Kentucky Fried Chicken (Great Britain) Limited

Directors' report and financial statements

29 November 1998
Registered number 967403

Directors' report and financial statements

Contents

Company information

Registered in England
on 2 December 1969
Number 967403
VAT 414 0215 13

Registered Office	Kentucky Fried Chicken (Great Britain) Limited 32 Goldsworth Road Woking Surrey GU21 1JT	
Directors	JJ Ash	(resigned 6 April 1998)
	TJ Ashby	(appointed 26 June 1998)
	GD Allan	
	GP Broad	(appointed 7 April 1998; resigned 31 July 1999)
	KP Higgins	(appointed 6 April 1998)
	MRF Shuker	
Company Secretary	DG Dixon	
Auditors	KPMG 8 Salisbury Square London EC4Y 8BB	

Directors' report

The directors present their report and audited financial statements for the 52 weeks ended 29 November 1998.

Principal activities

The principal activity of the company during the period continued to be the sale of KFC through company-owned stores and the receipt of income from franchisees of the KFC trade marks and processes.

Results and dividends

The profit on ordinary activities after taxation of the company for the period ended 29 November 1998 amounted to £9,806,000 *(1997: £10,323,000)*.

The directors do not propose to pay a dividend *(1997: £17,500,000)*.

Directors and directors' interests

The directors who held office during the period are as follows:

JJ Ash	(resigned 6 April 1998)
TJ Ashby	(appointed 26 June 1998)
GD Allan	
GP Broad	(appointed 7 April 1998; resigned 31 July 1999)
KP Higgins	(appointed 6 April 1998)
MRF Shuker	

None of the directors who held office at the end of the period had any disclosable interest in the shares of the company.

GD Allan is also a director of Restaurant Holdings Limited of which the company is a wholly owned subsidiary and his interests are stated in the directors' report of that company. Otherwise, the directors who held office at the end of the period had the following outstanding options to acquire ordinary shares of Tricon Global Restaurants Inc.

	Date of grant	Number granted	Exercise price US$	Date from which exercisable	Expiry date
TJ Ashby	20 January 1998	8,257	$27.25	20 January 2002	20 January 2008
GP Broad	25 July 1996	2,011	$24.87	1 August 1997	25 July 2006
KP Higgins	20 January 1998	4,129	$27.25	20 January 2002	20 January 2008
MRF Shuker	20 January 1998	11,010	$27.25	20 January 2002	20 January 2008

During the period, MRF Shuker exercised a share option for 3,016 shares granted in 1996 at an exercise price of US$24.87. The market price at date of exercise was US$51.50.

Directors' report *(continued)*

Year 2000

As is well known, many computer and digital storage systems express dates using only the last two digits of the year and will thus require modification or replacement to accommodate the Year 2000 and beyond in order to avoid malfunctions and resulting widespread commercial disruption. This is a complex and pervasive issue. The operation of our business depends not only on our own computer systems, but also in some degree on those of our suppliers and customers. This could expose us to further risk in the event that there is a failure by other parties to remedy their own Year 2000 issues.

A company-wide programme, designed to address the impact of the Year 2000 on our business, has been commissioned by the Board and is under way. Resources have been allocated and the Board receives regular reports on progress.

A significant risk analysis has been performed to determine the impact of the issue on all our activities. From this, prioritised action plans have been developed which are designed to address the key risks in advance of critical dates and without disruption to the underlying business. Priority is given to those systems which could cause a significant financial or legal impact on the company's business if they were to fail. The plan also includes a requirement for the testing of systems changes, involving the participation of users.

The risk analysis also considers the impact on our business of Year 2000 related failures by our significant suppliers and customers. In appropriate cases we have initiated formal communication with these other parties.

Given the complexity of the problem, it is not possible for any organisation to guarantee that no Year 2000 problems will remain, because at least some level of failure may still occur. However, the Board believes that it will achieve an acceptable state of readiness and has also provided resources to deal promptly with significant subsequent failures or issues that might arise.

Disabled employees

As an equal opportunity employer, it is the company's policy to give full and fair consideration to every application for employment from disabled persons, bearing in mind the abilities and aptitudes of the applicants in relation to available vacancies. Where existing employees become disabled their services will be retained wherever practicable.

Directors' report *(continued)*

Employee involvement in decision making

The directors consider that the involvement of employees is important to the success of the company. Employees are regularly informed of the company's performance and progress at both formal and informal meetings together with the regular publication of an in-house magazine.

Health and safety at work

The company has a proactive approach to health and safety at work, regarding compliance with statutory requirements as a minimum standard. The company's formal health and safety statement is available at all company locations.

Payments to creditors

It is the company's policy to make payment to creditors in accordance with their standard terms of supply. At the year end, creditors days on the company's principal business activities amounted to 12 days *(1997: 18 days)*.

