BurgerKing Limited

Directors' report and financial statements

30 June 1999

Registered number 31456

TV

Directors' report and financial statements

Contents

Directors' report

The directors present their annual report together with the audited financial statements for the year ended 30 June 1999.

Principal activities

The company trades as a restaurateur under the Burger King franchise and has fifty-nine restaurants (1998: seventy five).

Review of developments

No significant developments have occurred during the period. 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.

Year 2000 issue

Most companies face a major challenge in making their business and other systems Year 2000 ready. The problem is caused by the inability of some systems to handle four-digit years. For example, without correction the two digit year '00', meaning 2000, could be recognised as 1900, causing systems to generate inaccurate information and potentially to fail.

The Diageo group recognises this challenge and has established a compliance programme to address the issue in all of its business units and subsidiaries. The implications for BurgerKing Limited are being addressed as part of the BurgerKing programme to allow it to operate successfully and safely into the new millennium. This includes potential risks to:

- Information systems used to support the BurgerKing Limited's activities;
- Building services and computerised equipment in all premises from which the company operates;
- Trading partners including suppliers of critical business and other support services to the company.

Each programme involved the identification and assessment of items at risk in these areas, followed by the implementation of an appropriate strategy to avoid or minimise the impact of Year 2000 related problems. Testing was performed as necessary, taking into account professional advice and a full assessment of risk.

All major stages of the programme were completed on target by 30 September 1999 and BurgerKing Limited is now Year 2000 ready. Procedures are in place to maintain a clean environment where risks have been addressed. Some outstanding work remains but is not business critical. This includes ongoing contact with key trading partners to share best practice and risk information.

Even the best run projects are likely to face some Year 2000 compliance failures. There can be no certainty that the Year 2000 programmes will be successful or that the date change from 1999 to 2000 will not materially and adversely affect a company's operations and financial results. Based on the work already completed, we do not believe that the Year 2000 will give rise to significant operational problems for BurgerKing Limited. However, it may still be adversely affected by the inability of third parties to manage the problem and by the general uncertainty inherent in the Year 2000. Business Continuity Plans are therefore in place, along with pro-active mitigation strategies (millennium operating procedures) for the key impact period. Both continue to be refined to reflect the best available risk information.

The full cost of managing the Year 2000 problem for BurgerKing Limited has not been identified separately, but is included within the overall programme cost shown in the annual report of the ultimate parent company, Diageo plc.

Directors' report *(continued)*

The Euro

In accordance with the Treaty on European Union, signed at Maastricht on 7 February 1992, the third stage of Economic and Monetary Union (EMU) commenced on 1 January 1999. The company's euro-readiness is being managed as a discrete business project. The company expects to have systems and procedures in place which will enable it to conduct euro transactions appropriate to local market requirements.

The company is also working actively with key business suppliers, joint distribution arrangement partners and customers. In addition, monetary union may have a significant impact on macroeconomic factors, including interest and foreign exchange rates.

Key commercial risks, such as pricing transparency, have been analysed, with a view to reducing any impact through active management over the transition period and beyond. However, there can be no assurance that the euro will not have a negative impact. The impact of future entry to EMU of other European countries (particularly the United Kingdom) is being similarly analysed.

The cost associated with the euro-readiness project for BurgerKing Limited has not been identified separately but is included within the overall project cost in the annual report of the ultimate parent company, Diageo plc.

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. The directors do not recommend the payment of a dividend on the ordinary shares (1998: Nil).

Directors and directors' interests

The directors who served during the year were as follows:

PEA Kinnersly
E Feeney
P Symonds (resigned 30 April 1999)

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

Directors' report *(continued)*

Directors and directors' interests *(continued)*

The directors, who held office during the year had options to subscribe for shares in Diageo plc as shown below:

Date of grant	Balance at 1 July 1998	Granted in period	Exercised in period	Balance at 30 June 1999	Exercise price	Date from which exercisable	Expiry date
PEA Kinnersly							
Executive share option scheme							
13 June 1995	15,000	-	-	15,000	402p	13 June 1998 -13 June 2005	13 December 1998 -13 December 2005
Restricted share plan							
1 January 1998	5,000	-	-	5,000	None	1 January 2000	1 January 2002
Ordinary share save scheme							
1 September 1995 (see below)	2,616	-	(1,518)	1,098	314p-318p	1 September 1998 -1 September 2000	1 March 1999 -1 March 2001
1 December 1998	-	1,300	-	1,300	447p	1 December 2001	1 June 2002
P Symonds							
Restricted share plan							
1 January 1998	5,000	-	-	5,000	None	1 January 2000	1 January 2002
Ordinary share save scheme							
1 December 1998	-	3,775	-	3,775	447p	1 December 2003	1 June 2004
E Feeney							
Ordinary share save scheme							
1 December 1998	-	433	-	433	447p	1 December 2001	1 June 2002

The market price at the date of exercise of the share options under the ordinary share save scheme was 635p.

