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PIZZA HUT (U.K.) LIMITED

DIRECTORS' REPORT

The directors submit their report and accounts for the year ended December 1, 1985.

Results and dividends

The profit for the year, after taxation, amounted to £1,119,889.

The directors do not recommend the payment of a dividend.

Review of the business

The principal activity during the year was to trade as a restaurant operator. During the year 16 new restaurants were opened, and further sites were acquired for opening in 1986. On November 3, 1985, Pizza Hut (U.K.) Limited, which previously had no subsidiary companies, acquired the entire share capital of Dumorar Services Limited, a company which operated a franchised Pizza Hut restaurant. Since acquisition the company has ceased to trade and the location is now a restaurant operated by Pizza Hut (U.K.) Limited.

Fixed assets

The changes in fixed assets during the year are summarised in the notes to the accounts.

Future developments

The company will be continuing its policy of expansion in 1986 by developing new restaurants and also undertaking increased marketing activity to generate further sales.

Directors and their interests

The directors during the year were as follows:

G. G. Butler	(U.S.A.)	
N. W. Sprunt		
D. G. Williams		(Resigned and reappointed September 1, 1986)
J. W. Wright		(Resigned September 1, 1986)
T. O. Thwaites		(Appointed May 13, 1985)
S. Bishopp	(U.S.A.)	(Appointed April 25, 1985)

In addition W. Van Riemsdijk was appointed a director on September 1, 1986.

No director had any interest in the share capital of the company.

COMPANIES REGISTRATION M -6 JAN 1987 G7 OFFICE

DIRECTORS' REPORT
(continued)

Employees

The policy of providing employees with information has continued during the year by means of newsletters through which employees are encouraged to give their views and suggestions relating to the performance of the company. Frequent meetings between management and staff are held at which such views and suggestions may be considered.

The company gives every consideration to applications for employment from disabled persons where the requirements of the job may be adequately covered by a handicapped or disabled person.

With regard to those employees who become disabled during the year, the company will continue to examine ways and means of providing continuing employment under normal terms and conditions and to provide training and career development and promotion wherever appropriate.

Auditors

A resolution to reappoint Arthur Young as auditors will be put to the members at the Annual General Meeting.

BY ORDER OF THE BOARD

W. VAN RIEMSDIJK
Secretary

October 31, 1986

A MEMBER OF ARTHUR YOUNG INTERNATIONAL

Arthur Young

Chartered Accountants
Rolls House, 7 Rolls Buildings,
Fetter Lane, London EC4A 1NH

REPORT OF THE AUDITORS TO THE MEMBERS OF
PIZZA HUT (U.K.) LIMITED

We have audited the accounts on pages 4 to 15 in accordance with approved auditing standards.

In our opinion the accounts, which have been prepared under the historical cost convention, give a true and fair view of the state of affairs of the company and the group at December 1, 1985 and of the profit and source and application of funds of the group for the year then ended and comply with the Companies Act 1985.

Arthur Young

ARTHUR YOUNG
October 31, 1986

PIZZA HUT (U.K.) LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 1, 1985

	Notes	£	Group Year to December 1, 1985 £	Company Year to December 2, 1984 £
Turnover	2		29,922,053	19,632,132
Other operating income: Net rental income			146,170	140,207
			30,068,223	19,772,339
Raw materials and consumables		8,608,162		5,517,795
Other external charges		9,452,034		6,359,338
			18,060,196	11,877,133
			12,008,027	7,895,206
Staff costs	3	9,312,147		6,482,644
Depreciation and amortisation charges		1,613,715		1,121,040
			10,925,862	7,603,684
Operating profit	4		1,082,165	291,522
Interest receivable		95,733		69,717
Interest payable	5	(1,205,309)		(731,446)
			(1,109,576)	(661,729)
Loss on ordinary activities before taxation			(27,411)	(370,207)
Tax on loss on ordinary activities	6		1,147,300	(62,920)
Profit/(loss) on ordinary activities after taxation	16		£1,119,889	£ (433,127)

