

PIZZA HUT (UK) LIMITED

Directors' Report and Financial Statements

28 November 2004

Company Registration Number 1072921



PIZZA HUT (UK) LIMITED DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the 52 weeks ended 28 November 2004.

REVIEW OF BUSINESS

The principal activity during the period was trading as a restaurant and delivery operator. During the period 32 new units were opened and 5 were closed, resulting in a total estate of 521 at 28 November 2004 (2003: 494).

FUTURE DEVELOPMENTS

The group will continue its expansion plan in 2005 throughout the United Kingdom.

RESULTS AND DIVIDENDS

The group trading profit on ordinary activities for the period, after taxation, amounted to £22,105,000 (2003: £21,682,000). During the year the company paid an interim dividend of £21,682,000 (2003: £19,000,000). The directors do not recommend a payment of a final dividend. The retained profit of £423,000 (2003: £2,682,000) has been taken to reserves.

SUPPLIER PAYMENT POLICY

The group adheres to the payment terms which have been agreed with a supplier. Where payment terms have not been specifically agreed, it is the group's policy to settle invoices within 30 days of receipt. Adherence to these terms is dependent upon suppliers sending accurate and adequately detailed invoices to the correct address on a timely basis. The number of days' purchases outstanding for payment by the company at the period end was 37 (2003: 35).

FIXED ASSETS

In the opinion of the directors, the market value of Land and Buildings held by the group is not materially different to the carrying value.

DIRECTORS

The directors of the company during the period ended 28 November 2004 and since the period end are listed below.

W M F C Shannon	(Chairman) (resigned 23 June 2004)
D H Richardson	(Chairman) (appointed 23 June 2004, resigned 30 April 2005)
C Rogers	(Chairman) (appointed 1 May 2005)
P A Bassi	(resigned 13 December 2004)
I S Cho	
M R Phillips	(resigned 23 June 2004)
P Vennells	
S Bergren	(resigned 13 December 2004)
A C Parker	(appointed 23 June 2004)
G D Allan	(appointed 13 December 2004)
D B Hudson	(appointed 13 December 2004)

DIRECTORS' INTERESTS

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

POLITICAL AND CHARITABLE CONTRIBUTIONS

During the period the group made various charitable contributions totalling £12,210 (2003: £13,455). The group made no political contributions during the period (2003: nil).

PIZZA HUT (UK) LIMITED DIRECTORS' REPORT

EMPLOYEES

The policy of providing team members with information has continued during the period by means of leaflets, through which they are encouraged to give their views and suggestions relating to the performance of the company. In addition, all team members' views are canvassed via annual employee satisfaction surveys.

Frequent meetings and focus groups between management and team members are held at which such views and suggestions may be considered. More formally team members are represented at the European Employee Forum.

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

With regards to those employees who become disabled during the period, 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.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss for that period. In preparing those financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent fraud and other irregularities.

AUDITORS

The company has passed elective resolutions whereby the company has dispensed with the requirements to hold an annual general meeting in each year, to lay the accounts in general meeting and to reappoint the auditors on an annual basis. Accordingly the auditors shall be deemed to be reappointed in accordance with the provisions of Section 385A of the Companies Act 1985.

By order of the board



J Derkach
Secretary

25th May 2005

Registered Office:
One, Imperial Place
Elstree Way
Borehamwood
Hertfordshire
WD6 1JN

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF PIZZA HUT (UK) LIMITED**

We have audited the financial statements on pages 4 to 23.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurances that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 28 November 2004 and of the profit of the group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditors
8 Salisbury Square
London
EC4Y 8BB

