Kentucky Fried Chicken (Great Britain) Limited

Directors' report and financial statements

Registered number 967403

30 November 2003

Contents

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	JJ Ash	(resigned 25 March 2004)
	MRF Shuker	(appointed 25 March 2004)
	EMM Hodding	
	AE Perren	
	N Chaudhary	
	VP Toolan	(resigned 4 January 2003)
	GO Ashford	(resigned 24 November 2003)
	C Harrison Church	
	D Royden	
	JC Johannsen	
	MS Haure-Petersen	(resigned 31 July 2003)
	JA Bhansali	(appointed 26 August 2003)
	CR Fells	(appointed 24 November 2003)
Company Secretary	N Thomson	
Auditors	KPMG LLP 8 Salisbury Square London EC4Y 8BB	

Directors' report

The directors present their report and audited financial statements for the 52 weeks ended 30 November 2003.

Principal activities

The principal activity of the company during the period in the UK and Germany 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 30 November 2003 amounted to £12,559,000 *(2002: £11,890,000)*, which has been taken to reserves.

The directors do not recommend the payment of a dividend.

Directors and directors' interests

The directors who held office during the period and since the year end were as follows:

JJ Ash	(resigned 25 March 2004)
MRF Shuker	(appointed 25 March 2004)
EMM Hodding	
AE Perren	
N Chaudhary	
VP Toolan	(resigned 4 January 2003)
GO Ashford	(resigned 24 November 2003)
C Harrison Church	
D Royden	
JC Johannsen	
MS Haure-Petersen	(resigned 31 July 2003)
JA Bhansali	(appointed 26 August 2003)
CR Fells	(appointed 24 November 2003)

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)*

The directors who held office at the end of the period who had the following outstanding options to acquire ordinary shares of Yum! Brands Inc were:

	Date of grant	Number granted	Exercise price US$	Date from which exercisable	Expiry date
JJ Ash	27 January 2000	40,290	15.1407	27 January 2004	27 January 2010
	25 January 2001	16,524	16.7825	25 January 2002	25 January 2011
	31 December 2001	17,058	24.9160	31 December 2002	31 December 2011
	24 January 2002	8,474	26.5550	24 January 2003	24 January 2012
	23 January 2003	17,523	24.33	23 January 2004	23 January 2013
EMM Hodding	20 January 1998	16,514	13.6250	20 January 2002	20 January 2008
	21 January 1999	8,942	23.4844	21 January 2003	21 January 2009
	27 January 2000	14,862	15.1407	27 January 2004	27 January 2010
	25 January 2001	11,918	16.7825	25 January 2002	25 January 2011
	31 December 2001	8,028	24.9160	31 December 2002	31 December 2011
	23 January 2003	8,246	24.33	23 January 2004	23 January 2013
AE Perren	21 January 1999	6,814	23.4844	21 January 2003	21 January 2009
	27 January 2000	11,230	15.1407	27 January 2004	27 January 2010
	25 January 2001	10,428	16.7825	25 January 2002	25 January 2011
	31 December 2001	5,018	24.9160	31 December 2002	31 December 2011
	23 January 2003	5,154	24.33	23 January 2004	23 January 2013
N Chaudhary	21 January 1999	3,408	23.4844	21 January 2003	21 January 2009
	27 January 2000	5,616	15.1407	27 January 2004	27 January 2010
	25 January 2001	5,364	16.7825	25 January 2002	25 January 2011
	31 December 2001	3,614	24.9160	31 December 2002	31 December 2011
	23 January 2003	6,598	24.33	23 January 2004	23 January 2013
C Harrison-Church	31 December 2001	3,764	24.9160	31 December 2002	31 December 2011
	23 January 2003	5,154	24.33	23 January 2004	23 January 2013
D Royden	25 January 2001	4,172	16.7825	25 January 2002	25 January 2011
	31 December 2001	3,614	24.9160	31 December 2002	31 December 2011
	23 January 2003	3,711	24.33	23 January 2004	23 January 2013
J A Bhansali	27 January 2000	5,616	15.1407	27 January 2004	27 January 2010
	25 January 2001	2,086	16.7825	25 January 2002	25 January 2011
	31 December 2001	2,108	24.9160	31 December 2002	31 December 2011
	23 January 2003	3,712	24.33	23 January 2004	23 January 2013
J C Johannsen	27 January 2000	8,746	15.1407	27 January 2004	27 January 2010
	25 January 2001	4,022	16.7825	25 January 2002	25 January 2011
	31 December 2001	3,614	24.9160	31 December 2002	31 December 2011
	23 January 2003	3,711	24.33	23 January 2004	23 January 2013

