

Kentucky Fried Chicken (Great Britain) Limited

Directors' report and financial
statements

Registered number 967403

4 December 2005



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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 6JT

Directors

MRF Shuker	
AE Perren	
N Chaudhary	
C Harrison-Church	(resigned 1 November 2005)
D Royden	(resigned 30 June 2006)
JC Johannsen	
JA Bhansali	(resigned 29 July 2005)
CR Fells	
JT Hofma	(appointed 29 July 2005)

Company Secretary S Wilson

Auditors KPMG LLP
8 Salisbury Square
London
EC4Y 8BB

Directors' report

The directors present their report and audited financial statements for the 53 weeks ended 4 December 2005.

Principal activities

The principal activity of the company during the period in the UK and Germany 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 4 December 2005 amounted to £10,523,000 (28 November 2004: £16,791,000).

The directors declared and paid an interim dividend on 18 November 2005 of £4,000,000 (28 November 2004: £8,000,000). No final dividend has been declared (28 November 2004: £60,000,000). The 2004 final dividend will not be due and payable until 1 November 2006. The Board will continue to review regularly its distribution policy taking into account earnings, cash flow and the needs of the business.

The retained profit of £6,523,000 (28 November 2004: £51,209,000 loss) has been taken to reserves.

Directors and directors' interests

The directors who held office during the period and since the year end were as follows:

MRF Shuker	
AE Perren	
N Chaudhary	
C Harrison-Church	(resigned 1 November 2005)
D Royden	(resigned 30 June 2006)
JC Johannsen	
JA Bhansali	(resigned 29 July 2005)
CR Fells	
JT Hofma	(appointed 29 July 2005)

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

Directors' report (continued)

Directors and directors' interests (continued)

The directors who held office at the end of the period who had the following outstanding options to acquire ordinary shares of Yum! Brands Inc were:

	Date of grant	Number granted	Exercise price US\$	Date from which exercisable	Expiry date
AE Perren	27 January 2000	10,000	15.1407	27 January 2004	27 January 2010
	25 January 2001	3,628	16.7825	25 January 2002	25 January 2011
	31 December 2001	2,508	24.4075	31 December 2002	31 December 2011
	23 January 2003	3,866	24.33	23 January 2004	23 January 2013
	27 January 2004	3,838	34.46	27 January 2005	27 January 2014
	28 January 2005	4,662	45.06	28 January 2006	28 January 2015
N Chaudhary	21 January 1999	3,408	23.4844	21 January 2003	21 January 2009
	27 January 2000	4,000	15.1407	27 January 2004	27 January 2010
	31 December 2001	904	24.4075	31 December 2002	31 December 2011
	23 January 2003	6,598	24.33	23 January 2004	23 January 2013
	27 January 2004	8,936	34.46	27 January 2005	27 January 2014
	28 January 2005	5,962	45.06	28 January 2006	28 January 2015
D Royden	25 January 2001	1,275	16.7825	25 January 2002	25 January 2011
	31 December 2001	904	24.4075	31 December 2002	31 December 2011
	23 January 2003	3,711	24.33	23 January 2004	23 January 2013
	27 January 2004	2,637	34.46	27 January 2005	27 January 2014
	28 January 2005	1,735	45.06	28 January 2006	28 January 2015
	27 January 2000	8,746	15.1407	27 January 2004	27 January 2010
JC Johannsen	25 January 2001	4,022	16.7825	25 January 2002	25 January 2011
	31 December 2001	3,614	24.4075	31 December 2002	31 December 2011
	23 January 2003	3,711	24.33	23 January 2004	23 January 2013
	27 January 2004	2,784	34.46	27 January 2005	27 January 2014
	28 January 2005	2,060	45.06	28 January 2006	28 January 2015
	20 January 1998	22,020	13.625	20 January 2002	20 January 2008
MRF Shuker	27 January 2000	40,290	15.1407	27 January 2004	27 January 2010
	25 January 2001	12,662	16.7825	25 January 2002	25 January 2011
	31 December 2001	4,264	24.4075	31 December 2002	31 December 2011
	29 January 2003	24,739	24.33	23 January 2004	23 January 2013
	27 January 2004	12,452	34.46	27 January 2005	27 January 2014
	28 January 2005	15,176	45.06	28 January 2006	28 January 2015
CR Fells	27 January 2004	3,663	34.46	27 January 2005	27 January 2014
	28 January 2005	3,144	45.06	28 January 2006	28 January 2015
JT Hofma	27 January 2004	5,860	34.46	27 January 2005	27 January 2014
	28 January 2005	7,372	45.06	28 January 2006	28 January 2015