Charitable and political donations

Donations to UK charities amounted to £16,250 *(1997: £13,958)*. The company made no political contributions during the period.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

DG Dixon

Secretary

32 Goldsworth Road
Woking
Surrey
GU21 1JT

1 September 1999

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG

PO Box 695
8 Salisbury Square
London
EC4Y 8BB

Auditors' report to the members of Kentucky Fried Chicken (Great Britain) Limited

We have audited the financial statements on pages 6 to 18.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 29 November 1998 and of its profit for the 52 weeks then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG
Chartered Accountants
Registered Auditors

7 September 1999

Profit and loss account

for the 52 weeks ended 29 November 1998

	Note	**52 weeks ended 29 November 1998 £000**	52 weeks ended 30 November 1997 £000
Turnover	*3*	**107,023**	96,886
Cost of sales		**(56,630)**	(52,208)
Gross profit		**50,393**	44,678
Administrative expenses		**(38,295)**	(34,188)
Other operating income		**1,756**	1,438
Operating profit		**13,854**	11,928
Other interest receivable and similar income	*7*	**1,221**	8,299
Interest payable and similar charges	*8*	**(399)**	(125)
Profit on ordinary activities before taxation	*4*	**14,676**	20,102
Tax on profit on ordinary activities	*9*	**(4,870)**	(9,779)
Profit on ordinary activities after taxation		**9,806**	10,323
Dividends payable (£0.97 per ordinary share)		**-**	(17,500)
Profit/(loss) retained for the financial period		**9,806**	(7,177)

The turnover and operating profit relate wholly to continuing activities.

A statement of movements on reserves is given in note 18.

The group had no recognised gains or losses during the period other than those reflected in the above profit and loss account.

Balance sheet

at 29 November 1998

	Note	29 November 1998		30 November 1997	
		£000	£000	£000	£000
Fixed assets					
Intangible fixed assets	*10*		**14,499**		15,305
Tangible fixed assets	*11*		**38,507**		32,724
Investments in subsidiary undertakings	*12*		**933**		933
			53,939		48,962
Current assets					
Stocks	*13*	**540**		459	
Debtors	*14*	**6,171**		5,168	
Cash at bank and in hand		**14,586**		2,780	
		21,297		8,407	
Creditors: amounts falling due within one year	*15*	**(25,186)**		(17,283)	
Net current (liabilities)/assets			**(3,889)**		(8,876)
Total assets less current liabilities			**50,050**		40,086
Creditors: amounts falling due after more than one year	*15*		**(1,543)**		(1,385)
Net assets			**48,507**		38,701
Capital and reserves					
Called up share capital	*17*		**18,000**		18,000
Share premium account	*18*		**16,283**		16,283
Profit and loss account	*18*		**14,224**		4,418
Shareholders' funds	*19*		**48,507**		38,701

These financial statements were approved by the board of directors on 1 September 1999 and were signed on its behalf by:

GD Allan
Director

Notes

(forming part of the financial statements)

1 Accounting reference date

Since it is part of a retail group, the company operates a 52 week accounting year rather than a full calendar year.

2 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation of financial statements

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

The company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare group accounts.

The company is exempt from the requirement to prepare a cash flow statement since it is a wholly owned subsidiary. The ultimate parent company, Tricon Global Restaurants Inc. prepares consolidated financial statements including the company's results, which are publicly available.

Intangible fixed assets

Intangible fixed assets, representing goodwill arising on the merger with Roberts Restaurants Limited, are written off to the profit and loss account over 20 years.

Tangible fixed assets and depreciation

The costs of tangible fixed assets are depreciated by equal annual instalments over the expected useful lives of the assets as follows:

Freehold and long leasehold buildings	-	20 years
Machinery and equipment	-	3-15 years

All buildings held on leases of less than twenty years are amortised over the unexpired term. No depreciation is provided in respect of land.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. There are no monetary assets and liabilities denominated in foreign currencies.

Notes *(continued)*

2 Accounting policies (continued)

Leases

In accordance with SSAP 21 rental charges on all operating leases are charged to the profit and loss account as incurred over the term of the lease.

Pension costs

The company operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company.

Contributions to the scheme are assessed by a qualified actuary using the projected unit method. The expected cost of pensions in respect of the scheme is charged to the profit and loss account so as to spread the cost of pensions over the service lives of employees in the scheme.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Turnover

Turnover comprises sales of KFC food and drinks at company owned stores and royalties and fees from franchise licences.

3 Analysis of turnover

	52 weeks ended 29 November 1998 £000	52 weeks ended 30 November 1997 £000
By activity		
Company stores sales	**99,633**	90,855
Franchise royalties and fees	**7,390**	6,031
	107,023	96,886

The directors state that it is not possible to analyse profit before taxation or net assets by activity as the information is not readily available.

