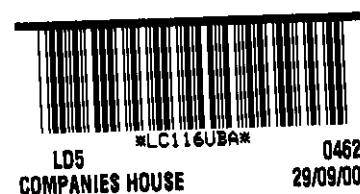


Kentucky Fried Chicken (Great Britain) Limited

Directors' report and financial
statements

Registered number 967403

28 November 1999



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Company information

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

Registered Office Kentucky Fried Chicken (Great Britain) Limited
32 Goldsworth Road
Woking
Surrey
GU21 1JT

Directors	TJ Ashby	(resigned 4 June 1999)
	GD Allan	
	GP Broad	(resigned 31 July 1999)
	KP Higgins	
	MRF Shuker	(resigned 13 September 1999)
	I Schofield	(appointed 31 July 1999)
	S Gehin	(appointed 12 May 1999)
	IP Govier	(appointed 12 May 1999; resigned 17 August 2000)
	A Graff	(appointed 12 May 1999)
	EMM Hodding	(appointed 24 September 1999)
	G Koser	(appointed 12 May 1999)
	K-H Ruether	(appointed 24 September 1999)
P Maslen	(appointed 12 May 1999, resigned 20 July 1999)	

Company Secretary DG Dixon

Auditors KPMG
8 Salisbury Square
London
EC4Y 8BB

Directors' report

The directors present their report and audited financial statements for the 52 weeks ended 28 November 1999.

Principal activities

The principal activity of the company during the period continued to be the sale of KFC through company-owned stores and the receipt of income from franchisees of the KFC trade marks and processes.

Results and dividends

The profit on ordinary activities after taxation of the company for the period ended 28 November 1999 amounted to £10,993,000 (1998: £9,806,000).

The directors do not propose to pay a dividend (1998: £Nil).

Directors and directors' interests

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

TJ Ashby	(resigned 4 June 1999)
GD Allan	
GP Broad	(resigned 31 July 1999)
KP Higgins	
MRF Shuker	(resigned 13 September 1999)
I Schofield	(appointed 31 July 1999)
S Gehin	(appointed 12 May 1999)
IP Govier	(appointed 12 May 1999; resigned 17 August 2000)
A Graff	(appointed 12 May 1999)
EMM Hodding	(appointed 24 September 1999)
G Koser	(appointed 12 May 1999)
K-H Ruether	(appointed 24 September 1999)
P Maslen	(appointed 12 May 1999, resigned 20 July 1999)

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

Directors' report *(continued)*

Directors and directors' interests *(continued)*

GD Allan and IP Govier are also a directors of Restaurant Holdings Limited of which the company is a wholly owned subsidiary and their interests are stated in the directors' report of that company. The other directors who held office at the end of the period who had the following outstanding options to acquire ordinary shares of Tricon Global Restaurants Inc were:

	Date of grant	Number granted	Exercise price US\$	Date from which exercisable	Expiry date
KP Higgins	20 January 1998	4,129	27.2500	20 January 2002	20 January 2008
	21 January 1999	2,236	46.9688	21 January 2003	21 January 2009
MRF Shuker	20 January 1998	11,010	27.2500	20 January 2002	20 January 2008
	21 January 1999	4,471	46.9688	21 January 2003	21 January 2009
I Schofield	2 August 1999	3,870	41.3438	2 August 2003	2 August 2009
S Gehin	25 July 1996	3,016	24.8738	1 August 1997	25 July 2006
	20 January 1998	5,505	27.2500	20 January 2002	20 January 2008
	21 January 1999	3,407	46.9688	21 January 2003	21 January 2009
A Graff	20 January 1998	8,257	27.2500	20 January 2002	20 January 2008
	21 January 1999	3,407	46.9688	21 January 2003	21 January 2009
EMM Hodding	25 July 1996	5,026	24.8738	1 August 1997	25 July 2006
	20 January 1998	8,257	27.2500	20 January 2002	20 January 2008
	21 January 1999	4,471	46.9688	21 January 2003	21 January 2009
G Koser	3 August 1998	2,136	31.1250	3 August 2002	3 August 2008
	21 January 1999	1,704	46.9688	21 January 2003	21 January 2009

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 an in-house magazine.

Health and safety at work

The company has a proactive 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.

Directors' report *(continued)*

Payments to creditors

It is the company's policy to make payment to creditors in accordance with their standard terms of supply. At the year end, creditors days on the company's principal business activities amounted to 12 days (1998: 12 days).

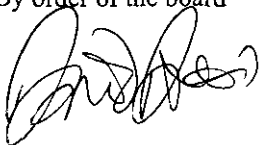
Charitable and political donations

Donations to UK charities amounted to £1,000 (1998: £16,250). 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



DG Dixon

Secretary

32 Goldsworth Road
Woking
Surrey
GU21 1JT

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 6 to 18.

