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KENTUCKY FRIED CHICKEN  
(GREAT BRITAIN) LIMITED

COMPANIES ACT

4 OCT 1990

DIRECTORS' REPORT AND ACCOUNTS

23

31 January 1990

## KENTUCKY FRIED CHICKEN (GREAT BRITAIN) LIMITED

### DIRECTORS' REPORT

The directors present their report and audited financial statements of the company for the fifteen month period ended 31 January 1990.

### FINANCIAL RESULTS AND DIVIDENDS

The profit on ordinary activities after taxation for the fifteen months to 31 January 1990 amounted to £5,424,000 (year to 31 October 1988: profit £2,959,000). Details are contained in the consolidated Profit and Loss on page 4. The directors do not recommend the payment of a dividend.

### PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS DEVELOPMENTS

The principal activity of the group during the period continued to be the sale of Kentucky Fried Chicken through company-owned stores and the receipt of licence income from licensees of the Kentucky Fried Chicken trade marks and processes, together with the sale to them of goods required for the process.

### DIRECTORS AND THEIR INTERESTS

The directors of the company during the 15 months ended 31 January 1990 were as follows:

SV Fellingham	USA	(resigned 14 August 1989)
GFL Proctor		
AJ Hearn		
AE Engel		
DL Pierce	USA	(resigned 31 May 1990)
H Graine		(appointed 14 August 1989)
A Huston	USA	(appointed 25 June 1990)

According to the register maintained under the Companies Act 1985 none of the directors had any beneficial interests in share capital of the company or any other group companies.

### FIXED ASSETS

The company incurred capital expenditure of £3,830,000 in the fifteen months to 31 January 1990 (year to 31 October 1988: £4,779,000). This investment was mainly in respect of new stores, refurbishments to existing stores and site acquisition for development in the year to 31 January 1991.

#### DISABLED PERSONS

It is the company's policy to give full consideration to suitable applications for employment by disabled persons.

Disabled employees are eligible to participate in all career development opportunities available to staff. Opportunities also exist for employees of the company who become disabled to continue in their employment or to be trained for other positions in the company.

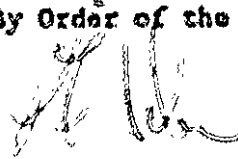
#### EMPLOYEE INVOLVEMENT

The company is committed to involve all employees in the performance and development of the group. Employees are encouraged to discuss with management matters of interest to the employees and subjects affecting day to day operations of the group.

#### AUDITORS

Price Waterhouse have expressed their willingness to continue in office as joint auditors and a resolution proposing their reappointment will be submitted to the Annual General Meeting. Ernst & Young have not offered themselves for re-appointment and a resolution to appoint KPMG Peat Marwick McLintock will be submitted to the Annual General Meeting.

By Order of the Board

  
PJ Wilson  
Secretary

88/57 High Street  
Brentford  
Middlesex

10 August 1990  
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JOINT AUDITORS' REPORT TO THE MEMBERS OF  
KENTUCKY FRIED CHICKEN (GREAT BRITAIN) LIMITED

We have audited the accounts on pages 4 to 18 in accordance with Auditing Standards.

In our opinion the accounts give a true and fair view of the state of affairs of the company and group at 31 January 1990 and of the profit and source and application of funds of the group for the fifteen months then ended and have been properly prepared in accordance with the Companies Act 1985.

*Price Waterhouse*

PRICE WATERHOUSE  
Chartered Accountants

1990

*Ernst & Young*

ERNST & YOUNG  
Chartered Accountants

*August 12, 1990*

KENTUCKY FRIED CHICKEN (GREAT BRITAIN) LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT  
FOR THE FIFTEEN MONTHS ENDED 31 JANUARY 1990

	Note	Fifteen months ended 31 January 1990 £'000	Year ended 31 October 1988 £'000
TURNOVER	2	51,379	33,715
Cost of sales		(30,461)	(26,260)
Gross profit		20,918	7,455
Administrative expenses		(13,630)	(3,477)
NET OPERATING INCOME	3	7,288	3,978
Interest receivable and similar income	4	423	292
Interest payable and similar charges	5	—	(96)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		7,711	4,174
Taxation	8	(2,287)	(1,215)
PROFIT FOR THE PERIOD	10	<u>5,424</u>	<u>2,959</u>
STATEMENT OF RETAINED PROFITS			
Balance at 1 November 1988		3,876	917
Profit for the period		<u>5,424</u>	<u>2,959</u>
Balance at 31 January 1990		<u>9,300</u>	<u>3,876</u>

The notes on pages 8 to 18 form part of these accounts.

