

PIZZA HUT (UK) LIMITED

Directors' Report and Financial Statements

03 December 2006

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 03 December 2006

REVIEW OF BUSINESS

The principal activity during the period was trading as a restaurant and delivery operator. During the period 14 new units were opened and 8 were closed, resulting in a total estate of 544 at 03 December 2006 (2005 538)

FUTURE DEVELOPMENTS

The company will continue its expansion plan in 2007 throughout the United Kingdom.

RESULTS AND DIVIDENDS

The profit on ordinary activities for the period, after taxation, amounted to £1,821,000 (2005 restated £16,317,000). During the year the company paid an interim dividend of £10,000,000 (2005 £22,133,000). The directors do not recommend a payment of a final dividend. The profit of £1,821,000 (2005 restated £16,317,000) has been taken to reserves.

SUPPLIER PAYMENT POLICY

The company adheres to the payment terms which have been agreed with a supplier. Where payment terms have not been specifically agreed, it is the company'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 31 (2005 39).

FIXED ASSETS

The Directors consider that the current market value of land and buildings exceed their carrying amount, but are unable to quantify the excess.

DIRECTORS AND DIRECTORS' INTEREST

The directors of the company during the period ended 03 December 2006 and since the period end are listed below:

C Rogers	Chairman (resigned 12 September 2006)
I S Cho	(resigned 6 December 2005)
P Vennells	(resigned 6 December 2005)
A C Parker	(resigned 12 September 2006)
G D Allan	(resigned 12 September 2006)
D B Hudson	(resigned 6 December 2005)
M Pant	(appointed 5 December 2005, resigned 12 September 2006)
H J Singh	(appointed 5 December 2005, resigned 12 September 2006)
P J Grismer	(appointed 12 September 2006)
J C Little	(appointed 12 September 2006)
A Murdoch	(appointed 12 September 2006)

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

PIZZA HUT (UK) LIMITED DIRECTORS' REPORT

DIRECTORS AND DIRECTORS' INTEREST (continued)

None of the Directors who held office at the end of the period had any disclosable interest in the shares of group companies

POLITICAL AND CHARITABLE CONTRIBUTIONS

During the period the group made various charitable contributions totalling £10,625 (2005 £36,335) The group made no political contributions during the period (2005 nil)

ENHANCED BUSINESS REVIEW

As of 11th September 2006 Pizza Hut (UK) Ltd became a subsidiary undertaking of Yum! Restaurant Holdings

Trading conditions on the high street have been the toughest the business has experienced this decade The rising burden of taxation and utility costs has resulted in the consumer becoming increasingly cost conscious and highly focused in their spending habits

In response to this challenging environment the business has invested in new products, advertising and restaurant refurbishments, which have contributed to sales from Equity and Franchise restaurants of £436,800,000 (2005 £443,000,000)

Higher food costs have increased cost of sales by 2.7% to 58.3% (2005 55.6%) and labour cost has increased by 1% to 33.5% This has resulted in a £16,555,000 reduction in operating profit to £11,237,000 (2005 £27,792,000)

The company continued to invest in new stores with a further 14 stores opened during the year 8 Stores were closed during the year At year end, the total number of stores in the system were 701 (2005 685)

In addition to monitoring the financial performance of the business, Pizza Hut uses a balanced scorecard to monitor performance in two key areas employee and customer satisfaction

To measure employee satisfaction the company tracks team member turnover Each restaurant is set a team member turnover target and at a company level the number of restaurants achieving target is tracked The number of restaurants achieving target this year has improved 5.5% to 56.1% (2005 50.6%) This improvement lays the foundation of future growth

To measure customer satisfaction the company uses a mystery shopper programme that tracks 5 key areas of operational focus Customer, Hospitality, Accuracy, Maintenance, Product and Speed (CHAMPS) Each restaurant is set a CHAMPS target and at a company level, the number of restaurants achieving target is tracked During the year, a new target was set and from the time of this change to year end, 40.2% of restaurants achieved target In the first half of the new financial year this has improved to 43.7% of restaurants This improvement is reflective of the investments the business has made in improving our operational capability

Pizza Hut remains cautious about the retail environment for the coming year The company continues to reinvest in new products, advertising and restaurant refurbishments and is optimistic that it will see improved performance in the forthcoming year

PIZZA HUT (UK) LIMITED
DIRECTORS' REPORT (continued)

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.

