

**Kentucky Fried Chicken
(Great Britain) Limited**

Directors' report and financial statements

1 December 1996

Registered number 967403



Kentucky Fried Chicken (Great Britain) Limited

Directors' report and financial statements

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Kentucky Fried Chicken (Great Britain) Limited

Company information

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

Registered office

PepsiCo Restaurants International
32 Goldsworth Road
Woking
Surrey
GU21 1JT

Directors

GD Allan
DJ Armstrong
TJ Ashby

Company secretary

GP Broad

Auditors

KPMG
8 Salisbury Square
London
EC4Y 8BB

Kentucky Fried Chicken (Great Britain) Limited

Directors' report

The directors present their report and audited financial statements for the 52 weeks ended 1 December 1996.

Principal activities

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

Results and dividends

The profit on ordinary activities after taxation for the period ended 1 December 1996 amounted to £5,893,000 (1995:£4,202,000), and has been retained in the company.

No dividends were paid or proposed during the period (1995: *£nil*).

The company administers the operational and financial management for Southern Fast Foods Limited, a fellow subsidiary undertaking, for which a management charge is levied.

Post balance sheet events

Following the period end there was a group reorganisation - for details see note 21.

Directors and directors' interests

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

Mr GD Allan	
Mr DJ Armstrong	(appointed 20 December 1995)
Mrs JK Averiss	(resigned 3 July 1996)
Mr PR Hearl	(resigned 1 June 1996)
Mr TJ Ashby	(appointed 9 July 1996)

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

Kentucky Fried Chicken (Great Britain) Limited

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 a news sheet.

Health and safety at work

The company has a positive 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.

Charitable and political donations

Donations to UK charities amounted to £2,500 (1995: £14,000). The company made no political contributions during the period.

Auditors

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

By order of the board



GP Broad
Secretary

32 Goldsworth Road
Woking
Surrey

15 May 1997

Kentucky Fried Chicken (Great Britain) Limited

Statement of directors' responsibilities

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

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

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



PO Box 695
8 Salisbury Square
London
EC4Y 8BB

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

We have audited the financial statements on pages 5 to 17.

Respective responsibilities of directors and auditors

As described on page 3 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 1 December 1996 and of its profit for the 52 weeks then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG
Chartered Accountants
Registered Auditors

15 May 1997

Kentucky Fried Chicken (Great Britain) Limited

Profit and loss account

for the 52 weeks ended 1 December 1996

	Note	52 weeks ended 1 December 1996 £000	53 weeks ended 3 December 1995 £000
Turnover - continuing operations	2	63,257	72,641
Cost of sales		(32,411)	(42,267)
Gross profit		30,846	30,374
Administrative expenses		(23,800)	(23,927)
Other operating income		1,727	-
Operating profit - continuing operations		8,773	6,447
Other interest receivable and similar income	6	382	80
Interest payable and similar charges	7	(152)	-
Profit on ordinary activities before taxation		9,003	6,527
Tax on profit on ordinary activities	8	(3,110)	(2,325)
Profit for the financial period		5,893	4,202

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

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

Kentucky Fried Chicken (Great Britain) Limited

Balance sheet at 1 December 1996

	<i>Note</i>	1 December 1996 £000	3 December 1995 £000
Fixed assets			
Tangible fixed assets	9	25,846	22,783
Investments in subsidiary undertakings	10	854	854
		<u>26,700</u>	<u>23,637</u>
Current assets			
Stocks	11	940	997
Debtors	12	15,148	14,776
Cash at bank and in hand		6,746	5,601
		<u>22,834</u>	<u>21,374</u>
Creditors: amounts falling due within one year	13	<u>(19,401)</u>	<u>(19,019)</u>
Net current assets/(liabilities)		<u>3,433</u>	<u>2,355</u>
Total assets less current liabilities		30,133	25,992
Creditors: amounts falling due after more than one year	13	(748)	(2,500)
Provision for liabilities and charges	14	-	-
Net assets		<u>29,385</u>	<u>23,492</u>
Capital and reserves			
Called up share capital	15	1,000	1,000
Share premium account	16	16,283	16,283
Investment revaluation reserve	16	507	507
Profit and loss account	16	11,595	5,702
Shareholders' funds	17	<u>29,385</u>	<u>23,492</u>

These financial statements were approved by the board of directors on 15 May 1997 and were signed on its behalf by:



GD Allan
Director

Kentucky Fried Chicken (Great Britain) Limited

Notes

(forming part of the financial statements)

1 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 of a company incorporated in Great Britain.

Tangible fixed assets and depreciation

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

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

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

Foreign currencies

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

Leases

All leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account as incurred over the term of the lease.

Pension costs

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

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

Stocks

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

Kentucky Fried Chicken (Great Britain) Limited

Notes (continued)

1 Accounting policies (continued)

Taxation

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

Turnover

Turnover comprises sales (exclusive of VAT) of Kentucky Fried Chicken food and of drinks at company owned stores, royalty and fees from franchise licences, sales of food and packaging material to distributors, sales of equipment to franchise licensees, and rents receivable from tenants.