PIZZA HUT (U.K.) LIMITED

BALANCE SHEET AT DECEMBER 1, 1985

	Notes	Group December 1, 1985 £	Company December 1, 1985 £	Company December 2, 1984 £
Fixed assets:				
Intangible assets	7	561,316	561,316	405,536
Tangible assets	8	15,355,682	15,172,714	11,398,606
Investment in subsidiary	9	-	782,754	-
		15,916,998	16,516,784	11,804,142
Current assets:				
Stocks	10	1,229,066	1,229,066	864,427
Debtors	11	1,379,744	1,364,783	529,742
Cash at bank and in hand		1,074,649	1,029,202	863,613
		3,683,459	3,623,051	2,257,782
Creditors: amounts falling due within one year:				
Debenture loans	12	-	-	9,801,098
Trade creditors		3,314,397	3,287,224	1,765,096
Other creditors including taxation and social security	13	1,390,360	1,375,425	859,058
Accruals		723,741	711,047	733,280
		5,428,498	5,373,696	13,158,532
Net current liabilities		(1,745,039)	(1,750,645)	(10,900,750)
Total assets less current liabilities		14,171,959	14,766,139	903,392
Creditors: amounts falling due after one year:				
Debenture loans	12	13,231,297	13,231,297	-
Provision for liabilities and charges:				
Deferred taxation	14		-	490,000
		£ 940,662	£ 1,534,842	£ 413,392
Capital and reserves:				
Called up share capital	15	805,000	805,000	805,000
Profit and loss account	16	135,662	729,842	(391,608)
		£ 940,662	£ 1,534,842	£ 413,392

N. W. SPRUNT)
W. VAN RIEMSDIJK) Directors

October 31, 1986

The notes on pages 8 to 15 form part of these accounts

STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED DECEMBER 1, 1985

	£	Group Year to December 1, 1985 £	Company Year to December 2, 1984 £
Source of funds:			
Loss on ordinary activities before taxation		(27,411)	(370,207)
Adjustment for items not involving the movement of funds:			
Depreciation		1,587,909	1,082,383
Amortisation of operating rights		25,806	38,657
Loss on disposal of tangible fixed assets:			
- from closed restaurants		-	171,183
- other		6,374	9,861
Total generated from operations		1,592,678	931,877
Funds from other sources:			
Proceeds of disposal of tangible fixed assets		63,142	25,646
Reclassification of debentures		13,231,297	-
		14,887,117	957,523
Application of funds:			
Purchase of tangible fixed assets *	5,614,501		5,325,102
Purchase of operating rights	181,586		230,601
Purchase of goodwill *	592,619		-
		6,388,706	5,555,703
Increase/(decrease) in working capital		£ 8,498,411	£(4,598,180)
Components of increase/(decrease) in working capital:			
Stocks *		364,639	535,737
Debtors *		200,002	269,038
Creditors *		7,722,734	(5,333,229)
		8,287,375	(4,528,454)
Movement in net liquid funds:			
Cash at bank and in hand *		211,036	(69,726)
		£ 8,498,411	£(4,598,180)

The notes on pages 8 to 15 form part of these accounts

PIZZA HUT (U.K.) LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED DECEMBER 1, 1985
(continued)

* Summary of the effects of the acquisition of Dumorar Services Limited

	£
Net assets acquired:	
Tangible fixed assets	184,000
Stocks	4,017
Trade debtors	18,757
Trade creditors	(61,987)
Cash	45,348
Goodwill	592,619
	£782,754
Discharged by:	
Cash	513,500
Debtors	269,254
	£782,754

The notes on pages 8 to 15 form part of these accounts

PIZZA HUT (U.K.) LIMITED

NOTES TO THE ACCOUNTS AT DECEMBER 1, 1985

1. Accounting policies

Accounting convention

The accounts are prepared under the historical cost convention.

Basis of consolidation

The group accounts consolidate the accounts of Pizza Hut (U.K.) Limited and its subsidiary Dumorar Services Limited, acquired on November 3, 1985.

No profit and loss account is presented for Pizza Hut (U.K.) Limited as provided by S.228(7) of the Companies Act 1985.

Goodwill

Purchased goodwill is written off directly against reserves.

Depreciation

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life as follows:

Freehold buildings	- over 20 years
Leasehold land and buildings	- over 15 years
Fixtures, fittings, tools and equipment	- over 8 years
Motor vehicles	- over 3 years

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is purchase cost on a first-in, first-out basis.

Net realisable value is based on estimated selling price less further costs expected to be incurred to disposal.

Deferred taxation

Deferred taxation is provided on the liability method on all timing differences except for those which are not expected to reverse in the future. Advance corporation tax which is expected to be recoverable in the future is deducted from the deferred taxation balance.

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date.

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

All differences are taken to the profit and loss account.