# KENTUCKY FRIED CHICKEN (GREAT BRITAIN) LIMITED

## BALANCE SHEET - 31 JANUARY 1990

	<u>Note</u>	<u>1990</u> £'000	<u>1988</u> £'000
<b>FIXED ASSETS</b>			
Tangible assets	10	18,198	10,058
Investments in subsidiaries	11	347	347
Loans to related companies	12	<u>-</u>	<u>832</u>
		18,545	11,237
<b>CURRENT ASSETS</b>			
Stocks	13	658	465
Debtors	14	3,581	4,715
Cash at bank and in hand		<u>398</u>	<u>27</u>
		4,637	5,207
CREDITORS (amounts falling due within one year)	15	<u>(8,325)</u>	<u>(7,366)</u>
NET CURRENT LIABILITIES		<u>(3,688)</u>	<u>(2,159)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		14,857	9,078
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>			
Deferred tax	16	(5)	(5)
Other provisions		<u>(85)</u>	<u>-</u>
		<u>14,497</u>	<u>9,073</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	17	8	8
Share premium account		5,640	5,640
Profit and loss account	18	<u>8,849</u>	<u>3,425</u>
		<u>14,497</u>	<u>9,073</u>

Approved by the Board on 10 August 1990

*[Signature]* } DIRECTORS

The notes on pages 8 to 18 form part of these accounts.

# KENTUCKY FRIED CHICKEN (GREAT BRITAIN) LIMITED

## CONSOLIDATED BALANCE SHEET - 31 JANUARY 1990

	Note	1990 £'000	1988 £'000
<b>FIXED ASSETS</b>			
Tangible assets	10	18,198	10,058
Loans to related companies	12	-	832
		18,198	10,890
<b>CURRENT ASSETS</b>			
Stocks	13	658	465
Debtors	14	3,581	4,715
Cash at bank and in hand		398	27
		4,637	5,207
<b>CREDITORS (amounts falling due within one year)</b>	15	(7,797)	(6,562)
<b>NET CURRENT LIABILITIES</b>		(3,160)	(1,361)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		15,038	9,529
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>			
Deferred tax	16	(5)	(5)
Other provisions		(85)	-
		14,948	9,524
<b>CAPITAL AND RESERVES</b>			
Called up share capital	17	8	8
Share premium account		5,640	5,640
Profit and loss account	18	9,300	3,876
		14,948	9,524

Approved by the Board on 10 May 1990

*Mr. J. J. J.* ) DIRECTORS

The notes on pages 8 to 18 form part of these accounts.

# KENTUCKY FRIED CHICKEN (GREAT BRITAIN) LIMITED

## CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR THE FIFTEEN MONTHS ENDED 31 JANUARY 1990

	Fifteen months ended 31 January <u>1990</u> £'000	Year ended 31 October <u>1988</u> £'000
<b>SOURCES OF FUNDS</b>		
<b>FROM OPERATIONS</b>		
Profit on ordinary activities before taxation	7,711	4,174
Items not involving the movement of funds:		
Depreciation of tangible fixed assets	1,362	1,041
Loss/(profit) on sale of fixed assets	103	(1)
Other provisions	<u>85</u>	<u>-</u>
Total generated by operations	9,261	5,214
<b>OTHER SOURCES</b>		
Proceeds of sale of tangible fixed assets	225	35
Loans repaid by joint venture company	<u>832</u>	<u>832</u>
	10,318	6,081
<b>FUNDS APPLIED</b>		
Repayment of loans	-	(1,664)
Purchase of tangible fixed assets	(9,830)	(4,779)
Taxes paid	<u>(897)</u>	<u>(1,083)</u>
<b>DECREASE IN WORKING CAPITAL</b>	<u>(1,409)</u>	<u>(1,445)</u>
Arising from movements in:		
Stocks	193	(18)
Debtors	(382)	1,921
Trade and other creditors	(1,793)	(659)
Balances with group companies	<u>760</u>	<u>(2,088)</u>
	(1,422)	(844)
Net liquid funds	<u>1,013</u>	<u>(601)</u>
	<u>(1,409)</u>	<u>(1,445)</u>



