

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

Directors' report and financial statements

30 November 1993

Registered number 967403



Kentucky Fried Chicken (Great Britain) Limited

Directors' report and financial statements

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Kentucky Fried Chicken (Great Britain) Limited

Directors' report

The directors present their annual report and the audited financial statements for the ten month period ended 30 November 1993.

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 licence income from licensees of the Kentucky Fried Chicken trade marks and processes, together with the sale to them of goods required for the process. On 30 November 1993, the 50% stake in the company, previously held by Forte plc, was acquired by PepsiCo Holdings Limited. PepsiCo Holdings thus now wholly owns the issued ordinary share capital of the company. The directors believe that this change in ownership will enable the company to undertake a significant expansion programme in the coming years with the object of securing a larger share of the quick service restaurant market.

Business review

The profit on ordinary activities after taxation for the period ended 30 November 1993 amounted to £2,101,000 (year ended 31 January 1993: £2,222,000 as restated), and has been retained in the company.

Significant changes in fixed assets

The movements in fixed assets are shown in note 10 to the financial statements.

Post balance sheet events

Details of significant events occurring since the end of the period are set out in note 22 to the financial statements.

Directors and directors' interests

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

Mr AL Monnickendam	(resigned 1 December 1993)
Mr GFL Proctor	(resigned 1 December 1993)
Mr AE Engel	(resigned 1 December 1993)
Mr CJ Garratt	
Mr JM Cranor	(USA) (resigned 21 July 1994)
Mr GF Johnson	(appointed 1 December 1993; resigned 26 May 1994)
Mr PR Hearl	(appointed 1 December 1993)
Mr GD Allan	(appointed 26 May 1994)

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

Disabled persons

It is the company's policy to give full consideration to suitable applications for employment by disabled persons.

Disabled employees are eligible to participate in all career development opportunities available to staff. Opportunities also exist for employees of the company who become disabled to continue in their employment or to be trained for other positions in the company.

Employee involvement

The company is committed to involve all employees in the performance and development of the company. Employees are encouraged to discuss with management matters of interest to the employees and subjects affecting day to day operations of the company.


Political and charitable contributions

The company made no political contributions during the period. Donations to UK charities amounted to £6,262.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG Peat Marwick as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board


J Averiss
Secretary

Colonel Sanders House
88/97 High Street
Brentford
Middlesex

Date

27/9/94

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; and
- 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 maintaining 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.

KPMG Peat Marwick

PO Box 486
1 Puddle Dock
Blackfriars
London EC4V 3PD

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

We have audited the financial statements on pages 5 to 22.

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 30 November 1993 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Peat Marwick

KPMG Peat Marwick
Chartered Accountants
Registered Auditors

27th September 1994

Kentucky Fried Chicken (Great Britain) Limited

Profit and loss account for the period ended 30 November 1993

	Note	10 months ended 30 November 1993 £000	12 months ended 31 January 1993 (as restated) £000
Turnover	2	48,375	56,416
Cost of sales		(30,340)	(33,415)
Gross profit		18,035	23,001
Administrative expenses		(14,457)	(18,291)
Trading profit:		3,578	4,710
Profit on sale of fixed assets in continuing operations		-	2
Write down in value of fixed assets		(536)	(722)
Profit on ordinary activities before interest		3,042	3,990
Other interest receivable and similar income	6	16	22
Interest payable and similar charges	7	(20)	(98)
Profit on ordinary activities before taxation	2-5	3,038	3,914
Tax on profit on ordinary activities	8	(937)	(1,692)
Profit for the financial period	9	2,101	2,222
Dividends paid and proposed		-	(11,635)
Retained profit/(loss) for the financial period		2,101	(9,413)

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

The company had no recognised gains or losses during the period other than those reflected in the above profit and loss account. The profit and loss account includes cumulative prior year adjustments of £2,431,000.

There is no difference between the reported profits for the period and those that would be reported under the historical cost convention.