DISCLOSURE OF INFORMATION TO AUDITORS

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he/ she ought to have taken as a director to make himself/ herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

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.

PIZZA HUT (UK) LIMITED
DIRECTORS' REPORT (continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

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 financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the group and the parent company and of the profit or loss for that period.

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments 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 and the parent company will continue in business.

The directors are responsible for keeping proper accounting records that 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 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 and detect fraud and other irregularities.

By order of the board



A Murdoch
Company Secretary

30th August 2007

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

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

We have audited the financial statements of Pizza hut (UK) Limited for the year ended 3 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 4.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company'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 assurance 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, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 3 December 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

30 AUGUST 2007

[Date]

PIZZA HUT (UK) LIMITED

**PROFIT AND LOSS ACCOUNT
FOR THE 52 WEEKS ENDED 03 DECEMBER 2006**

		2006		2005 (restated-see note 22)	
	Notes	£'000	£'000	£'000	£'000
Turnover	2	374,904		391,302	
Other operating income					
Rental income		1,394		1,422	
Franchise income		2,293		2,239	
			378,591		394,963
Raw materials and consumables		82,962		84,031	
Other external charges		135,787		133,354	
			(218,749)		(217,385)
			159,842		177,578
Staff costs	5	125,445		127,219	
Depreciation and other amounts written off tangible and intangible fixed assets		23,160		22,567	
			(148,605)		(149,786)
OPERATING PROFIT	3		11,237		27,792
Exceptional items	6		(2,976)		82
Other finance costs			(259)		(298)
Interest receivable		44		43	
Interest payable and similar charges	7	(1,167)		(775)	
			(1,123)		(732)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION			6,879		26,844
Tax charge on profit on ordinary activities	8		(5,058)		(10,527)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	18		1,821		16,317

All turnover and operating profit arises from continuing operations

The notes on pages 9 to 23 form part of these financial statements

A statement of movement on reserves is given in note 17

PIZZA HUT (UK) LIMITED

BALANCE SHEET AS AT 03 DECEMBER 2006

		2006		2005 (restated-see note 22)	
	Notes	£'000	£'000	£'000	£'000
FIXED ASSETS					
Intangible assets	9	2,410		2,429	
Tangible assets	10	124,138		136,046	
Shares in subsidiary undertakings	11	<u>2,453</u>		<u>2,453</u>	
			129,001		140,928
CURRENT ASSETS					
Stocks	12	2,088		2,153	
Debtors	13	11,759		10,658	
Cash at bank and in hand		<u>4,008</u>		<u>-</u>	
		17,855		12,811	
CREDITORS					
Amounts falling due within one year	14	<u>(86,033)</u>		<u>(84,976)</u>	
NET CURRENT LIABILITIES			<u>(68,178)</u>		<u>(72,165)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			60,823		68,763
PROVISION FOR LIABILITIES AND CHARGES	15		(9,646)		(9,693)
PENSION LIABILITY	21		(11,884)		(9,806)
NET ASSETS			<u>39,293</u>		<u>49,264</u>
CAPITAL AND RESERVES					
Called up share capital	16		805		805
Profit and loss account	17		38,488		48,459
SHAREHOLDERS' FUNDS (includes non-equity interests)	18		<u>39,293</u>		<u>49,264</u>

These financial statements were approved by the board of directors on and were signed on its behalf by

P J Grismer

P J Grismer
Director

29th August 2007

The notes on pages 9 to 23 form part of these financial statements

PIZZA HUT (UK) LIMITED

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE PERIOD ENDED 03 DECEMBER 2006**