Directors' report *(continued)*

Directors and directors' interests *(continued)*

During the period the following share options were exercised:

	Date of grant	Number exercised	Exercise Price US\$	Market price US\$	Gain on exercise US\$
C Harrison-Church	31 December 2001	1,254	24.4075	48.00	29,585
D Royden	25 January 2001	647	16.7825	52.32	22,993
	31 December 2001	2,710	24.4075	52.30	75,589
JA Bhansali	25 January 2001	2,086	16.7825	52.50	74,507
	31 December 2001	1,406	24.4075	52.3622	39,304
	23 January 2003	1,855	24.33	52.50	52,255
	27 January 2004	915	34.46	52.50	16,507
MRF Shuker	25 January 2001	6,330	16.7825	50.3541	212,508
	31 December 2001	12,794	24.4075	50.2024	330,020
N Chaudhary	27 January 2000	1,616	15.1407	46.44	50,580
	25 January 2001	2,682	16.7825	50.80	91,235
	31 December 2001	2,710	24.4075	50.80	71,524

Directors' report *(continued)*

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.

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 (28 November 2004: 13 days).

Charitable and political donations

Donations to UK charities amounted to £5,798 (28 November 2004: £2,531). The company made no political contributions during the period (28 November 2004: £Nil).

Auditors

The company has passed elective resolutions whereby it has dispensed with the requirements to hold an annual general meeting in each year, to lay the accounts in general meeting and to reappoint the auditors on an annual basis. Accordingly the auditors are deemed to be reappointed in accordance with the provisions of Section 385A of the Companies Act 1985.

By order of the board



S Wilson
Secretary

22 September 2006

32 Goldsworth Road
Woking
Surrey
GU21 6JT

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period 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 LLP

PO Box 695
8 Salisbury Square
London
EC4Y 8BB

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

We have audited the financial statements on pages 7 to 25.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 5, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit 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 4 December 2005 and of its profit for the 53 week period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditors

22 SEPTEMBER 2006

Profit and loss account

for the 53 weeks ended 4 December 2005

	Note	53 weeks ended 4 December 2005 £000	52 weeks ended 28 November 2004 £000
Turnover	3	258,959	256,850
Cost of sales		(138,924)	(137,393)
Gross profit		120,035	119,457
Administrative expenses		(104,815)	(97,100)
Other operating income	3	1,833	3,931
Operating profit		17,053	26,288
Other interest receivable and similar income	7	1,680	1,205
Interest payable and similar charges	8	(1,520)	(1,555)
Profit on ordinary activities before taxation	4	17,213	25,938
Tax on profit on ordinary activities	9	(6,690)	(9,147)
Profit on ordinary activities after taxation	9	10,523	16,791
Dividends	10	(4,000)	(68,000)
Retained profit/(loss) for the financial period		6,523	(51,209)

The turnover and operating profit relate wholly to continuing activities.

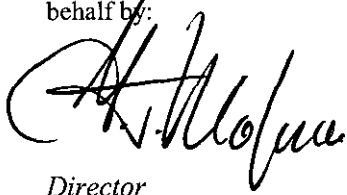
A statement of movements on reserves is given in note 19.

