Scott's Restaurants Co. Limited

Annual Report 1980

Scott's Restaurants Co. Limited
Annual Report 1980

Financial Highlights
(dollars in thousands, except per share amount)

	Fiscal Year April 27, 1980 (1)	Seventeen Weeks to April 29, 1979	Fiscal Year December 31, 1978
Sales	**$375,874**	$38,167	$111,401
Net income	**12,428**	885	8,328
Net income per share (2)	**0.72**	0.05	0.49
Dividends per share (2)	**0.16**	0.08	0.15
Funds received from operations	**32,828**	3,397	12,215
Capital expenditures	**44,221**	2,387	18,901
Number of employees	**15,500**	3,800	3,600
Take-out and other food operations	**315**	295	294
Hotel rooms in operation	**11,934**		
Transportation and warehousing (units)	**1,287**		

(1) After consolidation with Commonwealth Holiday Inns of Canada Limited.

(2) After adjusting for the two for one stock split in 1980.

Corporate Offices
2000 Jane Street
Weston, Ontario M9N 2V2

Regional Offices
202 Taschereau Boulevard
Montreal, Quebec J4V 2H4

4111 LeJeune Road
Coral Gables, Florida 33154

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.

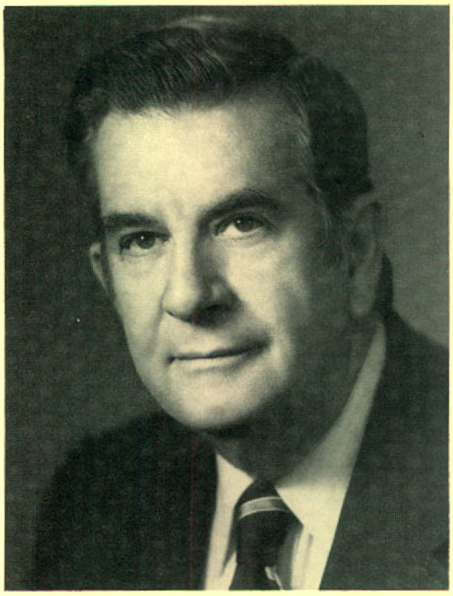
Registrar and Transfer Agent

The Registrar and Transfer Agent for the Common Shares and Class 'C' Shares is Montreal Trust Company at its principal offices at Toronto, Montreal and Calgary.

Contents

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

Report to Shareholders



George R. Gardiner
Chairman of the Board
Scott's Restaurants Co. Limited

On behalf of the Board of Directors, I am pleased to submit the audited financial statements of Scott's Restaurants Co. Limited for the fiscal year ended April 27, 1980. Due to the change in year-end which became effective in April 1979, at which time a report was given for an abbreviated period, one must look to the operating results for the fifty-two weeks ended December 31, 1978 on the Consolidated Statement of Income for a full year comparison. Several other factors must also be considered. In the most recent fiscal period the statements of Scott's and Commonwealth Holiday Inns of Canada Limited have, for the first time, been consolidated and in February 1980 each Class "A" and "B" share without par value of the Corporation was subdivided and reclassified into one Common share without par value and one Class "C" share without par value. For comparison purposes, net income per share for the 1978 financial year has been restated to reflect the foregoing subdivision of shares.

Revenue for the fiscal year ended April 27, 1980 was $375,874,000 compared with $111,401,000 in the period ended December 31, 1978. Net income for the most recent period was $12,428,000 or 72¢ per share compared with $8,328,000 or 49¢ per share during 1978.

Throughout most of the year interest rates continued at record high levels, presenting management with an extremely difficult operating climate. Despite this and a general softening in worldwide economic conditions, corporate objectives established for the year were exceeded.

The Directors of your Company are pleased with the growth that has taken place and with the contribution made by each operating division during the year. In this regard, segmented information showing both divisional and regional operating results is presented in Note 13 on page 17 of the Annual Report. On behalf of the Board, I wish to express sincere appreciation to all employees for their loyalty and support, without which such could not have been accomplished.

On June 9, 1980 the shareholders of Commonwealth Holiday Inns of Canada Limited approved an arrangement which has resulted in that Company becoming a wholly-owned subsidiary of Scott's. As a consequence, both corporations are now free to engage in inter-company transactions without concern for potential conflicts of interest or allocation of corporate opportunities.

At the Annual Meeting of shareholders held on October 9th, 1979, Benson Orenstein, President and Chief Executive Officer of Commonwealth Holiday Inns of Canada Limited and H. Anthony Arrell were elected Directors. Their presence on the Board provides additional strength to the administrative and operating affairs of the Corporation.

During the year, we recorded with deep regret the death of Ernest B. Fletcher, a director and Deputy Chairman of Commonwealth Holiday Inns of Canada Limited.

George Gardiner

Report to Shareholders

John J. Leon
President
Scott's Restaurants Co. Limited

The past year has been a very exciting one for Scott's Restaurants Co. Limited. Sales and profits were at an all-time high and prospects for the future continue to look bright.