Notes *(continued)*

4 Profit on ordinary activities before taxation

	52 weeks ended 29 November 1998 £000	52 weeks ended 30 November 1997 £000
Profit on ordinary activities before taxation is stated after charging		
Auditors' remuneration:		
Audit	**44**	48
Other services	**21**	42
Depreciation of tangible fixed assets	**5,640**	4,948
Hire of plant and machinery - rentals payable under operating leases	**279**	271
Hire of other assets - operating leases	**298**	351
Leasehold property rents	**5,469**	5,239

5 Remuneration of directors

	52 weeks ended 29 November 1998 £000	52 weeks ended 30 November 1997 £000
Directors' emoluments including pension contributions:		
As directors	**617**	411

The emoluments, excluding pension contributions, of the highest paid director were £301,000 *(1997: £266,000)*.

	Number of directors 52 weeks ended 29 November 1998	52 weeks ended 30 November 1997
Retirement benefits are accruing to the following number of directors under:		
Defined benefit schemes	**3**	2

Notes *(continued)*

6 Staff numbers and costs

The average number of persons employed by the company (including directors) during the period was as follows:

	Number of employees	
	52 weeks ended 29 November 1998	52 weeks ended 30 November 1997
Total	**1,524**	814

The aggregate payroll costs of these persons were as follows:

	52 weeks ended 29 November 1998 £000	52 weeks ended 30 November 1997 £000
Wages and salaries	**7,528**	4,042
Social security costs	**213**	105
Other pension costs (see note 21)	**707**	371
	8,448	4,518

Kentucky Fried Chicken (Great Britain) Limited uses its subsidiary KFC Services Limited as employer for the majority of staff employed in the group.

7 Other interest receivable and similar income

	52 weeks ended 29 November 1998 £000	52 weeks ended 30 November 1997 £000
Dividend receivable	**-**	8,023
Interest on short-term deposits	**1,221**	276
	1,221	8,299

Notes *(continued)*

8 Interest payable and similar charges

	52 weeks ended 29 November 1998 £000	52 weeks ended 30 November 1997 £000
Amounts payable on bank overdrafts	204	-
Other interest	195	125
	399	125

9 Taxation

	52 weeks ended 29 November 1998 £000	52 weeks ended 30 November 1997 £000
UK corporation tax	4,692	4,062
Additional payments for group relief to PepsiCo Holdings Limited	-	5,814
Adjustment in respect of prior periods	178	(97)
	4,870	9,779

10 Intangible assets

	Goodwill £000
Cost	
On acquisition	16,111
Amortisation	
At beginning of period	806
Charge for period	806
At end of period	1,612
Net book value	
At 29 November 1998	**14,499**
At 30 November 1997	15,305

Notes *(continued)*

10 Intangible assets *(continued)*

On 1 December 1996, the company merged with Roberts Restaurants Limited. The book value of the investment in Roberts Restaurants Limited was less than the fair value of that company. The company's cost of investment in Roberts Restaurants Limited has been re-allocated so as to recognise the goodwill inherent in the business. This is not in accordance with Schedule 4 to the Companies Act 1985 which requires the purchase price of an asset to be based on the actual price paid. Had the requirements of the Act been followed, the diminution in value of the investment arising from the transfer of the business at less than fair value would have had to be recognised as a loss. The directors consider that, as there had been no overall loss to the company, it would fail to give a true and fair view to charge that diminution to the profit and loss account for the year and it should instead be reallocated to goodwill.

11 Tangible fixed assets

	Freehold land and buildings £000	Leasehold improvements £000	Machinery and equipment £000	Total £000
Cost or valuation				
At beginning of period	11,880	33,510	33,023	78,413
Additions	723	5,047	6,488	12,258
Disposals	(63)	(816)	(863)	(1,742)
At end of period	12,540	37,741	38,648	88,929
Depreciation and diminution in value				
At beginning of period	3,948	21,574	20,167	45,689
Charge for period	368	2,079	3,193	5,640
Provision	116	-	-	116
Disposals	(14)	(433)	(576)	(1,023)
At end of period	4,418	23,220	22,784	50,422
Net book value				
At 29 November 1998	**8,122**	**14,521**	**15,864**	**38,507**
At 30 November 1997	7,932	11,936	12,856	32,724

Notes *(continued)*

12 Fixed asset investments

	Cost or valuation £000	Provisions £000	Net book value **£000**
At beginning and end of period	3,363	2,430	**933**

On 1 December 1996, the company issued 17 million £1 ordinary shares in consideration for the acquisition of Roberts Restaurants Limited as part of a share for share exchange with PepsiCo Holdings Limited.

