

# **Kentucky Fried Chicken (Bermuda) Limited**

Financial Statements  
January 31, 2006

March 16, 2006

## 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, 2006 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, 2006 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**

# Kentucky Fried Chicken (Bermuda) Limited

Balance Sheet

As at January 31, 2006

	2006 \$	2005 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash	1,675,791	1,266,521
Accounts receivable	7,788	22,126
Inventory	26,965	27,651
Prepaid expenses	49,378	43,632
	<u>1,759,922</u>	<u>1,359,930</u>
<b>Fixed assets</b> (note 3)	<u>946,116</u>	<u>1,068,817</u>
	<u>2,706,038</u>	<u>2,428,747</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	<u>315,073</u>	<u>292,353</u>
<b>Shareholders' equity</b>		
<b>Capital stock</b> (note 6)	591,900	595,900
<b>Share premium</b> (note 6)	1,523,444	1,539,444
<b>Retained earnings</b>	<u>275,621</u>	<u>1,050</u>
	<u>2,390,965</u>	<u>2,136,394</u>
	<u>2,706,038</u>	<u>2,428,747</u>

Approved by the Board of Directors

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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, 2006

	2006 \$	2005 \$
<b>Income</b>		
Sales	4,773,098	4,479,763
Cost of sales	1,143,454	1,041,434
Gross margin	3,629,644	3,438,329
<b>Expenses</b>		
Payroll costs and benefits	1,614,289	1,481,264
Direct operating costs	941,364	879,035
Administrative expenses	241,072	200,098
Occupancy cost	220,338	222,184
Depreciation	160,116	192,607
Total operating expenses	3,177,179	2,975,188
Operating income for the year	452,465	463,141
<b>Other income</b>		
Interest income	24,298	16,340
Sundry income	9,415	10,480
Insurance recovery	25,553	-
	59,266	26,820
<b>Net income for the year</b>	511,731	489,961
<b>Retained earnings (deficit) - Beginning of year</b>	1,050	(369,731)
<b>Dividends</b>	(237,160)	(119,180)
<b>Retained earnings - end of year</b>	275,621	1,050
Earnings per share (note 4)	0.86	0.82
Fully diluted earnings per share (note 4)	0.86	0.82

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, 2006

	2006 \$	2005 \$
<b>Cash flows from operating activities</b>		
Net income for the year	511,731	489,961
Items not affecting cash		
Depreciation and amortization	160,116	192,607
	671,847	682,568
Changes in non-cash working capital		
Accounts receivable	14,338	(18,312)
Inventory	686	(11,373)
Prepaid expenses	(5,746)	21,056
Accounts payable and accrued liabilities	22,720	52,931
	703,845	726,870
<b>Cash flow from investing activity</b>		
Purchase of fixed assets	(37,415)	(338,287)
	(37,415)	(338,287)
<b>Cash flows from financing activities</b>		
Repurchase of shares (note 6)	(20,000)	(6,297)
Payment of dividends	(237,160)	(119,180)
	(257,160)	(125,477)
<b>Increase in cash for the year</b>	409,270	263,106
<b>Cash - beginning of the year</b>	1,266,521	1,003,415
<b>Cash - end of the year</b>	1,675,791	1,266,521

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

# Kentucky Fried Chicken (Bermuda) Limited

Notes to Financial Statements

January 31, 2006

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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, 2006. 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.

## 3. Fixed assets

Fixed assets comprise:

	Cost	Accumulated depreciation	2006 Net book value	2005 Net book value
	\$	\$	\$	\$
Major renovations	299,150	51,105	248,045	277,960
Equipment	1,058,428	931,433	126,995	171,541
Furniture and fixtures	296,217	266,047	30,170	19,875
Leasehold improvements	1,215,018	674,112	540,906	599,441
	<u>2,868,813</u>	<u>1,922,697</u>	<u>946,116</u>	<u>1,068,817</u>

# Kentucky Fried Chicken (Bermuda) Limited

Notes to Financial Statements

January 31, 2006

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## 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. Future lease payments

During 2002 the Company extended the terms of the two building leases with Sonshel Limited for a further ten years to March 31, 2012.

The Company agreed rates of \$77,400 per annum for the period of April 1, 2002 to March 31, 2007, and \$85,144 per annum thereafter, and rental rates of \$120,000 per annum for the period of April 1, 2002 to March 31, 2007, and \$132,000 per annum thereafter, for the two leases respectively.

## 6. Share capital and share premium

	2006 \$	2005 \$
Authorized:		
1,000,000 common shares of a par value of \$1.00 each	1,000,000	1,000,000
Issued and fully paid:		
591,900 (2005 - 595,900) common shares of a par value of \$1.00 each	591,900	595,900
Share premium	1,523,444	1,539,444

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 4,000 (2005 - 1,800) shares, in the sum of \$20,000 (2005 - \$6,297), for an average consideration of \$5.00 (2005 - \$3.50) per share.

## 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 \$52,086 (2005 - \$37,796) into the plan. As at January 31, 2006 there were contributions payable of \$9,345 (2005 - \$3,789).

# Kentucky Fried Chicken (Bermuda) Limited

Notes to Financial Statements

January 31, 2006

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## 9. Shareholders and directors

- (a) Bermuda Management Holdings Limited (BMH), and affiliated company, is the single largest shareholder of the Company with holdings of 236,931 shares (2005 - 225,153 shares).
- (b) The Directors and officers hold 45,754 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 (2005 - \$40,000).

## 11. Comparative figures

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

	2006 \$	2005 \$	2004 \$	2003 \$	2002 \$
<b>Balance sheet</b>					
Current assets	1,759,922	1,359,930	1,088,195	840,626	701,471
Fixed assets	946,116	1,068,817	923,137	1,050,502	1,187,706
	<u>2,706,038</u>	<u>2,428,747</u>	<u>2,011,332</u>	<u>1,891,128</u>	<u>1,889,177</u>
Current liabilities	315,073	292,353	239,422	256,558	293,711
Capital stock	591,900	595,900	597,700	597,700	598,000
Share premium	1,523,444	1,539,444	1,543,941	1,543,941	1,545,141
Retained earnings (deficit)	275,621	1,050	(369,731)	(507,071)	(547,675)
	<u>2,706,038</u>	<u>2,428,747</u>	<u>2,011,332</u>	<u>1,891,128</u>	<u>1,889,177</u>
<b>Statement of income</b>					
Sales	4,773,098	4,479,763	4,011,679	3,823,498	3,829,387
Cost of sales	<u>(1,143,454)</u>	<u>(1,041,434)</u>	<u>(969,824)</u>	<u>(989,926)</u>	<u>(1,002,041)</u>
Gross margin	3,629,644	3,438,329	3,041,855	2,835,572	2,827,346



Operating income for the year	452,465	463,141	230,889	142,404	249,910
Other income	59,266	26,820	25,991	17,770	40,559
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Net income for the year	511,731	489,961	256,880	160,174	290,469
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