale is the estimated market value net of anticipated costs of liquidation.

The write down of these properties net of gain on properties already sold and including a provision for carrying costs, incurred in 1981 and projected for 1982, amounts to $3,264,000 and has been presented in the consolidated statement of earnings, net of income taxes of $1,280,000, as an extraordinary loss in the amount of $1,984,000.

4. Land, buildings and equipment

	1981	1980
	(in thousands)	
Land	$ 41,643	$ 42,674
Buildings and leasehold improvements	231,114	197,192
Furnishings and equipment	64,868	52,328
Transportation equipment	40,524	15,953
	378,149	308,147
Less accumulated depreciation and amortization	52,239	31,825
	$325,910	$276,322

5. Other assets

	1981	1980
	(in thousands)	
Cost of borrowing	$ 682	$
Opening and development costs	1,579	224
Franchises	3,298	3,572
Transportation operating authorities	5,479	4,908
	$11,038	$8,704

Amortization amounted to $625,000 in 1981 ($431,000 in 1980).

6. Long term debt

	1981		1980
	Payable within one year	Total	Total
(in thousands)			
(a) Term bank loans: 14 1/8% to prime + 1% Repayment terms extending to 1990 (U.S. $17,070)	$ 1,200	$ 19,895	$ 4,333
(b) Bank loan and banker's acceptances	5,000	60,540	60,405
(c) Real estate mortgages: 8 % to prime + 1% Maturing on varying dates to 2006	5,942	140,946	111,448
Including payable in foreign currency U.S. $33,257 (Cdn. $38,673) T.T. $ 3,999 (Cdn. $ 1,960) U.K.£22,549 (Cdn. $61,915)			
(d) Specific charge debt: 9 3/4% to prime + 1 % Maturing on varying dates to 1988	626	13,503	9,458
(e) Secured notes: 6 7/8% Maturing June 30, 1989 (U.S. $5,265)	602	6,141	6,681
(f) Other secured debt: Prime + 1% Repayment terms extending to 1986	1,067	4,887	5,577
Including payable in foreign currency U.S. $3,200 (Cdn. $3,780)			
(g) Unsecured notes: 0% to prime Maturing on varying dates to 1987	1,141	1,490	1,207
Including payable in foreign currency U.S. $620 (Cdn. $735) U.K.£127 (Cdn. $317)			
(h) Obligations under capital leases	524	4,982	
	$16,102	252,384	199,109
Less payable within one year		16,102	10,021
		$236,282	$189,088

Had the long term debt been translated at the rates of exchange prevailing at April 26, 1981, long term debt would have been decreased by $1,766,000.

Net financial expense consists of the following:

	1981	1980
	(in thousands)	
Interest on long term debt	$26,265	$23,110
Interest on short term debt	1,151	78
Interest income	(1,432)	(2,358)
	$25,984	$20,830

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	Total
			(in thousands)		
1982	$ 925	$401	$524	$15,578	$16,102
1983	1,022	387	635	39,689	40,324
1984	1,022	327	695	16,214	16,909
1985	1,022	260	762	18,766	19,528
1986	1,022	188	834	22,641	23,475

Total future minimum lease payments to 2025 amount to $6,719,000 and based on imputed interest rates varying from 8.5% to 12.1%, the present value of these minimum lease payments is $4,982,000.

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 as security for the bank loan and banker's acceptances of $60,540,000. The interest rates on these bank loans are at prime. The rates of commission on banker's acceptances are 3/8 of 1% per annum. The average rate of interest for the period ended April 26, 1981 approximated 1% below prime. Under the agreement relating to these loans and acceptances, quarterly repayments of $1,250,000 began March 31, 1981 with the balance due February 15, 1991.

The agreement relating to the Company's bank loans contains certain restrictions relating to dividends, and additional covenants with respect to the debt-equity ratio of the Company and its designated subsidiaries.

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 $9,824,000 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. Capital

(a) Authorized and issued

	Number of shares Authorized	Issued 1981	Issued 1980
8% First Preference shares, $10 par value	80,000		
Class C shares, no par value	8,783,683	8,477,579	8,578,531
Common shares, no par value	30,216,317	8,910,213	8,627,261

The Common and Class C shares participate equally as to dividends. Each Class C share entitles the owner to one hundred votes whereas holders of Common shares have one vote for each Common share held. Class C shares may be converted at any time into Common shares on the basis of one Common share for each Class C share.