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 28 November 1999 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*

29th Sept 2000

Profit and loss account

for the 52 weeks ended 28 November 1999

	Note	52 weeks ended 28 November 1999 £000	52 weeks ended 29 November 1998 £000
Turnover	3	122,666	107,023
Cost of sales		(64,846)	(56,630)
Gross profit		57,820	50,393
Administrative expenses		(42,881)	(38,295)
Other operating income		1,246	1,756
Operating profit		16,185	13,854
Other interest receivable and similar income	7	998	1,221
Interest payable and similar charges	8	(204)	(399)
Profit on ordinary activities before taxation	4	16,979	14,676
Tax on profit on ordinary activities	9	(5,986)	(4,870)
Profit retained for the financial period		10,993	9,806

The turnover and operating profit relate wholly to continuing activities.

A statement of movements on reserves is given in note 18.

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

Balance sheet

at 28 November 1999

	Note	28 November 1999		29 November 1998	
		£000	£000	£000	£000
Fixed assets					
Intangible fixed assets	10		14,023		14,499
Tangible fixed assets	11		40,886		38,507
Investments in subsidiary undertakings	12		933		933
			<hr/>		<hr/>
			55,842		53,939
Current assets					
Stocks	13	598		540	
Debtors	14	25,349		6,171	
Cash at bank and in hand		1,974		14,586	
		<hr/>		<hr/>	
		27,921		21,297	
Creditors: amounts falling due within one year	15	(22,895)		(25,186)	
		<hr/>		<hr/>	
Net current assets/(liabilities)			5,026		(3,889)
			<hr/>		<hr/>
Total assets less current liabilities			60,868		50,050
Creditors: amounts falling due after more than one year	15		(1,368)		(1,543)
			<hr/>		<hr/>
Net assets			59,500		48,507
			<hr/>		<hr/>
Capital and reserves					
Called up share capital	17		18,000		18,000
Share premium account	18		16,283		16,283
Profit and loss account	18		25,217		14,224
			<hr/>		<hr/>
Shareholders' funds	19		59,500		48,507
			<hr/>		<hr/>

These financial statements were approved by the board of directors on 28 Sept 2000 and were signed on its behalf by:



I Schofield
Director

Notes

(forming part of the financial statements)

1 Accounting reference date

Since it is part of a retail group, the company operates a 52 week accounting year rather than a full calendar year.

2 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. The ultimate parent company, Tricon Global Restaurants Inc. prepares consolidated financial statements including the company's results, which are publicly available.

Intangible fixed assets

Intangible fixed assets represents goodwill arising on the merger with Roberts Restaurants Limited and key money paid on leases entered into, which are written off to the profit and loss account over the expected useful lives of the assets as follows:

Goodwill	-	20 years
Key money	-	Lesser of 20 years or the life of the lease

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.

On 21 December 1998, KFC (GB) Ltd advanced the sum of \$3.5 million to KFC Worldwide. A further \$1 million was transferred on 22 February 1999. This loan is denominated in US\$. Interest is calculated on a period by period basis at the exchange rate ruling at each period end. Foreign exchange gains and losses are calculated by revaluing the principal at the exchange rate ruling at each period end.

Notes (continued)

2 Accounting policies (continued)

Leases

In accordance with SSAP 21 rental charges on all operating leases 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.

Taxation

The charge for taxation is based on the profit for the period 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 of KFC food and drinks at company owned stores and royalties and fees from franchise licences.

3 Analysis of turnover

	52 weeks ended 28 November 1999 £000	52 weeks ended 29 November 1998 £000
<i>By activity</i>		
Company stores sales	113,076	99,633
Franchise royalties and fees	9,590	7,390
	<hr/>	<hr/>
	122,666	107,023
	<hr/>	<hr/>

The directors state that it is not possible to analyse profit before taxation or net assets by activity as the information is not readily available.

Notes (continued)

4 Profit on ordinary activities before taxation

	52 weeks ended 28 November 1999 £000	52 weeks ended 29 November 1998 £000
<i>Profit on ordinary activities before taxation is stated after charging</i>		
Foreign exchange gain	(122)	-
Auditors' remuneration:		
Audit	45	44
Other services	32	21
Amortisation of intangible fixed assets	806	906
Depreciation of tangible fixed assets	5,945	5,640
Hire of plant and machinery - rentals payable under operating leases	145	279
Hire of other assets - operating leases	358	298
Leasehold property rents	7,174	5,469

5 Remuneration of directors

	52 weeks ended 28 November 1999 £000	52 weeks ended 29 November 1998 £000
Directors' emoluments excluding pension contributions:		
As directors	1,295	617

The emoluments, excluding pension contributions, of the highest paid director were £347,000
 (1998: £301,000).

