

967403/54

KENTUCKY FRIED CHICKEN (GREAT BRITAIN) LIMITED

1.

DIRECTORS' REPORT

The directors submit their report and accounts for the year ended May 31, 1982.

Results and dividends

The group net profit for the year, after taxation, was £983,605. The directors do not recommend the payment of a dividend.

Principal activity

The company and its subsidiary, Kentucky Fried Chicken Limited, are the licensees for the British Isles of the Kentucky Fried Chicken trademarks and processes. The principal activity of the group during the year was the sale of Kentucky Fried Chicken through the company-owned stores and the receipt of licence income from licensees of Kentucky Fried Chicken trademarks and processes together with the sale to such licensees of goods required for the process.

Employees

The average weekly number of persons employed in the United Kingdom during the year was 575 (1981 - 597) and their aggregate remuneration was £2,612,000 (1981 - £2,693,000).

Disabled employees

Applications for employment of disabled persons are fully and fairly considered having regard to the aptitude and abilities of each applicant. Efforts are made to enable any employee who becomes disabled during employment to continue their career with the company. Training, career development and promotion of disabled persons is as far as possible identical to that of other employees who are not disabled.

Directors and their interests

The following served as directors during the year:

M. J. Barnes (Chairman and Managing Director; appointed December 1, 1981)
A. P. Thomas
P. M. Orme (Resigned December 1, 1981)
V. E. Treves
R. Mori
B. Rowles

There are no directors' interests requiring disclosure under the Companies Act 1967.



KENTUCKY FRIED CHICKEN (GREAT BRITAIN) LIMITED

2.


DIRECTORS' REPORT
(continued)

Auditors

Arthur Young McClelland Moores & Co. will not be standing for reappointment at the Annual General Meeting.

BY ORDER OF THE BOARD

B. L. SPICER
Secretary

A handwritten signature in dark ink, appearing to read "B. L. Spicer", is written over the typed name of the Secretary.

December 14, 1982



A MEMBER OF AMSA IN EUROPE AND ARTHUR YOUNG INTERNATIONAL

3.

Arthur Young McClelland Moores & Co.

Chartered Accountants
Rolls House, 7 Rolls Buildings,
Fetter Lane, London, EC4A 1NH

REPORT OF THE AUDITORS TO THE MEMBERS OF KENTUCKY FRIED CHICKEN (GREAT BRITAIN) LIMITED

We have audited the accounts on pages 4 to 12 in accordance with approved auditing standards.

In our opinion the accounts, which have been prepared under the historical cost convention, give a true and fair view of the state of affairs of the company and the group at May 31, 1982 and of the profit and source and application of funds of the group for the year then ended and comply with the Companies Acts 1948 to 1981.

The financial statements do not include a supplementary current cost statement, contrary to standard accounting practice.

ARTHUR YOUNG McCLELLAND MOORES & CO.

December 14, 1982

KENTUCKY FRIED CHICKEN (GREAT BRITAIN) LIMITED AND SUBSIDIARY

4.

GROUP PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED MAY 31, 1982

	<u>Notes</u>	<u>£</u>	<u>1982</u> <u>£</u>	<u>1981</u> <u>£</u>
Turnover	2		£14,612,806	£13,895,854
			=====	=====
Profit before taxation			1,353,685	1,088,933
			-----	-----
after charging/(crediting):				
(Profit)/loss on sale of				
fixed assets		(9,320)		100,630
Loss on write off of site				
acquisition costs		-		85,310
Depreciation		262,216		203,748
Hire of plant and machinery		47,167		36,955
Directors' remuneration	3	21,330		18,738
Auditors' remuneration		23,200		23,000
Interest (receivable)		(40,942)		(45,713)
			=====	=====
Taxation	4		(370,080)	(549,017)
			-----	-----
Profit (of which £934,906				
(1981 - £466,753) is				
attributable to members				
of the holding company)			983,605	539,916
Retained profit brought forward			1,618,865	1,078,949
			-----	-----
Retained profit carried forward			£ 2,602,470	£ 1,618,865
			=====	=====

The notes on pages 8 to 12 form part of these accounts

KENTUCKY FRIED CHICKEN (GREAT BRITAIN) LIMITED AND SUBSIDIARY

5.