The beneficial interest of the directors who held office during the year in the ordinary shares awarded under the Diageo LTIP are shown below:

	Performance cycle commencing 1 January 1998	1 January 1999
PEA Kinnersly	4,200	4,000
P Symonds	5,500	3,400
E Feeney	2,700	2,000

Directors' report *(continued)*

Directors and directors' interests *(continued)*

During 1998 the shareholders of Diageo plc approved the introduction of a restricted share plan. Under this scheme, shares are awarded to executives which are only released to them provided a performance requirement is met at the end of a predetermined performance period, minimum 3 years. At 30 June 1999, the mid-market price of the company's shares was 662.5p and the range during the year was 778.5p to 480.5p.

The conditions for the exercise of options and the performance requirements for the restricted share plan are disclosed in the accounts of the ultimate holding company, which are available to the public from the address disclosed in note 21.

Under the Diageo LTIP, approved in August 1998, eligible senior executives are granted a conditional right to receive shares or, exceptionally, a cash sum. The rights vest after the end of a three year period following the date of grant (the 'performance cycle'), provided a performance test is achieved and subject to the discretion of the trustees who operate the LTIP. The performance test is a comparison of the annualised percentage growth in Diageo's share price (assuming all dividends and capital distributions are re-invested) known as total shareholder return (TSR) with the TSRs of a defined peer group of 20 companies over a three year period. The remuneration committee will not recommend the release of awards if there has not been an underlying improvement in the financial performance of Diageo.

The first LTIP performance cycle runs from 1 January 1998 to 31 December 2000 and the second from 1 January 1999 to 31 December 2001. Awards of shares will be released, subject to the performance test and the discretion of the trustees, in March 2001 and March 2002 respectively. The number of awards shown will only be released if Diageo reaches position five within the peer group (upper quartile). At position four, 125% of the original awards will vest and, at position three or above, 150%. At position ten (median position), 50% of the awards will vest. Between median and upper quartile, vesting will be calculated on a straight line basis. Awards will lapse if Diageo does not reach position ten.

Company secretary

The company secretaries who served during the period were as follows:

J Hilton-Johnson	(resigned 31 December 1998)
L Mitchell	(appointed 31 December 1998)

Directors' report *(continued)*

Political and charitable contributions

The company made no political contributions during the period (1998: Nil). The company made charitable contributions during the period of £12,000 (1998: £14,625) to a variety of UK charities in line with the Diageo group's community investment programme. Further details can be found in the ultimate parent's consolidated group accounts.

Employee involvement

The company is committed to the development of employee consultation and, thereby, to their greater involvement in the company's operations. The directors continue to place a high priority on good communications practices at all levels. Responsibility for ensuring that company employees are informed of and, where appropriate, consulted upon matters of concern affecting their immediate jobs rests with departmental managers with support from the personnel function. On-site group discussions between managers and employees are encouraged.

On a wider basis, the company provides more general information to and for its employees concerning its performance and on economic and other matters affecting it. The methods used to disseminate such information are bulletins and related publications, including a monthly house journal. In addition, a twice yearly video presentation for employees sets out world-wide developments of the company, its products and its people. Information is also communicated when employees participate in induction or training courses, or by the circulation of information personally to all employees. The company has continued to maintain these practices during the year.

It is the policy of the parent company to encourage employees to participate in a SAYE share option scheme. It is also parent company policy to enable employees to benefit from the contribution they have made to the generation of improved profits. This is done by way of a profit sharing scheme, paid in ordinary shares of Diageo plc, in which all employees are entitled to participate.

The company continues to support initiatives by employees in fund-raising events to assist registered charitable organisations by matching the value of the support so raised.

Employment policies

The company's managers are instructed to give sympathetic consideration, when recruiting, to applications from disabled persons and to bear in the mind the special needs of disabled employees in regard to training, structure of company premises and facilities and ensure that disabled employees are not adversely affected in their career opportunities. Employees who become disabled and unable to continue in their existing jobs are given the opportunity to be retrained for suitable alternative employment.

It is recognised that the company's continuing success depends upon the quality of its employees and its policies are designed to attract, retain and motivate the best staff. This is achieved by offering equal opportunities regardless of sex, race, religion or disability.