	Number of directors	
	52 weeks ended 28 November 1999	52 weeks ended 29 November 1998
Retirement benefits are accruing to the following number of directors under:		
Defined benefit schemes	10	3

Notes (*continued*)

6 Staff numbers and costs

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

	Number of employees	
	52 weeks ended 28 November 1999	52 weeks ended 29 November 1998
Total	1,701	1,524

The aggregate payroll costs of these persons were as follows:

	52 weeks ended 28 November 1999 £000	52 weeks ended 29 November 1998 £000
Wages and salaries	8,759	7,528
Social security costs	644	215
Other pension costs (see note 21)	602	707
	<u>10,005</u>	<u>8,450</u>

Kentucky Fried Chicken (Great Britain) Limited uses its subsidiary KFC Services Limited as employer for the majority of staff employed in the group.

7 Other interest receivable and similar income

	52 weeks ended 28 November 1999 £000	52 weeks ended 29 November 1998 £000
Interest on short-term deposits	328	1,221
Other interest receivable	670	-
	<u>998</u>	<u>1,221</u>

Notes (continued)

8 Interest payable and similar charges

	52 weeks ended 28 November 1999 £000	52 weeks ended 29 November 1998 £000
Amounts payable on bank overdrafts	29	204
Other interest	175	195
	<u>204</u>	<u>399</u>

9 Taxation

	52 weeks ended 28 November 1999 £000	52 weeks ended 29 November 1998 £000
UK corporation tax	5,992	4,692
Adjustment in respect of prior periods	(6)	178
	<u>5,986</u>	<u>4,870</u>

10 Intangible assets

	Key money £000	Goodwill £000	Total £000
Cost			
At beginning of period	-	16,111	16,111
Additions	330	-	330
	<u>330</u>	<u>16,111</u>	<u>16,441</u>
At end of period	330	16,111	16,441
Amortisation			
At beginning of period	-	1,612	1,612
Charge for period	-	806	806
	<u>-</u>	<u>2,418</u>	<u>2,418</u>
At end of period	-	2,418	2,418
Net book value			
At 28 November 1999	<u>330</u>	<u>13,693</u>	<u>14,023</u>
At 29 November 1998	<u>-</u>	<u>14,499</u>	<u>14,499</u>

Notes (continued)

10 Intangible assets (continued)

On 1 December 1996, the company merged with Roberts Restaurants Limited. The book value of the investment in Roberts Restaurants Limited was less than the fair value of that company. The company's cost of investment in Roberts Restaurants Limited has been re-allocated so as to recognise the goodwill inherent in the business. This is not in accordance with Schedule 4 to the Companies Act 1985 which requires the purchase price of an asset to be based on the actual price paid. Had the requirements of the Act been followed, the diminution in value of the investment arising from the transfer of the business at less than fair value would have had to be recognised as a loss. The directors consider that, as there had been no overall loss to the company, it would fail to give a true and fair view to charge that diminution to the profit and loss account for the year and it should instead be reallocated to goodwill.

Key money represents amounts paid to a lessor on the inception of a lease.

11 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	12,540	37,741	38,648	88,929
Additions	548	4,824	3,736	9,108
Disposals	-	(643)	(1,115)	(1,758)
At end of period	13,088	41,922	41,269	96,279
<i>Depreciation and diminution in value</i>				
At beginning of period	4,418	23,220	22,784	50,422
Charge for period	413	2,136	3,396	5,945
Disposals	-	(77)	(897)	(974)
At end of period	4,831	25,279	25,283	55,393
<i>Net book value</i>				
At 28 November 1999	8,257	16,643	15,986	40,886
At 29 November 1998	8,122	14,521	15,864	38,507

Notes *(continued)*

12 Fixed asset investments

	Cost or valuation £000	Provisions £000	Net book value £000
At beginning and end of period	3,363	2,430	933

On 1 December 1996, the company issued 17 million £1 ordinary shares in consideration for the acquisition of Roberts Restaurants Limited as part of a share for share exchange with PepsiCo Holdings Limited.

The subsidiary undertakings of the group at 28 November 1999 were as follows:

	Principal activity	Class and percentage of shares held
Kentucky Fried Chicken Limited	Non-trading	100% ordinary shares
KFC Advertising Limited	Advertising Co-operative	100% ordinary shares
Valleythorn Limited	Non-trading	100% ordinary shares
Finger Lickin' Chicken Limited	Non-trading	100% ordinary shares
Roberts Restaurants Limited	Non-trading	100% ordinary shares
Southern Fast Foods Limited	Non-trading	100% ordinary shares
KFC Services Limited	Services Company	100% ordinary shares

All companies are registered in England and Wales and operate in the United Kingdom.

