

COMPANY REGISTRATION NUMBER 01072921

PIZZA HUT (UK) LTD
FINANCIAL STATEMENTS
2 DECEMBER 2012



LD4 "L2JIULQO" #83
22/10/2013
COMPANIES HOUSE

PIZZA HUT (UK) LTD

FINANCIAL STATEMENTS

PERIOD FROM 5 DECEMBER 2011 TO 2 DECEMBER 2012

CONTENTS	PAGE
The directors' report	1
Statement of directors' responsibilities	4
Independent auditor's report to the shareholder	5
Consolidated Profit and Loss account	7
Consolidated Balance sheet	8
Company Balance sheet	9
Consolidated Cash Flow Statement	10
Consolidated Statement of Total Recognised Gains and Losses	11
Notes to the Financial Statements	12

PIZZA HUT (UK) LTD

THE DIRECTORS' REPORT

PERIOD FROM 5 DECEMBER 2011 TO 2 DECEMBER 2012

The directors present their report and the financial statements of the company for the period from 5 December 2011 to 2 December 2012

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the company during the period was trading as a restaurant operator with the delivery business now treated as a discontinued business

ENHANCED BUSINESS REVIEW

Overview

In November 2012 PHH2 Ltd completed the acquisition of the entire share capital of the company from YUM! Brands Inc. The ultimate holding company is PHH1 Ltd, a company controlled by Rutland Partners LLP. Rutland Partners have supported the senior management team of Pizza Hut (UK) Ltd to continue the revitalisation of the Pizza Hut Restaurant brand in the UK.

The focus of the business is casual dining restaurants having, as a result of the transaction

- (a) Disposed of the delivery business and the related two legacy advertising co-operative companies
- (b) Disposed of the excess properties in the estate which were carved out and sold to YUM! III (UK) Ltd
- (c) Transferred the assets and liabilities of the defined benefit pension scheme and the related risk to YUM! III (UK) Ltd
- (d) Reduced debt by injecting new cash

At year end, Pizza Hut (UK) Ltd operated 328 restaurants, having closed 3 stores since the acquisition by PHH2 Ltd.

Results from the restaurants that Pizza Hut (UK) Ltd now operate have seen a significant improvement during the year with underlying operating performance improving by £12.4 million. As a result of the improved performance EBITDA for the year is £8.7 million (2011 -£1.7 million).

The encouraging improvement in the results of the continuing operations were achieved in the face of ongoing challenging trading conditions in 2012, which were characterised by intense levels of discounting from a number of competitors. In response to these conditions Pizza Hut has continued the renewed focus on improving customer experience rather than competing on discount levels which has both benefitted our customers and improved the profitability on each customer transaction.

As a result of the transaction outlined above and the improved trading, the consolidated net current assets improved by £31.5 million to a positive £3.1 million. Within the discontinued business there was a reduction of £5.4 million in refranchising income in 2012 as the refranchising program in 2011 was more active.

Outlook

In 2013, Pizza Hut (UK) Ltd is building on the momentum generated in 2012 by continuing to focus on revitalising the customer experience and delivering great value. This includes a significant increase in investments in the restaurants with the roll out of an exciting new restaurant image along with investment in retiring some underperforming restaurants.

PIZZA HUT (UK) LTD

THE DIRECTORS' REPORT *(continued)*

PERIOD FROM 5 DECEMBER 2011 TO 2 DECEMBER 2012

RESULTS AND DIVIDENDS

The profit for the period amounted to £5,009,000. The directors have not recommended a dividend.

DIRECTORS

The directors who served the company during the period were as follows:

Mr J Hofma

Mr H Birts

Ms K Austin

Mr M Spencer

(Appointed 5 November 2012)

None of the directors who held office at the end of the period had any disclosable interest in the shares of the company.

GOING CONCERN

The directors believe that the company is a going concern.

DONATIONS

During the period the Group made various charitable contributions totalling £3,615 (2011 £5,030). The Group made no political contributions during the period (2011 nil).

DISABLED EMPLOYEES

The company gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. Where existing employees become disabled, it is the company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

EMPLOYEE INVOLVEMENT

Throughout this period, Team Member engagement has remained a key focus for the business. Communication takes place through team, function, area, district and company meetings as well as regular newsletters and blogs from senior management.

Pizza Hut's internal two way communication and social media website is used to share video news and announcements and every piece of communication allows Team Members to publicly give their opinion and feedback on anything they wish. Team Members are actively encouraged to share their views on anything in the business, and they are regularly canvassed for ideas and suggestions on business activity both through this website and regular company engagement surveys.