Balance sheet

at 4 December 2005

	Note	4 December 2005		28 November 2004	
		£000	£000	£000	£000
Fixed assets					
Intangible fixed assets	11		15,819		16,976
Tangible fixed assets	12		108,324		110,039
Investments in subsidiary undertakings	13		933		933
			<u>125,076</u>		<u>127,948</u>
Current assets					
Stocks	14	1,312		1,526	
Debtors	15	53,421		33,147	
Cash at bank and in hand		9,204		14,025	
		<u>63,937</u>		<u>48,698</u>	
Creditors: amounts falling due within one year	16	(134,388)		(68,785)	
		<u></u>		<u></u>	
Net current liabilities			(70,451)		(20,087)
Total assets less current liabilities			<u>54,625</u>		<u>107,861</u>
Creditors: amounts falling due after more than one year	16		(1,911)		(61,898)
Provisions for liabilities and charges	17		(5,028)		(5,636)
			<u></u>		<u></u>
Net assets			<u>47,686</u>		<u>40,327</u>
Capital and reserves					
Called up share capital	18		18,000		18,000
Share premium account	19		16,283		16,283
Profit and loss account	19		13,403		6,044
			<u></u>		<u></u>
Shareholders' funds	20		<u>47,686</u>		<u>40,327</u>

These financial statements were approved by the board of directors on 22/9/2006 and were signed on its behalf by:


Director

Statement of total recognised gains and losses
for the period ended 4 December 2005

	53 weeks ended 4 December 2005 £000	52 weeks ended 28 November 2004 £000
Profit on ordinary activities after tax	10,523	16,791
Exchange rate movement	836	(256)
Total gains and losses recognised since last annual report	11,359	16,535

Notes

(forming part of the financial statements)

1 Accounting reference date

Since it is part of a retail group, the company operates a 52 or 53 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, Yum! Brands Inc prepares consolidated financial statements including the company's results, which are publicly available.

As 100% of the company's voting rights are controlled within the group headed by Yum! Restaurant Holdings, the company has taken advantage of the exemption contained in FRS8 and has therefore not disclosed transactions or balances with entities which form part of the group. The consolidated financial statements of Yum! Restaurant Holdings, within which this company is included, can be obtained from the Registrar of Companies, Companies House, Cardiff, CF14 3UZ.

Intangible fixed assets

Intangible fixed assets represents goodwill arising on the merger with Kentucky Fried Chicken Limited (formerly Roberts Restaurants Limited) and on the acquisition of two former franchise companies and key money paid on leases entered into, which are written off to the profit and loss account over the expected useful lives of the assets as follows:

Goodwill	-	20 years
Key money	-	Lesser of 20 years or the life of the lease

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.

Notes (continued)

2 Accounting policies (continued)

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction.

The profit and loss accounts of overseas entities are translated at the average rate of exchange during the period and the balance sheet at the rate ruling at the balance sheet date. Exchange differences arising on the translation of opening net assets are dealt with through reserves, as are exchange differences arising on related foreign currency borrowings. In addition, exchange differences between the results translated at an average rate and a closing rate are dealt with through reserves.

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 is a member of the Kentucky Fried Chicken (Great Britain) Limited Pension and Life Assurance Plan 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 charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company.

The pension cost figures used in these accounts comply with the current pension cost accounting standard SSAP 24. The company has adopted the transitional provisions of the new accounting standard, FRS 17.

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. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Turnover

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

Notes (continued)

3 Analysis of turnover

	53 weeks ended 4 December 2005 £000	52 weeks ended 28 November 2004 £000
<i>By activity</i>		
Company stores sales	241,247	241,117
Franchise royalties and fees	17,712	15,733
	<u>258,959</u>	<u>256,850</u>

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.

Analysis of other operating income

	53 weeks ended 4 December 2005 £000	52 weeks ended 28 November 2004 £000
Rental income	293	240
Refranchising	70	1,784
Distribution income	1,349	1,610
Other income	121	297
	<u>1,833</u>	<u>3,931</u>

4 Profit on ordinary activities before taxation

	53 weeks ended 4 December 2005 £000	52 weeks ended 28 November 2004 £000
<i>Profit on ordinary activities before taxation is stated after charging / (crediting)</i>		
Foreign exchange gain	(90)	(6)
Auditors' remuneration:		
Audit	85	40
Other services	28	74
Amortisation of intangible fixed assets	1,312	1,460
Depreciation of tangible fixed assets	13,909	13,567
Impairment of tangible fixed assets	1,141	1,549
Loss/(gain) on disposal of tangible fixed assets	64	(228)
Hire of plant and machinery – rentals payable under operating leases	204	131
Hire of other assets – operating leases	356	336
Leasehold property rents	<u>14,629</u>	<u>13,609</u>

Notes (continued)

5 Remuneration of directors

	53 weeks ended 4 December 2005 £000	52 weeks ended 28 November 2004 £000
Directors' emoluments	1,535	895

The emoluments, excluding pension contributions, of the highest paid director were £582,000 (2004: £258,000) and the company paid pension contributions of £21,950 (2004: £12,000) during the period.