During the period the following share options were exercised:

JJ Ash exercised 5,000 options at US$16.7825. At the date of exercise, the share price was US$29.1, leading to a gain of US$61,588.

C Harrison-Church exercised 1,254 shares at US$24.4075. At the date of exercise, the share price was US$33.6, leading to a gain of US$11,527.

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 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.

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 14 days *(2002: 19 days).*

Charitable and political donations

Donations to UK charities amounted to £1,850 (2002: £3,070). The company made no political contributions during the period *(2002: £Nil).*

Auditors

Pursuant to section 386 of the Companies Act 1985, a resolution is to be put to the forthcoming Annual General Meeting which, if passed, would result in the company not being required to reappoint its auditors annually. KPMG LLP would then continue as the company's auditors.

By order of the board

N Thomson
Secretary

2 July 2004

32 Goldsworth Road
Woking
Surrey
GU21 6JT

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.

KPMG

KPMG LLP
PO Box 695
8 Salisbury Square
London
EC4Y 8BB

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

We have audited the financial statements on pages 6 to 24.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit 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 2003 and of its profit for the 52 week period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditors

12th July 2004

Profit and loss account

for the 52 weeks ended 30 November 2003

	Note	52 weeks ended 30 November 2003 £000	52 weeks ended 1 December 2002 £000
Turnover	3	**245,656**	220,554
Cost of sales		**(133,411)**	(119,256)
Gross profit		**112,245**	101,298
Administrative expenses		**(92,925)**	(80,871)
Other operating income	3	**2,278**	1,196
Operating profit		**21,598**	21,623
Other interest receivable and similar income	7	**1,332**	1,146
Interest payable and similar charges	8	**(1,359)**	(1,839)
Profit on ordinary activities before taxation	4	**21,571**	20,930
Tax on profit on ordinary activities	9	**(9,012)**	(9,040)
Profit on ordinary activities after taxation		**12,559**	11,890

The turnover and operating profit relate wholly to continuing activities.

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

Balance sheet

at 30 November 2003

	Note	30 November 2003		1 December 2002	
		£000	**£000**	£000	£000
Fixed assets					
Intangible fixed assets	*10*		**18,663**		19,047
Tangible fixed assets	*11*		**106,433**		102,073
Investments in subsidiary undertakings	*12*		**933**		933
			126,029		122,053
Current assets					
Stocks	*13*	**1,516**		1,394	
Debtors	*14*	**20,666**		17,394	
Cash at bank and in hand		**19,616**		26,896	
		41,798		45,684	
Creditors: amounts falling due within one year	*15*	**(67,551)**		(79,440)	
Net current liabilities			**(25,753)**		(33,756)
Total assets less current liabilities			**100,276**		88,297
Creditors: *amounts falling due* after more than one year	*15*		**(2,577)**		(1,897)
Provisions for liabilities and charges	*16*		**(5,907)**		(6,042)
Net assets			**91,792**		80,358
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*		**57,509**		46,075
Shareholders' funds			**91,792**		80,358

These financial statements were approved by the board of directors on 2 June 2004 and were signed on its behalf by:

JA Bhansali
Director

Statement of total recognised gains and losses
for the period ended 30 November 2003

	52 weeks ended 30 November 2003 £000	52 weeks ended 1 December 2002 £000
Profit on ordinary activities after tax	12,559	11,890
Exchange rate movement	(1,125)	-
Total recognised gains and losses relating to the financial period	11,434	11,890
Prior year adjustment	-	(4,365)
Total gains and losses recognised since last annual report	11,434	7,525

Notes *(forming part of the financial statements)*

1 Accounting reference date

Since it is part of a retail group, the company operates a 52 or 53 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, Yum! Brands Inc prepares consolidated financial statements including the company's results, which are publicly available.