PIZZA HUT (UK) LTD

THE DIRECTORS' REPORT *(continued)*

PERIOD FROM 5 DECEMBER 2011 TO 2 DECEMBER 2012

AUDITOR

KPMG LLP are deemed to be re-appointed under section 487(2) of the Companies Act 2006

Registered office
One Imperial Place
Elstree Way
Borehamwood
Hertfordshire
WD6 1JN

Signed by order of the directors



MR H BIRTS
Director

Approved by the directors on 15/10/13

PIZZA HUT (UK) LTD

STATEMENT OF DIRECTORS' RESPONSIBILITIES

PERIOD FROM 5 DECEMBER 2011 TO 2 DECEMBER 2012

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company 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 UK 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 and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

PIZZA HUT (UK) LTD

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF PIZZA HUT (UK) LTD

PERIOD FROM 5 DECEMBER 2011 TO 2 DECEMBER 2012

We have audited the financial statements of Pizza Hut (UK) Ltd for the period from 5 December 2011 to 2 December 2012 set out on pages 7 to 31. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's shareholder, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's shareholder 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 shareholder as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements

- give a true and fair view of the state of the group's and of the parents company's affairs as at 2 December 2012 and of the group's profit for the period then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

PIZZA HUT (UK) LTD

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF PIZZA HUT (UK) LTD *(continued)*

PERIOD FROM 5 DECEMBER 2011 TO 2 DECEMBER 2012

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



ROBERT BRENT (Senior Statutory Auditor)

For and on behalf of
KPMG LLP
Chartered Accountants
& Statutory Auditor

15 Canada Square
London
E14 5GL

16 OCTOBER 2013

PIZZA HUT (UK) LTD

GROUP PROFIT AND LOSS ACCOUNT

PERIOD FROM 5 DECEMBER 2011 TO 2 DECEMBER 2012

		2012 Continuing	2012 Discontinued	2012 Total	2011 Continuing	2011 Discontinued	2011 Total
	Note	£000	£000	£000	£000	£000	£000
TURNOVER	2	251,065	17,627	268,692	259,612	71,347	330,959
Other operating income	3	700	4,154	4,854	663	14,920	15,583
		251,765	21,781	273,546	260,275	86,267	346,542
Raw materials and consumables		(57,366)	(4,356)	(61,722)	(65,444)	(17,403)	(82,847)
Other external charges		(98,240)	(6,972)	(105,212)	(103,799)	(30,006)	(133,805)
Staff costs	4	(88,261)	(9,546)	(97,807)	(93,159)	(32,559)	(125,718)
Depreciation and other amounts written off tangible and intangible assets	5	(12,570)	(636)	(13,206)	(14,968)	(3,132)	(18,100)
		(4,672)	271	(4,401)	(17,095)	3,167	(13,928)
Exceptional Items	7			5,177			(10,031)
OPERATING PROFIT / (LOSS)				776			(23,959)
Interest receivable	9			758			489
Interest payable and similar charges	9			(205)			(708)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION				1,329			(24,178)
Tax on profit on ordinary activities	10			3,680			6,877
PROFIT / (LOSS) FOR THE FINANCIAL PERIOD				5,009			(17,301)

PIZZA HUT (UK) LTD

CONSOLIDATED BALANCE SHEET

2 DECEMBER 2012

	Note	2012 £000	2012 £000	2011 £000	2011 £000
FIXED ASSETS					
Intangible assets	11		1,334		1,581
Tangible assets	12		50,513		67,036
			<u>51,847</u>		<u>68,617</u>
CURRENT ASSETS					
Stocks	14	1,135		1,471	
Debtors	15	8,692		24,458	
Cash at bank		27,990		1,520	
		<u>37,817</u>		<u>27,449</u>	
CREDITORS: Amounts falling due within one year	16	(34,734)		(55,819)	
NET CURRENT ASSETS/(LIABILITIES)			<u>3,083</u>		<u>(28,370)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>54,930</u>		<u>40,247</u>
PROVISIONS FOR LIABILITIES					
Deferred taxation	20		(144)		(2,291)
NET ASSETS EXCLUDING PENSION ASSET			<u>54,786</u>		<u>37,956</u>
Defined benefit pension scheme asset	21		-		5,302
NET ASSETS INCLUDING PENSION ASSET			<u>54,786</u>		<u>43,258</u>
CAPITAL AND RESERVES					
Called-up equity share capital	26		71,505		71,505
Profit and loss account	27		(16,719)		(28,247)
SHAREHOLDER'S FUNDS	28		<u>54,786</u>		<u>43,258</u>

These financial statements were approved by the directors and authorised for issue on 15/10/13, and are signed on their behalf by



