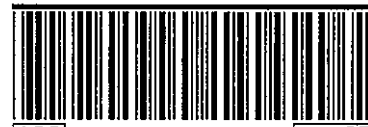


**Kentucky Fried Chicken
(Great Britain) Limited**

Directors' report and financial statements

26 November 1994

Registered number 967403



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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 year ended 26 November 1994.

Principal activities

The principal activity of the company during the year 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.

Business review

The loss on ordinary activities after taxation for the year ended 26 November 1994 amounted to £8,909,000 (*period ended 30 November 1993: profit £2,101,000*), and has been retained in the company.

On 29 April 1994 PepsiCo Holdings Limited, the parent undertaking, acquired 100% ownership of Roberts Restaurants and its subsidiary undertaking, Southern Fast Foods, previously a franchisee of the company. The fast food retailing operation of Southern Fast Foods Limited has continued to trade as a separate entity.

The operational and financial management for the Roberts Restaurants Group is administered by Kentucky Fried Chicken (Great Britain) Limited, for which a management charge is levied.

Significant changes in fixed assets

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

Post balance sheet events

There are no significant events which have occurred since the end of the year.

Directors and directors' interests

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

Mrs J Averiss	(appointed 3 October 1995)
Mr PR Hearl	(appointed 1 December 1993)
Mr GD Allan	(appointed 26 May 1994)
Mr JM Cranor	(USA) (resigned 21 July 1994)
Mr AE Engel	(resigned 1 December 1993)
Mr CJ Garmston	(resigned 3 October 1995)
Mr GF Johnson	(resigned 26 May 1994)
Mr AL Monnickendam	(resigned 1 December 1993)
Mr GFL Proctor	(resigned 1 December 1993)

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 £14,000 (*period ended 30 November 1993: £6,000*).

Auditors

On 6 February 1995 our auditors changed the name under which they practise to KPMG and, accordingly, have signed their report in their new name. 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

Colonel Sanders House
88/97 High Street
Brentford
Middlesex

19 January 1996

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 21.

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 26 November 1994 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG
Chartered Accountants
Registered Auditors

19 January 1996

Kentucky Fried Chicken (Great Britain) Limited

Profit and loss account for the year ended 26 November 1994

	<i>Note</i>	12 months ended 26 November 1994 £000	10 months ended 30 November 1993 £000
Turnover - continuing operations	2	66,331	48,375
Cost of sales		<u>(39,422)</u>	<u>(30,340)</u>
Gross profit		26,909	18,035
Administrative expenses		<u>(23,482)</u>	<u>(14,457)</u>
Operating profit - continuing operations		3,427	3,578
Permanent change in value of fixed assets in continuing operations	10	<u>(11,114)</u>	<u>(536)</u>
(Loss)/profit on ordinary activities before interest		(7,687)	3,042
Other interest receivable and similar income	6	14	16
Interest payable and similar charges	7	<u>(7)</u>	<u>(20)</u>
(Loss)/profit on ordinary activities before taxation	2-5	(7,680)	3,038
Tax on (loss)/profit on ordinary activities	8	<u>(1,229)</u>	<u>(937)</u>
(Loss)/profit for the financial period	17	<u>(8,909)</u>	<u>2,101</u>

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

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


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

Kentucky Fried Chicken (Great Britain) Limited

Balance sheet at 26 November 1994

	Note	26 November 1994		30 November 1993	
		£000	£000	£000	£000
Fixed assets					
Tangible fixed assets	10	22,260		28,016	
Investments in subsidiary undertakings	11	854		854	
			23,114		28,870
Current assets					
Stocks	12	958		930	
Debtors	13	10,895		4,071	
Cash at bank and in hand		1,669		2,670	
			13,522	7,671	
Creditors: amounts falling due within one year	14	(17,346)		(8,342)	
Net current liabilities			(3,824)		(671)
Total assets less current liabilities			19,290		28,199
Provisions for liabilities and charges	15		-		-
Net assets			19,290		28,199
Capital and reserves					
Called up share capital	16		1,000		1,000
Share premium account	17		16,283		16,283
Investment revaluation reserve	17		507		507
Profit and loss account	17		1,500		10,409
			19,290		28,199

These financial statements were approved by the board of directors on 19 January 1996 and were signed on its behalf by:


PR Hearl
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.

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 the EU.

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 years
Machinery and equipment	3-15 years
Motor vehicles	4 years

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. There are no monetary assets and liabilities denominated in foreign currencies.

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.