	2006	2005
	£'000	(restated-see note 22) £'000
Profit for the financial year after taxation	1,821	16,317
Dividend	(10,000)	(22,133)
Actuarial loss recognised in the pension scheme	(2,560)	(3,535)
Deferred tax arising on other gains recognised in this statement	768	1,060
Adjustment to opening reserves as at 29 November 2004	-	(6,480)
Total gains and losses recognised since last annual report	<u>(9,971)</u>	<u>(14,771)</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

The particular accounting policies adopted are described below. These accounting policies have been applied consistently throughout the current financial period and previous financial year with the exception of the full adoption in the current period of FRS 17 "Retirement Benefits". Further details are given below and in note 21

In these financial statements the following new standards have been adopted for the first time

FRS 21 Events after the balance sheet date, and
FRS 28 Corresponding Amounts

Adoption of FRS 28 Corresponding Amounts has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985

Cash Flow Statement

Under FRS 1, the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated accounts

Consolidation

The profit and loss account and balance sheet are those of the Company. In accordance with S228 group financial statements have not been prepared because the Company is a wholly owned subsidiary undertaking and its immediate parent undertaking, Yum! Restaurant Holdings, is established in the UK

(b) Depreciation

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 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

(c) Stocks

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

(d) 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

PIZZA HUT (UK) LIMITED

NOTES (continued)

1. ACCOUNTING POLICIES (continued)

(e) 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

(f) 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

(g) 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

(h) 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

(i) Leasing and hire purchase commitments

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

(j) Research and development expenditure

All research and development expenditure is written off as incurred

(k) 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) LIMITED

NOTES (continued)

(1) Pension scheme

The company has adopted the full provisions of FRS 17 "Retirement benefits" for the first time. Full details of the effect of this standard including the prior year adjustment are detailed in note 22.

For the company's defined benefit pension scheme the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net pension funding cost in the interest receivable and payable. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

The defined benefit scheme is funded, with the assets of the scheme held separately from those of the company, in separate administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on high quality corporate bonds of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained on a triennial basis and are updated at each balance sheet date. The resulting defined benefit scheme assets or liabilities, net of the related deferred tax, are represented separately after other net assets on the face of the balance sheet.

The company also participates in a multi employer scheme run by Kentucky Fried Chicken (Great Britain) Limited. Because the company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 "Retirement benefits", the scheme has been accounted for in these financial statements as if it was a defined contribution scheme.

The number of employees included within this scheme is not significant. As such, no further information is disclosed.

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**

	2006 £'000	2005 (restated) £'000
This is stated after charging/(crediting)		
Auditors' remuneration for audit work	52	47
Auditors' remuneration for other services -		
- Tax Compliance	9	8
- Turnover Statements	3	3
Rental on operating leases – land and buildings	36,229	35,593
Exchange differences	(48)	41
Depreciation of fixed assets	22,957	22,371
Amortisation of fixed assets	203	196

4. **REMUNERATION OF DIRECTORS**

	2006 £'000	2005 £'000
Directors' emoluments	212	-

The emoluments, excluding pension contributions, of the highest paid director were £89,942 (2005: £0) and the company paid pension contributions of £13,058 (2005: £0).

PIZZA HUT (UK) LIMITED

NOTES (continued)

5. STAFF COSTS

	2006	2005
	£'000	(restated)
		£'000
Wages and salaries	116,286	118,144
Social security costs	7,442	7,194
Other pension costs	1,717	1,881
	<u>125,445</u>	<u>127,219</u>

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

	Number of employees	
	2006	2005
Office and management	1,237	1,251
Restaurants	18,368	17,267
	<u>19,605</u>	<u>18,518</u>

6. EXCEPTIONAL ITEMS

	2006	2005
	£'000	£'000
Exceptional profit on disposal of fixed assets	694	82
Impairments	(3,670)	-
	<u>(2,976)</u>	<u>82</u>

The impairment charge recorded in 2006 is due to a change of estimates used by the company to calculate the impairment of its loss making stores

7. INTEREST PAYABLE AND SIMILAR CHARGES

	2006	2005
	£'000	£'000
Bank overdraft	1,066	586
Other	101	189
	<u>1,167</u>	<u>775</u>

PIZZA HUT (UK) LIMITED

NOTES (continued)