Directors' report *(continued)*

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.

The number of days' purchases included in creditors at 30 June 1999, in respect of the company is 30 days.

Auditor

The directors appointed KPMG Audit Plc as auditors of the company in 1996. 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

L Mitchell
Secretary

Edinburgh Park
5 Lochside Way
Edinburgh
EH12 9DT

14/1 2000

Statement of directors' responsibilities

The following statement, which should be read in conjunction with the report of the auditor set out on page 8, 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 or loss of the company for the financial year.

The directors consider that in preparing the financial statements on pages 9 to 22, 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 prepare the financial statements on the 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 company and to prevent and detect fraud and other irregularities.

KPMG

KPMG Audit Plc
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 9 to 22.

Respective responsibilities of directors and auditors

As described on page 7 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 June 1999 and of its loss 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

26 January 2000

Profit and loss account

for the year ended 30 June 1999

	Note	**12 months to June *1999* £000**	9 months to June 1998 £000
Turnover	*1*	**61,227**	54,138
Cost of sales		**(17,580)**	(15,847)
Gross profit		**43,647**	38,291
Administrative expenses		**(42,483)**	(38,775)
Operating profit/(loss)	*2*	**1,164**	(484)
(Loss)/profit on disposal of fixed assets	*2*	**(1,176)**	1,076
(Loss)/profit on ordinary activities before interest		**(12)**	592
Interest receivable	*5*	**4,451**	3,607
Interest payable	*5*	**(3,450)**	(2,904)
Profit on ordinary activities before taxation		**989**	1,295
Tax on profit on ordinary activities	*6*	**(2,537)**	1,754
(Loss)/profit on ordinary activities after taxation		**(1,548)**	3,049
Finance cost of non-equity shares	*7*	**(2,760)**	(2,760)
(Loss)/profit attributable to equity shareholders on ordinary activities after taxation and retained (loss)/profit for the financial year		**(4,308)**	289

The profit and loss account relates wholly to continuing operations.

A statement of movements on reserves is given in note 16.

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 period has been presented.

Balance sheet

at 30 June 1999

	Note		**1999**		1998
		£000	**£000**	£000	£000
Fixed assets					
Tangible assets	*8*		**31,558**		31,636
Current assets					
Stocks	*10*	**2,212**		2,196	
Debtors (of which £1,407,000 due after one year (1998: £nil))	*11*	**78,391**		75,961	
Cash at bank and in hand		**131**		3,276	
		80,734		81,433	
Creditors: amounts falling due within one year	*12*	**(71,540)**		(69,385)	
Net current assets			**9,194**		12,048
Total assets less current liabilities			**40,752**		43,684
Provision for liabilities and charges	*13*		**(4,756)**		(6,140)
Net assets			**35,996**		37,544
Capital and reserves					
Called up share capital	*15*		**40,672**		40,672
Share premium account	*16*		**36,518**		36,518
Other reserves	*16*		**(21,384)**		(21,384)
Profit and loss account	*16*		**(19,810)**		(18,262)
Equity	*17*	**(16,756)**		(12,448)	
Non-equity	*17*	**52,752**		49,992	
			35,996		37,544

These financial statements were approved by the board of directors on 14th January 2000 and were signed on its behalf by:

E Feeney
Director

Statement of total recognised gains and losses
for the year ended 30 June 1999

	12 months to June 1999 £000	9 months to June 1998 £000
Total recognised gains and losses relating to the period	**(1,548)**	3,049
Prior year adjustment	**-**	660
***Total recognised gains and losses recognised since* the last annual report**	**(1,548)**	3,709

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.

During the previous financial period, the financial period end was changed to 30 June. Accordingly the comparative accounting period runs from 1 October 1997 to 30 June 1998.

The company is a wholly owned subsidiary of Diageo plc and is included in the consolidated financial statements of Diageo plc which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (Revised 1996).

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

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.

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 or, if hedged forward, at the rate of exchange under the related forward currency contract. 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/(loss) 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 if there is reasonable evidence that such deferred taxation will be payable or recoverable in the foreseeable future.

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 employees of the company are members of group pension schemes operated by Diageo plc. Contributions by this company are based on pension costs across the Diageo 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, with pension surpluses and deficits allocated over the expected remaining service lives of current employees. Differences between the amounts charged in the profit and loss account and payments made to pension or other plans are treated as assets or liabilities in the balance sheet. Deferred tax is accounted for on these assets and liabilities. Particulars of the valuations of the group schemes are contained in the financial statements of Diageo 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.