As 100% of the company's voting rights are controlled within the group headed by Restaurant Holdings Limited, the company has taken advantage of the exemption contained in FRS8 and has therefore not disclosed transactions or balances with entities which form part of the group. The consolidated financial statements of Restaurant Holdings Limited, within which this company is included, can be obtained from the Registrar of Companies, Companies House, Cardiff, CF4 3UZ.

Intangible fixed assets

Intangible fixed assets represents goodwill arising on the merger with Roberts Restaurants Limited and on the acquisition of two former franchise companies 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.

Notes *(continued)*

2 Accounting policies (continued)

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction.

The profit and loss accounts of overseas entities are translated at the average rate of exchange during the period and the balance sheet at the rate ruling at the balance sheet date. Exchange differences arising on the translation of opening net assets are dealt with through reserves, as are exchange differences arising on related foreign currency borrowings. In addition, exchange differences between the results translated at an average rate and a closing rate are dealt with through reserves.

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 is a member of the Kentucky Fried Chicken (Great Britain) Limited Pension and Life Assurance Plan 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 charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company.

The pension cost figures used in these accounts comply with the current pension cost accounting standard SSAP 24. The company has adopted the transitional provisions of the new accounting standard, FRS 17.

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. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Turnover

Turnover comprises sales of KFC food and drinks at company owned stores and royalties and fees from franchise licences.

Notes *(continued)*

3 Analysis of turnover

	52 weeks ended 30 November 2003 £000	52 weeks ended 1 December 2002 £000
By activity		
Company stores sales	**230,990**	207,719
Franchise royalties and fees	**14,666**	12,835
	245,656	220,554

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.

Analysis of other operating income

	52 weeks ended 30 November 2003 £000	52 weeks ended 1 December 2002 £000
Rental income	**539**	472
Closed store activity	**312**	-
Other income	**1,427**	724
	2,278	1,196

4 Profit on ordinary activities before taxation

	52 weeks ended 30 November 2003 £000	52 weeks ended 1 December 2002 £000
Profit on ordinary activities before taxation is stated after charging / (crediting)		
Foreign exchange gain	(60)	(373)
Auditors' remuneration:		
Audit	73	61
Other services	33	45
Amortisation of intangible fixed assets	1,347	1,189
Depreciation of tangible fixed assets	13,315	11,219
Impairment of tangible fixed assets	2,656	-
Loss on disposal of tangible fixed assets	192	50
Hire of plant and machinery – rentals payable under operating leases	214	219
Hire of other assets – operating leases	466	552
Leasehold property rents	13,003	10,861

Notes *(continued)*

5 Remuneration of directors

	52 weeks ended 30 November 2003 £000	52 weeks ended 1 December 2002 £000
Directors' emoluments	**1,187**	1,039

The emoluments, excluding pension contributions, of the highest paid director were £246,000 *(2002: £246,000)* and the company paid pension contributions of £17,000 *(2002: £15,000)* during the period.

	Number of directors	
	52 weeks ended 30 November 2003	52 weeks ended 1 December 2002
Retirement benefits are accruing to the following number of directors under:		
Defined benefit schemes	**7**	7

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 30 November 2003	52 weeks ended 1 December 2002
Total	**5,309**	5,166

The aggregate payroll costs of these persons were as follows:

	52 weeks ended 30 November 2003 £000	52 weeks ended 1 December 2002 £000
Wages and salaries	**50,425**	46,669
Social security costs	**3,750**	3,348
Other pension costs (see note 21)	**1,203**	1,162
	55,378	51,179