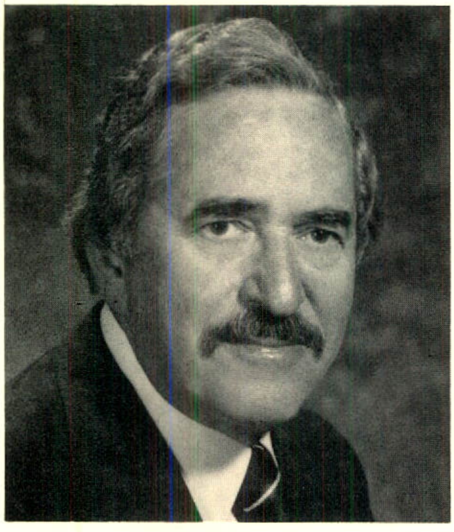
I would like to share with you at this time management's plans for the present and immediate future of Scott's Restaurants Co. Limited.

As you are no doubt aware the growth of the Company over the past 15 years to a large extent centered around the development of our Kentucky Fried Chicken division. At the present time we are operating 234 of these units. It was inevitable that continued rapid growth in the division would not be possible as we were approaching saturation of outlets in the franchise areas under our control.

For this reason we embarked on a comprehensive market study starting in 1975 to search out new opportunities for the Company. These studies clearly indicated that growth in the fast food industry would continue in the 80's. Management's decision based on these market studies was to commence diversification of our operations into other areas of the fast food industry. Our ultimate goal through this diversification is to position Scott's where it will have total market capability in the various facets of the fast food industry.

Several steps have already been taken in this direction which I would like to comment on:

- Approximately 43 Scott's Fried Chicken take-home stores have been opened in Florida the past three years. To date, this operation is not contributing to earnings due mainly to development costs. We expect improvement in this division in the current year.
- The Company also made its initial move into the pizza field with the opening of three pilot operations in Thornhill, Whitby and Peterborough. Further development of this concept will be carried out in the current fiscal year.
- The operations of Gold Chin Foods Ltd., a Chinese food chain, were acquired as of June 1st, 1980. This is an exciting new venture for Scott's and should fit well into our diversification program.
- The coming year for Scott's should prove to be very challenging. We feel we have the management capability and dedicated personnel to maintain an active expansion program into the 80's and look forward to this with great anticipation.



Benson Orenstein
President
Commonwealth Holiday Inns
of Canada Limited

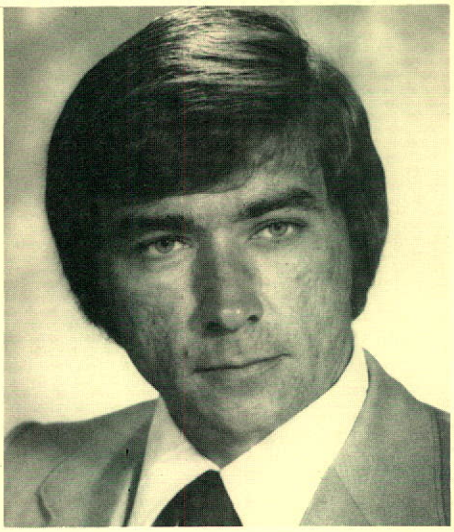
April 30, 1980 marked the first full twelve-month period for Commonwealth Holiday Inns of Canada Limited since it was acquired by your Company early last year. This period has proven the most profitable in Commonwealth's history with revenue of $215,759,000 and operating profit of $26,524,000. Regionally, the Canadian hotels continued the improvement which began in 1978. Occupancy increased by 2% and room rates were maintained at levels which, for the most part, kept pace with increased operating costs. The Company's hotels in the United Kingdom continued their strong performance and were a major contributor to last year's financial success. The Caribbean hotels in Trinidad, Barbados and Grenada operated profitably with European tourism being a substantial source of occupancy.

The Company's transportation and warehousing division, Charterways Transportation Limited, with revenue of $29,681,000 and operating profit of $4,370,000, maintained its excellent growth pattern.

During the year, room additions were completed to the Ontario Inns in Kingston and Burlington. Holidomes or indoor atrium recreation facilities have been included in both hotels, adding a new dimension to their marketing programmes. In April, the Holiday Inn Fort St. John, British Columbia opened, the Company's third hotel in that province. A 100 room addition to the Holiday Inn Toronto International Airport is nearing completion, as is the Inn under construction at Brampton, Ontario.

In the United Kingdom construction has commenced on a 315 room hotel in the core area of Glasgow with completion scheduled for 1982. The new Inn at Aberdeen, Scotland will open in early autumn and the Inn at Portsmouth, England in early 1981. Both have Holidome atriums included in their facilities.

Recently the Company relocated its Executive Offices from London, Ontario to 31 Fasken Drive, Rexdale (Toronto). With the exception of certain accounting functions which will remain in London for the foreseeable future, the move consolidates executive personnel in the Toronto region where the Company has its largest concentration of rooms.



Geoffrey P. Davies
President
Charterways Transportation Limited

The transportation and warehousing division performed well during the past financial year notwithstanding inflationary pressures which persisted throughout the period. Rising costs and particularly those associated with energy present a difficult and immediate challenge to management. In this regard, the Company will shortly take delivery of 50 energy and maintenance efficient diesel powered school buses and will, in addition, conduct tests on propane fueled vehicles.

During the year under review, the Company operated 1,287 vehicles comprised of 1,073 school buses, 61 highway coaches, 34 highway tractors, 13 transit vehicles, 56 delivery trucks and 50 miscellaneous vehicles. Operating efficiency was enhanced at the Company's branch in Ottawa by relocation to modern leased premises and at Sault Ste. Marie by construction of new operations and maintenance facilities. In addition the Company purchased the premises housing its Motor Express Terminal operations in Mississauga, Ontario and completed a $400,000 expansion to the warehouse, thereby increasing operating capacity by approximately 25%.

