



21 Queen Street, P.O.Box HM 1525  
Hamilton HM FX Bermuda  
Office: (441) 295-5564  
Fax: (441) 295-4915

## Kentucky Fried Chicken (Bermuda) Limited

### Report to Shareholders

January 31, 2007

Hamilton, Bermuda

Net income for the year ended 31<sup>st</sup> January 2007 amounted to \$392,588 compared with \$511,731 in the year ended 31<sup>st</sup> January 2006, a 23.3% decrease. Sales in the year ended 31<sup>st</sup> January 2007 were lower than those for year ended 31<sup>st</sup> January 2006 by \$55,291, which was a 1.2% decrease. Due to control over the cost of the menu items, gross profit only fell \$17,307 over the previous year. Operating expenses increased by \$114,789 from the previous year, largely due to a \$38,886 increase in salary and wage costs in 2006/07 to \$1,653,175. Electricity amounted to \$124,586 compared to \$105,808 in the previous year. Insurance increased by \$21,806 due to increased coverage and rate increases.

Dividend payments were as follows:

<b>Payment date</b>	<b>Shareholders of record date</b>	<b>Amount</b>
15 <sup>th</sup> April 2006	31 <sup>st</sup> March 2006	\$0.20 per share
15 <sup>th</sup> July 2006	30 <sup>th</sup> June 2006	\$0.10 per share
15 <sup>th</sup> October 2006	30 <sup>th</sup> September 2006	\$0.10 per share
15 <sup>th</sup> January 2007	31 <sup>st</sup> December 2006	\$0.10 per share

No shares of the Company were repurchased during the year. It is still our intention, however, to continue to repurchase shares from time to time to reduce the shares outstanding to a more acceptable level.

At 31<sup>st</sup> January 2007 cash resources amounted to \$1,817,029 compared with \$1,675,791 last year and total liabilities amounted to \$292,233 compared with liabilities of \$315,073 at 31<sup>st</sup> January 2006. Shareholders' equity at 31<sup>st</sup> January 2007 amounted to \$2,487,603 or \$4.20 per share compared with shareholders' equity of \$2,390,965 or \$4.04 per share at 31<sup>st</sup> January 2006.

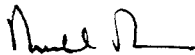
On behalf of the Board I would like to thank Iris Kehler who assisted us until May 7, 2006 as Training Officer and Operations Manager. Her knowledge and experience certainly added to our ability to serve our customers efficiently. The Board would

also like to pay tribute to all our staff for their hard work. I would particularly like to thank Frank Seuss, General Manager, Tracy Robinson, Assistant General Manager, and Jerome Talbot, our new Operations Manager, who have worked hard to improve sales and earnings. I would also like to express our appreciation to Graham Redford, Marketing Consultant, for his help and advice.

In April 2007 we closed the store for nine days for further improvements to our facilities.

We look forward to the 2008 fiscal year with optimism and hope that the steps we are taking to continuously upgrade our facilities will generate increased sales and profits in the future.

My personal thanks to Llewellyn Petty and my fellow Executive Directors, Crayton Greene, Susan Wilson, Bill Thomson and Kevin Gunther for their contribution and assistance during the past year.



Donald P. Lines, OBE, FCA, JP  
Chairman

April 15, 2007

**Kentucky Fried Chicken (Bermuda)  
Limited**

Financial Statements  
January 31, 2007

# Kentucky Fried Chicken (Bermuda) Limited

Balance Sheet

As at January 31, 2007

	2007 \$	2006 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	1,817,029	1,675,791
Accounts receivable	14,965	7,788
Inventory	23,326	26,965
Prepaid expenses	47,531	49,378
	<u>1,902,851</u>	<u>1,759,922</u>
<b>Fixed assets (note 3)</b>	<u>876,985</u>	<u>946,116</u>
	<u>2,779,836</u>	<u>2,706,038</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	<u>292,233</u>	<u>315,073</u>
<b>Shareholders' equity</b>		
<b>Capital stock (note 6)</b>	591,900	591,900
<b>Share premium (note 6)</b>	1,523,444	1,523,444
<b>Retained earnings</b>	<u>372,259</u>	<u>275,621</u>
	<u>2,487,603</u>	<u>2,390,965</u>
	<u>2,779,836</u>	<u>2,706,038</u>

Approved by the Board of Directors

\_\_\_\_\_  
Director

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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, 2007

	2007 \$	2006 \$
<b>Income</b>		
Sales	4,717,807	4,773,098
Cost of sales	1,105,470	1,143,454
Gross margin	3,612,337	3,629,644
<b>Expenses</b>		
Payroll costs and benefits	1,653,175	1,614,289
Direct operating costs	920,876	941,364
Administrative expenses	328,790	241,072
Occupancy cost	220,769	220,338
Depreciation	168,358	160,116
Total operating expenses	3,291,968	3,177,179
Operating income for the year	320,369	452,465
<b>Other income</b>		
Interest income	61,559	24,298
Sundry income	10,660	9,415
Insurance recovery	-	25,553
	72,219	59,266
<b>Net income for the year</b>	392,588	511,731
<b>Retained earnings - beginning of year</b>	275,621	1,050
<b>Dividends</b>	(295,950)	(237,160)
<b>Retained earnings - end of year</b>	372,259	275,621
Earnings per share (note 4)	0.66	0.86
Fully diluted earnings per share (note 4)	0.66	0.86