GROUP BALANCE SHEET AT MAY 31, 1982

	Notes	£	1982 £	1981 £
Fixed assets	5		2,674,060	1,567,792
Goodwill	6		11,694	12,120
Patents			1	1
Current assets:				
Stocks	7	671,674		327,915
Debtors and prepayments		1,310,719		1,050,502
Amount owing from holding and fellow subsidiary companies		566,715		238,723
Bank and cash		6,968		634,825
		<u>2,556,076</u>		<u>2,251,965</u>
Current liabilities:				
Loan from holding company		-		202,162
Creditors and accrued liabilities		1,245,228		1,064,338
Amount owing to holding and fellow subsidiary companies		200,934		181,898
Corporation tax		852,305		760,614
Bank overdrafts		336,893		-
		<u>2,635,360</u>		<u>2,209,012</u>
Net current (liabilities)/assets			(79,284)	42,953
			<u>£2,606,471</u>	<u>£1,622,866</u>
Representing				
Share capital	8		4,001	4,001
Retained profit			2,602,470	1,618,865
M. J. BARNES)			
A. P. THOMAS)			
Directors)			
			<u>£2,606,471</u>	<u>£1,622,866</u>

The notes on pages 8 to 12 form part of these accounts

KENTUCKY FRIED CHICKEN (GREAT BRITAIN) LIMITED

6.

BALANCE SHEET AT MAY 31, 1982

	Notes	£	1982 £	1981 £
Fixed assets	5		2,674,060	1,567,792
Investment in subsidiaries	10		93,780	93,780
Goodwill	6		11,694	12,120
Current assets:				
Stocks	7	671,674		327,915
Debtors and prepayments		1,310,719		1,050,502
Amount owing from holding and fellow subsidiary companies		566,715		238,723
Bank and cash		6,968		634,825
		2,556,076		2,251,965
Current liabilities:				
Loan from holding company		-		202,162
Creditors and accrued liabilities		1,245,228		1,064,338
Amount owing to subsidiary company		343,172		249,614
Amount owing to holding and fellow subsidiary companies		200,934		181,898
Corporation tax		727,898		681,066
Bank overdrafts		336,893		-
		2,854,125		2,379,078
Net current liabilities			(298,049)	(127,113)
			£2,481,485	£1,546,579
Representing				
Share capital	8		4,001	4,001
Retained profit			2,477,484	1,542,578
			£2,481,485	£1,546,579

M. J. BARNES)
A. P. THOMAS) Directors

[Signature]

The notes on pages 8 to 12 form part of these accounts

KENTUCKY FRIED CHICKEN (GREAT BRITAIN) LIMITED AND SUBSIDIARY

7.

GROUP STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED MAY 31, 1982

	£	1982 £	1981 £
Source of funds:			
Profit before taxation		1,353,685	1,088,933
Adjustment for items not involving the movement of funds:			
(Profit)/loss on sale of fixed assets		(9,320)	185,940
Depreciation		262,216	203,748
Goodwill written off		426	574
Total generated from operations		1,607,007	1,479,195
Funds from other sources:			
Proceeds from sale of fixed assets		65,646	56,880
Investment grant received		-	6,528
		1,672,653	1,542,603
Application of funds:			
Tax paid	278,389		100,882
Purchase of fixed assets	1,424,810		462,585
		1,703,199	563,467
Net (decrease)/increase in working capital		(30,546)	979,136
Components of (decrease)/increase in working capital:			
Loan from holding company	202,162		100,000
Stocks	343,759		(207,849)
Debtors and prepayments	260,217		(137,097)
Creditors and accrued liabilities	(180,890)		214,688
Holding and fellow subsidiary companies balances	308,956		99,964
		934,204	69,706
Net movement in liquid funds		£ (964,750)	£ 909,430
Components of movement in net liquid funds:			
Bank and cash		(627,857)	634,825
Bank overdrafts		(336,893)	274,605
		£ (964,750)	£ 909,430

The notes on pages 8 to 12 form part of these accounts

NOTES TO THE ACCOUNTS AT MAY 31, 1982

These accounts have been prepared in compliance with Sections 149A and 152A of, and Schedule 8A to, the Companies Act 1948.