With our recently announced agreement to acquire the assets of National School Bus Services Inc., a major school bus operation in the United States operating approximately 1,700 vehicles, our management team is now in a position to expand its expertise into a greater market area. We are confident of the division's ability to meet its objectives and those of the Company at large.

Left to right: **W. Harvey Gleason**, Vice-President & Controller, Commonwealth Holiday Inns of Canada Limited; **Lloyd D. Monteith**, Vice-President, Finance, Charterways Transportation Limited; **Bruce R. Dodds**, Senior Vice-President, Treasurer and Chief Financial Officer, Commonwealth Holiday Inns of Canada Limited; **James G. Gibson**, Vice-President, Finance and Treasurer, Scott's Restaurants Co. Limited.

The financial group has experienced a challenging year, resulting from the Scott's purchase of Commonwealth in early 1979. The transition has been orderly and to date, where possible, savings have been realized.

The Company considers "cash management" to have a high priority within management's philosophy, and widely fluctuating interest rates during the past year have reinforced this policy. The Company presently has several loans that are pegged to bank prime rates. The financial group is actively proceeding towards the objective of having these loans replaced by fixed rate loans at a time when the level of interest rates reaches a point that makes this plan viable.

Each of the Company's three divisions has a centralized accounting system. This autonomy within our financial organization allows each division to have available the daily reporting required by the respective divisions, and in addition, provides the Company with timely reporting on a consolidated basis.

Accounting systems and procedures are constantly under review to ensure that maximum efficiency is maintained, and thereby, partially offsetting the escalating costs in these inflationary times.

Report to Shareholders

Richard A. Hunter
Senior Vice-President, Canadian Operations, Scott's Restaurants Co. Limited

In the past year the Company's Canadian restaurant operations recorded significant increases in sales, earnings and cash flow. Improved performance and productivity achieved by staff at the operating level in both the Kentucky Fried Chicken Division and Food Service Division accounted for a large portion of these operating gains.

Since January of this year, the Company has opened three Pizza Tree test units in Ontario and presently two more are planned. Operating results, which to date are quite encouraging, are being assessed to determine future expansion of this product line to other market locations.

Gold Chin Foods Ltd., recently acquired by the Company, has 14 Chinese fast food outlets in enclosed shopping malls. This division is performing to our expectation and expansion into additional marketing areas is being actively pursued.

The entry into pizza and Chinese food greatly broadens our sales and earnings potential. I am confident that both management and staff will meet the challenge presented by the diversification into these markets.

Leslie W. Paszat
Senior Vice-President, U.S. Operations, Scott's Restaurants Co. Limited

The Scott's Fried Chicken Division of the Company presently operates 43 take-home stores in Florida and plans to open additional units in the Greater Miami market as soon as suitable sites can be acquired.

The current recession, which has resulted in high unemployment, together with rising inflation continue to have a significant effect on consumer spending. Restaurant sales of all types are, as a result, experiencing a depressed market; however this is a temporary condition. The underlying fundamentals and outlook for the fast food industry remain strong.

Scott's places great emphasis on the quality of its store operations and local marketing efforts. This policy has enabled our division to improve its market penetration and increase public awareness of our brand identification.

The dedication and increased experience of our staff provides a basis for continued development and refinement of our operations.

Peter J.M. Burger
Vice-President and General Manager
Take-Out Operations, Ontario, Scott's Restaurants Co. Limited

The Ontario division achieved new highs in both sales and earnings in the 1979-80 fiscal year. Continued emphasis on the control of food, supplies, labour and other costs at the individual unit level contributed strongly to this improved performance.

During the year, 7 new stores were opened, including 5 in the Toronto area, 1 in Windsor and 1 in Ottawa. In addition, more than 30% of our Ontario locations have now been upgraded to the latest standard of Kentucky Fried Chicken.

A complete new staff training programme has also been prepared and implemented to ensure maintenance of a high standard of service in our outlets.

My report would not be complete without a word of gratitude to our employees whose loyalty and dedication have made 1979-80 one of the Ontario division's most successful years.

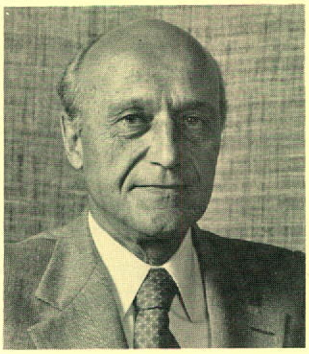
Guy Jeanneau
Vice-President and General Manager
Take-Out Operations, Quebec, Scott's Restaurants Co. Limited

The Quebec division is pleased to have recorded increases in both sales and profit during the past year. This was achieved through the untiring efforts and assistance of the division's employees in maintaining a high quality standard and continuous control of expenses.

The division is steadily upgrading its branches. Seating has been installed in some outlets and drive-thru's in others. The improved and broadened service resulting from these changes has had a positive effect on operations at these units. In addition, a new training course for our hostesses and service personnel is being developed and will be available in the near future to further improve customer service.

The pizza product line recently introduced by the Company will shortly be added to our operations. The first outlet is scheduled to be in operation this fall.

In the coming year, the division is confident it will realize its objectives and that they will be achieved through the same determination that made last year so successful.



