

**Kentucky Fried Chicken (Bermuda)  
Limited**

Financial Statements  
January 31, 2010

June 11, 2010

## Auditors' Report

### To the Shareholders of Kentucky Fried Chicken (Bermuda) Limited

We have audited the balance sheet of Kentucky Fried Chicken (Bermuda) Limited ("the Company") as at January 31, 2010 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Bermuda and Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at January 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in Bermuda and Canada.



**Chartered Accountants**

Street address: Dorchester House, 7 Church Street, Hamilton HM 11, Bermuda

A list of partners can be obtained from the above address.

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers (a Bermuda partnership) or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate and independent legal entity.

# Kentucky Fried Chicken (Bermuda) Limited

Balance Sheet

As at January 31, 2010

	2010 \$	2009 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	2,089,183	2,306,170
Accounts receivable	6,788	9,841
Inventory	39,624	39,177
Prepaid expenses	23,443	83,949
	<u>2,159,038</u>	<u>2,439,137</u>
<b>Long term assets</b>		
Investments (note 3)	367,000	-
Fixed assets (note 4)	693,747	781,113
	<u>3,219,785</u>	<u>3,220,250</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	334,467	394,760
<b>Shareholders' equity</b>		
Capital stock (notes 7 and 10)	582,760	582,760
Share premium (note 7)	1,475,841	1,475,841
Retained earnings	826,717	766,889
	<u>2,885,318</u>	<u>2,825,490</u>
	<u>3,219,785</u>	<u>3,220,250</u>

Approved by the Board of Directors

\_\_\_\_\_ Director

\_\_\_\_\_ Director

The accompanying notes are an integral part of these financial statements.

# Kentucky Fried Chicken (Bermuda) Limited

## Statement of Income and Retained Earnings

For the year ended January 31, 2010

	2010 \$	2009 \$
<b>Income</b>		
Sales	5,281,613	5,219,911
Cost of sales	1,331,978	1,318,310
Gross margin	3,949,635	3,901,601
<b>Expenses</b>		
Payroll costs and benefits (note 9)	1,824,543	1,726,008
Direct operating costs	1,135,279	1,082,926
Administrative expenses (note 11)	362,163	335,251
Occupancy cost	240,869	240,938
Depreciation	190,253	184,028
Total operating expenses	3,753,107	3,569,151
Operating income for the year	196,528	332,450
<b>Other income</b>		
Interest and dividend income	29,061	38,318
Sundry income	9,067	9,067
	38,128	47,385
<b>Net income for the year</b>	234,656	379,835
<b>Retained earnings - beginning of year</b>	766,889	504,698
<b>Dividends</b>	(174,828)	(117,644)
<b>Retained earnings - end of year</b>	826,717	766,889
Earnings per share (note 5)	0.40	0.65
Fully diluted earnings per share (note 5)	0.40	0.65

The accompanying notes are an integral part of these financial statements.

# Kentucky Fried Chicken (Bermuda) Limited

## Statement of Cash Flows

For the year ended January 31, 2010

	2010 \$	2009 \$
<b>Cash flows from operating activities</b>		
Net income for the year	234,656	379,835
Items not affecting cash		
Depreciation	190,253	184,028
	424,909	563,863
Changes in non-cash working capital		
Accounts receivable	3,053	(4,991)
Inventory	(447)	(3,275)
Prepaid expenses	60,506	(56,301)
Accounts payable and accrued liabilities	(60,293)	32,764
Cash provided by operating activities	427,728	532,060
<b>Cash flows from investing activities</b>		
Purchase of investments	(367,000)	-
Purchase of fixed assets	(102,887)	(117,884)
Cash used for investing activities	(469,887)	(117,884)
<b>Cash flows from financing activities</b>		
Payment of dividends	(173,870)	(117,127)
Dividends payable	(958)	(517)
Shares re-purchased and cancelled	-	(56,743)
Cash used for financing activities	(174,828)	(174,387)
<b>Increase (decrease) in cash for the year</b>	(216,987)	239,789
<b>Cash and cash equivalents - beginning of the year</b>	2,306,170	2,066,381
<b>Cash and cash equivalents - end of the year</b>	2,089,183	2,306,170

The accompanying notes are an integral part of these financial statements.