During the year 91,000 of each of Common and Class C shares were issued to officers and key employees under the terms of a stock option plan for a total consideration of $742,000. As well, 191,952 Class C shares were converted to Common shares, resulting in a corresponding change in the authorized capital.

(b) Stock options

In addition to the 91,000 options of each class which were exercised during the year, 4,000 options on Class C and Common shares were cancelled and 30,000 options on Common shares were issued at $5.625 to a senior employee. At April 26, 1981 options in respect of 185,000 Common and 155,000 Class C shares were outstanding and are exercisable to 1985 at prices ranging from $3.60 to $5.625.

At April 26, 1981 there were 42,000 Common shares reserved for issuance under the stock option plan. During the year the number of Common shares reserved was increased by the 4,000 options cancelled and decreased by the 30,000 options granted. All Class C shares previously so reserved were cancelled during the year.

8. Acquisitions

During the year the Company acquired the net assets of National School Bus Service Inc., the shares of Gold Chin (1980) Ltd. and the business and net assets of certain other companies involved in the transportation industry. Particulars of the acquisitions are as follows:

		(in thousands)
Non-current assets acquired —		
Fixed	$18,995	
Other	849	$19,844
Less liabilities assumed —		
Long term debt	437	
Deferred income taxes	1,221	1,658
Funds applied to acquisitions		18,186
Working capital deficiency		2,943
Total consideration		$15,243

9. Contingent liabilities and commitments

(a) The Company is subject from time to time to various claims and disputes. As at April 26, 1981, 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 been named along with others, in an action in the Supreme Court of Ontario in which the plaintiffs are KFC Corporation and KFC National Management Company. The plaintiffs claim damages allegedly resulting from certain actions allegedly taken by the Company in connection with the operations commenced by Scott's in the United States. Specified damages claimed by the plaintiffs aggregate $8,000,000. In addition, other damages in amounts which cannot presently be determined are claimed.

The Company denies any charges of wrongdoing and intends to vigorously oppose the claims. Management believes that the ultimate liability, if any, will not have a materially adverse effect on the financial position of the Company. No provision has been made in the accompanying consolidated financial statements in respect of these claims.

(c) Contingent liabilities with respect to guarantees amount to $2,100,000 at April 26, 1981.

(d) The Company has commitments for fixed asset additions amounting to approximately $32,216,000 as at April 26, 1981. 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) The Company has an unfunded pension liability of approximately $760,000 in the U.S. bus operation which is being reduced annually by payments recommended by the Company's actuaries.

10. Long term leases

(a) Operating leases

At April 26, 1981, the Company was committed to annual operating lease obligations of approximately $12,666,000 for each of the next five years. Total minimum lease payments for the remaining term of the operating leases aggregate approximately $254,580,000. 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 extended 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.

(b) Capital leases

In 1978, the Canadian Institute of Chartered Accountants issued accounting recommendations applicable to all leases entered into in fiscal years commencing after January 1, 1979. The recommendation does not require retroactive accounting treatment with respect to leases in existence at the date of its implementation. A substantial number of existing leases relating to hotels operated by Commonwealth at April 29, 1979 qualified as capital leases as defined in this accounting recommendation. These leases are considered to be existing leases acquired as a result of the acquisition of Commonwealth and accordingly are not accounted for as capital leases in the accompanying consolidated financial statements.

If these leases had been recorded in the consolidated financial statements as capital leases, the following adjustments would have been required:

	1981	1980
	(in thousands)	
Assets:		
Hotel buildings and furnishings under capital leases (net of accumulated depreciation of $8,334,000 in 1981 and $4,006,000 in 1980)	$ 66,442	$ 70,770
Liabilities and shareholders' equity:		
Current lease obligation	$ 3,121	$ 2,932
Non-current lease obligation	67,384	69,823
Deferred income taxes	(2,160)	(1,053)
Reduction of retained earnings	(1,903)	(932)
	$ 66,442	$ 70,770
Reduction of net earnings for year	$ 971	$ 932

Leases entered into subsequent to April 29, 1979 which qualify as capital leases, as defined in the accounting recommendations referred to above, have been recorded in the accounts of the Company as capital leases. At April 26, 1981, the value of assets under capital leases and included in land, buildings and equipment amounts to $5,219,000 net of accumulated depreciation of $174,000.