MR H BIRTS

Company Registration Number 01072921

PIZZA HUT (UK) LTD

COMPANY BALANCE SHEET

2 DECEMBER 2012

	Note	2012 £000	2012 £000	2011 £000	2011 £000
FIXED ASSETS					
Intangible assets	11		1,334		1,581
Tangible assets	12		50,513		67,036
Investments	13		2,262		2,263
			<u>54,109</u>		<u>70,880</u>
CURRENT ASSETS					
Stocks	14	1,135		1,471	
Debtors	15	8,692		22,682	
Cash at bank		27,990		1,080	
		<u>37,817</u>		<u>25,233</u>	
CREDITORS: Amounts falling due within one year	16	(47,266)		(66,136)	
NET CURRENT LIABILITIES			<u>(9,449)</u>		<u>(40,903)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>44,660</u>		<u>29,977</u>
PROVISIONS FOR LIABILITIES					
Deferred taxation	20		(144)		(2,291)
NET ASSETS EXCLUDING PENSION ASSET	21		<u>44,516</u>		<u>27,686</u>
Defined benefit pension scheme asset			-		5,302
NET ASSETS INCLUDING PENSION ASSET			<u>44,516</u>		<u>32,988</u>
CAPITAL AND RESERVES					
Called-up equity share capital	26		71,505		71,505
Profit and loss account	27		(26,989)		(38,517)
SHAREHOLDER'S FUNDS	28		<u>44,516</u>		<u>32,988</u>

These financial statements were approved by the directors and authorised for issue on 15/10/13, and are signed on their behalf by



MR H BIRTS

Company Registration Number 01072921

PIZZA HUT (UK) LTD

CONSOLIDATED CASH FLOW STATEMENT

FOR THE 52 WEEKS ENDED 2 DECEMBER 2012

	Notes	2012 £000	2011 £000
Cash inflow / (outflow) from operating activities	22	27,459	(40,598)
Returns on investments and servicing of finance	23	553	(219)
Taxation		432	4,061
Capital expenditure and financial investment	23	(1,974)	1,572
Cash inflow / (outflow) before management of liquid resources		<u>26,470</u>	<u>(35,184)</u>
Financing	23	<u>-</u>	<u>35,000</u>
Increase / decrease in cash		<u>26,470</u>	<u>(184)</u>

PIZZA HUT (UK) LTD

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE 52 WEEKS ENDED 2 DECEMBER 2012

	2012	2011
	£000	£000
Profit / (Loss) for the financial period attributable to the shareholder	5,009	(17,301)
Actuarial gain in respect of defined benefit pension scheme	4,786	7,412
Deferred Tax (charge) arising on other gains recognised in this statement	(1,101)	(1,778)
Total gains and (losses) recognised since the last annual report	8,694	(11,667)

PIZZA HUT (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 5 DECEMBER 2011 TO 2 DECEMBER 2012

1. ACCOUNTING POLICIES

Basis of accounting

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 2 December 2012. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

Turnover

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

Fixed assets

Tangible fixed assets are stated at their purchase cost, together with any incidental cost of acquisition, less accumulated depreciation and when appropriate, provision for impairment.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Freehold buildings – 40 years

Leasehold land and buildings, acquisition premium – effective life of the lease

Fixtures, fittings, tools and equipment – 3 years to 10 years

Motor vehicles – 3 years

Investments

In the Company's financial statements, investments in subsidiary undertakings, associates and joint ventures are stated at cost less amounts written off.

Stocks

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

PIZZA HUT (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 5 DECEMBER 2011 TO 2 DECEMBER 2012

1 ACCOUNTING POLICIES *(continued)*

Operating lease agreements

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

Pension costs and other post-retirement benefits

Following the sale of Pizza Hut (UK) Limited, the responsibility for the assets and liabilities relating to the Pizza Hut (UK) Investment Plan (the defined benefit pension scheme), transferred to Yum! III (UK) Limited on 4 November 2012. As a result the position at the current Company year end shows no obligations or funds associated with the defined benefit scheme. Prior to the transfer the Company operated a defined benefit pension scheme in the UK, closed to new entrants. A full actuarial valuation was carried out at 31 March 2011 and updated to 2 December 2012 by a qualified independent actuary.

To develop the expected long-term rate of return on assets assumption, the company considers the current level of expected return on risk free investments (primarily government bonds), the historical level of risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return on asset for each asset class is then weighted by the target asset allocation to develop the expected long term rate of return on assets assumption for the portfolio. This resulted in the selection of a 5.3% assumption as at 4 December 2011. As the defined benefit scheme was transferred before the current year end, there was no requirement to determine an expected long term rate of return on assets assumption at 2 December 2012.

The Company also operates a number of defined contribution pension schemes. The assets of the schemes are held separately from those of the Company in independently administered funds. The amount charged to the profit and loss account represents the contributions payable to the schemes in respect of the accounting period.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exceptions:

PIZZA HUT (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 5 DECEMBER 2011 TO 2 DECEMBER 2012

1. ACCOUNTING POLICIES *(continued)*

Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

Share-based payments

The former ultimate parent company, Yum! Brands Inc., operates a number of share-based incentive schemes (awards of shares and options). These share option programmes allowed employees to acquire shares in Yum! Brands Inc.