8. TAXATION

	2006 £'000	2005 £'000
Tax charge		
UK Corporation tax	5,225	9,972
Adjustments in respect of prior years	1	19
Total current tax	5,226	9,991
Deferred taxation – (reversal)/origination of timing differences	(168)	536
Tax on profit on ordinary activities	5,058	10,527

Factors affecting the tax charge for the current period

The effective tax charge for 2006 is 59.8% (2005 37.5%) The differences are explained below

	2006 £'000	2005 (restated) £'000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	6,879	26,844
Current tax at 30% (2005 30%)	2,064	8,053
<i>Effects of</i>		
Expenses not deductible for tax purposes (primarily depreciation of ineligible assets)	3,118	2,619
Differences between capital allowances and depreciation of eligible assets	43	(700)
Adjustments to tax charge in respect of previous periods	1	19
Total current tax charge (see above)	5,226	9,991

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 £704,160 (2005 £571,480)

PIZZA HUT (UK) LIMITED

NOTES (continued)

9. INTANGIBLE FIXED ASSETS

	Operating Rights £'000
Cost	
At 04 December 2005	4,736
Additions	190
Disposals	(21)
At 03 December 2006	<u>4,905</u>
Amortisation	
At 04 December 2005	2,307
Charge for the period	203
Disposals	(15)
At 03 December 2006	<u>2,495</u>
Net book value	
At 03 December 2006	2,410
At 04 December 2005	<u>2,429</u>

PIZZA HUT (UK) LIMITED

NOTES (continued)

10. TANGIBLE FIXED ASSETS

	Land and Buildings £'000	Fixtures, Fittings, Tools and Equipment £'000	Motor Vehicles £'000	Assets In course of Construction £'000	Total £'000
Cost					
At 04 December 2005	174,854	99,163	110	5,529	279,656
Additions	3,789	7,122	-	5,503	16,414
Disposals	(4,112)	(7,290)	-	-	(11,402)
Transfer of assets	3,512	4,555	-	(8,067)	-
At 03 December 2006	<u>178,043</u>	<u>103,550</u>	<u>110</u>	<u>2,965</u>	<u>284,668</u>
Depreciation					
At 04 December 2005	74,249	69,251	110	-	143,610
Provided during the period	12,270	10,687	-	-	22,957
Impairment charge	3,191	479	-	-	3,670
Disposals	(2,780)	(6,927)	-	-	(9,707)
At 03 December 2006	<u>86,930</u>	<u>73,490</u>	<u>110</u>	<u>-</u>	<u>160,530</u>
Net book value					
At 03 December 2006	91,113	30,060	-	2,965	124,138
At 04 December 2005	<u>100,605</u>	<u>29,912</u>	<u>-</u>	<u>5,529</u>	<u>136,046</u>

	2006 £'000	2005 £'000
Land and buildings The net book value of land and buildings can be analysed as follows		
Freehold	1,887	1,919
Long leasehold	275	314
Short leasehold	88,951	98,372
	<u>91,113</u>	<u>100,605</u>

The gross amount of non-depreciable assets that are included in Land and Buildings is £1 1m (2005 £1 1m)

PIZZA HUT (UK) LIMITED

NOTES (continued)

11. SHARES IN SUBSIDIARY UNDERTAKINGS

	2006	2005
	£'000	£'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

12. STOCKS

	2006	2005
	£'000	£'000
Ingredients	1,893	1,764
Merchandising	80	268
Bike stock	115	121
	<u>2,088</u>	<u>2,153</u>

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

PIZZA HUT (UK) LIMITED**NOTES (continued)****13. DEBTORS**

	2006	2005
	£'000	£'000
Trade debtors	4,740	4,716
Other debtors	12	12
Prepayments and accrued income	7,007	5,930
	<u>11,759</u>	<u>10,658</u>

All debtors fall due within one year

14. CREDITORS – amounts falling due within one year

	2006	2005
	£'000	£'000
Overdraft	-	9,852
Short term loan	14,300	12,500
Trade creditors	13,936	14,256
Amounts owed to Parent and fellow subsidiary undertakings	11,492	1,795
Amounts owed to Subsidiary undertakings	12,533	12,533
Taxation and Social Security	9,608	9,799
Other creditors	2,723	3,163
Accruals	19,302	16,824
Corporation tax	2,139	4,254
	<u>86,033</u>	<u>84,976</u>