Kentucky Fried Chicken (Great Britain) Limited

Notes (continued)

2 Analysis of turnover

	12 months ended 26 November 1994 Turnover £000	10 months ended 30 November 1993 Turnover £000
<i>By activity</i>		
Company stores sales	47,295	34,534
Sales to distributors and franchisees	14,567	10,027
Franchise royalties and option fees	4,161	3,607
Rents receivable	308	207
	66,331	48,375

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

3 (Loss)/profit on ordinary activities before taxation

	12 months ended 26 November 1994 £000	10 months ended 30 November 1993 £000
<i>(Loss)/profit on ordinary activities before taxation is stated</i>		
<i>after charging/(crediting)</i>		
Auditors' remuneration:		
Audit	60	42
Other services	49	17
Depreciation of tangible fixed assets	2,937	2,746
Exchange losses/(gains)	-	8
Hire of plant and machinery - rentals payable under operating leases	310	178
Hire of other assets - operating leases	72	26
Leasehold property rents	3,819	3,279
Exceptional items:		
- provision for store closures (note 10)	1,302	-
- fixed asset write off (note 10)	11,114	-

Kentucky Fried Chicken (Great Britain) Limited

Notes (continued)

4 Remuneration of directors

	12 months ended 26 November 1994 £000	10 months ended 30 November 1993 £000
Directors' emoluments including pension contributions:		
As directors	<u>424</u>	<u>87</u>

The emoluments, excluding pension contributions, of the chairman were £Nil (10 months ended 30 November 1993: £Nil) and those of the highest paid director were £286,000 (10 months ended 30 November 1993: £70,470).

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

	Number of directors	
	12 months ended 26 November 1994	10 months ended 30 November 1993
£0 - £ 5,000	6	4
£75,001 - £80,000	-	1
£135,001 - £140,000	1	-
£285,001 - £290,000	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 year was as follows:

	Number of employees	
	12 months ended 26 November 1994	10 months ended 30 November 1993
Full time	1,240	912
Part time	390	550
	<u>1,630</u>	<u>1,462</u>

The aggregate payroll costs of these persons were as follows:

	12 months ended 26 November 1994	10 months ended 30 November 1993
	£000	£000
Wages and salaries	11,352	8,662
Social security costs	850	669
Other pension costs (see note 20)	194	95
	<u>12,396</u>	<u>9,426</u>

Kentucky Fried Chicken (Great Britain) Limited

Notes *(continued)*

6 Other interest receivable and similar income

	12 months ended 26 November 1994 £000	10 months ended 30 November 1993 £000
Short term deposits	14	14
Other	-	2
	<u>14</u>	<u>16</u>

7 Interest payable and similar charges

	12 months ended 26 November 1994 £000	10 months ended 30 November 1993 £000
On bank loans, overdrafts and other loans wholly repayable within five years	<u>7</u>	<u>20</u>

Of the above amount £nil (30 November 1993: £9,000) was payable to group undertakings.

Kentucky Fried Chicken (Great Britain) Limited

Notes (continued)

8 Taxation

	12 months ended 26 November 1994 £000	10 months ended 30 November 1993 £000
UK corporation tax at 33% (1993:33%) on the (loss)/profit for the year on ordinary activities	1,448	1,311
Deferred taxation	-	-
Prior year over provision	(219)	(374)
	<u>1,229</u>	<u>937</u>

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

The tax charge for the year is distorted by the unavailability of relief on the fixed asset write-off referred to in note 10 below.

9 Dividends

No dividends were paid or proposed during the year (1993: £nil).

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 year	6,046	19,583	14,615	40,244
Additions	52	4,518	3,725	8,295
At end of year	6,098	24,101	18,340	48,539
<i>Depreciation and diminution in value</i>				
At beginning of year	753	5,366	6,109	12,228
Charge for year	2,405	8,565	3,081	14,051
At end of year	3,158	13,931	9,190	26,279
<i>Net book value</i>				
At 26 November 1994	2,940	10,170	9,150	22,260
At 30 November 1993	5,293	14,217	8,506	28,016

The net book value at 26 November 1994 of long leasehold property included in leasehold improvements above was £2,288,000 (30 November 1993: £1,505,000).

On 30 November 1993, PepsiCo Holdings Limited, which previously owned 50% of the issued ordinary share capital of the company, acquired the remaining shares and has held a 100% interest in the company since that date.

In the context of this acquisition, the directors have reviewed the carrying values of all tangible fixed assets, giving rise to the write-down of £11,114,000 shown on the face of the profit and loss account and included within the depreciation charge for the year. A significant part of this write down arises from a reassessment of the depreciation bases and useful lives of these fixed assets to bring them into line with those adopted by the acquiring group. Within this process, the directors have additionally acknowledged that a number of properties (primarily freehold land and buildings) were acquired when the UK market was at its height, and that the carrying values of some of these properties are no longer sustainable in light of the UK economic recession. The write-down attributable to freehold properties reflects the directors' revisions to the carrying values of these stores.

