

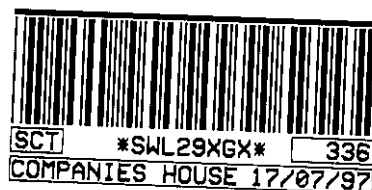
BurgerKing Limited

Directors' report and financial statements

30 September 1996

Registered number 31456

2



BurgerKing Limited

Directors' report and financial statements

<i>Contents</i>	<i>Page</i>
Directors' report	1-3
Statement of directors' responsibilities	4
Report of the auditor	5
Profit and loss account	6
Balance sheet	7
Notes	8-20

BurgerKing Limited

Directors' report

The directors present their annual report together with the audited financial statements for the year ended 30 September 1996.

Principal activities

The company trades as a restaurateur under the Burger King franchise and has ninety restaurants (1995: *ninety*).

Review of developments

No significant developments have occurred during the year. The company continues its activities of developing new company restaurants and acting on behalf of its parent company to develop the Burger King franchise system in the United Kingdom.

Future developments

The directors do not foresee any changes in the principal activities of the company.

Financial

The directors do not recommend the payment of a 9% preference share dividend as the company has insufficient reserves. The company will pay the dividends as soon as sufficient reserves are available. Until that time dividends declared in prior years have been reversed by way of a prior year adjustment (see note 2). The directors do not recommend the payment of a dividend on the ordinary shares (1995: *Nil*).

Directors and directors' interests

The directors who served during the year were as follows:

PEA Kinnersly

P Byron (resigned 20 February 1996)

D Jennings (appointed 26 February 1996; resigned 27 September 1996)

C Smith (appointed 19 September 1996)

S Lawson (appointed 27 September 1996)

No director had any interest in the share capital of the company at any time during the year.

BurgerKing Limited

Directors report *(continued)*

Directors and directors' interests *(continued)*

The directors, who held office at the end of the financial year, had options to subscribe for shares in Grand Metropolitan PLC as shown below:

Date of grant	Balance at 1 October 1995	Granted in year	Exercised in year	Balance at 30 September 1996	Exercise price	Expiry/ exercised date
PEA Kinnersly <i>Executive option scheme</i>						
20 June 1991	16,000	-	16,000	-	380p	21 August 1996
24 June 1992	10,000	-	-	10,000	471p	24 June 1999
10 December 1992	4,000	-	-	4,000	423p	10 December 1999
23 June 1993	15,000	-	-	15,000	422p	23 June 2003
27 June 1994	14,000	-	-	14,000	391p	27 June 1997
13 June 1995	15,000	-	-	15,000	402p	13 June 2000
12 June 1995	18,000	-	-	18,000	429p	12 June 2001
C Smith <i>Executive option scheme</i>						
12 June 1995	15,000	-	-	15,000	429p	12 June 2001

The exercise price of the options granted during the year were in excess of the market price of the underlying shares at 30 September 1996. At 30 September 1996, the market price of the company's shares was 476p and the range during the year was 412p to 491p.

The conditions for the exercise of options are disclosed in the accounts of the ultimate holding company, Grand Metropolitan PLC, which are available to the public from the address disclosed in note 21.

In addition to the above, PEA Kinnersly has 2,616 options under the ordinary share save scheme that have expiry dates between 20 June 1998 and 20 June 2000 and have exercise prices in the range 380p to 314p.

Stuart Lawson has 5,550 options under the ordinary share save scheme that have expiry dates between 1 September 1997 to 1 September 2001, at an exercise price in the range 314p to 408p.

Company secretary

The company secretary who served during the year was as follows:

J Tall	(resigned 8 November 1995)
J Hilton-Johnson	(appointed 8 November 1995)

Political and charitable contributions

The company made no political or charitable contributions during the year (1995: Nil).

BurgerKing Limited

Directors report *(continued)*

Employee involvement

The company is committed to the development of employee consultation and, thereby, to their greater involvement in the company's operations. During the year employees have been encouraged to discuss with management any matters about which they are concerned. In addition the board takes account of employees' interests when taking decisions and the employees are informed of the company's performance on a regular basis. Suggestions from employees aimed at improving the company's performance are welcomed.

Employment of disabled persons

The company recognises its obligations towards disabled people and endeavours to provide as much employment as the demands of the company's operations and the abilities of the disabled persons allow.

Applications for employment from disabled people are studied with care and appropriate opportunities sought.

Opportunities are offered to disabled employees to develop their knowledge and skills and undertake greater responsibilities.

In the event that an employee becomes disabled when in the company's employment, all possible opportunities for retraining or redeployment are explored.