15. DEFERRED TAXATION

Provisions for liabilities and charges	£'000
At 04 December 2005	9,693
Profit and loss credit	(168)
Adjustment to pension under FRS 17	121
At 03 December 2006	<u>9,646</u>

The overall deferred tax position is as follows

	2006	2005
	£'000	£'000
Fixed asset timing differences	9,675	9,718
Other timing differences	(29)	(25)
	<u>9,646</u>	<u>9,693</u>

PIZZA HUT (UK) LIMITED

NOTES (continued)

16. CALLED UP SHARE CAPITAL

		2006 £'000	2005 £'000
	Authorised, allotted, called up and fully paid		
Equity	Ordinary shares of £1 each	805	800
Non Equity	3% non-cumulative preference shares of £1 each	-	5
		<u>805</u>	<u>805</u>

During the year, the 3% non-cumulative preference shares of £1 each were converted to Ordinary shares of £1 each

17. CAPITAL AND RESERVES

	Share capital £'000	Profit and loss £'000
At 04 December 2005 as originally stated	805	57,731
Prior year adjustment	-	(9,272)
At 04 December 2005 as restated	<u>805</u>	<u>48,459</u>
Actuarial loss recognised in STRGL		(1,792)
Profit on ordinary activities after taxation	-	1,821
Dividend		(10,000)
At 03 December 2006	<u>805</u>	<u>38,488</u>

18. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2006 £'000	2005 £'000
Opening shareholders' funds as originally stated	58,536	64,035
Prior Year Adjustment	(9,272)	(6,480)
Opening shareholder's funds as restated	<u>49,264</u>	<u>57,555</u>
Dividend	(10,000)	(22,133)
Actuarial loss recognised in STRGL	(1,792)	(2,475)
Profit after taxation	1,821	
- as previously reported		16,634
- prior year adjustment		(317)
Restated Profit after taxation		<u>16,317</u>
Closing shareholders' funds	<u>39,293</u>	<u>49,264</u>

PIZZA HUT (UK) LIMITED

NOTES (continued)

19. OTHER RELATED PARTY TRANSACTIONS

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

	2006 £'000	2005 (restated) £'000
Food and Beverage Purchases		
YUM! Brands Inc	57,729	61,515
Whitbread Plc	16,792	22,280
Operating Rights and Franchise Fees		
YUM! Brands Inc	16,142	16,959
Recharges for Services		
YUM! Brands Inc	238	121
Whitbread Plc	222	410
Amounts owed to Related Parties		
YUM! Brands Inc	24,025	14,311
Whitbread Plc	0	17

20. COMMITMENTS

At 3rd December 2006 the annual commitments under non-cancellable operating leases were as follows

	2006 Land and Buildings £'000	2005 Land and Buildings £'000
Operating leases which expire		
Within one year	643	452
In second to fifth years inclusive	6,532	5,089
Over five years	28,611	28,768
	<u>35,786</u>	<u>34,309</u>

PIZZA HUT (UK) LIMITED

NOTES (continued)

21. PENSION

The company operates a defined benefit scheme in the UK. A full actuarial valuation was carried out at 31/3/2004 and updated to 3rd December 2006 by a qualified independent actuary. The major assumptions used by the actuary were:

	At year end 03/12/2006	At year end 04/12/2005
Rate of increase in salaries	3.55%	3.25%
Rate of increase of pensions in payment	2.80%	2.50%
Discount rate	5.00%	5.00%
Inflation assumption	2.80%	2.50%

	At year-end 03/12/2006	At year-end 03/12/2006	At year-end 04/12/2005	At year end 04/12/2005
		£ 000		£ 000
Equities	7.75%	18,876	7.75%	16,261
Bonds	4.40%	3,755	4.40%	3,083
Property	3.50%	94	3.50%	181
Total market value of assets		22,725		19,525
Actuarial value of liability		(39,702)		(33,533)
Recoverable deficit in the schemes		(16,977)		(14,008)
Related deferred tax asset		5,093		4,202
Net pension liability		(11,884)		(9,806)