Notes *(continued)*

2 Operating profit

	1999 £000	1998 £000
Operating profit is stated after charging		
Auditors' remuneration:		
Audit fees	**26**	50
Other services	**8**	25
Depreciation	**3,655**	3,320
Software costs	**932**	-
Rentals payable on property held under operating leases	**21,938**	17,827
Hire of plant and machinery - rentals payable under operating leases	**644**	497
Hire of other assets - operating leases	**48**	35
Exceptional item - (note (i))	***1,176***	*(1,076)*

(i) The exceptional item charged/(credited) represent profits and losses on the disposal of fixed assets. The tax charge on the disposal was £nil.

3 Directors' emoluments

	1999 £000	1998 £000
Directors emoluments:		
Remuneration as executives	**313**	360

Emoluments are inclusive of benefits in kind which include the provision of a car and health insurance. No pension fund contributions are paid by the company as the Diageo plc Group Pension Plan has a substantial surplus.

There was no chairman during 1999 or 1998.

The emoluments, excluding pension contributions, of the highest paid director were £120,589 (1998: £110,923). He is a member of a defined benefit scheme, under which his accrued pension was £7,047 per annum at the year end. On death in service a lump sum of four times pensionable salary is paid. During the year, one of the directors exercised share options.

	1999 Number	1998 Number
Retirement benefits are accruing to the following number of directors under:		
Defined benefit schemes	**3**	3
The number of directors who exercised share options was	**1**	1

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

Notes *(continued)*

4 Staff numbers and costs

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

	Number of employees	
	1999	1998
Sales	**3,538**	3,761
Administration	**93**	150
	3,631	3,911

The aggregate payroll costs of these persons were as follows:

	1999	*1998*
	£000	£000
Gross wages and salaries, holidays and sick pay	**21,371**	17,023
Employer's social security costs	**1,492**	1,219
Other post employment benefit costs	**12**	11
	22,875	18,253

Notes *(continued)*

5 Interest

	1999 £000	1998 £000
Interest receivable:		
Receivable from group undertakings	**4,198**	3,422
Interest on short term deposits	**253**	185
	4,451	3,607
Interest payable:		
Payable on bank loans, overdrafts and other loans wholly repayable within five years	**(2)**	-
Payable to group undertakings	**(3,448)**	(2,904)
	(3,450)	(2,904)

6 Taxation

	1999 £000	1998 £000
UK corporation tax at 31% (1998: 31%)	**-**	(221)
UK deferred taxation	**(1,861)**	1,975
	(1,861)	1,754
Adjustments relating to prior year's deferred tax	**(676)**	-
	(2,537)	1,754

The company is a member of a group where the benefit of losses surrendered as group relief is paid for. The deferred taxation movement represents short-term timing differences which are expected to be recovered in the foreseeable future.

7 Finance cost of non-equity dividends

	1999 £000	1998 £000
Appropriation of dividends on 9% cumulative non-redeemable preference shares	**2,760**	2,760

Notes *(continued)*

8 Tangible fixed assets

	Land and buildings £000	Plant and machinery £000	Assets in course of construction £000	Total £000
Cost				
At beginning of year	39,576	15,937	569	56,082
Additions	4,493	2,191	2,887	9,571
Disposals	(8,114)	(7,524)	-	(15,638)
Reclassification	944	437	(655)	726
At end of period	36,899	11,041	2,801	50,741
Depreciation				
At beginning of year	14,139	10,307	-	24,446
Charge for period	2,391	1,264	-	3,655
Disposals	(4,013)	(5,067)	-	(9,080)
Reclassification	233	(71)	-	162
At end of year	12,750	6,433	-	19,183
Net book value				
At 30 June 1999	24,149	4,608	2,801	31,558
At 30 June 1998	25,437	5,630	569	31,636

The net book value of land and buildings includes £5,778,925 (1998: £5,778,925) in respect of freehold land which is not depreciable.

The net book value of land and buildings includes £1,091,826 (1998: £1,183,724) in respect of freehold buildings.

The net book value of land and buildings includes £17,449,347 (1998: £18,562,734) in respect of leasehold properties held under leases with less than fifty years to run at 30 June 1999.

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.

Notes *(continued)*

9 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.