# KENTUCKY FRIED CHICKEN (GREAT BRITAIN) LIMITED

NOTES TO THE ACCOUNTS - 31 JANUARY 1990

## 1 ACCOUNTING POLICIES

### (a) Accounting convention

The accounts are prepared under the historical cost convention as modified by revaluations of investments in subsidiaries. The principal accounting policies are as detailed below.

### (b) Basis of consolidation

The consolidated accounts incorporate the accounts of the company and each of its subsidiaries for the fifteen months ended 31 January 1990.

### (c) Depreciation of tangible fixed assets

No depreciation is provided on freehold properties or properties on leases with twenty years and over to run at the balance sheet date. It is the group's practice to maintain these assets in a continual state of sound repair and to extend and make improvements thereto from time to time. Accordingly the directors consider that the lives of these assets are so long and residual values so high that their depreciation is insignificant. All properties held on leases of less than twenty years are amortized over the unexpired term.

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

Machinery and equipment	5 - 10 years
Motor vehicles	over 4 years
Computer equipment	5 years

### (d) Goodwill

Goodwill arising on acquisitions is written off immediately against reserves.

### (e) Stock

Stocks are stated at the lower of cost on a first-in first-out basis and net realisable value after making due allowance for any obsolete or slow moving items.

### (f) Deferred taxation

Deferred taxation is provided on the liability method on all timing differences to the extent that it is probable that a liability will crystallise.

# KENTUCKY FRIED CHICKEN (GREAT BRITAIN) LIMITED

## NOTES TO THE ACCOUNTS - 31 JANUARY 1990 (continued)

### 1 ACCOUNTING POLICIES (continued)

#### (g) Foreign currencies

Assets, liabilities, revenues and costs denominated in foreign currencies are recorded at the rates of exchange ruling at the dates of the transactions; monetary assets and liabilities at the balance sheet date are translated at year end rates of exchange. All exchange differences thus arising are reported as part of the profit for the year.

#### (h) Leasing

Rentals in respect of property leases are charged to the profit and loss account as incurred. Lease premiums paid on finance leases are capitalized and are amortised over the life of the lease.

#### (i) Change of year-end

The financial year-end has been moved from 31 October to 31 January. The current financial period therefore covers the period of 15 months to 31 January 1990.

### 2 TURNOVER

(a) Turnover comprises sales (exclusive of VAT) of food and drinks at company-owned stores, royalty and option fees from Franchisee licensees, sales of food and packaging material to distributors, sales of equipment to Franchise licensees, and rents receivable from tenants.

#### (b) Analysis of turnover between activities

	Fifteen months ended 31 January <u>1990</u> £'000	Year ended 31 October <u>1988</u> £'000
Company stores sales	37,439	24,447
Sales to distributors and franchisees	10,218	6,654
Franchise royalties and option fees	3,554	2,547
Rents receivable	<u>168</u>	<u>67</u>
	<u>51,379</u>	<u>33,715</u>

# KENTUCKY FRIED CHICKEN (GREAT BRITAIN) LIMITED

## NOTES TO THE ACCOUNTS - 31 JANUARY 1990 (continued)

3 NET OPERATING INCOME is stated after charging/(crediting):

	Fifteen months ended 31 January 1990 £'000	Year ended 31 October 1988 £'000
Intercompany management fee payable to joint venture company	140	-
Depreciation of tangible fixed assets	1,362	1,041
Hire of plant and equipment	243	272
Leasehold property rents	2,188	1,220
Loss/(profit) on sale of tangible fixed assets	103	(1)
Auditors' remuneration	48	50