The fair value of the options granted is recognised as an employee expense. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted.

At the balance sheet date there were no share based schemes in operation.

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.

PIZZA HUT (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 5 DECEMBER 2011 TO 2 DECEMBER 2012

1. ACCOUNTING POLICIES *(continued)*

Going concern

The accounts have been prepared on a going concern basis

Operating rights

Operating rights, representing initial franchise fees payable 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.

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.

PIZZA HUT (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 5 DECEMBER 2011 TO 2 DECEMBER 2012

2. TURNOVER

The turnover and profit before tax are attributable to the one principal activity of the company

An analysis of turnover is given below

	2012 Continuing £000	2012 Discontinued £000	2011 Continuing £000	2011 Discontinued £000
United Kingdom	251,065	17,627	259,612	71,347

3. OTHER OPERATING INCOME

	2012 Continuing £000	2012 Discontinued £000	2011 Continuing £000	2011 Discontinued £000
Rent receivable	700	275	663	140
Advertising contribution from franchisees		1,976		5,867
Franchise income	-	1,381	-	2,964
Refranchising income	-	522	-	5,949
	700	4,154	663	14,920

4. PARTICULARS OF EMPLOYEES

The average number of staff employed by the company during the financial period amounted to

	2012 Continuing No	2012 Discontinued No	2011 Continuing No	2011 Discontinued No
Office and Management	763	195	768	242
Restaurants	9,464	1,986	9,622	3,038
	10,227	2,181	10,390	3,280

The aggregate payroll costs of the above were

	2012 Continuing £000	2012 Discontinued £000	2011 Continuing £000	2011 Discontinued £000
Wages and salaries	82,627	7,967	86,001	30,069
Social security costs	4,904	465	5,749	1,684
Other pension costs	730	794	1,409	457
Share-based payments	-	320	-	349
	88,261	9,546	93,159	32,559

PIZZA HUT (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 5 DECEMBER 2011 TO 2 DECEMBER 2012

5 OPERATING PROFIT / (LOSS)

Operating Profit / (Loss) is stated after charging

	2012 Continuing £000	2012 Discontinued £000	2011 Continuing £000	2011 Discontinued £000
Depreciation of owned fixed assets	12,423	632	14,810	3,121
Amortisation of intangible fixed assets	147	4	158	11
Operating lease costs				
- Land and Buildings	31,148	937	31,060	4,049
Net loss on foreign currency translation	-	-	5	-
Auditor's remuneration – audit of the financial statements	53		77	
Auditor's remuneration – other fees				
- Taxation services	23		29	
- All other services	2		2	
	<u>25</u>		<u>31</u>	

6 DIRECTORS' REMUNERATION

The directors' aggregate remuneration and other payments in respect of qualifying services were

	2012 £000	2011 £000
Aggregate remuneration	795	742
Value of company pension contributions to money purchase schemes	72	63
Compensation for loss of directorship	-	211
	<u>867</u>	<u>1,016</u>

PIZZA HUT (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 5 DECEMBER 2011 TO 2 DECEMBER 2012

6. DIRECTORS' REMUNERATION *(continued)*

The number of directors who accrued benefits under company pension schemes was as follows

	2012	2011
Money purchase schemes	4	3
	<u>—</u>	<u>—</u>

The number of directors who received benefits under company share option schemes was as follows

	2012	2011
Exercised Share Options	2	2
Received shares under incentive schemes	3	3

The emoluments, excluding pension contributions, of the highest paid director were £384,000 (2011 £378,000) and the company paid pension contributions of £32,000 (2011 £32,000)

Figures for Directors emoluments do not include amounts related to gains on the exercise of share options

7. EXCEPTIONAL ITEMS

	2012 £000	2011 £000
Exceptional costs on early lease termination	(762)	(2,072)
Impairments	(1,294)	(7,959)
Curtailment of pension scheme	(14,871)	-
Loan forgiveness	20,131	-
Sale of Delivery business (see note 8)	1,973	-
	<u>5,177</u>	<u>(10,031)</u>

Exceptional costs on early lease termination – Costs incurred following the decision to exit stores prior to the expiry of the lease

Impairments – The impairment of the tangible fixed assets following a review in accordance with FRS 11

Curtailment of pension scheme – The reversal of the pension asset following a transfer of the assets and liabilities of the defined benefit pension scheme to Yum! III (UK) Limited

Loan forgiveness – Write off of an intercompany loan which was forgiven during the year

Sale of Delivery business – Profit on the sale of the delivery business to Yum! III (UK) Limited as detailed in Note 8

PIZZA HUT (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 5 DECEMBER 2011 TO 2 DECEMBER 2012