Events relating to the year ended May 31, 1982, which occurred before December 14, 1982, the date of approval of the accounts by the board of directors, have been included in the accounts to the extent that it is required by Statement of Standard Accounting Practice No. 17.

1. Accounting policies

(a) Depreciation

The company provides depreciation at rates which are calculated to write off the cost of the assets by equal annual instalments as follows:

Machinery and equipment	-	over ten years
Motor vehicles	-	over five years
Leasehold improvements	-	over the life of the lease
Lease premiums	-	over the period up to the first review of the lease

Freehold land and buildings are not depreciated. The amount of depreciation would be immaterial.

(b) Stocks

Stocks are stated at the lower of cost on a first-in, first-out basis and net realisable value.

(c) Deferred taxation

Deferred taxation is provided on the liability method on all short term timing differences. Provision is also made for long term timing differences except for those which are not expected to reverse in the future.

(d) Franchise income

Option fees paid by potential franchisees are credited to profit and loss account at the times of opening for business of the relevant franchise shops, or when the option expires.

Monthly franchise fees are accrued based on the reported sales of the franchisees.

(e) Goodwill

Goodwill is not valued unless acquired for consideration. Valued goodwill is included at cost and written off over a period not exceeding forty years from the date of acquisition.

KENTUCKY FRIED CHICKEN (GREAT BRITAIN) LIMITED AND SUBSIDIARY

9.

NOTES TO THE ACCOUNTS AT MAY 31, 1982
(continued)

1. Accounting policies
(continued)

(f) Advertising

The company participates with its franchisees in a co-operative advertising programme financed by agreed contributions from store sales. The company's share of excesses of advertising expense over agreed contributions at the end of the year is expensed by the company.

(g) Foreign currencies

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account.

2. Turnover

Turnover represents sales (excluding value added tax) of Kentucky Fried Chicken and other food and drinks at company-owned stores, licence income, sales of food and equipment to franchise licensees and option fees when brought into income.

3. Directors' remuneration

	<u>1982</u>	<u>1981</u>
	£	£
Directors' fees	-	-
Other emoluments (including pension contributions)	21,330	18,738
	<u>£21,330</u>	<u>£18,738</u>

In 1982 the emoluments (excluding pension contributions) of the chairman, who was also the highest paid director, were £10,270 (1981 £17,956).

The number of other directors whose emoluments fell within the ranges below were:

	<u>1982</u>	<u>1981</u>
£ Nil to £ 5,000	4	5
£5,001 to £10,000	1	-

KENTUCKY FRIED CHICKEN (GREAT BRITAIN) LIMITED AND SUBSIDIARY

10.

NOTES TO THE ACCOUNTS AT MAY 31, 1982
(continued)

4. Taxation

	<u>1982</u> £	<u>1981</u> £
The taxation charge is made up as follows:		
Based on the results for the year:		
Corporation tax at 52% (1981 - 52%)	384,950	641,576
Deferred taxation credit	-	(70,147)
Current taxation overprovided in previous years	(14,870)	(22,412)
	<u>£ 370,080</u>	<u>£ 549,017</u>