NOTES TO THE ACCOUNTS AT DECEMBER 1, 1985
(continued)

1. Accounting policies
(continued)

Operating rights

Operating rights, representing initial franchise fees for new restaurants, are amortised over the period of agreement under which the payments are made.

Restaurants in course of construction

All costs incurred during the year prior to the opening of restaurants are deferred. Capital costs are included in tangible fixed assets, and depreciated from the date of opening. Revenue costs are included in prepayments and expensed on opening.

Marketing costs

All marketing costs are written off as incurred.

Leasing and hire purchase commitments

Assets obtained under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives.

The interest element of the rental obligations is charged to profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

2. Turnover

Turnover represents the amount of sales in the United Kingdom, stated net of value added tax.

Group turnover includes £43,192 (profit on ordinary activities before taxation of £8,252) in respect of the activities acquired from Dumorar Services Limited.

3. Staff costs

	Group	Company
	Year to December 1, 1985	Year to December 2, 1984
	£	£
Wages and salaries	8,530,918	5,890,248
Social security costs	725,421	558,726
Other pension costs	55,808	33,670
	£9,312,147	£6,482,644

NOTES TO THE ACCOUNTS AT DECEMBER 1, 1985
(continued)

3. Staff costs
(continued)

The average weekly number of employees during the year was made up as follows:

	Group	Company
	1985 No.	1984 No.
Office and management	87	54
Restaurants	2,557	1,452
	2,644	1,506

4. Operating profit

	Group	Company
	Year to December 1, 1985 £	Year to December 2, 1984 £
This is stated after charging or crediting:		
Directors' remuneration	-	-
Auditors' remuneration	25,000	21,000
Exchange loss	22,614	110,992
Write back of holiday pay provision	(300,000)	-
Additional PAYE liability	150,000	-
Restaurant closure costs		
- loss on disposal of tangible fixed assets	-	171,183
- other costs	-	30,994

5. Interest payable

Interest payable is attributable to debenture loans, with the participants in the joint venture and are wholly repayable within five years.

6. Taxation

	Group	Company
	Year to December 1, 1985 £	Year to December 2, 1984 £
Taxation charge on ordinary activities:		
Deferred tax	-	(98,011)
Adjustments relating to previous years:		
Deferred tax	490,000	35,091
Consortium relief	650,000	-
Write back of 1981 corporation tax provision	7,300	-
	£1,147,300	£(62,920)

The consortium relief refers to the transfer of losses to a shareholder company for which payment will be received.

7. Intangible fixed assets

	Group and Company
	Operating rights
	£
Cost:	
At December 2, 1984	450,000
Increase during the year	181,586
At December 1, 1985	631,586
Amortisation:	
At December 2, 1984	44,464
Provided during the year	25,806
At December 1, 1985	70,270
Net book value:	
At December 1, 1985	£561,316
Net book value:	
At December 2, 1984	£405,536

8. Tangible fixed assets

	Land and buildings	Fixtures, fittings, tools and equipment	Motor vehicles	Assets in course of construction	Total
	£	£	£	£	£
Cost:					
Company:					
At December 2, 1984	4,382,173	8,890,672	175,180	96,741	13,544,766
Transfers of assets in course of construction	60,724	53,332	-	(114,056)	-
Additions	1,627,862	3,482,535	149,398	170,706	5,430,501
Disposals	-	(46,160)	(53,938)	-	(100,098)
At December 1, 1985	6,070,759	12,380,379	270,640	153,391	18,875,169
Group:					
Arising on acquisition of a subsidiary	128,733	55,267	-	-	184,000
At December 1, 1985	£6,199,492	£12,435,646	£270,640	£153,391	£19,059,169

8. Tangible fixed assets
(continued)

	Land and buildings £	Fixtures, fittings, tools and equipment £	Motor vehicles £	Assets in course of construction £	Total £
Depreciation:					
Company:					
At December 2, 1984	577,622	1,520,230	48,308	-	2,146,160
Provided in the year	306,344	1,208,038	72,495	-	1,586,877
Disposals	-	(3,171)	(27,411)	-	(30,582)
At December 1, 1985	883,966	2,725,097	93,392	-	3,702,455
Group:					
Arising on acquisition of a subsidiary	329	703	-	-	1,032
At December 1, 1985	884,295	2,725,800	93,392	-	3,703,487
Net book value:					
Group:					
At December 1, 1985	£5,315,197	£ 9,709,846	£177,248	£ 153,391	£15,355,682
Company:					
At December 1, 1985	£5,186,793	£ 9,655,282	£177,248	£ 153,391	£15,172,714
Company:					
At December 2, 1984	£3,804,551	£ 7,370,442	£126,872	£ 96,741	£11,398,606