8. SALE OF DELIVERY AND ADVERTISING CO-OPERATIVES BUSINESS

	2012 £000	2012 £000	2012 £000	2012 £000
		Pizza Hut HSR Advertising Delivery	Pizza Hut FSR Advertising Limited	Total
Net assets disposed of				
Fixed assets (Tangible and Intangible)	4,107	-	-	4,107
Stocks	277	-	-	277
Debtors	2,926	647	567	4,140
Cash	3,194	809	329	4,332
Net liabilities disposed of				
Creditors	(10,281)	(1,434)	(745)	(12,460)
Gain on disposal	2,145	(21)	(151)	1,973
Total	2,368	1	-	2,369
Satisfied by				
Cash	2,368	1	-	2,369

The full shareholding of Pizza Hut FSR Advertising Limited was sold on the 4 April 2012 to Yum! III (UK) Limited for a consideration of £100

The full shareholding of Pizza Hut HSR Advertising Limited was sold on the 4 April 2012 to Yum! III (UK) Limited for a consideration of £1000

On 19 April 2012 the Delivery Business was sold to Yum! III (UK) Limited for a consideration of £2,368,000

As part of the sale of the Delivery business, a flexible apportionment arrangement was signed to transfer the assets and liabilities of the defined benefit pension scheme to Yum! III (UK) Limited. The accounting for this disposal is shown separately in notes 7 and 21

9. INTEREST RECEIVABLE AND PAYABLE AND SIMILAR CHARGES

Interest Receivable

	2012 £000	2011 £000
Other Finance Income	758	489
	<u>758</u>	<u>489</u>

Interest Payable

	2012 £000	2011 £000
Bank Overdraft	(4)	(9)
Intercompany Loan	(201)	(699)
	<u>(205)</u>	<u>(708)</u>

PIZZA HUT (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 5 DECEMBER 2011 TO 2 DECEMBER 2012

10. TAXATION ON ORDINARY ACTIVITIES

(a) Analysis of charge in the period

	2012 £000	2011 £000
Current tax		
In respect of the period		
UK Corporation tax based on the results for the period at 24.65% (2011: 26.67%)	452	3,987
(Over)/under provision in prior year	(20)	74
Total current tax	<u>432</u>	<u>4,061</u>
Deferred tax		
Origination and reversal of timing differences	3,248	2,816
Tax on profit on ordinary activities	<u>3,680</u>	<u>6,877</u>

(b) Tax included in statement of total recognised gains and losses

£1,101,000 credit of tax in respect of deferred pension scheme, see note 19 for reconciliation of movement on deferred tax

(c) Factors affecting current tax charge

The differences are explained below

	2012 £000	2011 £000
Current Tax at 24.65% (2011: 26.67%)	(328)	6,448
Expenses not deductible for tax purposes (primarily business sale related and depreciation of ineligible assets)	1,126	(750)
Differences between capital allowances and depreciation of eligible assets	<u>(347)</u>	<u>(1,711)</u>
Corporation tax based on results for the period	452	3,987
(Over)/under provision in prior year	<u>(20)</u>	<u>74</u>
Total current tax credit (see above)	<u>432</u>	<u>4,061</u>

PIZZA HUT (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 5 DECEMBER 2011 TO 2 DECEMBER 2012

10. TAXATION ON ORDINARY ACTIVITIES *(continued)*

(d) Factors that may affect future tax charges

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge and reduce the deferred tax liability accordingly.

11 INTANGIBLE FIXED ASSETS (GROUP AND COMPANY)

	Operating Rights £000
COST	
At 4 December 2011	4,757
Disposals	(71)
Disposals on sale of Delivery business	(192)
At 2 December 2012	4,494
AMORTISATION	
At 4 December 2011	3,176
Charge for the period	151
On disposals	(53)
Disposals on sale of Delivery business	(114)
At 2 December 2012	3,160
NET BOOK VALUE	
At 2 December 2012	1,334
At 4 December 2011	1,581

PIZZA HUT (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 5 DECEMBER 2011 TO 2 DECEMBER 2012

12. TANGIBLE FIXED ASSETS (GROUP AND COMPANY)

	Land and Buildings £000	Assets in Course of Construction £000	Fixtures & Fittings £000	Total £000
COST OR VALUATION				
At 4 December 2011	155,308	1,370	98,546	255,224
Additions	562	1,529	2,009	4,100
Disposals	(8,629)	-	(6,688)	(15,317)
Disposal - sale of Delivery business	(9,960)	-	(11,703)	(21,663)
Transfers	1,278	(2,278)	1,000	-
At 4 December 2012	138,559	621	83,164	222,344
DEPRECIATION				
At 4 December 2011	104,492	-	83,696	188,188
Charge for the period	6,554	-	6,501	13,055
On disposals	(6,804)	-	(6,268)	(13,072)
Disposal - sale of Delivery business	(7,593)	-	(10,041)	(17,634)
Impairment charge	776	-	518	1,294
At 4 December 2012	97,425	-	74,406	171,831
NET BOOK VALUE				
At 2 December 2012	41,134	621	8,758	50,513
At 4 December 2011	50,816	1,370	14,850	67,036