Notes *(continued)*

7 Other interest receivable and similar income

	52 weeks ended 30 November 2003 £000	52 weeks ended 1 December 2002 £000
Interest receivable from group companies	**369**	-
Bank interest	**963**	1,146
	1,332	1,146

8 Interest payable and similar charges

	52 weeks ended 30 November 2003 £000	52 weeks ended 1 December 2002 £000
Interest payable to group companies	**1,280**	-
Bank interest	**79**	1,839
	1,359	1,839

9 Taxation

	52 weeks ended 30 November 2003 £000	52 weeks ended 1 December 2002 £000
UK corporation tax at 30% *(2002: 30%)*	**9,189**	7,576
Adjustment in respect of prior periods	**(42)**	(213)
	9,147	7,363
Deferred tax (credit)/charge for the year	**(135)**	1,677
	9,012	9,040

Notes *(continued)*

Factors affecting the tax charge for the current period

The current tax charge is higher (2002 – higher) than the standard rate of corporation tax in the UK (30%, 2002: 30%). The differences are explained below.

	52 weeks ended 30 November 2003 £000	52 weeks ended 1 December 2002 £000
Profit on ordinary activities before taxation	**21,571**	20,930
Current tax at 30% (2002: 30%)	**6,471**	6,279
Effects of:		
Expenses not deductible for tax purposes (primarily depreciation of ineligible assets and impairment provisions)	**2,496**	2,885
Difference between capital allowances and depreciation of eligible assets	**222**	(1,588)
Adjustments to tax charge in respect of prior periods	**(42)**	(213)
Total current tax charge (see above)	**9,147**	7,363

Notes *(continued)*

10 Intangible assets

	Key money	Goodwill	Total
	£000	*£000*	*£000*
Cost			
At beginning of period	1,531	23,248	24,779
Additions	954	-	954
Foreign Exchange	9	-	9
At end of period	2,494	23,248	25,742
Amortisation			
At beginning of period	64	5,668	5,732
Charge for period	184	1,163	1,347
At end of period	248	6,831	7,079
Net book value			
At 30 November 2003	2,246	16,417	18,663
At 1 December 2002	1,467	17,580	19,047

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. Similarly on 3 December 2000 the company acquired the trade, assets and liabilities from its subsidiary companies, Lookchief Limited and the Anglian Fast Foods Limited group of companies. The company's cost of investment in these companies has been re-allocated so as to recognise the goodwill interest in those businesses. 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.

Notes *(continued)*

11 Tangible fixed assets

	Freehold land and buildings £000	Leasehold improvements £000	Machinery and equipment £000	Total £000
Cost or valuation				
At beginning of period	29,054	84,101	68,572	181,727
Additions	7,304	5,923	7,130	20,357
Disposals	(3,399)	(2,145)	(3,908)	(9,452)
Foreign exchange	344	790	567	1,701
At end of period	33,303	88,669	72,361	194,333
Depreciation and diminution in value				
At beginning of period	6,751	34,332	38,571	79,654
Charge for period	2,047	3,307	7,961	13,315
Impairment	312	1,741	603	2,656
Disposals	(3,399)	(1,627)	(2,951)	(7,977)
Foreign exchange	20	138	94	252
At end of period	5,731	37,891	44,278	87,900
Net book value				
At 30 November 2003	**27,572**	**50,778**	**28,083**	**106,433**
At 1 December 2002	22,303	49,769	30,001	102,073

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.

On 3 April 2000 the company acquired Lookchief Limited and on 10 July 2000 the company acquired the Anglian Fast Foods Limited group of companies. On 3 December 2000 the company acquired the trade, assets and liabilities of these subsidiary companies and consequently, as set out in note 10, the cost of investment has been reclassified as goodwill.