Edward C. Campbell
Senior Vice-President, Operations Administrator, Commonwealth Holiday Inns of Canada Limited

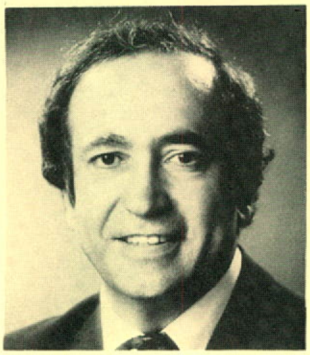
The Holidome atriums incorporated into the Company's Ontario Inns at Guelph, Burlington and Kingston provide the travelling public with an all-weather recreational facility which is unique in their marketing area. This concept has been extremely well received and will be included in the amenities of the Holiday Inn Brampton which is presently under construction.

The Canadian hotel division provided the Company with increases in both revenue and profit during the financial year ended April 30, 1980. The large urban centres of Vancouver, Toronto and Montreal where the Company has a large concentration of rooms, proved to be particularly strong markets. The effect of the gasoline shortage in the United States during part of the year together with a favourable currency exchange rate provided the Canadian tourist industry with one of its strongest seasons and our hotels were well positioned to benefit from this.

The softening of the Canadian economy forecast for 1980-81 will present a challenge to the division, however, we are confident of our ability to maintain our market position and to meet the objectives established by the Company.

Dallas Bandy
Vice-President, Support Services, Commonwealth Holiday Inns of Canada Limited

In January of this year, Support Services was established to co-ordinate direction for project development, marketing, human resources, security and housekeeping. It is the Company's objective to decentralize responsibility for some of the foregoing, with respect to the day-to-day operation of individual hotels and to have Support Services assume an advisory role in these functions. The desired result is to achieve greater administrative economy and efficiency while permitting at Inn-level an immediate reaction to events affecting hotel operations. To date, this direction has resulted in noticeable improvement in our marketing and operating performance.



Raymond R. Yelle
Senior Vice-President, Europe, Commonwealth Holiday Inns of Canada Limited

Notwithstanding rising inflation, a strong sterling currency and deterioration of western economies which have contributed to a decline in occupancy for London based hotels, the Company's United Kingdom hotel division has continued to perform well.

Research indicates that growth of tourism to the United Kingdom will continue its pattern and that demand for hotel accommodation will increase steadily throughout the decade. No material increase in competition is expected and Holiday Inns are the only internationally known non-British operation with an established chain of modern hotels in the United Kingdom.

The new Inns at Aberdeen (Airport), Scotland opening this fall and at Portsmouth, England opening early 1981, are located in areas of strong commercial demand. When completed in 1982, our hotel in Glasgow, Scotland will provide that City with a first class commercial and convention facility.

The prospects for the division remain excellent and it is our plan to further pursue selected development opportunities in the United Kingdom.

Loris Arevian
Division Vice-President, Caribbean, Commonwealth Holiday Inns of Canada Limited

The Company's Inns in the Caribbean continued to operate profitably during the year. The growth in tourism from Europe, mainly Germany, Switzerland and Italy, has had a very positive effect on occupancy levels. This is particularly so in Grenada, where construction on a new international jet airport is well advanced. Tourism to this Island is expected to double with the arrival of direct overseas flights when the airport is completed in 1982.

Barbados, long a favourite of North American and European travellers, now has one of the most modern airports in the world accommodating today's high capacity wide bodied aircraft. The Holiday Inn Barbados has operated at capacity throughout many periods of the year and possible expansion of the hotel is under consideration.

The Government of Trinidad & Tobago is very active in the promotion of tourism and our hotel in Port of Spain has benefited from the programme.

Consolidated balance sheet

As at April 27, 1980 (with comparative amounts at April 29, 1979 after giving effect to the acquisition of Commonwealth Holiday Inns of Canada Limited—note 1)

ASSETS	1980	1979
	(in thousands)	
Current:		
Cash and short term investments	**$ 28,481**	$ 16,877
Accounts receivable	**14,320**	12,060
Inventories (note 2)	**5,275**	4,982
Prepaid expenses	**3,205**	3,611
Income taxes recoverable		381
	51,281	37,911
Investments at cost (note 3)	**1,633**	3,974
Fixed — at cost		
Land	**42,674**	38,174
Buildings and leasehold improvements	**197,192**	171,903
Furnishings and equipment	**52,328**	42,710
Transportation equipment	**15,953**	12,816
	308,147	265,603
Less accumulated depreciation and amortization	**31,825**	15,353
	276,322	250,250
Deferred costs and other assets (note 4)	**8,704**	8,763
	$337,940	$300,898

(See accompanying notes)

LIABILITIES	1980	1979
	(in thousands)	
Current liabilities:		
Accounts payable and accrued charges	**$ 36,887**	$ 31,590
Taxes payable	**10,946**	2,396
Dividend payable	**1,376**	1,365
Provision for cost of purchasing remaining common shares and redemption of outstanding preference shares of Commonwealth (note 1 (a))	**438**	779
Long-term debt payable within one year	**10,021**	6,251
	59,668	42,381
Long-term debt (note 5)	**189,088**	182,556
Deferred gains	**1,010**	1,072
Deferred income taxes	**26,931**	23,824
Minority interest in subsidiary (note 6)	**1,289**	1,296
Shareholders' equity		
Capital (note 7)		
Authorized:		
30,000,000 Common shares, no par value		
9,000,000 Class C shares, no par value		
80,000 8% first preference shares, $10 par value		
Issued:		
8,627,261 Common shares		
8,578,531 Class C shares		
(8,533,896 Class A and Class B shares at April 29, 1979)	**7,490**	6,980
Retained earnings	**52,464**	42,789
	59,954	49,769
	$337,940	$300,898