11. Reclassification of accounts

Certain of the 1980 accounts have been reclassified to conform to the presentation adopted for the current year.

12. Segmented information (in thousands)

Industry

	Hotels		Restaurants		Transportation and warehousing		Consolidated	
	1981	1980	**1981**	1980	**1981**	1980	**1981**	1980
Sales	**$237,654**	$215,759	**$144,938**	$130,434	**$ 59,949**	$ 29,681	**$442,541**	$375,874
Segmented operating earnings	**$ 27,277**	$ 26,524	**$ 16,446**	$ 14,936	**$ 11,352**	$ 4,370	**$ 55,075**	$ 45,830
Net financial expense							**(25,984)**	(20,830)
Income taxes							**(13,357)**	(12,572)
Earnings before extraordinary loss							**$ 15,734**	$ 12,428
Fixed assets	**$231,783**	$198,268	**$ 51,907**	$ 60,554	**$ 42,220**	$ 17,500	**$325,910**	$276,322
Other assets	**21,833**	18,838	**4,582**	4,704	**13,930**	7,962	**40,345**	31,504
Total identifiable assets	**$253,616**	$217,106	**$ 56,489**	$ 65,258	**$ 56,150**	$ 25,462	**366,255**	307,826
Corporate assets							**46,063**	30,114
Total assets							**$412,318**	$337,940
Capital expenditures	**$ 47,235**	$ 26,925	**$ 7,055**	$ 10,006	**$ 31,961**	$ 7,290	**$ 86,251**	$ 44,221
Depreciation and amortization	**$ 11,717**	$ 10,016	**$ 4,507**	$ 4,132	**$ 5,243**	$ 3,214	**$ 21,467**	$ 17,362

Geographic

	Canada		United States		United Kingdom and Caribbean		Consolidated	
	1981	1980	**1981**	1980	**1981**	1980	**1981**	1980
Sales	**$339,058**	$305,666	**$ 37,417**	$ 12,764	**$ 66,066**	$ 57,444	**$442,541**	$375,874
Segmented operating earnings (loss)	**$ 39,802**	$ 34,825	**$ 5,333**	$ (1,804)	**$ 9,940**	$ 12,809	**$ 55,075**	$ 45,830
Net financial expense							**(25,984)**	(20,830)
Income taxes							**(13,357)**	(12,572)
Earnings before extraordinary loss							**$ 15,734**	$ 12,428
Fixed assets	**$183,933**	$172,897	**$ 25,368**	$ 17,359	**$116,609**	$ 86,066	**$325,910**	$276,322
Other assets	**26,362**	25,260	**5,522**	269	**8,461**	5,975	**40,345**	31,504
Total identifiable assets	**$210,295**	$198,157	**$ 30,890**	$ 17,628	**$125,070**	$ 92,041	**366,255**	307,826
Corporate assets							**46,063**	30,114
Total assets							**$412,318**	$337,940