# Kentucky Fried Chicken (Bermuda) Limited

Notes to Financial Statements

January 31, 2010

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## 1. Operations

Kentucky Fried Chicken (Bermuda) Limited ("the Company") was incorporated on September 1, 1969 under the laws of Bermuda. The Company is engaged in the sale of food products, primarily fried chicken, under a franchise agreement with Kentucky Fried Chicken International Holdings Inc., a Delaware corporation, which was renewed in July 2002 for a further 10 year period.

## 2. Significant accounting policies

These financial statements have been prepared in accordance with accounting principles generally accepted in Bermuda and Canada. The significant accounting policies are:

### (a) Basis of preparation

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities as at the date of the financial statements. Estimates also affect the reported amounts of income and expenses for the period. Actual results could differ from those estimates.

### (b) Inventory

Inventory is valued at the lower of cost, determined on the first-in, first-out basis, and net realizable value. Inventory used or sold is expensed to cost of sales.

### (c) Depreciation

The Company depreciates the cost of its fixed assets on a straight-line basis over the following estimated useful lives:

Equipment	4 - 10 years
Furniture and fixtures	10 years
Leasehold improvements	Term of leases including renewal option period
Major renovations	10 years

### (d) Employee future benefits

The costs of employee future benefits are recognized over the periods in which employees render services to the Company in return for the benefits.

### (e) Cash and cash equivalents

Cash and cash equivalents include deposits having a maturity from the date of acquisition of three months or less which are readily convertible to known amounts of cash and are subject to insignificant changes in value.

### (f) Revenue recognition

Sales comprise the fair value of the consideration received for the sale of food products in the ordinary course of the Company's activities.

### (g) Capital disclosures

Effective January 31, 2010, the Company implemented the new CICA Handbook Section 1535 "Capital Disclosures". The new standard requires entities to disclose information about their objectives, policies and processes for managing capital, as well as their compliance with any externally imposed capital requirements. The adoption of this standard does not require any changes to the Company's accounting, however does require additional note disclosure, which is included in note 12.

# Kentucky Fried Chicken (Bermuda) Limited

Notes to Financial Statements

January 31, 2010

## 3. Investments

	Date Acquired	Cost \$	2010 Fair market value \$	2009 Fair Market value \$
Investments Held to Maturity				
Bank of N.T. Butterfield 8% preference shares	June 2009	367,000	447,740	-

## 4. Fixed assets

Fixed assets comprise:

	Cost \$	Accumulated depreciation \$	2010 Net book value \$	2009 Net book value \$
Major renovations	299,150	170,765	128,385	158,300
Equipment	1,342,423	1,203,972	138,451	152,516
Furniture and fixtures	298,617	288,485	10,132	15,366
Leasehold improvements	1,387,148	970,369	416,779	454,931
	<u>3,327,338</u>	<u>2,633,591</u>	<u>693,747</u>	<u>781,113</u>

## 5. Earnings per share

The earnings per share figures are calculated using the weighted monthly average number of shares outstanding during the respective fiscal periods. Fully diluted earnings per share have been calculated in the same manner.

## 6. Commitments

The Company entered into operating leases for two buildings that provide for minimum annual lease payments as follows:

Fiscal Year	Amount \$
2011	217,144
2012	217,144
2013	<u>36,191</u>
	<u>470,479</u>

# Kentucky Fried Chicken (Bermuda) Limited

Notes to Financial Statements

January 31, 2010

## 7. Share capital and share premium

	2010 \$	2009 \$
Authorized: 1,000,000 common shares of a par value of \$1.00 each	1,000,000	1,000,000
Issued and fully paid: 582,760 (2009 - 582,760) common shares of a par value of \$1.00 each	582,760	582,760
Share premium	1,475,841	1,475,841

The directors have decided that from time to time the Company should repurchase its shares when the share price is deemed attractive. During 2010 no shares (2009 - 9,140) were repurchased and cancelled.