25th May 2005

PIZZA HUT (UK) LIMITED

**GROUP PROFIT AND LOSS ACCOUNT
FOR THE 52 WEEKS ENDED 28 NOVEMBER 2004**

		2004		2003	
	Notes	£'000	£'000	£'000	£'000
Turnover	2	383,954		362,006	
Other operating income:					
Rental income		1,674		1,568	
Franchise income		1,708		1,168	
			387,336		364,742
Raw materials and consumables		84,595		79,759	
Other external charges		123,300		119,135	
			(207,895)		(198,894)
			179,441		165,848
Staff costs	5	122,270		114,263	
Depreciation and other amounts written off tangible and intangible fixed assets		21,062		18,975	
			(143,332)		(133,238)
OPERATING PROFIT	3		36,109		32,610
Exceptional Items	6		(548)		1,176
Interest receivable		210		123	
Interest payable and similar charges	7	(316)		(259)	
			(106)		(136)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION			35,455		33,650
Tax charge on profit on ordinary activities	8		(13,350)		(11,968)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION			22,105		21,682
DIVIDENDS PAID			(21,682)		(19,000)
RETAINED PROFIT FOR THE FINANCIAL PERIOD	17		423		2,682

All turnover and operating profit arises from continuing operations.

The notes on pages 8 to 23 form part of these financial statements.

PIZZA HUT (UK) LIMITED

GROUP BALANCE SHEET AS AT 28 NOVEMBER 2004

	Notes	2004 £'000	£'000	2003 £'000	£'000
FIXED ASSETS					
Intangible assets	9	2,362		2,187	
Tangible assets	10	<u>134,128</u>		<u>130,983</u>	
			136,490		133,170
CURRENT ASSETS					
Stocks	12	1,949		1,914	
Debtors	13	11,411		8,707	
Cash at bank and in hand		<u>3,946</u>		<u>7,152</u>	
		17,306		17,773	
CREDITORS					
Amounts falling due within one year	14	<u>(70,703)</u>		<u>(69,455)</u>	
NET CURRENT LIABILITIES			<u>(53,397)</u>		<u>(51,682)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			83,093		81,488
PROVISION FOR LIABILITIES & CHARGES			15	(8,924)	(7,742)
NET ASSETS				<u>74,169</u>	<u>73,746</u>
CAPITAL AND RESERVES					
Called up share capital	16		805		805
Profit and loss account	17		<u>73,364</u>		<u>72,941</u>
SHAREHOLDERS' FUNDS					
Equity	18	74,164		73,741	
Non Equity		<u>5</u>		<u>5</u>	
			<u>74,169</u>		<u>73,746</u>

These financial statements were approved by the board of directors on 25th May 2005 and were signed on its behalf by:



A C Parker
Director

The notes on pages 8 to 23 form part of these financial statements.

PIZZA HUT (UK) LIMITED

COMPANY BALANCE SHEET AS AT 28 NOVEMBER 2004

	Notes	2004 £'000	2003 £'000
FIXED ASSETS			
Intangible assets	9	2,308	2,105
Tangible assets	10	134,128	130,983
Shares in subsidiary undertakings	11	<u>2,453</u>	<u>2,453</u>
		138,889	135,541
CURRENT ASSETS			
Stocks	12	1,949	1,914
Debtors	13	11,411	8,707
Cash at bank and in hand		<u>3,946</u>	<u>7,152</u>
		17,306	17,773
CREDITORS			
Amounts falling due within one year	14	<u>(83,236)</u>	<u>(81,988)</u>
NET CURRENT LIABILITIES		<u>(65,930)</u>	<u>(64,215)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		72,959	71,326
PROVISION FOR LIABILITIES AND CHARGES	15	(8,924)	(7,742)
NET ASSETS		<u>64,035</u>	<u>63,584</u>
CAPITAL AND RESERVES			
Called up share capital	16	805	805
Profit and loss account	17	63,230	62,779
SHAREHOLDERS' FUNDS (includes non-equity interests)	18	<u>64,035</u>	<u>63,584</u>

These financial statements were approved by the board of directors on 25th May 2005 and were signed on its behalf by:


A C Parker
Director

The notes on pages 8 to 23 form part of these financial statements.