Supplier payment policies

The company agrees terms and conditions for its business transactions when orders for goods and services are placed, ensuring that suppliers are aware of the terms of payment and including the relevant terms in contracts where appropriate. These arrangements are adhered to when making payments, subject to the terms and conditions being met by the supplier.

Auditor

During the year our auditors, KPMG informed us that a limited liability company, KPMG Audit Plc undertakes part of their audit business. Accordingly KPMG resigned as the company's auditors and the directors appointed KPMG Audit Plc to fill the casual vacancy arising. Pursuant to a shareholders' resolution, the company is not obliged to reappoint its auditor annually and KPMG Audit Plc will therefore continue in office.

By order of the board



J Hilton-Johnson
Secretary

Saltire Court
20 Castle Terrace
Edinburgh EH1 2EG

7th July 1997

BurgerKing Limited

Statement of directors' responsibilities

The following statement, which should be read in conjunction with the report of the auditor set out on page 5, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditor in relation to the financial statements.

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit of the company for the financial year.

The directors consider that in preparing the financial statements on pages 6 to 20, the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, that all accounting standards they consider to be applicable have been followed, and that it is appropriate to use a going concern basis.

The directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps that are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The directors having prepared the financial statements, have requested the auditor to take whatever steps and undertake whatever inspections they consider to be appropriate for the purpose of enabling them to give their audit report.



PO Box 695
8 Salisbury Square
London
EC4Y 8BB

Report of the auditor to the members of BurgerKing Limited

We have audited the financial statements on pages 6 to 20.

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 30 September 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

11 July 1997

BurgerKing Limited

Profit and loss account

for the year ended 30 September 1996

	Note	1996 £000	1995 as restated (see note 2) £000
Turnover	1	64,141	67,730
Cost of sales		(20,880)	(21,653)
Gross profit		43,261	46,077
Administrative expenses		(33,636)	(55,329)
Operating profit/(loss)	3	9,625	(9,252)
Profit on the refranchising of restaurants		-	137
Loss on disposal of fixed assets	3	(719)	(1,475)
Profit/(loss) on ordinary activities before interest		8,906	(10,590)
Interest receivable	6	2,764	3,634
Interest payable	6	(3,757)	(3,798)
Profit/(loss) on ordinary activities before taxation		7,913	(10,754)
Tax on profit/(loss) on ordinary activities	7	(1,345)	3,076
Profit/(loss) on ordinary activities after taxation		6,568	(7,678)
Finance cost of non-equity shares	8	(2,760)	(2,760)
Profit attributable to equity shareholders on ordinary activities after taxation and retained profit/(loss) for the financial year	17	3,808	(10,438)

The profit and loss account relates wholly to continuing operations.

A statement of movements on reserves is given in note 17.

There are no recognised gains or losses other than the profit/(loss) for the financial year in both years.

There is no material difference between the company's profit and loss account and the historical cost profits and losses. Accordingly no note of the historical profits and losses for the year has been presented.

BurgerKing Limited

Balance sheet

at 30 September 1996

	Note	1996		1995 as restated (see note 2)	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	9		43,145		47,325
Current assets					
Stocks	11	891		3,754	
Debtors	12	88,689		75,767	
Cash at bank and in hand		2,948		3,126	
			92,528		82,647
Creditors: amounts falling due within one year	13	(86,108)		(91,633)	
Net current assets/(liabilities)			6,420		(8,986)
Total assets less current liabilities			49,565		38,339
Provision for liabilities and charges	14		(4,658)		-
Net assets			44,907		38,339
Capital and reserves					
Called up share capital	16		40,672		40,672
Share premium account	17		36,518		36,518
Other reserves	17		(22,010)		(22,010)
Profit and loss account	17		(10,273)		(16,841)
Equity	18	435		(3,373)	
Non-equity	18	44,472		41,712	
			44,907		38,339

These financial statements were approved by the board of directors on 7 July 1997 and were signed on its behalf by:

S. Lawson

S Lawson
Director

BurgerKing Limited

Notes

(forming part of the financial statements)

1 Accounting policies

Accounting convention

The financial statements are prepared on the historical cost basis of accounting. They have been drawn up to comply with applicable UK accounting standards. The company has not presented group financial statements by virtue of S228 of the Companies Act 1985.

The company is a wholly owned subsidiary undertaking of Grand Metropolitan PLC, a company registered in England, which presents group accounts including a group cashflow statement, thus the company is exempt from preparing such a statement by virtue of the provisions in Financial Reporting Standard 1.

Turnover

Turnover represents amounts received from the sale of food (excluding VAT), in the United Kingdom.