## 8. Financial instruments

The Company's financial instruments are cash and cash equivalents, accounts receivable, investments, and accounts payable and accrued liabilities. The fair values of these instruments approximate the carrying values in the balance sheet of the Company, with the exception of investments that are carried at cost.

## 9. Employee future benefits

The Company contributes to defined contribution pension schemes for all eligible employees of the Company. During the year the Company made contributions of \$77,843 (2009 - \$67,091) into the plan. As at January 31, 2010 there were contributions payable of \$10,857 (2009 - \$9,079).

## 10. Shareholders and directors

- (a) Bermuda Management Holdings Limited (BMH), an affiliated company, is the single largest shareholder of the Company with holdings of 239,731 shares (2009 - 239,731 shares).
- (b) The Directors and officers hold 53,960 (2009 - 53,960) shares.
- (c) There are no service contracts in existence for the directors.
- (d) There are no contracts of significance subsisting during or at the end of the financial year in which a director was materially interested either directly or indirectly.

## 11. Related party transactions

Accounting services provided by an affiliated company amounted to \$46,500 (2009 - \$40,000), which is recognized under administrative expenses in the statement of income and retained earnings



# Kentucky Fried Chicken (Bermuda) Limited

Notes to Financial Statements

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## 12. Capital Disclosures

The Company's objectives in managing capital are to ensure sufficient liquidity to enable the internal financing of capital projects and working capital needs, to maintain a strong capital base so as to maintain investor, creditor and market confidence and to provide an adequate return to shareholders.

The Company's capital is comprised of shareholders' equity. The Company's primary uses of capital are to fund increases in non-cash working capital, along with capital expenditure for potential new store additions, existing store renovation projects, and the replacement of the Company's merchandising solution.

The Company currently funds these requirements out of its internally generated cash flows and its financing facilities already in place. The Board of Directors does not establish quantitative return on capital criteria for management, but rather promotes year-over-year sustainable profitable growth. The Company is not subject to any externally imposed capital requirements.

## 13. Comparative figures

The following represents the results of operating and financial position for the past five years:

	2010 \$	2009 \$	2008 \$	2007 \$	2006 \$
<b>Balance sheet</b>					
Current assets	2,526,038	2,439,137	2,134,781	1,902,851	1,759,922
Fixed assets	693,747	781,113	847,257	876,985	946,116
	<u>3,219,785</u>	<u>3,220,250</u>	<u>2,982,038</u>	<u>2,779,836</u>	<u>2,706,038</u>
Current liabilities	334,467	394,760	361,996	292,233	315,073
Capital stock	582,760	582,760	591,900	591,900	591,900
Share premium	1,475,841	1,475,841	1,523,444	1,523,444	1,523,444
Retained earnings	826,717	766,889	504,698	372,259	275,621
	<u>3,219,785</u>	<u>3,220,250</u>	<u>2,982,038</u>	<u>2,779,836</u>	<u>2,706,038</u>
	<u>2010</u> \$	<u>2009</u> \$	<u>2008</u> \$	<u>2007</u> \$	<u>2006</u> \$
<b>Statement of income</b>					
Sales	5,281,613	5,219,911	4,785,570	4,717,807	4,773,098
Cost of sales	(1,331,978)	(1,318,310)	(1,190,557)	(1,105,470)	(1,143,454)
Gross margin	3,949,635	3,901,601	3,595,013	3,612,337	3,629,644
Operating expenses	(3,753,107)	(3,569,151)	(3,367,708)	(3,291,968)	(3,177,179)
Operating income for the year	196,528	332,450	227,305	320,369	452,465
Other income	38,128	47,385	82,704	72,219	59,266
Net income for the year	<u>234,656</u>	<u>379,835</u>	<u>310,009</u>	<u>392,588</u>	<u>511,731</u>