4 INTEREST RECEIVED

	Fifteen months ended 31 January 1990 £'000	Year ended 31 October 1988 £'000
Bank interest	319	192
From joint venture companies	104	100
	423	292

5 INTEREST PAID

	Fifteen months ended 31 January 1990 £'000	Year ended 31 October 1988 £'000
On loans repayable within 5 years Payable to joint venture company	-	26

# KENTUCKY FRIED CHICKEN (GREAT BRITAIN) LIMITED

## NOTES TO THE ACCOUNTS - 31 JANUARY 1990 (continued)

### 6 STAFF COSTS AND EMPLOYEES

	Fifteen months ended 31 January <u>1990</u> £'000	Year ended 31 October <u>1988</u> £'000
Wages and salaries	9,630	6,780
Social security costs	<u>825</u>	<u>554</u>
	<u>10,455</u>	<u>7,334</u>

The average number of persons employed by the group was as follows:

	Fifteen months ended 31 January <u>1990</u> No	Year ended 31 October <u>1988</u> No
Full time	945	956
Part time	<u>179</u>	<u>198</u>
	<u>1,124</u>	<u>1,154</u>

### 7 EMOLUMENTS OF DIRECTORS AND EMPLOYEES

	Fifteen months ended 31 January <u>1990</u> £'000	Year ended 31 October <u>1988</u> £'000
Aggregate emoluments paid by the company	<u>118</u>	<u>69</u>

The emoluments of the chairman and other directors of the company, excluding pension contributions, and for employees in receipt of £30,000 and above for the fifteen month period were distributed as follows:

	Fifteen months ended 31 January <u>1990</u> £'000	Year ended 31 October <u>1988</u> £'000
Chairman	Nil	Nil
Highest paid director	<u>118</u>	<u>69</u>

# KENTUCKY FRIED CHICKEN (GREAT BRITAIN) LIMITED

## NOTES TO THE ACCOUNTS - 31 JANUARY 1990 (continued)

### 7 EMOLUMENTS OF DIRECTORS AND EMPLOYEES (continued)

		Number of directors and employees	
		1990	1988
Other directors			
£Nil		4	4
Employees			
£40,001 - £45,000		1	1
£45,001 - £50,000		-	1
£50,001 - £55,000		1	-
£55,001 - £60,000		1	-
£60,001 - £70,000		1	-

### 8 TAXATION

	Fifteen months ended 31 January <u>1990</u> £'000	Year to 31 October <u>1988</u> £'000
The charge for the period comprises:		
UK corporation tax	2,652	1,477
Prior year overprovision	(265)	(267)
Deferred tax	<u>2</u>	<u>5</u>
	<u>2,287</u>	<u>1,215</u>

UK corporation tax has been provided at 35% (1988 : 35%).

### 9 PROFIT FOR THE FINANCIAL PERIOD

In accordance with the exemption allowed by section 220(7) of the Companies Act 1985, the company has not presented its own profit and loss account. Of the profit for the fifteen months to 31 January 1990 £5,424,000 (year to 31 October 1988 - profit £2,959,000) has been dealt with in the accounts of the company.

# KERRYVY FRIES CHICKEN (GREAT BRITAIN) LIMITED

NOTES TO THE ACCOUNTS - 31 JANUARY 1990 (continued)

## 10 TANGIBLE FIXED ASSETS

### GROUP AND COMPANY

£000

	Freehold land & buildings £'000	Leasehold improvements £'000	Assets under construction £'000	Machinery equipment & motor vehicles £'000	Total £'000
At 1 November 1988	2,439	7,469	12	4,070	13,990
Additions	3,114	3,187	-	3,529	9,830
Disposals	(63)	(325)	-	(280)	(668)
Reclassifications	-	122	(12)	(110)	-
Fully written off	-	(509)	-	(720)	(1,299)
At 31 January 1990	<u>5,490</u>	<u>9,924</u>	<u>-</u>	<u>6,419</u>	<u>21,853</u>