PIZZA HUT (UK) LIMITED
GROUP STATEMENT OF CASH FLOWS
FOR THE 52 WEEKS ENDED 28 NOVEMBER 2004

		2004	2003
	Notes	£'000	£'000
Net cash inflow from operating activities	19	56,391	55,935
Returns on investments and servicing of finance:			
Interest received		210	123
Interest paid		(316)	(259)
Dividends paid		<u>(21,682)</u>	<u>(19,000)</u>
Net cash outflow from returns on investments and servicing of finance		(21,788)	(19,136)
Taxation:			
Corporation tax paid		(11,936)	(10,269)
Capital expenditure:			
Payments to acquire intangible fixed assets		(402)	(495)
Payments to acquire tangible fixed assets		(25,143)	(29,370)
Receipts from sales of tangible fixed assets		<u>(328)</u>	<u>2,248</u>
Net cash outflow from capital expenditure		(25,873)	(27,617)
Net cash outflow before financing		(3,206)	(1,087)
Financing:			
Short term loan		-	12,500
Decrease in loans from parent companies		<u>-</u>	<u>(8,219)</u>
Net cash inflow from financing		-	4,281
(Decrease) / increase in cash		(3,206)	3,194
Reconciliation of net cash flow to movements in net debt			
(Decrease) / increase in cash in the period		(3,206)	3,194
Cash inflow from debt financing		<u>-</u>	<u>(4,281)</u>
Change in net debt resulting from cashflows		(3,206)	(1,087)
Net debt at 1 December 2003		(5,348)	(4,261)
Net debt at 28 November 2004	20	<u>(8,554)</u>	<u>(5,348)</u>

Some of the notes on page 18 form part of this cashflow statement.

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE 52 WEEKS ENDED 28 NOVEMBER 2004

	2004	2003
	£'000	£'000
Profit for the financial year	423	2,682
Total recognised gains and losses since last report	<u>423</u>	<u>2,682</u>

PIZZA HUT (UK) LIMITED

NOTES (forming part of the financial statements)

1. ACCOUNTING POLICIES

(a) Basis of Accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

(b) Basis of consolidation

The group financial statements comprise the accounts of Pizza Hut (UK) Limited and its subsidiaries.

No profit and loss account is presented for Pizza Hut (UK) Limited as provided by section 230 (4) of the Companies Act 1985.

(c) Goodwill

On the acquisition of a business or subsidiary the assets and liabilities acquired are included in the balance sheet at their estimated fair values. Goodwill arising on acquisition is being written off evenly over 20 years being the directors' estimate of its useful economic life.

(d) 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	-	40 years
Leasehold land and buildings, including lease acquisition premiums	-	effective life of the lease
Fixtures, fittings, tools and equipment	-	3 years to 10 years
Motor vehicles	-	3 years

(e) Stocks

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

(f) Taxation

The charge for taxation is based on the profit for the year and takes in to account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

(g) 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 of exchange ruling at the date of the transaction. All differences are taken to the profit and loss account.

PIZZA HUT (UK) LIMITED

NOTES (continued)

1. ACCOUNTING POLICIES (continued)

(h) Operating rights

Operating rights, representing initial franchise fees for new restaurants, are amortised over a fixed period of 20 years. Initial fees receivable on franchise restaurants are recognised in the period of opening.

(i) Restaurants in course of construction

Capital costs are included in tangible fixed assets, and depreciated from the time that they are recognised as an asset on the fixed asset register. Revenue costs are expensed as incurred.

(j) Marketing costs

All marketing costs are written off as incurred, with the exception of advance media payments which are written off when the commercials are aired.

(k) Leasing and hire purchase commitments

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

(l) Research and development expenditure

All research and development expenditure is written off as incurred.

(m) Rent Free Periods

Where a rent free period is granted to the company, the accounting policy adopted is to charge the profit and loss account with a constant periodic rental over the period to the date of the next rent review.

(n) Pension scheme

The pension cost figures used in these accounts comply with the current pension cost accounting standard SSAP24. A new pension cost accounting standard, FRS 17, was issued in November 2000. Under transitional arrangements the company is required to disclose certain information about the scheme as set out in note 23 below.

PIZZA HUT (UK) LIMITED

NOTES (continued)

2. TURNOVER

Turnover represents the amount of sales in the United Kingdom, stated net of value added tax. The company operates in only one geographical area and business and therefore a segmental report has not been prepared.

3. OPERATING PROFIT

	2004 £'000	2003 £'000
This is stated after charging/(crediting):		
Auditors' remuneration for audit work	46	43
Auditors' remuneration for non audit work	10	10
Rental on operating leases – land and buildings	32,386	30,148
Exchange differences	(62)	(13)
Depreciation of fixed assets	20,837	18,773
Amortisation of fixed assets	225	202

The profit dealt with in the accounts of the holding company amounted to £451,000 (2003 : £2,710,000).