Approved on behalf of the Board

George R. Gardiner, Director
Benson Orenstein, Director

Consolidated statement of income

For the year ended April 27, 1980 (with comparative amounts for 1979 and 1978)

	Year ended April 27, 1980	Seventeen Weeks ended April 29, 1979	Year ended December 31, 1978
		(in thousands)	
Sales			
Restaurant Division	**$130,434**	$38,167	$111,401
Hotel Division	**215,759**		
Transportation and Warehousing Division	**29,681**		
Total Sales	**375,874**	38,167	111,401
Cost of goods sold, operating and administrative expenses	**330,044**	35,715	97,949
Earnings from operations	**45,830**	2,452	13,452
Interest income	**(2,358)**	(72)	(426)
Interest expense on long-term debt	**22,998**		
Interest expense on short-term debt	**78**		
Foreign exchange loss	**112**		
Net financial expense (income)	**20,830**	(72)	(426)
Income before income taxes and the undernoted	**25,000**	2,524	13,878
Income taxes	**12,572**	1,062	5,550
Income before the undernoted	**12,428**	1,462	8,328
Cumulative effect on prior years' income of change in accounting policy relating to development and pre-opening expenses, net of deferred income taxes of $430,000.		577	
Net income for the period	**$ 12,428**	$ 885	$ 8,328
Net income per share (note 8)	**$ 0.72**	$ 0.05	$ 0.49

(See accompanying notes)

Consolidated statement of retained earnings

For the year ended April 27, 1980 (with comparative amounts for 1979 and 1978)

	Year ended April 27, 1980	Seventeen Weeks ended April 29, 1979	Year ended December 31, 1978
		(in thousands)	
Balance beginning of period	**$42,789**	$43,269	$37,439
Net income for the period	**12,428**	885	8,328
	55,217	44,154	45,767
Deduct dividends paid	**2,753**	1,365	2,498
Balance end of period	**$52,464**	$42,789	$43,269

(See accompanying notes)

Consolidated statement of changes in financial position

For the year ended April 27, 1980 (with comparative amounts for 1979 and 1978)

	Year ended April 27, 1980	Seventeen Weeks ended April 29, 1979	Year ended December 31, 1978
		(in thousands)	
Source of funds:			
Operations —			
Net income	**$12,428**	$ 885	$ 8,328
Add expenses included therein not requiring an outlay of funds —			
Depreciation of fixed assets	**16,931**	1,212	3,049
Amortization of deferred costs and other assets	**431**	67	471
Write-off of unamortized balance of deferred development and pre-opening expenses		1,007	
Deferred income taxes	**3,107**	226	367
Other	**(69)**		
Funds from operations	**32,828**	3,397	12,215
Borrowings	**21,496**	60,943	
Reduction of investments	**2,341**		
Issue of shares	**510**	22	1,216
Proceeds on sale of fixed assets	**846**		
Total funds received	**58,021**	64,362	13,431
Application of funds:			
Investment in Commonwealth Holiday Inns of Canada Limited, at cost		62,010	
Reduction of long-term debt	**14,964**		
Purchase of fixed assets	**43,849**	2,387	18,901
Transportation operating authorities	**101**		
Franchises, opening and development costs	**271**		1,119
Dividends	**2,753**	1,365	2,498
Total funds expended	**61,938**	65,762	22,518
Decrease in working capital	**$ 3,917**	$ 1,400	$ 9,087

(See accompanying notes)

Notes to the consolidated financial statements

April 27, 1980

1. Significant accounting policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. The principal subsidiaries are Commonwealth Holiday Inns of Canada Limited ("Commonwealth") and its wholly owned 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. During the year the Company acquired further shares in Commonwealth. Under an arrangement approved by shareholders of Commonwealth on June 9, 1980, the balance of the outstanding shares was purchased for cancellation by Commonwealth.

All acquisitions of subsidiary companies have been accounted for by the purchase method and accordingly the operations and net income of such subsidiaries have been included only from the date of acquisition.

(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 and losses on translation are taken into income.

(c) Inventories

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

(d) 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.

(e) Income taxes

Income taxes are provided on the basis of accounting income which is different from income as determined for income tax purposes as a result of claiming capital cost allowances different from depreciation and amortization and other timing differences. Income taxes which have been provided for but which are not currently payable, are included as deferred income taxes in the accompanying consolidated balance sheet.

(f) Fixed assets

Interest and property taxes relating to owned hotels, and costs incurred which are not paid for by the owners relating to leased hotels 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 costs. Amounts capitalized under these policies totalled $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.

(g) Depreciation and amortization

Depreciation and amortization is computed on a straight-line basis (with minor exceptions) over the estimated remaining useful lives of the various assets.

Estimates of useful life by category are as follows:

	Years
Restaurants	
Buildings	20
Equipment	10
Leasehold improvements	lease term
Franchises (Colonel Sanders Kentucky Fried Chicken Limited)	to 1994
Hotels	
Buildings	40
Equipment	11
Leasehold improvements	lease term
Franchises (Holiday Inns, Inc.)	20
Transportation and Warehousing	
Equipment	7½ - 12
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.