The subsidiary undertakings of the group at 29 November 1998 were as follows:

	Principal activity	**Class and percentage of shares held**
Kentucky Fried Chicken Limited	Non-trading	100% ordinary shares
KFC Advertising Limited	Advertising Co-operative	100% ordinary shares
Valleythorn Limited	Non-trading	100% ordinary shares
Finger Lickin' Chicken Limited	Non-trading	100% ordinary shares
Roberts Restaurants Limited	Non-trading	100% ordinary shares
Southern Fast Foods Limited	Non-trading	100% ordinary shares
KFC Services Limited	Services Company	100% ordinary shares

All companies are registered in England and Wales and operate in the United Kingdom.

13 Stocks

	29 November 1998 £000	30 November 1997 £000
Food and packaging	**540**	452
Equipment	-	7
	540	459

Notes *(continued)*

14 Debtors

	29 November 1998 £000	30 November 1997 £000
Amounts due within one year:		
Trade debtors	**980**	800
Other debtors	**1,035**	2,063
Amounts owed by parent company	**3,073**	-
Amounts owed by fellow subsidiary undertakings	**117**	1,159
Amounts owed by subsidiary undertakings	**311**	545
Prepayments and accrued income	**655**	601
	6,171	5,168

15 Creditors

	29 November 1998		30 November 1997	
	£000	**£000**	£000	£000
Amounts falling due within one year:				
Trade creditors		**3,957**		2,513
Amounts owed to former ultimate parent and fellow subsidiary undertakings		**3,925**		31
Amounts owed to subsidiary undertakings		**1,241**		1,500
Other creditors including taxation and social security:				
Corporation tax	**4,692**		4,078	
Other taxes and social security	**1,817**		1,669	
		6,509		5,747
Accruals and deferred income		**9,554**		7,492
		25,186		17,283
Amounts falling due after one year:				
Accruals and deferred income		**1,543**		1,385

Notes *(continued)*

16 Provisions for liabilities and charges

Balances in respect of deferred taxation are set out below:

	29 November 1998		30 November 1997	
	Provided £000	**Unprovided £000**	Provided £000	Unprovided £000
Accelerated capital allowances	-	**3,550**	-	2,708
Short term timing differences	-	**(512)**	-	(524)
Net chargeable gains	-	**624**	-	302
	-	**3,662**	-	2,486

17 Called up share capital

	29 November 1998 £000	30 November 1997 £000
Authorised		
Ordinary shares of £1 each	**25,000**	25,000
Allotted, called up and fully paid		
Ordinary shares of £1 each	**18,000**	18,000

18 Reserves

	Share premium account £000	**Profit and loss account** £000
At beginning of period	16,283	4,418
Retained profit for the period	-	9,806
At end of period	**16,283**	**14,224**

Notes *(continued)*

19 Reconciliation of movements in shareholders' funds

	29 November 1998 £000	30 November 1997 £000
Opening shareholders' funds	**38,701**	29,385
Profit for the financial period	**9,806**	10,323
Net dividends payable	-	(17,500)
Issue of ordinary shares	-	17,000
Revaluation of investments	-	(507)
Closing shareholders' funds	**48,507**	38,701

All shareholders' funds relate to equity interests.

20 Commitments

(i) Capital commitments at the end of the financial period for which no provision has been made are as follows:

	29 November 1998 £000	30 November 1997 £000
Authorised but not contracted	**669**	1,589

(ii) Annual commitments under non-cancellable operating leases are as follows:

	29 November 1998		30 November 1997	
	Land and buildings £000	**Other £000**	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	**278**	-	142	-
In the second to fifth years inclusive	**1,189**	**577**	920	622
Over five years	**4,134**	-	4,410	-
	5,601	**577**	5,472	622

Notes *(continued)*

21 Pension scheme

The company participates in the Kentucky Fried Chicken Pension Fund. This scheme is of the defined benefit type providing benefits to certain employees of Kentucky Fried Chicken (Great Britain) Limited and Kentucky Fried Chicken Services Limited and the assets are held separately from the company's assets.

The liabilities of the scheme are valued regularly by independent actuaries using the projected unit method. The latest actuarial assessment of the scheme was carried out as at 1 April 1997. It was assumed for the purposes of this valuation that the rate of return on the fund's assets would be 12% and the rate of increase in salaries would be 6.5% per annum.

The market value of the fund's assets at 1 April 1997 was £3,038,000. The actuarial value at that date exceeded the benefits which had accrued to members, after allowing for expected future increases in earnings, by £145,000.

The net pension cost for the company was £707,000 *(1997: £371,000)*.

The next actuarial valuation falls due on 1 April 1999.

22 Parent companies

The entity is a subsidiary undertaking of Restaurant Holdings Limited, a company registered in England and Wales.

The largest group in which the results of the company are consolidated is that headed by Tricon Global Restaurants Inc., a company incorporated in North Carolina, USA. The consolidated accounts of this group are available to the public and may be obtained from:

Tricon Global Restaurants Inc.
1441 Gardiner Lane
Louisville
Kentucky
40213
United States of America