PIZZA HUT (UK) LIMITED

NOTES (continued)

21. PENSION (continued)

The expected rates of return on the assets in the scheme were

	Long term rate of return 2006
Equities	7.91%
Gilts	4.41%
Corporate Bonds	5.0%
Other – Property	0%
Total	<u>7.4%</u>

Analysis of the amount charged to operating profit

	Year to 03/12/2006 £'000	Year to 04/12/2005 £'000
Service cost	1,513	1,638
Past service cost	-	-
Total operating charge	<u>1,513</u>	<u>1,638</u>

Analysis of net return on pension scheme

	Year to 03/12/2006 £'000	Year to 04/12/2005 £'000
Expected return on pension scheme assets	1,467	1,114
Interest on pension liabilities	<u>(1,726)</u>	<u>(1,412)</u>
Net interest cost	<u>(259)</u>	<u>(298)</u>

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

	Year to 03/12/2006 £'000	Year to 04/12/2005 £'000
Actual return less expected return on assets	(85)	2,282
Experience gains and (losses) on liabilities	0	59
Changes in assumptions	<u>(2,475)</u>	<u>(5,876)</u>
Actuarial loss recognised in STRGL	<u>(2,560)</u>	<u>(3,535)</u>
Net loss recognised	<u>(2,560)</u>	<u>(3,535)</u>

PIZZA HUT (UK) LIMITED

NOTES (continued)

21. PENSION (continued)

Movement in deficit during the year

	Year to 03/12/2006 £'000	Year to 04/12/2005 £'000
Deficit in scheme at beginning of year	(14,008)	(9,989)
Movement in year		
Current service cost	(1,513)	(1,638)
Contributions	1,363	1,452
Past service costs	-	-
Net interest cost	(259)	(298)
Actuarial loss	(2,560)	(3,535)
Deficit in scheme at end of year	(16,977)	(14,008)

History of experience gains and losses

	Financial year ending in		
	2006	2005	2004
Difference between expected and actual return on scheme assets			
amount (£000)	(85)	2,282	(398)
percentage of scheme assets	0%	12%	-3%
Experience gains and losses on scheme liabilities			
amount (£000)	0	59	(1,739)
percentage of scheme liabilities	0%	0%	-7%
Total amount recognised in statement of total recognised gains and losses			
amount (£000)	(2,560)	(3,535)	(3,706)
percentage of scheme liabilities	-6%	-11%	-15%

22. PRIOR YEAR ADJUSTMENT

The prior year adjustment has arisen as a result of the full implementation of FRS 17 "Retirement Benefits". Prior year figures have been restated to incorporate the requirements of this standard as follows

	As previously reported £'000	Prior year adjustment £'000	As restated £'000
Profit and loss account			
Staff costs	127,195	24	127,219
Other finance costs	0	298	298
Tax on profit on ordinary activities	10,532	(5)	10,527
Profit on ordinary activity after tax	16,634	(317)	16,317
Balance sheet			
Creditors – amount falling due within a year	85,738	(762)	84,976
Deferred tax liability	9,465	228	9,693
Pension liability	0	9,806	9,806
Profit and loss reserve	57,731	(9,272)	48,459

PIZZA HUT (UK) LIMITED

NOTES (continued)

23. ULTIMATE PARENT COMPANY AND PARENT UNDERTAKING OF LARGER GROUP OF WHICH THE COMPANY IS A MEMBER

The company is a subsidiary undertaking of Yum! Restaurant Holdings, a company registered in England and Wales

The smallest group in which the results of the company are consolidated is that headed by Yum! Restaurant Holdings. These consolidated accounts are available to the public and may be obtained from the Registrar of Companies, Companies House, Cardiff, CF4 3UZ

The largest group in which the results of the company are consolidated is that headed by Yum! Brands Inc, a company incorporated in the United States of America. The consolidated accounts of this group are available to the public and may be obtained from

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