All audit fees are dealt with in the accounts of the holding company.

4. DIRECTORS' EMOLUMENTS

There were no directors' emoluments in either 2004 or 2003.

5. STAFF COSTS

	2004 £'000	2003 £'000
Wages and salaries	113,635	106,575
Social security costs	6,637	6,002
Other pension costs	1,998	1,686
	<u>122,270</u>	<u>114,263</u>

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

	Number of employees	
	2004	2003
Office and management	1,243	1,243
Restaurants	15,975	14,489
	<u>17,218</u>	<u>15,732</u>

PIZZA HUT (UK) LIMITED

NOTES (continued)

6. EXCEPTIONAL ITEMS

	2004	2003
	£'000	£'000
Exceptional (loss)/profit on disposal of fixed assets	(548)	1,176

7. INTEREST PAYABLE AND SIMILAR CHARGES

	2004	2003
	£'000	£'000
Bank overdraft	255	140
Debenture loans	-	99
Other	61	20
	<u>316</u>	<u>259</u>

Debenture loans are due to the Joint Venture parents of the company.

8. TAXATION

	2004	2003
	£'000	£'000
Tax charge		
UK Corporation tax	12,154	10,863
Adjustments in respect of prior years	14	11
Total current tax	<u>12,168</u>	<u>10,874</u>
Deferred taxation – origination of timing differences	1,182	1,094
Tax on profit on ordinary activities	<u>13,350</u>	<u>11,968</u>

PIZZA HUT (UK) LIMITED

NOTES (continued)

8. TAXATION (continued)

Factors affecting the tax charge for the current period

The current tax charge for the period is higher (2003: higher) than the standard rate of corporation tax in the UK (30% - 2003:30%). The differences are explained below.

	2004 £'000	2003 £'000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	35,455	33,650
Current tax at 30% (2003: 30%)	10,637	10,095
<i>Effects of:</i>		
Expenses not deductible for tax purposes (primarily depreciation of ineligible assets)	2,649	1,856
Capital allowances for period in excess of depreciation of eligible assets	(1,132)	(1,088)
Adjustments to tax charge in respect of previous periods	14	11
Total current tax charge (see above)	12,168	10,874

Factors that may affect future tax charges

Based on current capital investment plans, the company expects to be able to claim capital allowances in excess of depreciation in future years. No provision has been made for deferred tax on the sale of properties when gains have been rolled over into replacement assets. The total amount unprovided for is estimated at £519,000. (2003: £519,000).

PIZZA HUT (UK) LIMITED

NOTES (continued)

9. INTANGIBLE FIXED ASSETS

GROUP & COMPANY

	Goodwill £'000	Operating Rights £'000	Total £'000
Cost			
At 30 November 2003	555	4,081	4,636
Additions	-	402	402
Disposals	-	(19)	(19)
At 28 November 2004	<u>555</u>	<u>4,464</u>	<u>5,019</u>
Amortisation			
At 30 November 2003	473	1,976	2,449
Charge for the period	28	197	225
Disposals	-	(17)	(17)
At 28 November 2004	<u>501</u>	<u>2,156</u>	<u>2,657</u>
Net book value			
At 28 November 2004	54	2,308	2,362
At 30 November 2003	<u>82</u>	<u>2,105</u>	<u>2,187</u>

All operating rights are attributable to the company. The above goodwill is not attributable to the company.

PIZZA HUT (UK) LIMITED

NOTES (continued)