2. Inventories

	April 27 1980	April 29 1979
	(in thousands)	
Restaurants		
Food and packaging	$1,240	$1,190
Hotels		
Food, beverage and operating supplies	3,652	3,505
Transportation and Warehousing		
Operating supplies	383	287
	$5,275	$4,982

3. Investments

	April 27 1980	April 29 1979
	(in thousands)	
Term deposit receipt pledged as security for long term debt		$2,000
Non-current debentures and notes receivable	$1,633	1,974
	$1,633	$3,974

4. Deferred costs and other assets

(at cost less accumulated amortization)

	April 27 1980	April 29 1979
	(in thousands)	
Opening and development costs	$ 224	
Franchises	3,572	$3,827
Transportation operating authorities	4,908	4,936
	$8,704	$8,763

5. Long-term debt

Long-term debt outstanding at April 27, 1980 consists of:

	April 27, 1980		
	Payable Within One Year	Amount	April 29 1979
	(in thousands)		
(a) Term bank loan, repayable on varying dates maturing in 1983 (U.S. $3,750)	$ 1,170	$ 4,333	$ 1,710
(b) Bank loan and banker's acceptances	1,250	60,405	59,340
(c) Real estate mortgages payable: 7.45% - 19.0% maturing on varying dates to 2006	5,023	111,448	99,140
Including payable in foreign currency: U.S. $39,118 (Cdn. $45,570) T.T. $ 4,279 (Cdn. $ 2,093) U.K.£ 9,436 (Cdn. $24,478)			
(d) Specific charge debt on transportation equipment: 9¾% to prime + 1% maturing on varying dates to 1986	465	9,458	10,262
(e) Secured notes payable: 6⅞% secured notes maturing June 30, 1989 (secured by mortgages and first floating charge on certain properties) (U.S. $5,733)	559	6,681	6,669
(f) Sinking fund debentures payable			190
(g) Other secured debt: prime + 1%. Repayment terms extending to 1986	1,095	5,577	6,652
(h) Unsecured notes payable: 0% - 10% maturing on varying dates to 1987	459	1,207	1,616
Including payable in foreign currency: U.K. £234 (Cdn. $587)			
(i) Interim financing repayable from proceeds of committed mortgage loans (secured by first mortgage on certain properties)			3,228
	$10,021	$199,109	$188,807
Less payable within one year		10,021	6,251
		$189,088	$182,556

Had the long-term debt been translated at the rates of exchange prevailing at April 27, 1980, long-term debt would have been increased by $2,159.

Long-term debt repayments (instalments and maturing balances) for the next five years are as follows:

1981	$ 10,021
1982	26,429
1983	22,532
1984	15,828
1985	18,772

The Company has pledged all of the shares of Commonwealth as security for the bank loan and banker's acceptances of $60,405,000. The interest rates on these bank loans are at prime. The rates of commission on banker's acceptances are 1/2 of 1% per annum. The average rate of interest for the period ended April 27, 1980 approximated 3/8 of 1%

below prime. Under the agreement relating to these loans and acceptances, quarterly repayments of $1,250,000 must commence not later than 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.

Additional particulars relating to the long-term debt are as follows:

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. 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 $6,041,000 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. In the preceding table of long-term debt repayments, the repayments which normally would have been due in 1981 ($1,784,000) are shown as due in the next following year (1982).

Additional security

The Company has pledged its accounts receivable and lodged as collateral security floating charge debentures totalling $15,500,000 and has given a first floating charge on the company's United Kingdom assets as security for other secured debt (see item (g) above).

6. Minority interest

This consists of the minority interest in Allied Inn Keepers of Trinidad and Tobago Limited (a subsidiary of Commonwealth).

7. Capital

On February 13, 1980 the articles of the Company were amended as follows to:

(a) decrease the authorized capital of the Company by cancelling all authorized but unissued Class A and Class B shares of the Company;

(b) subdivide and reclassify each of the authorized and issued Class A shares into one Common share and one Class C share;

(c) subdivide and reclassify each of the authorized and issued Class B shares into one Common share and one Class C share;

(d) declare that the authorized capital of the Company shall be divided into eighty thousand 8% cumulative redeemable non-voting first preference shares with a par value of $10 each, nine million Class C shares without par value and thirty million Common shares without par value.

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

During the year 69,000 Common shares and 69,000 Class C shares were issued to officers and key employees under the terms of a stock option plan for a total consideration of $510,000. At April 27, 1980, options in respect of 250,000 of the Common shares and 250,000 of the Class C shares were outstanding under the plan. These options are exercisable in instalments to 1985 at prices ranging from $3.60 to $5.625 per share. In addition to the options outstanding the Company has reserved a further 68,000 of its authorized but unissued Common shares and 68,000 of its authorized but unissued Class C shares for options that may be granted in the future.

During the year 24,365 Class C shares were converted to Common shares.

8. 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.

9. Contingent liabilities and commitments

(a) The Company is subject from time to time to various claims and disputes. As at April 27, 1980, 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 wrong-doing 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 $5,187,000 at the year end.

(d) The Company has commitments for fixed asset additions amounting to approximately $38,400,000 as at April 27, 1980. No portion of this amount is reflected in the accompanying consolidated financial statements. The Company has arranged for financing in respect of these commitments.