	Group 1985 £	Company 1985 £	Company 1984 £
Net book value of land and buildings comprises:			
Freehold	438,441	438,441	456,481
Short leasehold	4,876,756	4,748,352	3,348,070
	£5,315,197	£5,186,793	£3,804,551

9. Investments

On November 3, 1985, Pizza Hut (U.K.) Limited acquired 100% of the ordinary share capital of Dumorar Services Limited, a company incorporated in England. Since acquisition this company has ceased to trade.

NOTES TO THE ACCOUNTS AT DECEMBER 1, 1985
(continued)

10. Stocks

	Group and Company 1985 £	Company 1984 £
Ingredients	1,142,929	745,241
Uniforms	86,137	113,336
Spare parts	-	5,850
	£1,229,066	£ 864,427

11. Debtors

	Group 1985 £	Company 1985 £	Company 1984 £
Trade debtors	218,998	218,998	216,806
Other debtors	180,677	172,596	135,030
Prepayments and accrued income	330,069	323,189	177,906
Intercompany receivables	650,000	650,000	-
	£1,379,744	£1,364,783	£ 529,742

The intercompany receivable of £650,000 is not receivable until March 1987.

12. Debenture loans

The debenture loans are secured by floating charges over the company's property. At December 2, 1984, the loans were repayable on demand. The loans have since been renegotiated and are now repayable a year and a day after a demand is made and hence are no longer current liabilities.

13. Other creditors including taxation and social security costs

	Group 1985 £	Company 1985 £	Company 1984 £
Corporation tax	-	-	7,300
Other taxes and social security costs	996,199	973,634	851,640
Intercompany payable	-	7,630	-
Other	394,161	394,161	118
	£1,390,360	£1,375,425	£ 859,058

NOTES TO THE ACCOUNTS AT DECEMBER 1, 1985
(continued)

14. Deferred taxation

At December 2, 1984, timing differences were provided for at a rate of 35% and the deferred tax provision also represented the full potential liability.

It is now considered that the timing differences will not reverse in the foreseeable future and accordingly the deferred tax provision in respect of Pizza Hut (U.K.) Limited has been reversed.

15. Called up share capital

	Authorised, allotted, called up and fully paid	
	1985 £	1984 £
Ordinary shares of £1 each	800,000	800,000
3% non cumulative preference shares of £1 each	5,000	5,000
	£ 805,000	£805,000

16. Profit and loss account

	Group 1985 £	Company 1985 £	Company 1984 £
At December 2, 1984	(391,608)	(391,608)	41,519
Profit/(loss) for the year	1,119,889	1,121,450	(433,127)
	728,281	729,842	(391,608)
Write-off of goodwill arising on consolidation	(592,619)	-	-
	£ 135,662	£ 729,842	£(391,608)

NOTES TO THE ACCOUNTS AT DECEMBER 1, 1985
(continued)

17. Commitments

(a) Capital commitments

	Group and Company	Company
	1985	1984
Contracted	£ 491,513	£ 109,000
Authorised by the directors but not contracted	£ 285,155	£ 998,000

(b) Commitments under operating leases

At December 1, 1985 the commitments under non-cancellable operating leases are as follows:

	Land and buildings	
	Group £	Company £
Operating leases which expire:		
Within one year	36,000	36,000
In 2nd to 5th years inclusive	94,750	94,750
Over 5 years	2,432,500	2,406,700
	£2,563,250	£2,537,450

18. Post balance sheet events

Since December 1, 1985, Pizza Hut (U.K.) Limited has:

(a) Purchased a number of sites for a consideration of £1,420,000, some of which have since been disposed of at a profit.

(b) Become committed to purchase a number of sites from one of the debenture holders, for a consideration of £3,700,000.

(c) Acquired 100% of the share capital of a small company that operates in the Midlands.

The accounts have not been adjusted to reflect these transactions.

19. Supplementary current cost accounts

The Accounting Standards Committee have issued an Exposure Draft ED35, stating that in future current cost accounts will only be required as standard accounting practice for public companies. In view of this, the directors do not feel that any significant benefit will accrue from preparing supplementary current cost accounts for the year to December 1, 1985.