Fixed assets and depreciation

Fixed assets are stated at cost.

Leasehold buildings cost includes an element of capitalised development costs.

No depreciation is provided on freehold land or on assets in the course of construction. Depreciation is provided in equal instalments against profit to write off the original cost of fixed assets, less estimated residual values, over their estimated useful lives as follows:

Freehold buildings	-	20 years
Short leasehold	-	Normal lives are deemed to be between 2 years and the outstanding period of the lease. Where major leasehold improvements are carried out within 5 years of the expiry of the lease and renewal of the lease is anticipated, the assets will be written off over their useful lives even where this exceeds the remainder of the lease.
Plant, machinery and fittings	-	between 2 and 12 years
Motor vehicles	-	over 3 years

Leases

Operating lease rentals receivable and payable are taken to the profit and loss account on a straight line basis over the life of the lease.

BurgerKing Limited

Notes (continued)

1 Accounting policies (continued)

Foreign currency translations

Assets and liabilities in foreign currencies are translated into sterling at the financial year end exchange rates. All exchange gains and losses are taken to the profit and loss account.

Transactions in foreign currencies are recorded at the rates of exchange ruling at the date of the transactions or, if hedged forward, at the rate of exchange under the related forward currency contract.

Deferred taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of short term 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.

Stocks

Stocks are valued at the lower of cost and net realisable value and comprise the ingredients for preparation of the company's range of food as well as marketing stocks and small tools stock.

Post employment benefits

Certain of the employees of the company are members of group pension schemes operated by Grand Metropolitan PLC. Contributions by this company are based on pension costs across the Grand Metropolitan group as a whole. The schemes are of the defined benefit type funded by payments to Trustee administered funds. The cost of providing pensions and other post employment benefits is charged against profits on a systematic basis, based on actuarial calculations, over the service lives of the employees. Actuarial valuations are carried out annually. Surpluses and deficits are allocated on a straight line basis over the expected remaining service lives of current employees. Differences between the amounts charged in the profit and loss account and payments made to the plans are treated as assets or liabilities in the balance sheet. Particulars of the valuations of the group schemes are contained in the financial statements of Grand Metropolitan PLC.

Goodwill

On the acquisition of an unincorporated business fair values are attributed to the net tangible assets acquired. Where the consideration exceeds the aggregate value of these assets, the difference is treated as goodwill and is charged directly to reserves.

If a restaurant, which has acquired goodwill allocated to it, is sold, then the allocated goodwill is transferred from reserves to the profit and loss account. This goodwill is therefore included in the calculation of the profit or loss on disposal of the restaurant.

BurgerKing Limited

Notes (continued)

2 Prior year adjustment

In previous years the directors have declared and accrued for a dividend on the 9% cumulative non redeemable preference shares in the expectation that in the future the company would have sufficient reserves to pay such a dividend.

It is not now believed that the reserves will be sufficient to pay these dividends in the foreseeable future. The accrual for the dividends declared in previous years has been reversed as a prior year adjustment. The dividends declared in 1995 were £2,760,000 amounting to a cumulative reversal at 30 September 1995 of £11,040,000. The cumulative arrears of dividends is now treated as being appropriated from equity shareholders' funds to non-equity shareholders' funds.

3 Operating profit/(loss)

	1996 £000	1995 £000
<i>Operating profit/(loss) is stated after charging</i>		
Auditors' remuneration:		
Audit fees	53	48
Other services	5	2
Depreciation	5,578	4,589
Rentals payable on property held under operating leases	23,931	22,011
Hire of plant and machinery - rentals payable under operating leases	606	588
Hire of other assets - operating leases	71	92
Exceptional item - (note (i))	719	1,475
Exceptional item - (note (ii))	(17,337)	-

- (i) The exceptional item (1) charged in 1996 represents a loss on the disposal of fixed assets. The tax charge on the disposal was £nil.
- (ii) The exceptional item (2) received in 1996 represents income received from Burger King Corporation Inc as a result of recharging brand costs previously borne by the company. The tax charge on the income was £4,535,000.

BurgerKing Limited

Notes (continued)

4 Directors' emoluments

	1996 £000	1995 £000
Directors emoluments:		
Remuneration as executives	<u>231</u>	<u>247</u>

Emoluments are inclusive of benefits in kind which include the provision of a car and health insurance.

There was no chairman during 1996 or 1995.

The emoluments, excluding pension contributions, of the highest paid director were £129,775 (1995: £157,904).

During 1996 £110,692 was paid to a former director who resigned in the previous year.