	Number of directors	
	53 weeks ended 4 December 2005	52 weeks ended 28 November 2004
Retirement benefits are accruing to the following number of directors under:		
Defined benefit schemes	8	7

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	
	53 weeks ended 4 December 2005	52 weeks ended 28 November 2004
Total	6,931	6,772

The aggregate payroll costs of these persons were as follows

	53 weeks ended 4 December 2005 £000	52 weeks ended 28 November 2004 £000
Wages and salaries	64,558	66,401
Social security costs	5,834	5,906
Other pension costs (see note 22)	2,768	1,109
	73,160	73,416

Notes (continued)

7 Other interest receivable and similar income

	53 weeks ended 4 December 2005 £000	52 weeks ended 28 November 2004 £000
Interest receivable from group companies	832	630
Bank interest	848	575
	<u>1,680</u>	<u>1,205</u>

8 Interest payable and similar charges

	53 weeks ended 4 December 2005 £000	52 weeks ended 28 November 2004 £000
Interest payable to group companies	1,412	1,418
Bank interest	108	137
	<u>1,520</u>	<u>1,555</u>

9 Taxation

	53 weeks ended 4 December 2005 £000	52 weeks ended 28 November 2004 £000
UK corporation tax at 30% (2004: 30%)	7,636	9,174
Adjustment in respect of prior periods	(338)	244
	<u>7,298</u>	<u>9,418</u>
Deferred tax credit for the year	(608)	(271)
	<u>6,690</u>	<u>9,147</u>

Notes (continued)

9 Taxation (continued)

Factors affecting the tax charge for the current period

The current tax charge is higher (2004: higher) than the standard rate of corporation tax in the UK (30%, 2004: 30%). The differences are explained below.

	53 weeks ended 4 December 2005 £000	52 weeks ended 28 November 2004 £000
Profit on ordinary activities before taxation	17,213	25,938
Current tax at 30% (2004: 30%)	5,164	7,781
Effects of:		
Expenses not deductible for tax purposes (primarily depreciation of ineligible assets and impairment provisions)	2,196	945
Difference between capital allowances and depreciation of eligible assets	276	448
Adjustments to tax charge in respect of prior periods	(338)	244
Total current tax charge (see above)	7,298	9,418

10 Dividends

	53 weeks ended 4 December 2005 £000	52 weeks ended 28 November 2004 £000
Equity shares:		
Interim dividend paid	4,000	8,000
Final dividend declared and payable on 1 November 2006	-	60,000
	4,000	68,000

The interim dividend was paid on 18 November 2005. No final dividend has been declared in the year. The 2004 final dividend was declared on 27 July 2005 and is to be paid on 1 November 2006 to the parent company Yum! Restaurant Holdings.

Notes (continued)

11 Intangible assets

	Key money £000	Goodwill £000	Total £000
<i>Cost</i>			
At beginning of period	2,237	23,248	25,485
Additions	158	-	158
Foreign Exchange	(3)	-	(3)
	<hr/>	<hr/>	<hr/>
At end of period	2,392	23,248	25,640
	<hr/>	<hr/>	<hr/>
<i>Amortisation</i>			
At beginning of period	515	7,994	8,509
Charge for period	149	1,163	1,312
	<hr/>	<hr/>	<hr/>
At end of period	664	9,157	9,821
	<hr/>	<hr/>	<hr/>
<i>Net book value</i>			
At 4 December 2005	1,728	14,091	15,819
	<hr/>	<hr/>	<hr/>
At 28 November 2004	1,722	15,254	16,976
	<hr/>	<hr/>	<hr/>

On 1 December 1996, the company merged with Kentucky Fried Chicken Limited (formerly 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 Kentucky Fried Chicken Limited (formerly Roberts Restaurants Limited) has been re-allocated so as to recognise the goodwill inherent in the business. Similarly on 3 December 2000 the company acquired the trade, assets and liabilities from its subsidiary companies, Lookchief Limited and the Finger Lickin' Chicken Limited (formerly Anglian Fast Foods Limited) group of companies. The company's cost of investment in these companies has been re-allocated so as to recognise the goodwill interest in those businesses. 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.

