

Kentucky Fried Chicken (Bermuda) Limited

Financial Statements
January 31, 2008

April 8, 2008

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, 2008 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, 2008 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.

PricewaterhouseCoopers

Chartered Accountants

Kentucky Fried Chicken (Bermuda) Limited

Balance Sheet

As at January 31, 2008

	2008 \$	2007 \$
Assets		
Current assets		
Cash and cash equivalents	2,066,381	1,817,029
Accounts receivable	4,850	14,965
Inventory	35,902	23,326
Prepaid expenses	27,648	47,531
	2,134,781	1,902,851
Fixed assets (note 3)	847,257	876,985
	2,982,038	2,779,836
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	361,996	292,233
Shareholders' equity		
Capital stock (notes 6 and 9)	591,900	591,900
Share premium (note 6)	1,523,444	1,523,444
Retained earnings	504,698	372,259
	2,620,042	2,487,603
	2,982,038	2,779,836

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, 2008

	2008 \$	2007 \$
Income		
Sales	4,785,570	4,717,807
Cost of sales	1,190,557	1,105,470
Gross margin	3,595,013	3,612,337
Expenses		
Payroll costs and benefits (note 8)	1,646,975	1,653,175
Direct operating costs	999,585	920,876
Administrative expenses (note 10)	315,704	328,790
Occupancy cost	237,187	220,769
Depreciation	168,257	168,358
Total operating expenses	3,367,708	3,291,968
Operating income for the year	227,305	320,369
Other income		
Interest income	73,695	61,559
Sundry income	9,009	10,660
	82,704	72,219
Net income for the year	310,009	392,588
Retained earnings - beginning of year	372,259	275,621
Dividends	(177,570)	(295,950)
Retained earnings - end of year	504,698	372,259
Earnings per share (note 4)	0.52	0.66
Fully diluted earnings per share (note 4)	0.52	0.66

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, 2008

	2008 \$	2007 \$
Cash flows from operating activities		
Net income for the year	310,009	392,588
Items not affecting cash		
Depreciation	168,257	168,358
	478,266	560,946
Changes in non-cash working capital		
Accounts receivable	10,115	(7,177)
Inventory	(12,576)	3,639
Prepaid expenses	19,883	1,847
Accounts payable and accrued liabilities	69,763	(22,840)
Cash provided by operating activities	565,451	536,415
Cash flow for investing activity		
Purchase of fixed assets	(138,529)	(99,227)
Cash used for investing activity	(138,529)	(99,227)
Cash flows for financing activities		
Payment of dividends	(118,380)	(295,950)
Dividends payable	(59,190)	-
Cash used for financing activities	(177,570)	(295,950)
Increase in cash for the year	249,352	141,238
Cash and cash equivalents - beginning of the year	1,817,029	1,675,791
Cash and cash equivalents - end of the year	2,066,381	1,817,029

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

Kentucky Fried Chicken (Bermuda) Limited

Notes to Financial Statements

January 31, 2008

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.

(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.

Kentucky Fried Chicken (Bermuda) Limited

Notes to Financial Statements

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3. Fixed assets

Fixed assets comprise:

	Cost \$	Accumulated depreciation \$	2008 Net book value \$	2007 Net book value \$
Major renovations	299,150	110,935	188,215	218,130
Equipment	1,163,132	1,055,671	107,461	150,918
Furniture and fixtures	298,617	277,690	20,927	26,488
Leasehold improvements	1,345,670	815,016	530,654	481,449
	<u>3,106,569</u>	<u>2,259,312</u>	<u>847,257</u>	<u>876,985</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 \$217,144 (2007 - \$213,853) for the next year and \$217,144 per year for the next four years.

6. Share capital and share premium

	2008 \$	2007 \$
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 (2007 – 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>

The directors have decided that from time to time the Company should repurchase its shares when the share price is deemed attractive. There were no shares repurchased in 2008 and 2007.

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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 \$68,002 (2007 - \$63,527) into the plan. As at January 31, 2008 there were contributions payable of \$10,950 (2007 - \$9,925).

9. 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 (2007 – 239,731 shares).
- (b) The Directors and officers hold 53,960 (2007 – 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 (2007 - \$40,000), which is recognized under administrative expenses in the statement of income and retained earnings.

11. Comparative figures

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

	2008	2007	2006	2005	2004
	\$	\$	\$	\$	\$
Balance sheet					
Current assets	2,134,781	1,902,851	1,759,922	1,359,930	1,088,195
Fixed assets	847,257	876,985	946,116	1,068,817	923,137
	<u>2,982,038</u>	<u>2,779,836</u>	<u>2,706,038</u>	<u>2,428,747</u>	<u>2,011,332</u>
Current liabilities	361,996	292,233	315,073	292,353	239,422
Capital stock	591,900	591,900	591,900	595,900	597,700
Share premium	1,523,444	1,523,444	1,523,444	1,539,444	1,543,941
Retained earnings (deficit)	504,698	372,259	275,621	1,050	(369,731)
	<u>2,982,038</u>	<u>2,779,836</u>	<u>2,706,038</u>	<u>2,428,747</u>	<u>2,011,332</u>

Kentucky Fried Chicken (Bermuda) Limited

Notes to Financial Statements

January 31, 2008

	2008	2007	2006	2005	2004
	\$	\$	\$	\$	\$
Statement of income					
Sales	4,785,570	4,717,807	4,773,098	4,479,763	4,011,679
Cost of sales	(1,190,557)	(1,105,470)	(1,143,454)	(1,041,434)	(969,824)
Gross margin	3,595,013	3,612,337	3,629,644	3,438,329	3,041,855
Operating expenses	(3,367,708)	(3,291,968)	(3,177,179)	(2,975,188)	(2,810,966)
Operating income for the year	227,305	320,369	452,465	463,141	230,889
Other income	82,704	72,219	59,266	26,820	25,991
Net income for the year	310,009	392,588	511,731	489,961	256,880