### Depreciation

At 1 November 1988	114	1,774	-	2,044	3,932
Charge for period	-	670	-	692	1,362
Disposals	(3)	(147)	-	(185)	(340)
Reclassifications	1	-	-	(1)	-
Fully written off	-	(502)	-	(790)	(1,299)
At 31 January 1990	<u>107</u>	<u>1,788</u>	<u>-</u>	<u>1,760</u>	<u>3,655</u>

### Net book amounts

At 31 January 1990	<u>5,383</u>	<u>8,156</u>	<u>-</u>	<u>4,659</u>	<u>18,198</u>
At 1 November 1988	<u>2,325</u>	<u>5,695</u>	<u>12</u>	<u>2,026</u>	<u>10,058</u>

The net book amount at 31 January 1990 of long leasehold property included in the leasehold improvements above was £1,800,000 (1988 : £112,000).

# KENTUCKY FRIED CHICKEN (GREAT BRITAIN) LIMITED

NOTES TO THE ACCOUNTS - 31 JANUARY 1990 (continued)

## 11 INVESTMENTS IN SUBSIDIARIES

	<u>1990</u> £'000	<u>1988</u> £'000
Shares in subsidiary companies	2,981	2,981
Provision for diminution in value	(2,634)	(2,634)
	<u>347</u>	<u>347</u>

The subsidiary companies at 31 January 1990 were:

<u>Company</u>	<u>Country of incorporation</u>	<u>Holding</u>	<u>Proportion held</u>	<u>Nature of business</u>
Kentucky Fried Chicken Limited	England	Ordinary shares	100%	Non-trading
KFC Advertising Limited	England	Ordinary shares	100%	Advertising company for Kentucky Fried Chicken
Valleythern Limited	England	Ordinary shares	100%	Non-trading

The accounts of KFC Advertising Limited have not been consolidated as the company effectively acts as Trustee. KFC Advertising Limited is non-profit making and its management is strongly influenced by participating franchisees as well as the holding company.

## 12 LOANS TO RELATED COMPANIES

	<u>1990</u> £'000	<u>1988</u> £'000
Amounts due from joint venture company	<u>-</u>	<u>832</u>

# KENTUCKY FRIED CHICKEN (GREAT BRITAIN) LIMITED

## NOTES TO THE ACCOUNTS - 31 JANUARY 1990 (continued)

### 13 STOCKS

	<u>Group</u>		<u>Company</u>	
	<u>1990</u>	<u>1988</u>	<u>1990</u>	<u>1988</u>
	£'000	£'000	£'000	£'000
Food, drink and packaging	243	191	243	191
Equipment	<u>415</u>	<u>274</u>	<u>415</u>	<u>274</u>
	<u>658</u>	<u>465</u>	<u>658</u>	<u>465</u>

### 14 DEBTORS

	<u>Group</u>		<u>Company</u>	
	<u>1990</u>	<u>1988</u>	<u>1990</u>	<u>1988</u>
	£'000	£'000	£'000	£'000
Trade debtors	2,333	3,346	2,333	3,346
Amounts owed by related companies	-	37	-	37
Amounts owed by joint venture company	346	861	346	861
Other debtors	316	316	316	316
Prepayments and accrued income	<u>586</u>	<u>155</u>	<u>586</u>	<u>155</u>
	<u>3,581</u>	<u>4,715</u>	<u>3,581</u>	<u>4,715</u>

### 15 CREDITORS

	<u>Group</u>		<u>Company</u>	
	<u>1990</u>	<u>1988</u>	<u>1990</u>	<u>1988</u>
	£'000	£'000	£'000	£'000
Bank overdraft	-	642	-	642
Trade creditors	3,418	2,687	3,418	2,687
Corporation tax	1,013	1,135	1,013	1,135
Other creditors including tax and social security	2,269	1,023	2,269	1,013
Amounts owed to subsidiary companies	-	-	798	798
Accruals	897	1,081	897	1,081
Amounts owed to related companies	<u>200</u>	<u>-</u>	<u>200</u>	<u>-</u>
	<u>7,797</u>	<u>6,568</u>	<u>8,595</u>	<u>7,366</u>