The subsidiary undertakings of the group at 30 November 2003 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	Non-trading	100% ordinary shares
Anglian Fast Foods Ltd	Non-trading	100% ordinary shares
Norfolk Fast Foods Ltd	Non-trading	100% ordinary shares
Suffolk Fast Foods Ltd	Non-trading	100% ordinary shares
Lookchief Limited	Non-trading	100% ordinary shares

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

13 Stocks

	30 November 2003 £000	1 December 2002 £000
Food and packaging	**1,516**	1,394

Notes *(continued)*

14 Debtors

	30 November 2003 £000	1 December 2002 £000
Amounts due within one year:		
Trade debtors	3,250	3,589
Other debtors	951	1,428
Amounts owed by parent company	8,789	106
Amounts owed by fellow subsidiary undertakings	2,913	9,993
Amounts owed by subsidiary undertakings	1,724	311
Prepayments and accrued income	3,039	1,967
	20,666	17,394

15 Creditors

	30 November 2003		1 December 2002	
	£000	£000	£000	£000
Amounts falling due within one year:				
Trade creditors		5,919		7,311
Amounts owed to parent company		244		10,076
Amounts owed to fellow subsidiary undertakings		25,327		27,766
Amounts owed to subsidiary undertakings		2,024		2,991
Other creditors including taxation and social security:				
Corporation tax	7,457		5,421	
Other taxes and social security	9,266		7,893	
		16,723		13,314
Accruals and deferred income		17,314		17,982
		67,551		79,440
Amounts falling due after one year:				
Accruals and deferred income		2,577		1,897

Notes *(continued)*

16 Provisions for liabilities and charges

The movement in deferred tax liabilities in the year are as follows:

	£000
At beginning of period	**6,042**
Credit to the profit and loss for the year	**(135)**
At end of period	**5,907**

The elements of deferred taxation are set out below:

	30 November 2003 £000	1 December 2002 £000
Accelerated capital allowances	**6,314**	6,536
Short term timing differences	**(407)**	(494)
	5,907	6,042

The company also has a net £1,106,000 (2002: £1,106,000) of potential deferred tax assets relating to chargeable gains that are unprovided.

17 Called up share capital

	30 November 2003 £000	1 December 2002 £000
Authorised		
Ordinary shares of £1 each	**25,000**	25,000
Allotted, called up and fully paid		
Ordinary shares of £1 each	**18,000**	18,000

18 Reserves

	Share premium account £000	Profit and loss account £000
At beginning of period	16,283	46,075
Exchange rate movement	-	(1,125)
Retained profit for the period	-	12,559
At end of period	16,283	57,509

Notes *(continued)*

19 Reconciliation of movements in shareholders' funds

	30 November 2003 £000	1 December 2002 £000
Opening shareholders' funds as previously stated	80,358	72,833
Prior period adjustment	-	(4,365)
Opening shareholders' funds as restated	80,358	68,468
Exchange rate movement	(1,125)	-
Profit for the financial period	12,559	11,890
Closing shareholders' funds	**91,792**	80,358

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:

	30 November 2003 £000	1 December 2002 £000
Authorised but not contracted	27,666	27,230

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

	30 November 2003		1 December 2002	
	Land and buildings £000	Other £000	Land and Buildings £000	Other £000
Operating leases which expire:				
Within one year	21	-	151	-
In the second to fifth years inclusive	903	680	695	771
Over five years	10,796	-	7,117	-
	11,720	680	7,963	771

Notes *(continued)*

21 *Pension scheme*

As explained in the accounting policies set out on page 10, the company is a member of the Kentucky Fried Chicken (Great Britain) Limited Pension and Life Assurance Plan. This Plan is of the funded defined benefit type providing benefits to certain employees of Kentucky Fried Chicken (Great Britain) Limited and Yum! Restaurants Europe Limited and the assets are held separately from the company's assets.

SSAP 24

The liabilities of the scheme are valued regularly by independent actuaries using the projected unit method. The latest full actuarial assessment of the scheme was carried out as at 31 March 2002. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It is assumed for the purposes of this valuation that the rate of return on the fund's assets would be 6.75% pre retirement and 5.25% post retirement, the rate of increase in salaries would be 5.5% per annum reverting to 4.75% per annum on 31 March 2005 and the rate of increase in pensions earned from 6 April 1997 would be 2.75%.