Kentucky Fried Chicken (Great Britain) Limited

Notes (continued)

10 Tangible fixed assets (continued)

As part of their review of carrying values, the directors have also concluded that some of the company's stores are no longer viable for trading, as they are considered unlikely to achieve in the medium term the rates of return required under PepsiCo's investment criteria; a further component of the write-down referred to above is an amount of £4,427,000 relating specifically to these stores. The loss for the year is also stated after a charge of £1,302,000, representing the provision for estimated costs relating to the disposal of these stores (included within accruals at note 14).

11 Fixed asset investments

	Shares in subsidiary undertakings £000
<i>Shares</i>	
<i>Cost</i>	
At beginning of year	2,981
Additions	-
Disposals	-
	<hr/>
At end of year	2,981
	<hr/>
<i>Provisions</i>	
At beginning of year	2,127
Provided in year	-
Disposals	-
	<hr/>
At end of year	2,127
	<hr/>
<i>Net book value</i>	
At 26 November 1994	854
	<hr/>
At 30 November 1993	854
	<hr/>

Kentucky Fried Chicken (Great Britain) Limited

Notes (continued)

11 Fixed asset investments (continued)

The subsidiary undertakings at 26 November 1994 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 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

	26 November 1994 £000	30 November 1993 £000
Food and packaging	385	367
Equipment	573	563
	<hr/>	<hr/>
	958	930
	<hr/>	<hr/>

Kentucky Fried Chicken (Great Britain) Limited

Notes *(continued)*

13 Debtors

	26 November 1994	30 November 1993
	Due within one year £000	Due within one year £000
Trade debtors	3,402	2,894
Other debtors	340	391
Amounts owed by parent and fellow subsidiary undertakings	5,097	-
Prepayments and accrued income	2,056	786
	<hr/>	<hr/>
	10,895	4,071
	<hr/>	<hr/>

Kentucky Fried Chicken (Great Britain) Limited

Notes (continued)

14 Creditors: amounts falling due within one year

	26 November 1994		30 November 1993	
	£000	£000	£000	£000
Trade creditors		6,076		3,202
Amounts owed to parent and fellow subsidiary undertakings		389		152
Amounts owed to subsidiary undertakings		854		1,069
Other creditors including taxation and social security:				
Corporation tax	2,488		1,259	
Other taxes and social security	2,304		725	
	<hr/>		<hr/>	
Taxation and social security	4,792		1,984	
Other creditors	304		346	
	<hr/>		<hr/>	
		5,096		2,330
Accruals and deferred income		4,931		1,589
		<hr/>		<hr/>
		17,346		8,342
		<hr/>		<hr/>

15 Provisions for liabilities and charges

Balances in respect of deferred taxation are set out below:

	26 November 1994		30 November 1993	
	Provided £000	Unprovided £000	Provided £000	Unprovided £000
Accelerated capital allowances	-	1,830	-	1,850
Short term timing differences	-	(491)	-	-
	<hr/>		<hr/>	
	-	1,339	-	1,850
	<hr/>	<hr/>	<hr/>	<hr/>

Kentucky Fried Chicken (Great Britain) Limited

Notes (continued)

16 Called up share capital

	26 November 1994 £000	30 November 1993 £000
<i>Authorised, allotted, called up and fully paid</i> Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>

17 Reserves

	Share premium account £000	Revaluation reserve £000	Profit and loss account £000
At beginning of year	16,283	507	10,409
Transfer from profit and loss account for the year	<u>-</u>	<u>-</u>	<u>(8,909)</u>
At end of year	<u>16,283</u>	<u>507</u>	<u>1,500</u>

18 Reconciliation of movements in shareholders' funds

	26 November 1994 £000	30 November 1993 £000
Opening shareholders' funds		
- as previously stated	28,199	28,529
- prior year adjustments	<u>-</u>	<u>(2,431)</u>
- as restated	28,199	26,098
(Loss)/profit for the financial period	<u>(8,909)</u>	<u>2,101</u>
Closing shareholders' funds	<u>19,290</u>	<u>28,199</u>

All shareholders' funds relate to equity interests.

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.

	26 November 1994 £000	30 November 1993 £000
Contracted	514	2,497
Authorised but not contracted	218	1,770
	<u> </u>	<u> </u>

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

	26 November 1994		30 November 1993	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	100	42	-	256
In the second to fifth years inclusive	427	460	340	34
Over five years	3,255	-	3,235	-
	<u>3,782</u>	<u>502</u>	<u>3,575</u>	<u>290</u>

20 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.

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 £194,000 (30 November 1993:£95,000).

The next actuarial valuation is due in April 1996.

Kentucky Fried Chicken (Great Britain) Limited

Notes *(continued)*

- 21 **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