Kentucky Fried Chicken (Great Britain) Limited

Balance sheet at 30 November 1993

	Note	30 November 1993		31 January 1993	
		£000	£000	£000	£000
Fixed assets					
Tangible fixed assets	10	28,016		27,715	
Investments in subsidiary undertakings	11	854		854	
			<u>28,870</u>		<u>28,569</u>
Current assets					
Stocks	12	930		1,258	
Debtors	13	4,071		6,076	
Cash at bank and in hand		2,670		2,217	
			<u>7,671</u>		<u>9,551</u>
Creditors: amounts falling due within one year	14	<u>(8,342)</u>		<u>(12,022)</u>	
Net current liabilities			<u>(671)</u>		<u>(2,471)</u>
Total assets less current liabilities			<u>28,199</u>		<u>26,098</u>
Provisions for liabilities and charges	15		<u>-</u>		<u>-</u>
Net assets			<u>28,199</u>		<u>26,098</u>
Capital and reserves					
Called up share capital	16		1,000		1,000
Share premium account	17		16,283		16,283
Revaluation reserve	17		507		507
Profit and loss account			10,409		8,308
			<u>28,199</u>		<u>26,098</u>

These financial statements were approved by the board of directors on 27th Dec 1993 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

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules. They include the effects of a prior year adjustment in respect of the capitalisation and depreciation of tangible fixed assets (see below).

The company is exempt by virtue of s226 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 the EC.

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 properties	20-25 years
Machinery and equipment	3-10 years
Motor vehicles	4 years
Computer equipment	3 years

In the case of freehold and long leasehold properties, this represents a change in policy from that previously applied. The effects of this change are reflected as a prior year adjustment in these financial statements. A second prior year adjustment has also been made to write off pre-opening costs which were previously capitalised. The directors no longer believe that capitalisation of such costs is appropriate.

All properties held on leases of less than twenty years are amortised over the unexpired term.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Goodwill

Goodwill relating to a business purchased by the company has been written off immediately against reserves.

Kentucky Fried Chicken (Great Britain) Limited

Notes (continued)

1 Accounting policies (continued)

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.

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 food and drinks at company owned stores, royalty and option fees from franchise licences, sales of food and packaging material to distributors, sales of equipment to franchise licensees, and rents receivable from tenants.

All of the company's turnover and operating profit relates to continuing operations within the United Kingdom.

Kentucky Fried Chicken (Great Britain) Limited

Notes (continued)

2 Analysis of turnover

	10 months ended 30 November 1993 Turnover £000	12 months ended 31 January 1993 Turnover £000
<i>By activity</i>		
Company stores sales	34,534	40,961
Sales to distributors and franchisees	10,027	11,286
Franchise royalties and option fees	3,607	3,959
Rents receivable	207	210
	<u>48,375</u>	<u>56,416</u>

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

3 Profit on ordinary activities before taxation

	10 months ended 30 November 1993 £000	12 months ended 31 January 1993 £000
<i>Profit on ordinary activities before taxation is stated</i>		
<i>after charging/(crediting)</i>		
Auditors' remuneration:		
Audit	42	48
Other services	17	-
Depreciation of tangible fixed assets	2,746	3,197
Exchange losses/(gains)	8	(1)
Hire of plant and machinery + rentals payable under operating leases	178	305
Hire of other assets + operating leases	26	35
Leasehold property rents	3,279	3,278

The comparative figure for depreciation has been restated to reflect the prior year adjustment referred to in note 1 above.

Kentucky Fried Chicken (Great Britain) Limited

Notes (continued)

4 Remuneration of directors

	10 months ended 30 November 1993 £000	12 months ended 31 January 1993 £000
Directors' emoluments including pension contributions:		
As directors	<u>87</u>	<u>94</u>

The emoluments, excluding pension contributions, of the chairman were £Nil (year ended 31 January 1993: £Nil) and those of the highest paid director were £70,470 (year ended 31 January 1993: £76,000).

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

	Number of directors	
	10 months ended 31 November 1993	12 months ended 31 January 1993
£0 - £3,000	4	7
£75,001 - £80,000	1	1

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 period was as follows:

	Number of employees	
	10 months ended 30 November 1993	12 months ended 31 January 1993
Full time	912	856
Part time	550	616
	<u>1,462</u>	<u>1,472</u>

The aggregate payroll costs of these persons were as follows:

	10 months ended 30 November 1993	12 months ended 31 January 1993
	£000	£000
Wages and salaries	8,662	10,800
Social security costs	669	860
Other pension costs (see note 21)	95	81
	<u>9,426</u>	<u>11,741</u>

Kentucky Fried Chicken (Great Britain) Limited

Notes (continued)

6 Other interest receivable and similar income

	10 months ended 30 November 1993 £000	12 months ended 31 January 1993 £000
On overpaid taxation	-	22
Short term deposits	14	-
Other	2	-
	<u>16</u>	<u>22</u>

7 Interest payable and similar charges

	10 months ended 30 November 1993 £000	12 months ended 31 January 1993 £000
On bank loans, overdrafts and other loans wholly repayable within five years	<u>20</u>	<u>98</u>

Of the above amount £8,778 (31 January 1993: £Nil) was payable to group undertakings.