10 Stocks

	1999	1998
	£000	£000
Raw materials and consumables	**416**	512
Goods for resale	**1,796**	1,684
	2,212	2,196

11 Debtors

	1999		1998	
	Due within one year	**Due after one year**	Due within one year	Due after one year
	£000	***£000***	*£000*	*£000*
Trade debtors	**3,791**	**-**	3,351	-
Amounts owed by parent and fellow subsidiary undertakings	**63,565**	**-**	63,468	-
Other debtors	**5,075**	**1,407**	3,020	-
Prepayments and accrued income	**3,593**	**-**	2,625	-
Deferred taxation (note 14)	**960**	**-**	3,497	-
	76,984	**1,407**	75,961	-

Debtors due after one year mainly relates to deferred consideration as a result of re-franchising activities during the year.

Notes *(continued)*

12 Creditors: amounts falling due within one year

	1999 £000	1998 £000
Bank loans and overdrafts	**1,742**	13
Trade creditors	**2,311**	2,059
Amounts owed to parent and fellow subsidiary undertakings	**47,175**	44,114
Other creditors including taxation and social security:		
Corporation tax	**8,694**	8,925
Other taxes and social security	**2,318**	2,494
Other creditors and provisions	**3,760**	5,897
Accruals and deferred income	**5,540**	5,883
	71,540	69,385

13 Provision for liabilities and charges

	1999 £000	1998 £000
Vacant property costs	**4,756**	6,140

The movement in the provision during the period is as follows:

	1999 £000	1998 £000
Opening balance	**6,140**	8,147
Utilised during the period	**(1,384)**	(2,007)
Closing balance	**4,756**	6,140

The vacant property provision relates to the company's commitment to lease rentals and associated property costs payable in relation to vacant properties. Estimates are made as to the duration of the liability (up to 11.25 years) and amounts payable discounted.

Notes *(continued)*

14 Provided and unprovided deferred taxation

	Short term timing differences provided £000	**Accelerated capital allowances unprovided** £000
Asset/(liability) at beginning of period	3,497	(201)
Movement during period	(1,861)	1,105
Adjustment relating to prior year	(676)	-
Asset at end of period	960	904

15 Called up equity and non-equity share capital

	1999 **£000**	1998 £000
Allotted, called up and fully paid:		
Equity		
10,000,000 ordinary shares of £1 each	**10,000**	10,000
Non-equity		
30,672,000 9% cumulative non redeemable preference shares of £1 each	**30,672**	30,672
	40,672	40,672

The authorised share capital of the company is £50,672,000 (1998: £50,672,000), being made up of 10,000,000 £1 ordinary shares and 40,672,000 £1 9% cumulative non redeemable preference shares.

The arrears on the cumulative non redeemable preference shares amounts to £22,080,000 (1998: £19,320,000).

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

Notes *(continued)*

16 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 July 1998	36,518	(21,384)	(37,582)	19,320
Loss for the period	-	-	(1,548)	-
Finance cost of non-equity shares	-	-	(2,760)	2,760
At 30 June 1999	36,518	(21,384)	(41,890)	22,080

17 Reconciliation of movements in shareholders' funds

	1999 £000	1998 £000
(Loss)/profit for the financial period	**(1,548)**	3,049
Shareholders' funds at beginning of period	**37,544**	34,495
Shareholders' funds at end of period	**35,996**	37,544

Shareholders' funds comprises:

	1999		1998	
	Equity £000	**Non equity £000**	Equity £000	Non equity £000
Share capital	**10,000**	**30,672**	10,000	30,672
Share premium	**36,518**	**-**	36,518	-
Goodwill reserves	**(21,384)**	**-**	(21,384)	-
Profit and loss account	**(41,890)**	**22,080**	(37,582)	19,320
	(16,756)	**52,752**	(12,448)	49,992

Notes *(continued)*

18 Operating lease commitments

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

	1999		1998	
	Land and buildings	**Other**	Land and buildings	Other
	£000	**£000**	£000	£000
Operating leases which expire:				
Within one year	**31**	**-**	763	-
In the second to fifth years inclusive	**1,104**	**-**	1,191	-
Over five years	**21,622**	**50**	20,602	50
	22,757	**50**	22,556	50

19 Contingent liability

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 has been extended a further three years until 31 December 2002. The rent on the lease is now SEK 1,457,916 per annum.

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.

The company has guaranteed the debts of one of its franchisees with the distributor. The maximum amount of contingent liability is £125,000.

20 Related party disclosures

The ultimate controlling party at 30 June 1999 was Diageo plc.

The exemption from disclosing transactions with fellow subsidiary undertakings 90 per cent or more or whose voting rights are controlled within the Diageo plc group has been invoked.

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

The ultimate holding company at 30 June 1999 was Diageo plc, a company registered in England. The group accounts prepared by Diageo plc are available from 8 Henrietta Place London, W1M 9AG, United Kingdom.