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, 2007

	2007 \$	2006 \$
<b>Cash flows from operating activities</b>		
Net income for the year	392,588	511,731
Items not affecting cash		
Depreciation	168,358	160,116
	560,946	671,847
Changes in non-cash working capital		
Accounts receivable	(7,177)	14,338
Inventory	3,639	686
Prepaid expenses	1,847	(5,746)
Accounts payable and accrued liabilities	(22,840)	22,720
Cash provided by operating activities	536,415	703,845
<b>Cash flow from investing activity</b>		
Purchase of fixed assets	(99,227)	(37,415)
Cash used in investing activity	(99,227)	(37,415)
<b>Cash flows from financing activities</b>		
Repurchase of shares (note 6)	-	(20,000)
Dividends paid	(295,950)	(237,160)
Cash used in financing activities	(295,950)	(257,160)
<b>Net increase in cash and cash equivalents for the year</b>	141,238	409,270
<b>Cash and cash equivalents - beginning of year</b>	1,675,791	1,266,521
<b>Cash and cash equivalents - end of the year</b>	1,817,029	1,675,791

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

# Kentucky Fried Chicken (Bermuda) Limited

Notes to Financial Statements

January 31, 2007

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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 January 31, 2007. 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.

(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 of less than three months.

(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.

# Kentucky Fried Chicken (Bermuda) Limited

Notes to Financial Statements

January 31, 2007

## 3. Fixed assets

Fixed assets comprise:

	Cost \$	Accumulated depreciation \$	2007 Net book value \$	2006 Net book value \$
Major renovations	299,150	81,020	218,130	248,045
Equipment	1,150,558	999,640	150,918	126,995
Furniture and fixtures	298,617	272,129	26,488	30,170
Leasehold improvements	1,219,715	738,266	481,449	540,906
	<u>2,968,040</u>	<u>2,091,055</u>	<u>876,985</u>	<u>946,116</u>

## 4. 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.

## 5. Commitments

The Company entered into operating leases for two buildings with a related party, that provide for minimum annual lease payments totalling \$213,853 (2006 - \$197,400) for the next year and \$217,144 per year for the next four years.

## 6. Capital stock and share premium

Capital stock comprises:

	2007 \$	2006 \$
Authorized:		
1,000,000 common shares of a par value of \$1.00 each	<u>1,000,000</u>	<u>1,000,000</u>
Issued and fully paid:		
591,900 (2006 - 591,900) common shares of a par value of \$1.00 each	<u>591,900</u>	<u>591,900</u>
Share premium	<u>1,523,444</u>	<u>1,523,444</u>

Share premium balance relates to the excess over par value of shares of the Company's share sold for cash.

The directors have decided that from time to time the Company should repurchase its shares when the share price is deemed attractive. During the year the Company purchased \$Nil (2006 - 4,000) shares, in the sum of \$Nil (2006 - \$20,000), for an average consideration of \$Nil (2006 - \$5.00) per share.



# Kentucky Fried Chicken (Bermuda) Limited

Notes to Financial Statements

January 31, 2007

## 7. Financial instruments

The Company's financial instruments are cash, accounts receivable and accounts payable. The fair values of these instruments approximate the carrying values in the balance sheet of the Company.

## 8. Employee future benefits

The Company operates a defined contribution pension scheme for all eligible employees of the Company. During the year the Company made contributions of \$63,527 (2006 - \$52,086) into the plan. As at January 31, 2007 there were contributions payable of \$9,925 (2006 - \$9,345).

## 9. Shareholders and directors

- (a) Bermuda Management Holdings Limited (BMH), and affiliated company, is the single largest shareholder of the Company with holdings of 239,731 shares (2006 - 236,931 shares).
- (b) The Directors and officers hold 53,960 (2006 - 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.

## 10. Related party transactions

Accounting services provided by an affiliated company amounted to \$40,000 (2006 - \$40,000).

## 11. Comparative figures

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

	2007	2006	2005	2004	2003
	\$	\$	\$	\$	\$
<b>Balance sheet</b>					
Current assets	1,902,851	1,759,922	1,359,930	1,088,195	840,626
Fixed assets	876,985	946,116	1,068,817	923,137	1,050,502
	<u>2,779,836</u>	<u>2,706,038</u>	<u>2,428,747</u>	<u>2,011,332</u>	<u>1,891,128</u>
Current liabilities	292,233	315,073	292,353	239,422	256,558
Capital stock	591,900	591,900	595,900	597,700	597,700
Share premium	1,523,444	1,523,444	1,539,444	1,543,941	1,543,941
Retained earnings (deficit)	372,259	275,621	1,050	(369,731)	(507,071)
	<u>2,779,836</u>	<u>2,706,038</u>	<u>2,428,747</u>	<u>2,011,332</u>	<u>1,891,128</u>

# Kentucky Fried Chicken (Bermuda) Limited

Notes to Financial Statements

January 31, 2007

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	2007	2006	2005	2004	2003
	\$	\$	\$	\$	\$
<b>Statement of income</b>					
Sales	4,717,807	4,773,098	4,479,763	4,011,679	3,823,498
Cost of sales	(1,105,470)	(1,143,454)	(1,041,434)	(969,824)	(989,926)
Gross margin	3,612,337	3,629,644	3,438,329	3,041,855	2,835,572
Operating expenses	(3,291,968)	(3,177,179)	(2,975,188)	(2,810,966)	(2,691,168)
Operating income for the year	320,369	452,465	463,141	230,889	142,404
Other income	72,219	59,266	26,820	25,991	17,770
Net income for the year	392,588	511,731	489,961	256,880	160,174