Key money represents amounts paid to a lessor on the inception of a lease.

Notes (continued)

12 Tangible fixed assets

	Freehold land and buildings £000	Leasehold improvements £000	Machinery and equipment £000	Total £000
<i>Cost or valuation</i>				
At beginning of period	38,908	91,152	78,835	208,895
Additions	2,470	4,764	8,339	15,573
Disposals	(195)	(3,216)	(4,295)	(7,706)
Foreign exchange	(145)	(303)	(280)	(728)
	<hr/>	<hr/>	<hr/>	<hr/>
At end of period	41,038	92,397	82,599	216,034
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation and diminution in value</i>				
At beginning of period	7,493	41,191	50,172	98,856
Charge for period	1,535	4,217	8,157	13,909
Impairment	-	726	415	1,141
Disposals	(193)	(2,281)	(3,505)	(5,979)
Foreign exchange	(22)	(70)	(125)	(217)
	<hr/>	<hr/>	<hr/>	<hr/>
At end of period	8,813	43,783	55,114	107,710
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>				
At 4 December 2005	32,225	48,614	27,485	108,324
	<hr/>	<hr/>	<hr/>	<hr/>
At 28 November 2004	31,415	49,961	28,663	110,039
	<hr/>	<hr/>	<hr/>	<hr/>

Notes (continued)

13 Fixed asset investments

	Cost or valuation £000	Provisions £000	Net book value £000
At beginning and end of period	933	-	933

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

On 3 April 2000 the company acquired Lookchief Limited and on 10 July 2000 the company acquired the Finger Lickin' Chicken Limited (formerly Anglian Fast Foods Limited) group of companies. On 3 December 2000 the company acquired the trade, assets and liabilities of these subsidiary companies and consequently, as set out in note 11, the cost of investment has been reclassified as goodwill.

The subsidiary undertakings of the group at 4 December 2005 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
FLC 652 Limited	Non-trading	100% ordinary shares
Southern Fast Foods Limited	Non-trading	100% ordinary shares
KFC Services Limited	Non-trading	100% ordinary shares
KFC 652 Limited	Non-trading	100% ordinary shares
Norfolk Fast Foods Ltd	Non-trading	100% ordinary shares
Suffolk Fast Foods Ltd	Non-trading	100% ordinary shares
Lookchief Limited	Non-trading	100% ordinary shares

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

On 5th December 2005 the company acquired Mercian Fast Food Limited for £8,141,000 from its immediate parent company Yum! Restaurant Holdings.

14 Stock

	53 weeks ended 4 December 2005 £000	52 weeks ended 28 November 2004 £000
Food and packaging	1,312	1,526

Notes (continued)

15 Debtors

	53 weeks ended 4 December 2005 £000	52 weeks ended 28 November 2004 £000
<i>Amounts due within one year:</i>		
Trade debtors	3,153	4,661
Other debtors	1,343	3,922
Amounts owed by parent company	594	17,179
Amounts owed by fellow subsidiary undertakings	45,068	3,552
Amounts owed by subsidiary undertakings	311	311
Prepayments and accrued income	2,952	3,522
	<hr/>	<hr/>
	53,421	33,147
	<hr/>	<hr/>

16 Creditors

	53 weeks ended 4 December 2005 £000	52 weeks ended 28 November 2004 £000
<i>Amounts falling due within one year:</i>		
Trade creditors	5,382	6,349
Amounts owed to parent company	59,164	1,469
Amounts owed to fellow subsidiary undertakings	32,211	27,369
Amounts owed to subsidiary undertakings	4,701	2,026
Other creditors including taxation and social security:		
Corporation tax	9,381	11,890
Other taxes and social security	3,217	2,796
	<hr/>	<hr/>
	12,598	14,686
Accruals and deferred income	20,332	16,886
	<hr/>	<hr/>
	134,388	68,785
	<hr/>	<hr/>
<i>Amounts falling due after one year:</i>		
Accruals and deferred income	1,911	1,898
Final dividend declared and payable on 1 November 2006	-	60,000
	<hr/>	<hr/>
	1,911	61,898
	<hr/>	<hr/>