10. Long-term leases

At April 27, 1980, the Company was committed to annual lease obligations of approximately $11,700,000 for each of the next five years. Total minimum lease payments for the remaining term of the leases aggregate approximately $280,000,000. Rentals that are determined as a percentage of revenues with no minimum amounts are excluded from these figures.

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.

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.

In December 1978, the Accounting Research Committee of the Canadian Institute of Chartered Accountants issued accounting recommendations for leases applicable to all leases entered into in fiscal years commencing after January 1, 1979. A substantial number of existing leases relating to hotels operated by Commonwealth at April 27, 1980 qualify 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 balance sheet as at April 27, 1980.

If these leases had been recorded in the consolidated financial statements as capital leases, the following adjustments to the figures reported in the accompanying April 27, 1980 consolidated financial statements would have been required:

	April 27, 1980 (in thousands)
ASSETS	
Hotel buildings and furnishings under capital leases (net of accumulated amortization of $4,006)	$70,770
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current lease obligation	$ 2,932
Non-current lease obligation	69,823
Deferred income taxes	(1,053)
Reduction of net income for the year and retained earnings	(932)
	$70,770

During the year two capital leases were terminated and no capital leases were acquired.

11. Supplementary information

The aggregate direct remuneration paid or payable by the Company to directors and senior officers amounted to $633,000 for the year ended April 27, 1980, including directors' fees of $58,000.

12. Subsequent events

(a) Effective June 1, 1980 the Company has acquired all of the outstanding shares of Gold Chin (1980) Ltd. for $1,400,000 cash.

(b) On August 1, 1980 the Company entered into an agreement to purchase a United States school bus operation for approximately U.S. $11,000,000. The Company has arranged financing for this purchase.

13. Segmented Information

INDUSTRY, Year ended April 27, 1980 (in thousands)

	Restaurants	Hotels	Transportation and Warehousing	Consolidated
Sales	$130,434	$215,759	$29,681	**$375,874**
Segmented operating profit	$ 14,936	$ 26,524	$ 4,370	**$ 45,830**
Net financial expense				(20,830)
Income taxes				(12,572)
Net income for the year				**$ 12,428**
Fixed assets	$ 60,554	$198,268	$17,500	$276,322
Other assets	4,704	18,838	7,962	31,504
Total identifiable assets	$ 65,258	$217,106	$25,462	307,826
Corporate assets				30,114
Total assets				**$337,940**
Capital expenditures	$ 10,006	$ 26,925	$ 7,290	$ 44,221
Depreciation and amortization	$ 4,132	$ 10,016	$ 3,214	$ 17,362

GEOGRAPHIC, Year ended April 27, 1980 (in thousands)

	Canada and United States	United Kingdom and Caribbean	Consolidated
Sales	$318,430	$57,444	**$375,874**
Segmented operating profit	$ 36,125	$ 9,705	**$ 45,830**
Net financial expense			(20,830)
Income taxes			(12,572)
Net income for the year			**$ 12,428**
Fixed assets	$190,256	$86,066	$276,322
Other assets	25,529	5,975	31,504
Total identifiable assets	$215,785	$92,041	307,826
Corporate assets			30,114
Total assets			**$337,940**

AUDITORS' REPORT

To the Shareholders of
Scott's Restaurants Co. Limited:

We have examined the consolidated balance sheet of Scott's Restaurants Co. Limited as at April 27, 1980 and the consolidated statements of income, 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 27, 1980 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 period.

The comparative figures were reported on by other chartered accountants.

Toronto, Canada
July 14, 1980
(August 1, 1980 as to note 12 (b))

Clarkson Gordon
Chartered Accountants

Financial and Statistical Review

(dollars in thousands, except net income and dividends per share)

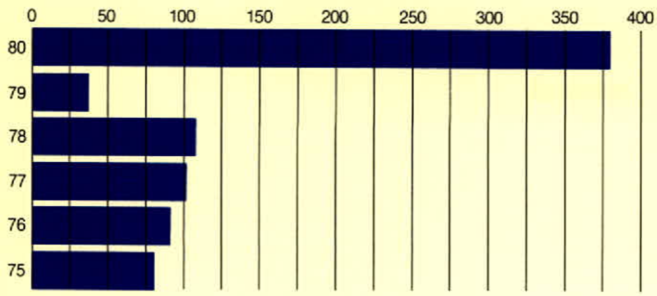
	FISCAL YEAR April 27, 1980 (1)	Seventeen Weeks to April 29, 1979	---FISCAL YEAR--- December 31, 1978	January 1, 1978	December 26, 1978	December 28, 1976
Sales	$375,874	$ 38,167	$111,401	$100,905	$90,058	$80,976
Net income	12.428	885	8,328	8,426	8,244	7,131
Net income per share (2)	0.72	0.05	0.49	0.50	0.49	0.43
Dividends per share (2)	0.16	0.08	0.15	0.14	0.13	0.12
Funds received from operations	32,828	3,397	12,215	11,094	10,679	9,522
Capital expenditures	44,221	2,387	18,901	8,709	6,735	7,251
Total assets	337,940	300,898	66,020	51,400	46,049	39,642
Shareholders' equity	59,954	49,769	50,227	43,181	36,994	30,838
Number of employees	15,500	3,800	3,600	3,380	2,990	2,770
Take-out and other food operations	315	295	294	257	229	218
Hotel rooms in operation	11,934					
Transportation and warehousing (units)	1,287					

(1) After consolidation with Commonwealth Holiday Inns of Canada Limited.