13 INVESTMENTS

	£000
COST	
At 4 December 2011	2,453
Disposal	(191)
At 2 December 2012	2,262
AMOUNTS PROVIDED	
At 4 December 2011	190
Disposal	(190)
At 2 December 2012	-
NET BOOK VALUE	
At 2 December 2012	2,262
At 4 December 2011	2,263

PIZZA HUT (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 5 DECEMBER 2011 TO 2 DECEMBER 2012

13. INVESTMENTS *(continued)*

The company owns 100% of the issued share capital of the companies listed below

Name of Company	Holding	Nature of Business
West End Restaurants (Holdings) Limited	Ordinary Shares	Holding Company
West End Restaurants (Investments) Limited	Ordinary Shares	Holding Company
West End Restaurants Limited	Ordinary Shares	Dormant Company

14. STOCKS (GROUP AND COMPANY)

	2012 £000	2011 £000
Merchandising	50	43
Ingredients	1,085	1,428
	<u>1,135</u>	<u>1,471</u>

15. DEBTORS

	2012 £000	2012 £000	2011 £000	2011 £000
	Group	Company	Group	Company
Trade debtors	4,624	4,624	9,696	7,939
Amounts owed by group undertakings	-	-	8,185	8,453
Corporation tax repayable	34	34	-	-
Prepayments and accrued income	4,034	4,034	6,577	6,290
	<u>8,692</u>	<u>8,692</u>	<u>24,458</u>	<u>22,682</u>

16. CREDITORS: Amounts falling due within one year

	2012 £000	2012 £000	2011 £000	2011 £000
	Group	Company	Group	Company
Trade creditors	6,207	6,207	11,850	10,064
Amounts owed to parent undertaking	6,693	6,693	4,324	4,324
Amounts owed to group undertakings	-	12,532	-	12,905
Other creditors including taxation and social security				
Other taxation and social security	9,016	9,016	13,694	13,694
Other creditors	446	446	4,260	3,458
	<u>22,362</u>	<u>34,894</u>	<u>34,128</u>	<u>44,445</u>
Accruals and deferred income	12,372	12,372	21,691	21,691
	<u>34,734</u>	<u>47,266</u>	<u>55,819</u>	<u>66,136</u>

PIZZA HUT (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 5 DECEMBER 2011 TO 2 DECEMBER 2012

17. RELATED PARTY DISCLOSURES (GROUP AND COMPANY)

Pizza Hut (UK) Ltd entered into a loan agreement with the immediate parent, PHH2 Limited on the 9 November 2012 for £6,632,000. Interest of £61,000 has been accrued on this balance at the year end.

18. GUARANTEE

There is a charge over the assets of Pizza Hut UK for Loan Notes of £21.05 million, held in PHH2. The loan notes are repayable on 10 November 2017.

19. SHARE-BASED PAYMENTS (GROUP AND COMPANY)

Equity-settled share-based payments

At the Balance Sheet date there were no share based schemes in operation.

Share options in the former ultimate holding company Yum! Brands Inc. are granted to certain senior employees on a discretionary basis. The exercise price of the granted options is equal to the market price of the shares on the date of the grant. Awards have a four year vesting period, expire ten years after the grant date and are equity settled. As the company was sold during 2012, there are no outstanding options at the end of the year.

Details of the number of share options and the weighted average exercise price (WAEP) outstanding during the year are as follows:

	2012		2011	
	No	WAEP \$	No	WAEP \$
Outstanding at the beginning of the year	275,839	34.58	346,519	31.17
Granted during the year	41,959	64.44	54,895	49.30
Forfeited during the year	(141,113)	43.73	(44,862)	33.84
Transferred to YUM III Ltd	(129,922)	34.25	-	-
Exercised during the year	(46,763)	70.13	(80,713)	50.59
Outstanding at the end of the year	-	-	275,839	34.58
Exercisable at the end of the year	-	-	102,102	29.79

In the year ended 2 December 2012, options were granted on 8 February. The estimated fair value of the options granted was \$10.225. In the year ended 4 December 2011, options were granted on 4 February 2011. The estimated fair value of the options granted was \$15.59.