2 Analysis of turnover

	52 weeks 1996 £000	53 weeks 1995 £000
<i>By activity</i>		
Company stores sales	58,369	53,562
Franchise royalties and fees	4,888	4,837
Other	-	14,242
	<hr/>	<hr/>
	63,257	72,641

The directors are of the opinion that it would not be meaningful to analyse profit before taxation or net assets by activity.

Kentucky Fried Chicken (Great Britain) Limited

Notes (continued)

3 Profit on ordinary activities before taxation

	52 weeks 1996 £000	53 weeks 1995 £000
<i>Profit on ordinary activities before taxation is stated after charging</i>		
Auditors' remuneration:		
Audit	60	60
Other services	14	36
Depreciation of tangible fixed assets	3,854	3,470
Hire of plant and machinery - rentals payable under operating leases	252	292
Hire of other assets - operating leases	372	299
Leasehold property rents	3,224	3,866
	<hr/>	<hr/>

4 Remuneration of directors

	£000	£000
Directors' emoluments including pension contributions:		
As directors	462	583
	<hr/>	<hr/>

The emoluments, excluding pension contributions, of the highest paid director were £292,000 (1995: £335,000).

The emoluments, excluding pension contributions, of the directors (including the highest paid director) were within the following ranges:

	Number of directors	
£0 - £ 5,000	2	2
£50,001 - £55,000	1	-
£105,001 - £110,000	1	-
£245,001 - £250,000	-	1
£290,001 - £295,000	1	-
£330,001 - £335,000	-	1
	<hr/>	<hr/>

Kentucky Fried Chicken (Great Britain) Limited

Notes (continued)

5 Staff numbers and costs

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

	Number of employees	
	52 weeks 1996	53 weeks 1995
Total	<u>1,860</u>	<u>1,656</u>

The aggregate payroll costs of these persons were as follows:

	£000	£000
Wages and salaries	16,305	14,999
Social security costs	1,107	938
Other pension costs (see note 19)	236	208
	<u>17,648</u>	<u>16,145</u>

6 Other interest receivable and similar income

	£000	£000
Interest on short-term deposits	<u>382</u>	<u>80</u>

7 Interest payable and similar charges

	52 weeks 1996 £000	53 weeks 1995 £000
Other interest	<u>152</u>	<u>-</u>

Kentucky Fried Chicken (Great Britain) Limited

Notes (continued)

8 Taxation

	£000	£000
UK corporation tax at 33% (1995:33%) on the profit for the period on ordinary activities	2,975	2,325
Adjustment in respect of prior periods	135	-
	<u>3,110</u>	<u>2,325</u>

9 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	6,626	26,781	19,112	52,519
Additions	1,593	2,625	3,332	7,550
Disposals	-	(238)	(946)	(1,184)
	<u>8,219</u>	<u>29,168</u>	<u>21,498</u>	<u>58,885</u>
<i>Depreciation and diminution in value</i>				
At beginning of period	3,183	15,737	10,816	29,736
Charge for period	29	1,276	2,549	3,854
Disposals	-	(43)	(508)	(551)
	<u>3,212</u>	<u>16,970</u>	<u>12,857</u>	<u>33,039</u>
<i>Net book value</i>				
At 1 December 1996	<u>5,007</u>	<u>12,198</u>	<u>8,641</u>	<u>25,846</u>
At 3 December 1995	<u>3,443</u>	<u>11,044</u>	<u>8,296</u>	<u>22,783</u>

Kentucky Fried Chicken (Great Britain) Limited

Notes (continued)

10 Fixed asset investments

Shares in subsidiary undertakings

Cost

At beginning and end of period

£000

2,981

Provisions

At beginning and end of period

2,127

Net book value

At 3 December 1995 and 1 December 1996

854

The subsidiary undertakings at 1 December 1996 were as follows:

	Country of registration	Principal activity	Class and percentage of shares held
Kentucky Fried Chicken Limited	England	Non-trading	100% ordinary shares
KFC Advertising Limited	England	Advertising services for Kentucky Fried Chicken	100% ordinary shares
Valleythorn Limited	England	Non-trading	100% ordinary shares
Finger Lickin' Chicken Limited	England	Non-trading	100% ordinary shares

In the opinion of the directors the investments in the company's subsidiary undertakings are worth at least the amounts at which they are stated in the balance sheet.

As explained in note 21, since the period end Roberts Restaurants Limited and Southern Fast Foods Limited have become wholly owned subsidiary undertakings of the company.