# KENTUCKY FRIED CHICKEN (GREAT BRITAIN) LIMITED

## NOTES TO THE ACCOUNTS - 31 JANUARY 1990 (continued)

### 16 DEFERRED TAXATION

#### GROUP AND COMPANY

	Amount provided		Potential liability	
	<u>1990</u>	<u>1988</u>	<u>1990</u>	<u>1988</u>
	£'000	£'000	£'000	£'000
Accelerated capital allowances	-	-	269	117
Capital gains	-	-	623	1,148
Interest receivable	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>
	<u>5</u>	<u>5</u>	<u>897</u>	<u>1,270</u>

Movement for the period:

	<u>1990</u>	<u>1988</u>
	£'000	£'000
At 1 November 1988		
Profit and loss account (note 8)	5	-
	<u>-</u>	<u>5</u>
At 31 January 1990	<u>5</u>	<u>5</u>

### 17 CALLED UP SHARE CAPITAL

	<u>1990</u>	<u>1988</u>
	£'000	£'000
Authorised, allotted and fully paid 8,004 ordinary shares of £1 each	<u>8</u>	<u>8</u>

# KENTUCKY FRIED CHICKEN (GREAT BRITAIN) LIMITED

## NOTES TO THE ACCOUNTS - 31 JANUARY 1990 (continued)

### 18 PROFIT AND LOSS ACCOUNT

	<u>1990</u> £'000	<u>1988</u> £'000
(a) Group		
Retained by:		
The company	8,849	3,425
Subsidiary companies	<u>451</u>	<u>451</u>
	<u>9,300</u>	<u>3,876</u>
(b) Company		
Balance at 1 November 1988	3,425	466
Retained profit for the period	<u>5,424</u>	<u>2,959</u>
Balance at 31 January 1990	<u>8,849</u>	<u>3,425</u>

### 19 CAPITAL COMMITMENTS

	<u>1990</u> £'000	<u>1988</u> £'000
Authorized and committed	269	2,505
Authorized and not contracted for	<u>-</u>	<u>1,508</u>

### 20 PENSION COMMITMENTS

The Group participates in the Kentucky Fried Chicken Pension Fund. This scheme is of the defined benefit type providing benefits to certain employees within the Kentucky Fried Chicken Group and the assets are held separately from the Group'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 January 1987. It was assumed for the 1987 valuation that the rate of return on the Fund's assets of 8½% would exceed the rate of increase in salaries by 1½% per annum.

The market value of the Fund's assets at 31 January 1990 was £1,753,000. The actuarial value at that date exceeded the benefits which had accrued to members, after allowing for expected future increases in earnings, by 77%. This is amortised over the average remaining working lifetime of scheme members, which is estimated to be seventeen years.

The total net pension cost for the Group was £25,000 (1988 - £Nil).

# KENTUCKY FRIED CHICKEN (GREAT BRITAIN) LIMITED

## NOTES TO THE ACCOUNTS - 31 JANUARY 1990 (continued)

### 21 COMMITMENTS UNDER OPERATING LEASES

#### Group and Company

The annual commitments payable under non-cancellable operating leases are as follows:

	<u>Land and buildings</u>		<u>Plant and machinery</u>	
	<u>1990</u>	<u>1988</u>	<u>1990</u>	<u>1988</u>
	£'000	£'000	£'000	£'000
Leases expiring:				
Within 1 year	79	51	20	26
Within 2 to 5 years	302	299	21	142
Thereafter	<u>1,703</u>	<u>1,113</u>	<u>-</u>	<u>-</u>
	<u>2,084</u>	<u>1,463</u>	<u>41</u>	<u>168</u>

### 22 JOINT VENTURE HOLDING COMPANIES

The shares of Kentucky Fried Chicken (Great Britain) Limited are owned equally by PepsiCo Holdings Limited incorporated in England and Trusthouse Forte (UK) Limited incorporated in England.