	Number of directors	
	1996	1995
£85,001 - £90,000	-	1
£110,001 - £115,000	1	-
£125,001 - £130,000	1	-
£155,001 - £160,000	<u>-</u>	<u>1</u>

Details relating to directors' interest in the shares of the ultimate parent company can be found in the directors report.

BurgerKing Limited

Notes (continued)

5 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	1996	1995
Sales	3,833	3,839
Administration	76	74
	<u>3,909</u>	<u>3,913</u>

The aggregate payroll costs of these persons were as follows:

	1996	1995
	£000	£000
Gross wages and salaries, holidays and sick pay	19,419	19,747
Employer's social security costs	1,375	1,463
Other post employment benefit costs	9	24
	<u>20,803</u>	<u>21,234</u>

BurgerKing Limited

Notes (continued)

6 Interest

	1996 £000	1995 £000
<i>Interest receivable:</i>		
Receivable from group undertakings	2,730	3,624
Interest on short term deposits	34	10
	<u>2,764</u>	<u>3,634</u>
<i>Interest payable:</i>		
Payable on bank loans, overdrafts and other loans wholly repayable within five years	(379)	(282)
Payable to group undertakings	(3,378)	(3,516)
	<u>(3,757)</u>	<u>(3,798)</u>

7 Taxation

	1996 £000	1995 £000
UK corporation tax at 33% (1995: 33%)	(2,247)	3,076
Adjustments relating to prior years' tax	902	-
	<u>(1,345)</u>	<u>3,076</u>

The company is a member of a group where the benefit of losses surrendered as group relief is paid for.

8 Finance cost of non-equity dividends

	1996 £000	1995 as restated £000
Appropriation of dividends on 9% cumulative non-redeemable preference shares	<u>2,760</u>	<u>2,760</u>

BurgerKing Limited

Notes (continued)

9 Tangible fixed assets

	Land and buildings £000	Plant and machinery £000	Assets in course of construction £000	Total £000
Cost				
At beginning of year	45,206	17,929	3,966	67,101
Additions	2,924	1,889	-	4,813
Disposals	(1,773)	(1,591)	(1,623)	(4,987)
Transfers between items	(43)	43	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	46,314	18,270	2,343	66,927
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation				
At beginning of year	11,277	8,499	-	19,776
Charge for year	3,249	2,329	-	5,578
Disposals	(581)	(991)	-	(1,572)
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	13,945	9,837	-	23,782
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 30 September 1996	32,369	8,433	2,343	43,145
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 September 1995	33,929	9,430	3,966	47,325
	<hr/>	<hr/>	<hr/>	<hr/>

The net book value of land and buildings includes £6,631,695 (1995: £6,631,695) in respect of freehold land which is not depreciable.

The net book value of land and buildings includes £6,558,000 (1995: £7,060,026) in respect of properties which are leased to franchisees. £5,509,000 relates to land and £1,049,000 to buildings. Land is not depreciated and the buildings are stated at a cost of £1,364,000 with £315,000 accumulated depreciation.

The net book value of land and buildings includes £1,741,428 (1995: £1,855,367) in respect of freehold buildings.

The net book value of land and buildings includes £24,084,581 (1995: £25,474,105) in respect of leasehold properties held under leases with less than fifty years to run at 30 September 1996.

The assets of businesses acquired by the company, and assets acquired from other group companies, are reflected in the accounts at their fair value as at acquisition date. These fair values represent the historical cost of the relevant assets to the company.

BurgerKing Limited

Notes (continued)

10 Investment in subsidiary undertaking

The company holds 100% of the ordinary share capital of King Food Company Limited, a company registered in England. The investment of £440,220 is fully provided.

11 Stocks

	1996 £000	1995 £000
Raw materials and consumables	532	592
Goods for resale	359	3,162
	<u>891</u>	<u>3,754</u>

12 Debtors

	1996 £000	1995 £000
Trade debtors	6,677	8,496
Amounts owed by parent and fellow subsidiary undertakings	73,888	57,064
Other debtors	4,049	6,345
Prepayments and accrued income	4,075	3,862
	<u>88,689</u>	<u>75,767</u>

Included in other debtors is £523,468 (1995: Nil) relating to debts due in greater than one year.

BurgerKing Limited

Notes (continued)

13 Creditors: amounts falling due within one year

	1996	1995 as restated
	£000	£000
Bank loans and overdrafts	12,236	8,528
Trade creditors	3,295	3,213
Amounts owed to parent and fellow subsidiary undertakings	52,827	65,242
Other creditors including taxation and social security:		
Corporation tax	4,436	-
Other taxes and social security	1,457	2,792
Other creditors and provisions	4,004	2,109
Accruals and deferred income	7,853	9,749
	<u>86,108</u>	<u>91,633</u>

14 Provision for liabilities and charges

The following amounts have been charged to the profit and loss account during the year, and are included in the balance sheet at the year end.