PIZZA HUT (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 5 DECEMBER 2011 TO 2 DECEMBER 2012

19 SHARE-BASED PAYMENTS (GROUP AND COMPANY) *(continued)*

The inputs into the model were as follows

	2012	2011
Weighted average share price - \$	-	34.58
Weighted average exercise price - \$	64.44	49.30
Expected volatility - %	27.67	28.78
Expected life - years	6.00	6.00
Risk free rate - %	<u>0.37</u>	<u>0.43</u>

The expected volatility is wholly based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information

At year ended 2 December 2012 the company recorded liabilities of £nil (2011 - £3,130,000) in respect of equity share based payments

The company recorded total expenses of £320,000 during the year ended 2 December 2012 (2011 - £349,000) in respect of equity share based payments

20. DEFERRED TAXATION (GROUP AND COMPANY)

The movement in the deferred taxation provision during the period was

	2012 £000	2011 £000
Provision brought forward	(2,291)	(3,329)
Profit and loss account movement arising during the period	3,248	2,816
Statement of total recognised gains and losses movement arising during the period	(1,101)	(1,778)
Provision carried forward	<u>(144)</u>	<u>(2,291)</u>

The provision for deferred taxation consists of the tax effect of timing differences in respect of

	2012 £000	2011 £000
Excess of taxation allowances over depreciation on fixed assets	(821)	(2,304)
Other timing differences	<u>677</u>	<u>13</u>
	<u>(144)</u>	<u>(2,291)</u>

PIZZA HUT (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 5 DECEMBER 2011 TO 2 DECEMBER 2012

21 PENSIONS AND OTHER POST RETIREMENT BENEFITS (GROUP AND COMPANY)

During the year, the Group operated a defined benefit pension scheme in the UK, closed to new entrants. A full actuarial valuation was carried out at 31 March 2011 and updated to 2 December 2012 by a qualified independent actuary. Following the sale of Pizza Hut (UK) Limited, the responsibility for the assets and liabilities relating to the Pizza Hut (UK) Investment Plan (the defined benefit pension scheme), transferred to Yum! III (UK) Limited on 4 November 2012. As a result the position at the current Company year end shows no obligations or funds associated with the defined benefit scheme.

The amounts recognised in the profit and loss account are as follows

	2012 £000	2011 £000
<i>Amounts charged to operating loss</i>		
Current service cost	1,121	1,343
Total operating charge	<u>1,121</u>	<u>1,343</u>
<i>Amounts included in other finance income</i>		
Expected return on scheme assets	(3,186)	(3,221)
Interest on scheme liabilities	2,438	2,982
Other finance income	<u>(748)</u>	<u>(239)</u>
Total charge to the profit and loss account	<u>373</u>	<u>1,104</u>

Other finance income is included in the profit and loss account within interest payable and similar charges.

Actuarial gains of £4,786,000 (2011: £7,412,000 gain) have been recognised in the statement of total recognised gains and losses.

The amounts recognised in the balance sheet are as follows

	2012 £000	2011 £000
Present value of funded obligations	-	(56,138)
Fair value of scheme assets	-	61,440
	-	5,302
Related deferred tax (liability)/asset	-	(754)
Net pension asset/(liability)	<u>-</u>	<u>4,548</u>

PIZZA HUT (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 5 DECEMBER 2011 TO 2 DECEMBER 2012

21. PENSIONS AND OTHER POST RETIREMENT BENEFITS (GROUP AND COMPANY) (continued)

Changes in the present value of the defined benefit obligation scheme are as follows

	2012	2011
	£000	£000
Opening defined benefit obligation	56,138	55,474
Current service cost	1,121	1,343
Interest on scheme liabilities	2,438	2,982
Actuarial (gain)/loss	(5,863)	(3,298)
Contributions by scheme participants	355	461
Benefits paid	(666)	(824)
Plan settlements	(53,523)	-
Closing defined benefit obligation	-	56,138

The fair value of the major categories of scheme assets as a percentage of total scheme assets are as follows

	2012	2011
	%	%
Growth assets	0%	58 00
Matching assets	0%	42 00

Changes in the fair value of scheme assets are as follows

	2012	2011
	£000	£000
Opening fair value of scheme assets	61,440	53,254
Expected return on scheme assets	3,186	3,221
Contributions by employer	5,156	1,214
Contributions by scheme participants	355	461
Actuarial gain/(loss)	(1,077)	4,114
Benefits paid	(666)	(824)
Plan settlements	(68,394)	-
Closing fair value of scheme assets	-	61,440

The principal actuarial assumptions as at the balance sheet date were

	2012	2011
	%	%
Discount rate	4.90	4 75
Rate of increase in salaries	3 65	3 85
Rate of increase in pensions in payment	2 90	3 10
Rate of increase in deferred pensions	2 10	2 30
Inflation	2.90	3 10

PIZZA HUT (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 5 DECEMBER 2011 TO 2 DECEMBER 2012

21. PENSIONS AND OTHER POST RETIREMENT BENEFITS (GROUP AND COMPANY) (continued)

Amounts for the current and previous four periods are as follows

	2012	2011	2010	2009	2008
	£000	£000	£000	£000	£000
Defined benefit obligation	-	(56,138)	(55,474)	(49,877)	(42,365)
Fair value of scheme assets	-	61,440	53,254	42,954	23,135
Surplus/(deficit) in the scheme	-	5,302	(2,220)	(6,923)	(19,230)
Experience adjustments on scheme liabilities (£)	-	(4,357)	-	(206)	-
Experience adjustments on scheme liabilities (%)	-	(8)	-	-	-
Experience adjustments on scheme assets (£)	1,077	4,114	1,036	5,159	(9,451)
Experience adjustments on scheme assets (%)	N/A	7	2	12	(41)