Notes (continued)

17 Provisions for liabilities and charges

The movement in deferred tax liabilities in the year are as follows:

	£000
At beginning of period	5,636
Credit to the profit and loss for the year	(608)
At end of period	5,028

The elements of deferred taxation are set out below:

	53 weeks ended 4 December 2005 £000	52 weeks ended 28 November 2004 £000
Accelerated capital allowances	5,591	5,867
Short term timing differences	(563)	(231)
	5,028	5,636

The company also has a net £1,700,000 (2004: £1,700,000) of potential deferred tax liabilities relating to chargeable gains that are unprovided.

18 Share capital

	53 weeks ended 4 December 2005 £000	52 weeks ended 28 November 2004 £000
<i>Authorised</i>		
Ordinary shares of £1 each	25,000	25,000
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	18,000	18,000

Notes (continued)

19 Reserves

	Share premium account £000	Profit and loss account £000
At beginning of period	16,283	6,044
Exchange rate movement	-	836
Retained profit for the period	-	6,523
At end of period	16,283	13,403

20 Reconciliation of movements in shareholders' funds

	53 weeks ended 4 December 2005 £000	52 weeks ended 28 November 2004 £000
Opening shareholders' funds	40,327	91,792
Exchange rate movement	836	(256)
Retained profit/(loss) for the financial period	6,523	(51,209)
Closing shareholders' funds	47,686	40,327

All shareholders' funds relate to equity interests.

21 Commitments

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

	53 weeks ended 4 December 2005 £000	52 weeks ended 28 November 2004 £000
Authorised but not contracted	10,206	16,561

Notes (continued)

21 Commitments (continued)

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

	53 weeks ended 4 December 2005		52 weeks ended 28 November 2004	
	Land and buildings £000	Other £000	Land and Buildings £000	Other £000
Operating leases which expire:				
Within one year	13	-	89	-
In the second to fifth years inclusive	631	563	503	467
Over five years	12,004	-	11,553	-
	<u>12,648</u>	<u>563</u>	<u>12,145</u>	<u>467</u>

22 Pension scheme

As explained in the accounting policies set out on page 11, the company is a member of the Kentucky Fried Chicken (Great Britain) Limited Pension and Life Assurance Plan. This Plan is of the funded defined benefit type providing benefits to certain employees of Kentucky Fried Chicken (Great Britain) Limited and Yum! Restaurants Europe Limited and the assets are held separately from the company's assets.

SSAP 24

The liabilities of the scheme are valued regularly by independent actuaries using the projected unit method. The latest full actuarial assessment of the scheme was carried out as at 31 March 2005. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It is assumed for the purposes of this valuation that the rate of return on the fund's assets would be 5.90% pre retirement and 4.90% post retirement, the rate of increase in salaries would be 4.90% per annum and the rate of increase in pensions earned from 6 April 1997 would be 2.90%.

The pension charge for the period was £2,768,000 (2004: £1,109,000). This charge was assessed in accordance with advice from a professional independent actuary. An accrual of £1,666,000 (2004: £225,000) is included in the company's balance sheet.

The market value of the fund's assets attributable to the company at 31 March 2005 was £17,347,000. The benefits which had accrued to members, after allowing for expected future increases in earnings, exceeded the actuarial value of assets at that date by £9,132,000. The actuarial value of assets was sufficient to cover 66% of the value of liabilities at that date. The company paid a lump sum of £10,200,000 into the scheme in 2006.

The next actuarial valuation falls due on 31 March 2008.

Notes (continued)

22 Pension scheme (continued)

FRS 17

A full actuarial valuation was carried out on 31 March 2005 and was updated to 4 December 2005 by a qualified independent actuary. The next actuarial valuation falls due on 31 March 2008.