	£000
Store closure costs	3,677
Vacant property costs	981
	<u>4,658</u>

BurgerKing Limited

Notes (continued)

15 Unprovided deferred taxation

	Short term timing differences	Accelerated capital allowances	Total unprovided deferred tax
	£000	£000	£000
Asset/(liability) at beginning of year	768	(4,222)	(3,454)
Movement during year	1,508	808	2,316
	<hr/>	<hr/>	<hr/>
Asset/(liability) at end of year	2,276	(3,414)	(1,138)
	<hr/>	<hr/>	<hr/>

16 Called up equity and non-equity share capital

	1996 £000	1995 £000
<i>Authorised, allotted, called up and fully paid:</i>		
<i>Equity</i>		
10,000,000 ordinary shares of £1 each	10,000	10,000
<i>Non-equity</i>		
30,672,000 9% cumulative non redeemable preference shares of £1 each	30,672	30,672
	<hr/>	<hr/>
	40,672	40,672
	<hr/>	<hr/>

The arrears on the cumulative non redeemable preference shares amounts to £13,800,000 (1995: £11,040,000).

The preference shares do not carry any right of participation on winding up of the company, other than repayment of their nominal value.

BurgerKing Limited

Notes (continued)

17 Equity and non-equity reserves

	Share premium £000	Goodwill reserves £000	Equity Profit and loss account £000	Non-equity Profit and loss account £000
At 1 October 1995	36,518	(22,010)	(27,881)	-
Prior year adjustment (note 2)	-	-	-	11,040
At 1 October 1995 as restated	36,518	(22,010)	(27,881)	11,040
Profit for the year	-	-	6,568	-
Finance cost of non-equity shares	-	-	(2,760)	2,760
At 30 September 1996	36,518	(22,010)	(24,073)	13,800

18 Reconciliation of movements in shareholders' funds

	1996 £000	1995 £000
Profit/(loss) for the financial year	6,568	(7,678)
Goodwill transferred to the profit and loss account in respect of disposals of restaurants	-	590
Net additions to shareholders' funds	6,568	(7,088)
Shareholders' funds at beginning of year:		
As previously stated	27,299	37,147
Prior year adjustment	11,040	8,280
Shareholders' funds at beginning of year as restated	38,339	45,427
Shareholders' funds at end of year as restated	44,907	38,339

BurgerKing Limited

Notes (continued)

18 Reconciliation of movements in shareholders' funds (continued)

Restated shareholders' funds comprises:

	1996		1995	
	Equity	Non equity	Equity	Non equity
	£000	£000	£000	£000
Share capital	10,000	30,672	10,000	30,672
Share premium	36,518	-	36,518	-
Goodwill reserves	(22,010)	-	(22,010)	-
Profit and loss account	(24,073)	13,800	(27,881)	11,040
	<u>(435)</u>	<u>44,472</u>	<u>(3,373)</u>	<u>41,712</u>

19 Operating lease commitments

Annual capital commitments under non-cancellable operating leases are as follows:

	1996		1995	
	Land and buildings	Other	Land and buildings	Other
	£000	£000	£000	£000
<i>Operating leases which expire:</i>				
Within one year	109	666	-	129
In the second to fifth years inclusive	1,157	-	1,243	559
Over five years	22,009	-	21,245	301
	<u>23,275</u>	<u>666</u>	<u>22,488</u>	<u>989</u>

BurgerKing Limited

Notes *(continued)*

20 **Contingent liabilities**

The company has entered into a guarantee to cover the rent due on the lease of a restaurant in Gothenburg, Sweden on behalf of BurgerKing Sweden KB. The guarantee is limited to the first five years of the lease period and the rent on the lease is 800,000 SEK (£80,000) or 8.5% of sales (£83,200 on current projections) per annum, whichever is the greater.

The company has given an indemnity of £60,000 in respect of HM Customs & Excise duty deferment.

The company has assigned property leases in the normal course of business. Should the assignees fail to fulfil any obligation in respect of those leases, the company may be liable for those defaults. The directors are not aware of any instances where such defaults have taken place and hence it is not practicable to estimate the financial effect of these assignments.

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

The ultimate holding company is Grand Metropolitan PLC, a company registered in England. The group accounts prepared by Grand Metropolitan PLC are available from 8 Henrietta Place London, W1M 9AG, United Kingdom.