10. TANGIBLE FIXED ASSETS

GROUP & COMPANY

	Land and Buildings £'000	Fixtures, Fittings, Tools and Equipment £'000	Motor Vehicles £'000	Assets In course of Construction £'000	Total £'000
Cost					
At 30 November 2003	154,309	82,937	110	7,962	245,318
Additions	6,835	7,087	-	11,321	25,243
Disposals	(2,648)	(3,719)	-	-	(6,367)
Transfer of assets	9,012	3,985	-	(12,997)	-
At 28 November 2004	<u>167,508</u>	<u>90,290</u>	<u>110</u>	<u>6,286</u>	<u>264,194</u>
Depreciation					
At 30 November 2003	56,613	57,612	110	-	114,335
Provided during the period	10,547	10,290	-	-	20,837
Disposals	(1,471)	(3,635)	-	-	(5,106)
At 28 November 2004	<u>65,689</u>	<u>64,267</u>	<u>110</u>	<u>-</u>	<u>130,066</u>
Net book value					
At 28 November 2004	101,819	26,023	-	6,286	134,128
At 30 November 2003	<u>97,696</u>	<u>25,325</u>	<u>-</u>	<u>7,962</u>	<u>130,983</u>

	2004 Group & Company £'000	2003 Group & Company £'000
Land and buildings		
The net book value of land and buildings can be analysed as follows:		
Freehold	1,950	1,982
Long leasehold	355	482
Short leasehold	99,514	95,232
	<u>101,819</u>	<u>97,696</u>

The gross amount of non-depreciable assets that are included in Land and Buildings is: £1.1m (2003:£1.1m).

PIZZA HUT (UK) LIMITED**NOTES (continued)****11. SHARES IN SUBSIDIARY UNDERTAKINGS**

	2004 Company £'000	2003 Company £'000
Cost	<u>2,453</u>	<u>2,453</u>

The group holds more than 10% of the equity of the following companies:

<u>Name of Company</u>	<u>Holding</u>	<u>Proportion Held</u>	<u>Nature of Business</u>
DH Gorman (Leicester) Limited	Ordinary shares	100%	Dormant Company
West End Restaurants (Holdings) Limited	Ordinary shares	100%	Holding Company
West End Restaurants (Investments) Limited	Ordinary shares	100%	Holding Company
West End Restaurants Limited	Ordinary shares	100%	Dormant Company
Pizza Hut (UK) Pension Trust Limited	Ordinary shares	100%	Dormant Company
Pizza Hut Services Limited	Ordinary shares	100%	Dormant Company

All the above subsidiary undertakings are incorporated in Great Britain and registered in England and Wales and are included in the consolidated accounts of Pizza Hut (UK) Limited.

12. STOCKS**GROUP & COMPANY**

	2004 £'000	2003 £'000
Ingredients	1,661	1,520
Merchandising	185	284
Bike stock	103	110
	<u>1,949</u>	<u>1,914</u>

The estimated replacement cost of stocks is not materially different from the above existing values.

PIZZA HUT (UK) LIMITED

NOTES (continued)

13. DEBTORS

GROUP & COMPANY

	2004	2003
	£'000	£'000
Trade debtors	6,098	4,811
Other debtors	-	12
Prepayments and accrued income	5,313	3,884
	<u>11,411</u>	<u>8,707</u>

All debtors fall due within one year.

14. CREDITORS – amounts falling due within one year

	GROUP	COMPANY	GROUP	COMPANY
	2004	2004	2003	2003
	£'000	£'000	£'000	£'000
Short term loan	12,500	12,500	12,500	12,500
Trade creditors	17,564	17,564	16,577	16,577
Amounts owed to parent undertakings	1,486	1,486	1,567	1,567
Amounts owed to Subsidiary undertakings	-	12,533	-	12,533
Taxation and Social Security	10,668	10,668	9,052	9,052
Other creditors	5,433	5,433	5,333	5,333
Accruals	17,122	17,122	18,729	18,729
Corporation tax	5,930	5,930	5,697	5,697
	<u>70,703</u>	<u>83,236</u>	<u>69,455</u>	<u>81,988</u>

PIZZA HUT (UK) LIMITED

NOTES (continued)

15. DEFERRED TAXATION

Provisions for liabilities and charges	£'000
At 30 November 2003	7,742
Profit and loss charge	1,182
At 28 November 2004	<u>8,924</u>

The Group's overall deferred tax position is as follows:

	2004	2003
	£'000	£'000
Fixed Asset timing differences	9,020	7,859
Other timing differences	(96)	(117)
	<u>8,924</u>	<u>7,742</u>