5. Fixed assets

Group and company

	<u>Freehold property</u> £	<u>Leasehold improve- ments</u> £	<u>Lease premiums</u> £	<u>Machinery, equipment and motor vehicles</u> £	<u>Total</u> £
Cost:					
At May 31, 1981	5,000	1,049,820	65,850	1,072,359	2,193,029
Additions	-	729,831	50,000	644,979	1,424,810
Disposals	-	(38,880)	(9,000)	(34,771)	(82,651)
At May 31, 1982	<u>5,000</u>	<u>1,740,771</u>	<u>106,850</u>	<u>1,682,567</u>	<u>3,535,188</u>
Accumulated depreciation:					
At May 31, 1981	-	282,333	32,295	310,609	625,237
Provided during year	-	87,264	5,140	169,812	262,216
Disposals	-	(10,963)	(6,410)	(8,952)	(26,325)
At May 31, 1982	<u>-</u>	<u>358,634</u>	<u>31,025</u>	<u>471,469</u>	<u>861,128</u>
Net book amounts:					
At May 31, 1982	<u>£5,000</u>	<u>£1,382,137</u>	<u>£ 75,825</u>	<u>£1,211,098</u>	<u>£2,674,060</u>
At May 31, 1981	<u>£5,000</u>	<u>£ 767,487</u>	<u>£ 33,555</u>	<u>£ 761,750</u>	<u>£1,567,792</u>

KENTUCKY FRIED CHICKEN (GREAT BRITAIN) LIMITED AND SUBSIDIARY

11.

NOTES TO THE ACCOUNTS AT MAY 31, 1982
(continued)

6. Goodwill

£

Balance at May 31, 1981 representing expenditure in connection with the purchasing of businesses, in excess of the amount attributed to net tangible assets less amounts written off
Written off during the year

12,120
(426)

Balance at May 31, 1982

£ 11,694
=====

7. Stocks

Group and company

1982
£

1981
£

Stocks consist of:

Food, drink and packaging
Equipment
Other

236,823	92,195
397,295	214,842
37,556	20,878
£671,674	£327,915
=====	=====

8. Share capital

1982
£

1981
£

Authorised, issued and fully paid:

2,000 A ordinary shares of £1 each (1981 - 2,000)
2,000 B ordinary shares of £1 each (1981 - 2,000)
1 A ordinary non-voting share of £1 (1981 - 1)

2,000	2,000
2,000	2,000
1	1
£ 4,001	£ 4,001
=====	=====

9. Deferred taxation

In accordance with the accounting policy, deferred taxation has not been provided but the potential liability is shown below:

1982

1981

Potential
liability
£

Potential
liability
£

Capital allowances in advance of depreciation and amortisation
Other differences in recognising revenue and expense items in other periods for taxation purposes

843,890	485,807
(53,612)	(46,459)
£790,278	£439,348
=====	=====

KENTUCKY FRIED CHICKEN (GREAT BRITAIN) LIMITED AND SUBSIDIARY

12.

NOTES TO THE ACCOUNTS AT MAY 31, 1982
(continued)

10. Investment in subsidiaries

The company owns the whole of the issued share capital of Kentucky Fried Chicken Limited and of K.F.C. Advertising, a company with unlimited liability. Both companies are incorporated in Great Britain.

The accounts of K.F.C. Advertising have not been consolidated with those of the company as the company effectively acts as Trustee. K.F.C. Advertising is non-profit making and its management strongly influenced by participating franchisees as well as the holding company. The investment has been shown at net value being cost less amounts written off to date. The accounts to April 26, 1982 show net liabilities of £17,034 and a deficit for the year of £1,537.

11. Capital commitments

	<u>1982</u>	<u>1981</u>
Authorised and contracted for	£30,000 =====	£376,000 =====
Authorised and not yet contracted for	£ Nil =====	£295,000 =====

12. Contingent liabilities

There are contingent liabilities arising in the ordinary course of business, which, in the opinion of the directors, are unlikely in aggregate to exceed £5,000.

13. Ultimate holding company

The ultimate holding company at May 31, 1982 was Heublein, Inc., which is incorporated in the United States of America. The ultimate holding company is now R. J. Reynolds Industries, Inc., which is incorporated in the United States of America.