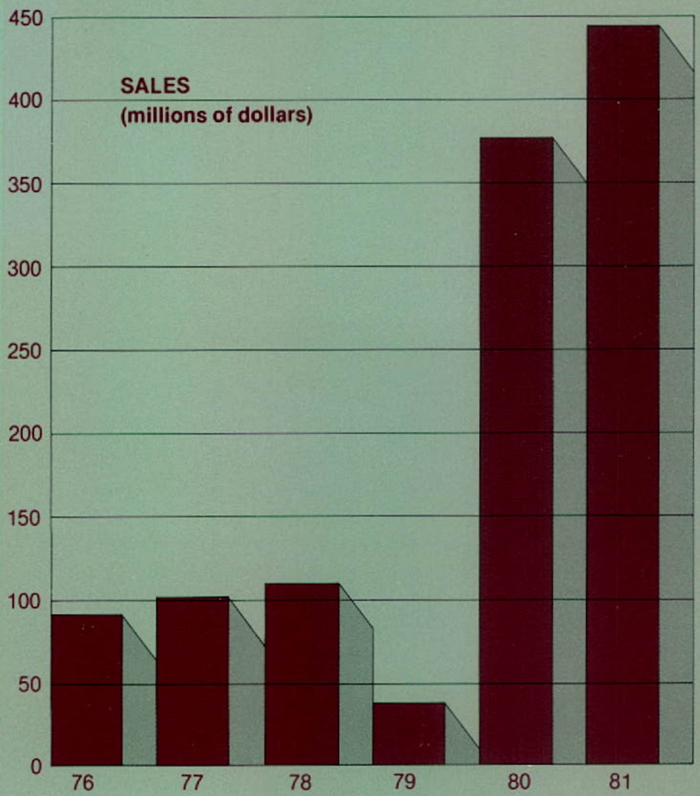
Financial and Statistical Review

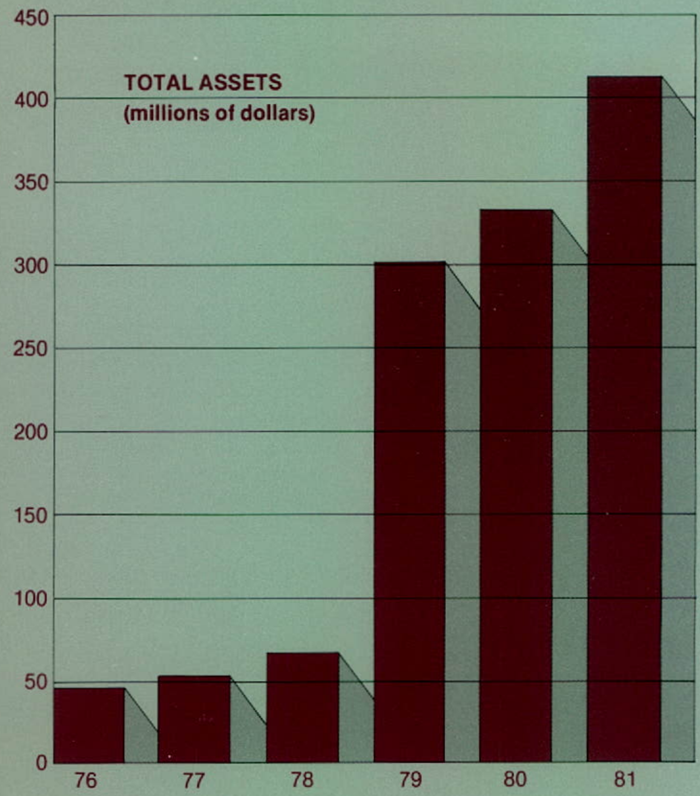
(Dollars in thousands, except per share amounts)

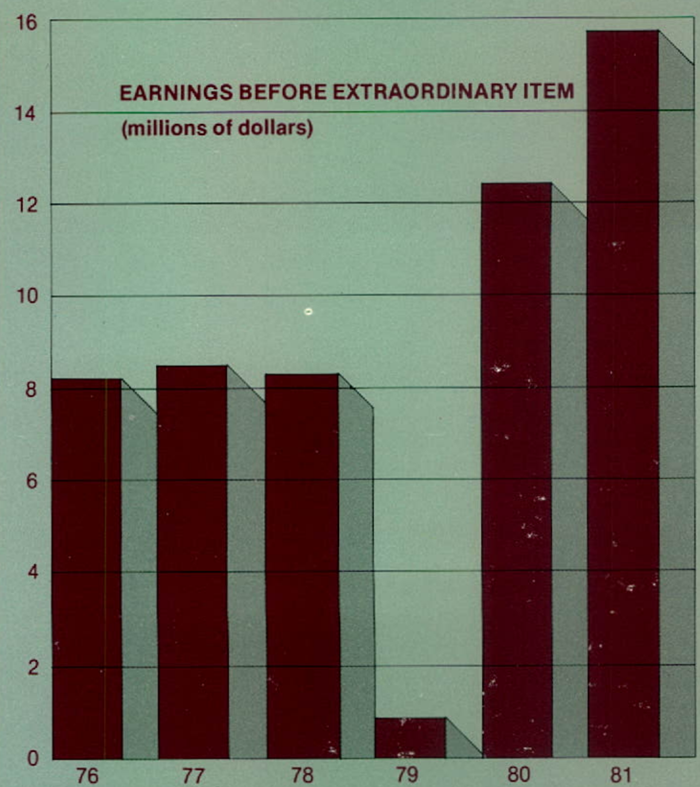
	Fiscal Year April 26, 1981 (1)	Fiscal Year April 27, 1980 (1)	Seventeen Weeks to April 29, 1979	Fiscal Year December 31, 1978	Fiscal Year January 1, 1978	Fiscal Year December 26, 1976
Sales	$442,541	$375,874	$ 38,167	$111,401	$100,905	$ 90,058
Earnings before extraordinary loss	$ 15,734	$ 12,428	$ 885	$ 8,328	$ 8,426	$ 8,244
Per share (2)	$ 0.91	$ 0.72	$ 0.05	$ 0.49	$ 0.50	$ 0.49
Net earnings	$ 13,750	$ 12,428	$ 885	$ 8,328	$ 8,426	$ 8,244
Per share (2)	$ 0.80	$ 0.72	$ 0.05	$ 0.49	$ 0.50	$ 0.49
Dividends per share (2)	$ 0.16	$ 0.16	$ 0.08	$ 0.15	$ 0.14	$ 0.13
Total funds from operations	$ 42,183	$ 32,828	$ 3,397	$ 12,215	$ 11,094	$ 10,679
Capital expenditures	$ 86,251	$ 44,221	$ 2,387	$ 18,901	$ 8,709	$ 6,735
Total assets	$412,318	$337,940	(1) $300,898	$ 66,020	$ 51,400	$ 46,049
Shareholders' equity	$ 71,668	$ 59,954	$ 49,769	$ 50,227	$ 43,181	$ 36,994
Number of employees	16,300	15,500	3,800	3,600	3,380	2,990
Take-out and other food operations	306	315	295	294	257	229
Hotel rooms in operation	12,265	11,934				
Transportation and warehousing units	3,030	1,287				