The pension charge for the period was £1,203,000 *(2002: £1,162,000)*. An accrual of £406,000 *(2002: £208,000)* is included in the company's balance sheet.

The market value of the fund's assets at 31 March 2002 was £7,487,000. 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 £1,760,000. The actuarial value of assets was sufficient to cover 81% of the value of liabilities at that date.

FRS 17

A full actuarial valuation was carried out on 31 March 2002 and was updated to 30 November 2003 by a qualified independent actuary. The next actuarial valuation falls due on 31 March 2005.

The major assumptions used by the actuary were:

	2003	2002	2001
Discount rate	**5.60%**	5.8%	5.5%
Rate of increase in salaries	**4.75%**	4.3%	4.4%
Rate of increase of pensions in payment	**2.75%**	2.3%	2.4%
Inflation assumptions	**2.75%**	2.3%	2.4%

Notes *(continued)*

The assets and liabilities of the fund and the expected rates of return as at 30 November 2003 were:

	Expected rate of return	2003 £000	Expected rate of return	2002 £000	Expected rate of return	2001 £000
Equities	7.0%	7,378	6.5%	5,574	7.25%	5,604
Bonds	5.0%	1,828	4.5%	1,372	4.75%	1,371
Cash	4.0%	76	3.5%	-	3.75%	14
Market value of asset		9,282		6,946		6,989
Actuarial value of liabilities		(14,820)		(10,266)		(9,161)
Deficit to the fund		(5,538)		(3,320)		(2,172)
Related deferred tax asset		1,661		996		652
Net pension liability		(3,877)		(2,324)		(1,520)

If the above pension liability was recognised in the financial statements, the company's net assets and profit and loss reserves would be as follows:

	2003 £000	2002 £000
Net assets excluding pension liability	91,792	80,358
Release of SSAP 24 accrual	406	208
Pension liability	(3,877)	(2,324)
Net assets including pension liability	88,321	78,242

	2003 £000	2002 £000
Profit and loss reserve excluding pension liability	57,509	46,075
Release of SSAP 24 accrual	406	208
Pension liability	(3,877)	(2,324)
Profit and loss reserve including pension liability	54,038	43,959

Notes *(continued)*

If FRS 17 had been fully adopted the impact on the pension costs for defined benefit schemes would have been:

	2003 £000	2002 £000
Analysis of amount charged to operating profit		
Service Cost	915	1,056
Past Service Cost	-	-
Total Operating Charge	915	1,056
Analysis of net return on pension scheme		
Expected return on pension scheme assets	466	507
Interest on pension scheme liabilities	(632)	(536)
Net return	(166)	(29)
Analysis of amount recognised in STRGL		
Actual return less expected return on assets	527	(1,582)
Experience gain and losses on liabilities	-	(759)
Changes in assumptions	(2,719)	1,361
Actuarial loss recognised in STRGL	(2,192)	(980)
Adjustment to surplus cap	-	-
Net loss recognised	(2,192)	(980)
Movement in deficit during the year		
Opening deficit	(3,320)	(2,172)
Current service costs	(915)	(1,056)
Contributions	1,055	917
Net return on assets	(166)	(29)
Actuarial loss	(2,192)	(980)
Closing deficit	(5,538)	(3,320)
History of experience gains/losses		
Difference between expected and actual rate return on scheme assets		
Amount	527	(1,582)
% of scheme assets	6%	-23%
Experience gains and losses on scheme liabilities		
Amount	-	(759)
% of scheme liabilities	-	-7%
Total amount recognised in STRGL		
Amount	(2,192)	(980)
% of scheme liabilities	-15%	-10%

Notes *(continued)*

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

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

The smallest group in which the results of the company are consolidated is that headed by Restaurant 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 Yum! Brands Inc, a company incorporated in the United States of America. The consolidated accounts of this group are available to the public and may be obtained from:

Yum! Brands Inc.
1441 Gardiner Lane
PO Box 37330
Louisville
Kentucky
40213 USA