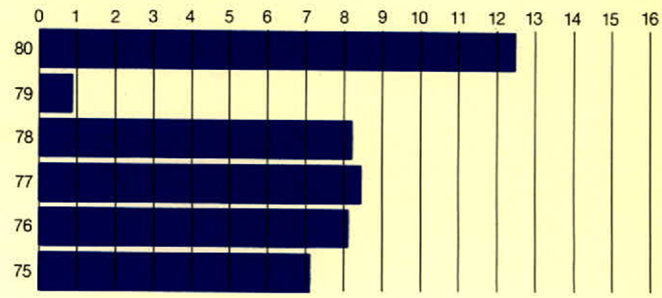
(2) After adjusting for the two for one stock split in 1980.

FIVE YEAR REVIEW

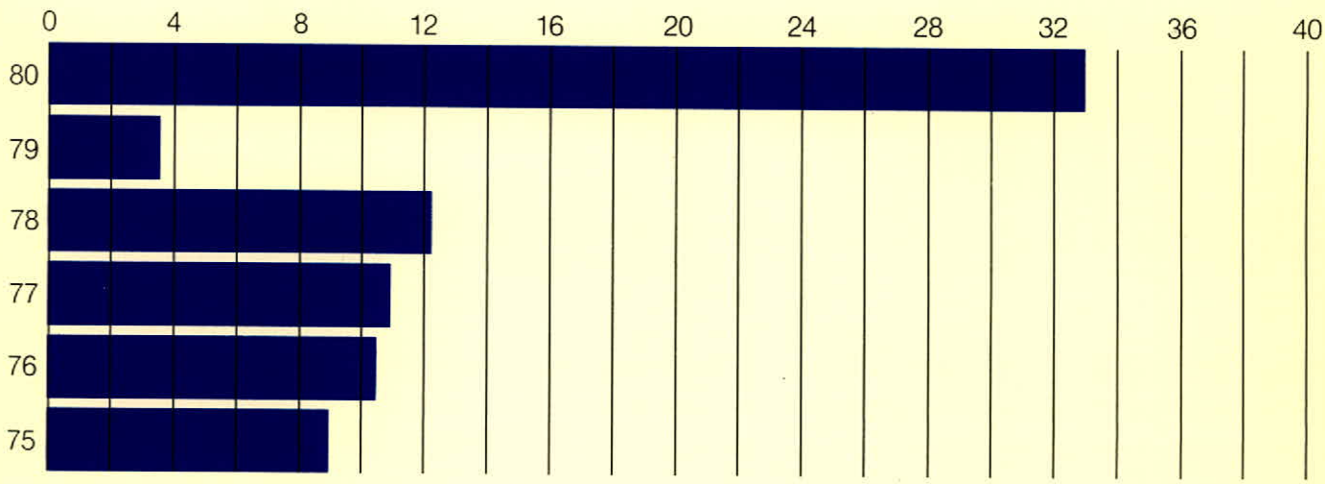
SALES (millions of dollars)



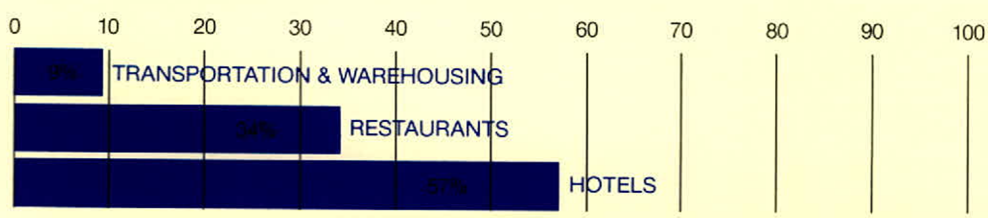
NET INCOME (millions of dollars)



FUNDS RECEIVED FROM OPERATIONS (millions of dollars)



1980 PERCENTAGE DISTRIBUTION OF TOTAL SALES



1980 AFTER CONSOLIDATION WITH COMMONWEALTH HOLIDAY INNS OF CANADA LIMITED
1979 SEVENTEEN WEEKS TO APRIL 29, 1979

Directors and Officers

Directors

George R. Gardiner*
F. Ronald Graham*
Benson Orenstein*
John J. Leon*
H. Anthony Arrell+
Michael Gardiner+
William C. Graham, Q.C.
Richard A. Hunter
George S. MacDonell+
Leslie W. Paszat
Helen D. Phelan
Robert A. Stevens

*Member of the Executive Committee
+Member of the Audit Committee

Officers

George R. Gardiner
Chairman of the Board

F. Ronald Graham
Vice-Chairman of the Board

Benson Orenstein
Chairman of the Executive Committee

John J. Leon
President

Richard A. Hunter
Senior Vice-President
Canadian Operations

Leslie W. Paszat
Senior Vice-President
U.S. Operations

Peter J.M. Burger
Vice-President and General Manager
Take-Out Operations — Ontario

Melville W. Fanshaw
Vice-President, Planning and Development

Guy Jeanneau
Vice-President and General Manager
Take-Out Operations — Quebec

Thomas W. Chase
Vice-President

James G. Gibson, C.A.
Vice-President, Finance and Treasurer

Edmund V. Graham, C.A.
Secretary

Sidney Robbins
Assistant Secretary


Holiday Inn


Scott's
FRIED CHICKEN


Gold Chin


Holiday Inn


Poulet Frit
à la Kentucky