The major assumptions used by the actuary were:

	2005	2004	2003
Discount rate	4.90%	5.30%	5.60%
Rate of increase in salaries	4.85%	4.75%	4.75%
Rate of increase of pensions in payment	2.85%	2.75%	2.75%
Inflation assumptions	2.85%	2.75%	2.75%

The assets and liabilities of the fund and the expected rates of return as at 4 December 2005 were:

	Expected rate of return	2005 £000	Expected rate of return	2004 £000	Expected rate of return	2003 £000
Equities	6.25%	16,232	6.75%	9,500	7.0%	7,378
Bonds	4.25%	4,788	4.75%	3,182	5.0%	1,828
Cash	4.0%	6	4.0%	33	4.0%	76
Market value of assets		21,026		12,715		9,282
Actuarial value of liabilities		(34,892)		(20,445)		(14,820)
Deficit to the fund		(13,866)		(7,730)		(5,538)
Related deferred tax asset		4,160		2,319		1,661
Net pension liability		(9,706)		(5,411)		(3,877)

If the above pension liability was recognised in the financial statements, the company's net assets and profit and loss reserves would be as follows:

	2005 £000	2004 £000
Net assets excluding pension liability	47,686	40,327
Release of SSAP 24 accrual	1,666	225
Pension liability	(9,706)	(5,411)
Net assets including pension liability	39,646	35,141

Notes (continued)

22 Pension scheme (continued)

	2005 £000	2004 £000
Profit and loss reserve excluding pension liability	13,403	6,044
Release of SSAP 24 accrual	1,666	225
Pension liability	(9,706)	(5,411)
	<hr/>	<hr/>
Profit and loss reserve including pension liability	5,363	858
	<hr/>	<hr/>

If FRS 17 had been fully adopted the impact on the pension costs for defined benefit schemes would have been:

	2005 £000	2004 £000	2003 £000
Analysis of amount charged to operating profit			
Service Cost	1,940	1,017	915
Past Service Cost	-	-	-
	<hr/>	<hr/>	<hr/>
Total Operating Charge	1,940	1,017	915
	<hr/>	<hr/>	<hr/>
Analysis of net return on pension scheme			
Expected return on pension scheme assets	1,058	721	466
Interest on pension scheme liabilities	(1,431)	(946)	(632)
	<hr/>	<hr/>	<hr/>
Net return	(373)	(225)	(166)
	<hr/>	<hr/>	<hr/>
Analysis of amount recognised in STRGL			
Actual return less expected return on assets	5,764	230	527
Experience gains and losses on liabilities	(5,601)	-	-
Changes in assumptions	(5,314)	(2,477)	(2,719)
	<hr/>	<hr/>	<hr/>
Actuarial loss recognised in STRGL	(5,151)	(2,247)	(2,192)
Adjustment to surplus cap	-	-	-
	<hr/>	<hr/>	<hr/>
Net loss recognised	(5,151)	(2,247)	(2,192)
	<hr/>	<hr/>	<hr/>

Notes (continued)

22 Pension scheme (continued)

	2005 £000	2004 £000	2003 £000
Movement in deficit during the year			
Opening deficit	(7,730)	(5,538)	(3,320)
Current service costs	(1,940)	(1,017)	(915)
Contributions	1,328	1,297	1,055
Net return on assets	(373)	(225)	(166)
Actuarial loss	(5,151)	(2,247)	(2,192)
	<hr/>	<hr/>	<hr/>
Closing deficit	(13,866)	(7,730)	(5,538)
	<hr/>	<hr/>	<hr/>
History of experience gains/losses			
Difference between expected and actual rate return on scheme assets			
Amount	5,764	230	527
% of scheme assets	27%	2%	6%
Experience losses on scheme liabilities			
Amount	(5,601)	-	-
% of scheme liabilities	16%	-	-
Total amount recognised in STRGL			
Amount	(5,151)	(2,247)	(2,192)
% of scheme liabilities	-15%	-11%	-15%

23 Ultimate parent company and parent undertaking of larger group of which the company is a member

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

The smallest group in which the results of the company are consolidated is that headed by Yum! Restaurant Holdings. These consolidated accounts are available to the public and may be obtained from the Registrar of Companies, Companies House, Cardiff, CF14 3UZ.

The largest group in which the results of the company are consolidated is that headed by Yum! Brands Inc, a company incorporated in the United States of America. The consolidated accounts of this group are available to the public and may be obtained from:

Yum! Brands Inc.
 1441 Gardiner Lane
 PO Box 37330
 Louisville
 Kentucky
 40213 USA