The Company operates a number of defined contribution pension schemes. The pension cost charge for the period represents contributions payable by the Company to the schemes and amounted to £513,000 (2011 £ 508,000)

22. RECONCILIATION OF OPERATING PROFIT / (LOSS) TO OPERATING CASH FLOWS

	2012	2011
	£000	£000
Operating profit /(loss)	776	(23,959)
Depreciation and other amounts written off tangible and intangible fixed assets	14,500	26,059
Loss / (Profit) on sale of fixed assets	4,244	(5,171)
Decrease in stocks	336	181
Decrease/(increase) in debtors	15,766	(7,201)
(Decrease)/increase in creditors	(21,085)	(29,638)
Defined benefit pension scheme contributions	(5,156)	(1,214)
Charge / (Credit) in respect of share based payments	2,834	(759)
Charge in respect of settlement of defined benefit pension scheme	14,871	-
Pension Costs	373	1,104
Net cash inflow / (outflow) from operating activities	27,459	(40,598)

PIZZA HUT (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 5 DECEMBER 2011 TO 2 DECEMBER 2012

23 ANALYSIS OF CASH FLOWS

	2012		2011	
	£000	£000	£000	£000
Net cash flow from operating activities		27,459		(40,598)
Returns on investment and servicing of finance				
Interest received	758		489	
Interest paid	(205)		(708)	
Net inflow / outflow		553		(219)
Taxation		432		4,061
Capital expenditure and financial investment				
Purchase of tangible fixed assets	(4,159)		(7,929)	
Sale of tangible fixed assets	2,185		9,501	
		(1,974)		1,572
Net cash movement before financing		26,307		(35,184)
2011 issue of new share capital		-		35,000
Movement in Cash		26,470		(184)

24. ANALYSIS OF NET DEBT

	2012 £000	Cashflow £000	2011 £000
Cash at bank and in hand	27,990	26,470	1,520
Total	27,990	26,470	1,520

PIZZA HUT (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 5 DECEMBER 2011 TO 2 DECEMBER 2012

25 COMMITMENTS (GROUP AND COMPANY)

At 2 December 2012 the company had annual commitments under non-cancellable operating leases as set out below

	Land and buildings	
	2012	2011
	£000	£000
Operating leases which expire		
Within 1 year	843	1,348
Within 2 to 5 years	6,247	8,753
After more than 5 years	23,711	25,543
	<u>30,801</u>	<u>35,644</u>

In relation to the amounts shown above, the company has sublease agreements with an income of £2,361,000

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

26. SHARE CAPITAL

Authorised share capital:

	2012	2011
	£000	£000
100,000,000 Ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>

Allotted, called up and fully paid:

	2012		2011	
	No	£000	No	£000
71,505,000 Ordinary shares of £1 each	<u>71,505,000</u>	<u>71,505</u>	<u>71,505,000</u>	<u>71,505</u>

27. PROFIT AND LOSS ACCOUNT

	2012	2011	2012	2011
	£000	£000	£000	£000
	Group	Group	Company	Company
Balance brought forward	(28,247)	(15,821)	(38,517)	(26,091)
Profit / (Loss) for the financial period	5,009	(17,301)	5,009	(17,301)
Actuarial gain in respect of defined benefit pension scheme	3,685	5,634	3,685	5,634
Re-charge for share based payment	2,514	(1,108)	2,514	(1,108)
Credit in relation to share based payments	320	349	320	349
Balance carried forward	<u>(16,719)</u>	<u>(28,247)</u>	<u>(26,989)</u>	<u>(38,517)</u>

PIZZA HUT (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 5 DECEMBER 2011 TO 2 DECEMBER 2012

28 RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS

	2012	2011	2012	2011
	£000	£000	£000	£000
	Group	Group	Company	Company
Profit /(Loss) for the financial period	5,009	(17,301)	5,009	(17,301)
New ordinary share capital subscribed	-	35,000	-	35,000
Actuarial gain in respect of defined benefit pension scheme	3,685	5,634	3,685	5,634
Re-charge for share based payment	2,514	(1,108)	2,514	(1,108)
Credit in relation to share based payments	320	349	320	349
Net addition to shareholder's funds	11,528	22,574	11,528	22,574
Opening shareholder's funds	43,258	20,684	32,988	10,414
Closing shareholder's funds	54,786	43,258	44,516	32,988

29. ULTIMATE PARENT COMPANY

The ultimate holding company is PHH1 Limited, a company registered in England and Wales

The controlling party is deemed to be Rutland Partners LLP through its ownership of PHH1 Limited