Kentucky Fried Chicken (Great Britain) Limited

Notes (continued)

8 Taxation

	10 months ended 30 November 1993 £000	12 months ended 31 January 1993 £000
UK corporation tax at 33% (31 January 1993: 33%) on the profit for the period on ordinary activities	1,311	1,559
Deferred taxation	-	-
Prior year over provision	374	133
	<u>1,685</u>	<u>1,692</u>

The tax charge for the period represents group and consortium relief paid and payable.

9 Dividends

	10 months ended 30 November 1993 £000	12 months ended 31 January 1993 £000
Ordinary shares: Interim	-	11,635
	<u>-</u>	<u>11,635</u>

Kentucky Fried Chicken (Great Britain) Limited

Notes (continued)

10 Tangible fixed assets

	Freehold land and buildings	Leasehold improvements	Machinery, equipment and motor vehicles	Total
	£000	£000	£000	£000
<i>Cost or valuation</i>				
At beginning of period (as restated)	6,046	38,569	12,582	37,197
Additions	-	1,687	2,039	3,726
Disposals	-	(137)	(6)	(143)
Amounts written off	-	(536)	-	(536)
At end of period	<u>6,046</u>	<u>39,583</u>	<u>14,615</u>	<u>40,244</u>
<i>Depreciation and diminution in value</i>				
At beginning of period (as restated)	580	4,352	4,350	9,482
Charge for year	173	814	1,759	2,746
On disposals	-	-	-	-
At end of period	<u>753</u>	<u>5,166</u>	<u>6,109</u>	<u>12,228</u>
<i>Net book value</i>				
At 30 November 1993	<u>3,293</u>	<u>34,217</u>	<u>8,506</u>	<u>28,016</u>
At 31 January 1993 (as restated)	<u>3,466</u>	<u>44,988</u>	<u>9,219</u>	<u>27,713</u>

The net book value at 30 November 1993 of long leasehold property (included in leasehold improvements above) was £1,505,000 (31 January 1993: £2,200,000).

Kentucky Fried Chicken (Great Britain) Limited

Notes (continued)

11 Fixed asset investments

	Shares in group undertakings £000
<i>Shares</i>	
<i>Cost</i>	
At beginning of period	2,981
Additions	-
Disposals	-
	<hr/>
At end of period	2,981
	<hr/>
<i>Provisions</i>	
At beginning of period	2,127
Provided in period	-
Disposals	-
	<hr/>
At end of period	2,127
	<hr/>
<i>Net book value</i>	
At 30 November 1993	854
	<hr/>
At 31 January 1993	854
	<hr/>
<i>Shares in group undertakings comprise:</i>	
	£000
Parent undertaking and fellow subsidiary undertakings	-
Subsidiary undertakings	854
	<hr/>
	854
	<hr/>

Kentucky Fried Chicken (Great Britain) Limited

Notes (continued)

11 Fixed asset investments (continued)

The subsidiary undertakings at 30 November 1993 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 Licken [®] Chicken Limited	England	Non-trading	100% ordinary shares

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

12 Stocks

	30 November 1993 £000	31 January 1993 £000
Food, drink and packaging	367	330
Equipment	362	928
	<u>929</u>	<u>1,258</u>

Kentucky Fried Chicken (Great Britain) Limited

Notes (continued)

13	Debtors	30 November 1993 Due within one year £000	31 January 1993 Due within one year £000
	Trade debtors	2,894	2,618
	Other debtors	391	341
	ACT recoverable	-	1,939
	Prepayments and accrued income	786	1,178
		<u>4,071</u>	<u>6,076</u>

Kentucky Fried Chicken (Great Britain) Limited

Notes (continued)