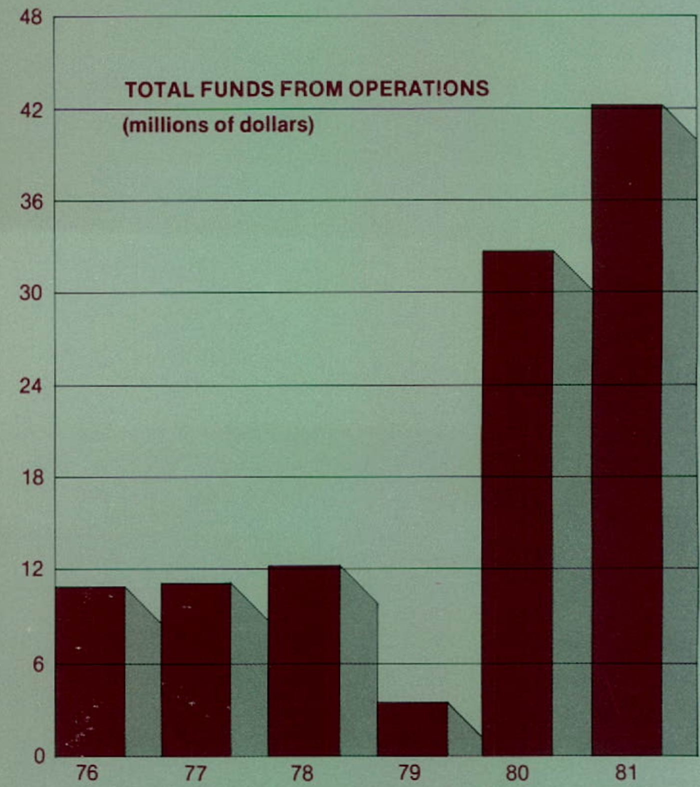
(1) After consolidation with Commonwealth Holiday Inns of Canada Limited.
(2) After adjusting for the two for one stock split in 1980.

Five Year Review










North America's Hospitality Dish...
Kentucky Fried Chicken


SCHOOL BUS


Gold Chin

Directors and Officers

Directors

H. Anthony Arrell †
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 *
Leslie W. Paszat
Helen D. Phelan
Albert E. Shepherd *
Robert A. Stevens

* 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

Other Officers

James G. Gibson, C.A.
Vice-President

Richard A. Hunter
Vice-President

John Landry
Vice-President

Leslie W. Paszat
Vice-President

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
220 Dundas Street
London, Ontario N6A 1H3

Solicitors

McCarthy & McCarthy

Bankers

The Royal Bank of Canada

Auditors

Clarkson Gordon

Common Shares and Class C Shares

The 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 Common shares and Class C shares is Montreal Trust Company at its principal offices in Toronto, Montreal and Calgary.