13 Stocks

	28 November 1999 £000	29 November 1998 £000
Food and packaging	598	540

Notes (continued)

14 Debtors

	28 November 1999 £000	29 November 1998 £000
<i>Amounts due within one year:</i>		
Trade debtors	1,360	980
Other debtors	1,020	1,035
Amounts owed by parent company	9,680	3,073
Amounts owed by fellow subsidiary undertakings	12,200	117
Amounts owed by subsidiary undertakings	314	311
Prepayments and accrued income	775	655
	<u>25,349</u>	<u>6,171</u>

15 Creditors

	28 November 1999 £000	£000	29 November 1998 £000	£000
<i>Amounts falling due within one year:</i>				
Trade creditors		4,045		3,957
Amounts owed to fellow subsidiary undertakings		-		3,925
Amounts owed to subsidiary undertakings		2,433		1,241
Other creditors including taxation and social security:				
Corporation tax	3,329		4,692	
Other taxes and social security	2,440		1,817	
		<u>5,769</u>		<u>6,509</u>
Accruals and deferred income		10,648		9,554
		<u>22,895</u>		<u>25,186</u>
<i>Amounts falling due after one year:</i>				
Accruals and deferred income		1,368		1,543
		<u>1,368</u>		<u>1,543</u>

Notes (continued)

16 Provisions for liabilities and charges

Balances in respect of deferred taxation are set out below:

	28 November 1999		29 November 1998	
	Provided £000	Unprovided £000	Provided £000	Unprovided £000
Accelerated capital allowances	-	3,546	-	3,550
Short term timing differences	-	(681)	-	(512)
Net chargeable gains	-	713	-	624
	<hr/>	<hr/>	<hr/>	<hr/>
	-	3,578	-	3,662
	<hr/>	<hr/>	<hr/>	<hr/>

17 Called up share capital

	28 November 1999 £000	29 November 1998 £000
<i>Authorised</i>		
Ordinary shares of £1 each	25,000	25,000
	<hr/>	<hr/>
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	18,000	18,000
	<hr/>	<hr/>

18 Reserves

	Share premium account £000	Profit and loss account £000
At beginning of period	16,283	14,224
Retained profit for the period	-	10,993
	<hr/>	<hr/>
At end of period	16,283	25,217
	<hr/>	<hr/>

Notes (continued)

19 Reconciliation of movements in shareholders' funds

	28 November 1999 £000	29 November 1998 £000
Opening shareholders' funds	48,507	38,701
Profit for the financial period	10,993	9,806
Closing shareholders' funds	<u>59,500</u>	<u>48,507</u>

All shareholders' funds relate to equity interests.

20 Commitments

- (i) Capital commitments at the end of the financial period for which no provision has been made are as follows:

	28 November 1999 £000	29 November 1998 £000
Authorised but not contracted	<u>170</u>	<u>669</u>

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

	28 November 1999		29 November 1998	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	64	-	278	-
In the second to fifth years inclusive	1,417	503	1,189	577
Over five years	5,120	-	4,134	-
	<u>6,601</u>	<u>503</u>	<u>5,601</u>	<u>577</u>

Notes (continued)

21 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 of Kentucky Fried Chicken (Great Britain) Limited and KFC Services Limited and the assets are held separately from the company'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 1999. It is assumed for the purposes of this valuation that the rate of return on the fund's assets would be 7.5% and the rate of increase in salaries would be 5.5% per annum, the rate of increase in pensions would be 3.0% and the rate of growth in dividends would be 4.25%.

The market value of the fund's assets at 1 April 1999 was £8,155,000. The benefits which had accrued to members, after allowing for expected future increases in earnings, exceeded the actuarial value of assets at that date by £820,000. The actuarial value of assets was sufficient to cover 89% of the value of liabilities at that date.

The net pension cost for the company was £602,000 (1998: £707,000).

The next actuarial valuation falls due on 1 April 2001.

22 Parent companies

The entity is a subsidiary undertaking of Restaurant Holdings Limited, a company registered in England and Wales.

The largest group in which the results of the company are consolidated is that headed by Tricon Global Restaurants Inc., a company incorporated in North Carolina, USA. The consolidated accounts of this group are available to the public and may be obtained from:

Tricon Global Restaurants Inc.
1441 Gardiner Lane
Louisville
Kentucky
40213
United States of America