14 Creditors: amounts falling due within one year

	30 November 1993		31 January 1993	
	£000	£000	£000	£000
<i>Trade creditors</i>		3,202		3,941
Amounts owed to group undertakings		1,221		854
Amounts owed to joint venture parent undertaking	-			500
Other creditors including taxation and social security:				
Corporation tax	1,259		3,567	
Other taxes and social security	725		-	
	<u>1,984</u>		<u>3,567</u>	
Taxation and social security	1,984		3,567	
Other creditors	346		1,937	
	<u>2,330</u>		<u>5,484</u>	
Accruals and deferred income	1,569		1,243	
	<u>8,342</u>		<u>12,022</u>	
<i>The amounts owed to group undertakings comprise</i>				
Patent and fellow subsidiary undertakings		352		-
Subsidiary undertakings		1,069		854
		<u>1,221</u>		<u>854</u>

Kentucky Fried Chicken (Great Britain) Limited

Notes (continued)

15 Provisions for liabilities and charges

Balances in respect of deferred taxation are set out below:

	30 November 1993		31 January 1993	
	Provided £000	Unprovided £000	Provided £000	Unprovided £000
Difference between accumulated depreciation and amortisation and capital allowances	-	1,850	-	1,850

The comparative figure has been restated to reflect the effects of the prior year adjustments referred to in note 17.

16 Called up share capital

	30 November 1993 £000	31 January 1993 £000
Authorised, allotted, called up and fully paid Ordinary shares of £1 each	1,000	1,000

Kentucky Fried Chicken (Great Britain) Limited

Notes (continued)

17 Reserves

	Share premium account £000	Revaluation reserve £000	Profit and loss account £000
At beginning of period as previously stated	16,283	507	10,739
Prior year adjustment	-	-	(2,431)
	<hr/>	<hr/>	<hr/>
At beginning of period as restated	16,283	507	8,308
Transfer from profit and loss account for the period	-	-	2,101
	<hr/>	<hr/>	<hr/>
At end of period	<u>16,283</u>	<u>507</u>	<u>10,409</u>

As explained in note 1, two prior year adjustments have been made to these accounts. The effect of changing the depreciation policy in respect of freehold and long leasehold properties is a debit to reserves of £1,498,000. The remaining £933,000 of the £2,431,000 adjustment shown above represents the write off of pre-opening expenditure previously capitalised.

The prior year adjustments referred to above have had the effect of reducing retained profits for the current period by £181,000 compared with the results that would have been reported if the previous policies had continued to apply.

18 Reconciliation of movements in shareholders' funds

	30 November 1993 £000	31 January 1993 £000
Profit for the financial period	2,101	2,222
Dividends	-	(11,635)
	<hr/>	<hr/>
New share capital subscribed	2,101	(9,413)
Share premium on issue of new share capital	-	992
	<hr/>	<hr/>
Net addition to shareholders' funds	2,101	2,222
Opening shareholders' funds		
• as previously stated	28,529	25,434
• prior year adjustments	(2,431)	(1,558)
	<hr/>	<hr/>
• as restated	26,098	23,876
	<hr/>	<hr/>
Closing shareholders' funds	<u>28,199</u>	<u>26,098</u>

Kentucky Fried Chicken (Great Britain) Limited

Notes (continued)

19 Commitments

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

	30 November 1993 £000	31 January 1993 £000
Contracted	2,497	67
Authorised but not contracted	1,770	-

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

	30 November 1993		31 January 1993	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	-	256	258	-
In the second to fifth years inclusive	340	34	138	305
Over five years	3,235	-	3,121	-
	<u>3,575</u>	<u>290</u>	<u>3,517</u>	<u>305</u>

20 Contingent liability

The company has issued a guarantee in the sum of £400,000 in respect of one of its subsidiaries, KFC Advertising Limited.

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 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 1993. It was assumed for the purposes of this valuation that the rate of return on the fund's assets would be 9% and the rate of increase in salaries would be 6.5% per annum.

Kentucky Fried Chicken (Great Britain) Limited

Notes (continued)

21 Pension scheme (continued)

The market value of the fund's assets at 1 April 1993 was £1,747,000. The actuarial value at that date exceeded the benefits which had accrued to members, after allowing for expected future increases in earnings, by £180,000. This is amortised over the average remaining working lifetime of scheme members, which is estimated to be 16 years.

The total net pension cost for the company was £95,000 (12 months ended 31 January 1993: £81,000).

The next actuarial valuation is due as at April 1996.

22 Post balance sheet events

On 29 April 1994, the company's largest franchise, Roberts Restaurants Limited, was acquired by the company's ultimate parent undertaking. The directors believe that this will create significant synergies which will enable the company to consolidate its expansion in the quick service restaurant market.

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

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