Kentucky Fried Chicken (Great Britain) Limited

Notes (continued)

11 Stocks

	1 December 1996 £000	3 December 1995 £000
Food and packaging	332	451
Equipment	608	546
	<u>940</u>	<u>997</u>

12 Debtors

	£000	£000
<i>Amounts due within one year:</i>		
Trade debtors	1,045	2,007
Other debtors	225	219
Amounts owed by parent and fellow subsidiary undertakings	11,806	10,862
Prepayments and accrued income	2,072	1,688
	<u>15,148</u>	<u>14,776</u>

Kentucky Fried Chicken (Great Britain) Limited

Notes (continued)

13 Creditors

Amounts falling due within one year	1 December 1996		3 December 1995	
	£000	£000	£000	£000
Trade creditors		2,623		3,045
Amounts owed to fellow subsidiary undertakings		357		1,847
Amounts owed to subsidiary undertakings		854		854
Other creditors including taxation and social security:				
Corporation tax	3,100		4,265	
Other taxes and social security	3,495		2,287	
		<u>6,595</u>		<u>6,552</u>
Taxation and social security				
		6,595		6,552
Accruals and deferred income		8,972		6,721
		<u>19,401</u>		<u>19,019</u>
Amounts falling due after one year				
Accruals and deferred income		748		2,500
		<u>748</u>		<u>2,500</u>

14 Provisions for liabilities and charges

Balances in respect of deferred taxation are set out below:

	Provided £000	Unprovided £000	Provided £000	Unprovided £000
Accelerated capital allowances	-	2,059	-	1,947
Short term timing differences	-	(483)	-	(464)
Net chargeable gains	-	151	-	-
	<u>-</u>	<u>1,727</u>	<u>-</u>	<u>1,483</u>

Kentucky Fried Chicken (Great Britain) Limited

Notes (continued)

15 Called up share capital

	1 December 1996 £000	3 December 1995 £000
<i>Authorised, allotted, called up and fully paid</i>		
Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>

As detailed in note 21, since the period end the authorised ordinary share capital has been increased to 25 million £1 ordinary shares and as a result of the share for share exchange a further 17 million £1 ordinary shares have been issued.

16 Reserves

	Share premium account £000	Investment revaluation reserve £000	Profit and loss account £000
At beginning of period	16,283	507	5,702
Retained profit for the period	<u>-</u>	<u>-</u>	<u>5,893</u>
At end of period	<u>16,283</u>	<u>507</u>	<u>11,595</u>

17 Reconciliation of movements in shareholders' funds

	1 December 1996 £000	3 December 1995 £000
Opening shareholders' funds	23,492	19,290
Profit for the financial period	<u>5,893</u>	<u>4,202</u>
Closing shareholders' funds	<u>29,385</u>	<u>23,492</u>

All shareholders' funds relate to equity interests.

Kentucky Fried Chicken (Great Britain) Limited

Notes (continued)

18 Commitments

- (i) Capital commitments at the end of the financial period for which no provision has been made.

	1 December 1996 £000	3 December 1995 £000
Contracted	-	1,251
Authorised but not contracted	<u>2,643</u>	<u>3,035</u>

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

	1 December 1996		3 December 1995	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	81	-	256	-
In the second to fifth years inclusive	346	624	421	592
Over five years	<u>3,311</u>	<u>-</u>	<u>3,193</u>	<u>-</u>
	<u>3,738</u>	<u>624</u>	<u>3,870</u>	<u>592</u>

19 Pension scheme

The company participates in the Kentucky Fried Chicken Pension Fund. This scheme is of the defined benefit type providing benefits to certain employees 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 April 1996. It was assumed for the purposes of this valuation that the rate of return on the fund's assets would be 12% and the rate of increase in salaries would be 6.5% per annum.

The market value of the fund's assets at 1 April 1996 was £3,038,000. The actuarial value at that date exceeded the benefits which had accrued to members, after allowing for expected future increases in earnings, by £145,000.

The total net pension cost for the company was £236,000 (1995: £208,000).

The next actuarial valuation is due at 1 April 1999.

Kentucky Fried Chicken (Great Britain) Limited

Notes *(continued)*

20 Parent companies

The company is a subsidiary undertaking of PepsiCo Holdings Limited, a company registered in England and Wales and the smallest group in which the results of the company are consolidated is that headed by PepsiCo Holdings Limited. These consolidated accounts are available to the public and may be obtained from the Registrar of Companies, Companies House, Cardiff, CF4 3UZ.

The largest group in which the results of the company are consolidated is that headed by PepsiCo, Inc., a company incorporated in the US. The consolidated accounts of this group are available to the public and may be obtained from:

PepsiCo, Inc.
700 Anderson Hill Road
Purchase
New York
10577
United States of America

21 Post balance sheet events

Since the period end the company has become the immediate holding company of Roberts Restaurants Limited, following a share for share exchange with PepsiCo Holdings Limited, under which it issued 17 million £1 ordinary shares.

The trade, assets and liabilities of Southern Fast Foods Limited, a subsidiary of Roberts Restaurants Limited, were transferred after the period end to the company at net book value.