16. CALLED UP SHARE CAPITAL

	2004	2003
	£'000	£'000
Authorised, allotted, called up and fully paid:		
Equity: Ordinary shares of £1 each	800	800
Non Equity: 3% non-cumulative preference shares of £1 each	5	5
	<u>805</u>	<u>805</u>

17. CAPITAL AND RESERVES

	Group		Company	
	Share capital	Profit and loss	Share capital	Profit and loss
	£'000	£'000	£'000	£'000
At 30 November 2003	805	72,941	805	62,779
Retained profit for the period	-	423	-	451
At 28 November 2004	<u>805</u>	<u>73,364</u>	<u>805</u>	<u>63,230</u>

PIZZA HUT (UK) LIMITED

NOTES (continued)

18. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Group		Company	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Opening shareholders' funds	73,746	71,064	63,584	60,874
Profit for the period	<u>423</u>	<u>2,682</u>	<u>451</u>	<u>2,710</u>
Closing shareholders' funds	<u>74,169</u>	<u>73,746</u>	<u>64,035</u>	<u>63,584</u>

19. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2004	2003
	£'000	£'000
Operating profit	36,109	32,610
Depreciation and other amounts written off tangible and intangible fixed assets	21,062	18,975
Operating loss on sale of fixed assets	1,043	1,179
Increase in stocks	(35)	(167)
Increase in debtors	(2,704)	(394)
(Decrease)/increase in creditors	916	3,732
Net cash inflow from operating activities	<u>56,391</u>	<u>55,935</u>

20. ANALYSIS OF NET DEBT

	2004	Cashflow	2003
	£'000	£'000	£'000
Cash at bank and in hand	3,946	(3,206)	7,152
Short term loan	(12,500)	-	(12,500)
Total	<u>(8,554)</u>	<u>(3,206)</u>	<u>(5,348)</u>

PIZZA HUT (UK) LIMITED**NOTES (continued)****21. COMMITMENTS****GROUP & COMPANY**

At 28 November 2004 the annual commitments under non-cancellable operating leases were as follows:

	2004	2003
	Land and	Land and
	Buildings	Buildings
	£'000	£'000
Operating leases which expire:		
Within one year	599	358
In second to fifth years inclusive	3,890	3,030
Over five years	28,790	26,829
	<u>33,279</u>	<u>30,217</u>

22. OTHER RELATED PARTY TRANSACTIONS

During the year the group entered into the following transactions, in the ordinary course of business, with other related parties:

	2004	2003
	£'000	£'000
Food and Beverage Purchases		
YUM! Brands Inc	59,944	50,714
Whitbread Plc	24,579	22,827
Operating Rights and Franchise Fees		
YUM! Brands Inc	16,490	15,449
Recharges for Services		
YUM! Brands Inc	134	300
Whitbread Plc	353	413
Amounts owed to Related Parties		
YUM! Brands Inc	1,438	1,356
Whitbread Plc	48	211

PIZZA HUT (UK) LIMITED

NOTES (continued)

23. PENSION

i) SSAP 24

The group operates a funded defined benefit pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension costs are assessed in accordance with advice of an independent qualified actuary.

The assumptions that have the most significant effect on the results of the valuation are those relating to investment yields net of salary and pension increases. It has been assumed that the net investment yields prior to retirement would be 2.5% per annum. For the period after retirement the net yield is assumed to be 6% per annum (3.25% per annum for post 6 April 1997 benefits).

The market value of the fund assets at the valuation date (31 March 2004) was £12,799,629, which represented a funding level of 78%.

An accrual of £598,850 is included in creditors, representing the deficit of the amount funded over the pension costs.

PIZZA HUT (UK) LIMITED
NOTES (continued)

23. PENSION (continued)

ii) FRS17

The group operates a defined benefit scheme in the UK. A full actuarial valuation was carried out at 31/3/2004 and updated to 28/11/2004 by a qualified independent actuary. The major assumptions used by the actuary were:

	At year end 28/11/2004	At year end 30/11/2003
Rate of increase in salaries	3.35%	3.50%
Rate of increase of pensions in payment	2.60%	2.50%
Discount rate	5.60%	5.75%
Inflation assumption	2.60%	2.50%

The assets in the scheme and the expected rate of return were:

	At year-end 28/11/2004	At year-end 28/11/2004	At year-end 30/11/2003	At year end 30/11/2003 £ 000	At year-end 30/11/2002	At year end 30/11/2002 £ 000
Equities	7.70%	12,389	7.70%	9,662	7.70%	6,976
Bonds	5.00%	1,683	5.00%	1,592	4.70%	1,475
Property	3.50%	71	3.50%	295	3.50%	348
Total market value of assets		14,143		11,549		8,799
Actuarial value of liability		(24,132)		(17,223)		(12,601)
Recoverable deficit in the schemes		(9,989)		(5,674)		(3,802)
Related deferred tax asset		2,997		1,702		1,141
Net pension liability		(6,992)		(3,972)		(2,661)

If the above pension liability was recognised in the financial statements, the group's net assets and profit and loss reserve would be as follows:

	At 28/11/2004 £'000's	At 30/11/2003 £'000's
Net assets excluding pension liability	74,169	73,746
Release of SSAP24 accrual	599	276
Pension liability	(6,992)	(3,972)
Net assets including pension liability	67,776	70,050
	At 30/11/2004	At 30/11/2003 £'000's
Profit and loss reserve excluding pension liability	73,364	72,941
Release of SSAP24 accrual	599	276
Pension liability	(6,992)	(3,972)
Profit and loss reserve including pension liability	66,971	69,245

PIZZA HUT (UK) LIMITED

NOTES (continued)

23. PENSION (continued)

Analysis of the amount charged to operating profit

	Year to 28/11/2004	Year to 30/11/2003
	£'000	£'000
Service cost	2,018	1,577
Past service cost	-	-
Total operating charge	<u>2,018</u>	<u>1,577</u>

Analysis of net return on pension scheme

	Year to 28/11/2004	Year to 30/11/2003
	£'000	£'000
Expected return on pension scheme assets	909	681
Interest on pension liabilities	<u>(1,063)</u>	<u>(775)</u>
Net interest cost	<u>(154)</u>	<u>(94)</u>

Analysis of amount recognised in statement of total recognised gains and losses (STRGL)

	Year to 28/11/2004	Year to 30/11/2003
	£'000	£'000
Actual return less expected return on assets	(398)	299
Experience losses on liabilities	(1,739)	(452)
Changes in assumptions	<u>(1,569)</u>	<u>(1,625)</u>
Actuarial loss recognised in STRGL	(3,706)	(1,778)
Adjustment due to surplus cap	<u>-</u>	<u>-</u>
Net loss recognised	<u>(3,706)</u>	<u>(1,778)</u>

Movement in surplus during the year

	Year to 28/11/2004	Year to 30/11/2003
	£'000	£'000
Deficit in scheme at beginning of year	(5,674)	(3,802)
Movement in year:		
Current service cost	(2,018)	(1,577)
Contributions	1,563	1,577
Past service costs	-	-
Net interest cost	(154)	(94)
Actuarial loss	<u>(3,706)</u>	<u>(1,778)</u>
Deficit in scheme at end of year	<u>(9,989)</u>	<u>(5,674)</u>

PIZZA HUT (UK) LIMITED

NOTES (continued)

23. PENSION (Continued)

History of experience gains and losses

	Financial year ending in		
	2004	2003	2002
Difference between expected and actual return on scheme assets:			
amount (£000)	(398)	299	(2,406)
percentage of scheme assets	-3%	3%	-27%
Experience gains and losses on scheme liabilities:			
amount (£000)	(1,739)	(452)	(83)
percentage of scheme liabilities	-7%	-3%	-1%
Total amount recognised in statement of total recognised gains and losses:			
amount (£000)	(3,706)	(1,778)	(3,168)
percentage of scheme liabilities	-15%	-10%	-25%

24. JOINT VENTURE PARENT COMPANIES

Pizza Hut (UK) Limited is ultimately owned equally by Whitbread Plc (registered in England and Wales) and YUM! Brands Inc. (incorporated in USA). The consolidated financial statements of these groups are available to the public and may be obtained from:-

Whitbread plc
CityPoint
One Ropemaker Street
London
EC2Y 9HX
England

YUM! Brands, Inc
1441 Gardiner Lane
Louisville
KY 40213
USA