

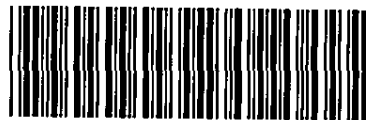
PIZZA HUT (UK) LIMITED

Directors' Report and Financial Statements

02 December 2007

Company Registration Number 1072921

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

The directors present their annual report and the audited financial statements for the 52 weeks ended 2nd December 2007

REVIEW OF BUSINESS

The principal activity during the period was trading as a restaurant and delivery operator. During the period 12 new units were opened and 17 were closed, resulting in a total Equity estate of 539 at 2nd December 2007 (2006: 544).

FUTURE DEVELOPMENTS

The company will continue its expansion plan in 2008 throughout the United Kingdom and Ireland through both Equity, Franchising and Re-Franchising developments.

RESULTS AND DIVIDENDS

The loss on ordinary activities for the period, after taxation, amounted to £7,316,000 (2006: £1,821,000 profit). During the year the company paid an interim dividend of £10,000,000 (2006: £10,000,000). The directors do not recommend a payment of a final dividend. The loss of £7,316,000 (2006: £1,821,000 profit) 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 27 (2006: 31).

FIXED ASSETS

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

DIRECTORS AND DIRECTORS' INTEREST

The directors of the company during the period ended 02 December 2007 and since the period end are listed below:

P J Grismer
J C Little
A Murdoch
N Barsegıyan

Appointed 20 February 2008

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**

POLITICAL AND CHARITABLE CONTRIBUTIONS

During the period the group made various charitable contributions totalling £11,075 (2006 £10,625) The group made no political contributions during the period (2006 nil)

ENHANCED BUSINESS REVIEW

Trading conditions on the high street have continued to be tough because of declining consumer confidence, which has also been reflected in increasing competitor pressure The decline in consumer confidence is as a result from several interest rate increases, increasing utility costs and the knock on effects from the financial difficulties in the US and UK banking sectors

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 £443,700,000 (2006 £436,800,000)

Higher food costs have increased cost of sales by 2.1% to 60.4% (2006 58.3%) and labour cost has increased by 0.9% to 34.4% (2006 33.5%)

In terms of the total system stores (Equity and Franchise) 22 stores opened and 29 stores were closed during the year At year end, the total number of stores in the system was 694 (2006 701)

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

In the light of the difficult trading conditions 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 to 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.

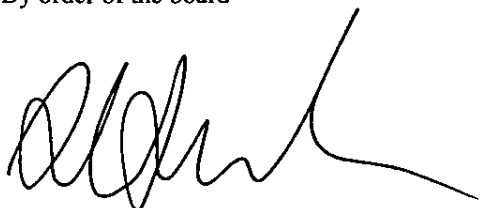
DISCLOSURE OF INFORMATION TO AUDITORS

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.

By order of the board



A Murdoch
Company Secretary

1st September 2008

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

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.



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 2 December 2007 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 2 December 2007 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
Chartered Accountants
Registered Auditor

PIZZA HUT (UK) LIMITED

**PROFIT AND LOSS ACCOUNT
FOR THE 52 WEEKS ENDED 2nd DECEMBER 2007**

| | | 2007 | | 2006 | |
|---|-------|---------|-----------|---------|-----------|
| | Notes | £'000 | £'000 | £'000 | £'000 |
| Turnover | 2 | 375,948 | | 374,904 | |
| Other operating income | | | | | |
| Rental income | | 1,401 | | 1,394 | |
| Franchise income | | 1,912 | | 2,293 | |
| | | | 379,261 | | 378,591 |
| Raw materials and consumables | | 84,150 | | 82,962 | |
| Other external charges | | 143,150 | | 135,787 | |
| | | | (227,300) | | (218,749) |
| | | | 151,961 | | 159,842 |
| Staff costs | 5 | 129,549 | | 125,445 | |
| Depreciation and other amounts written off tangible and intangible fixed assets | | 21,868 | | 23,160 | |
| | | | (151,417) | | (148,605) |
| OPERATING PROFIT | 3 | | 544 | | 11,237 |
| Exceptional items | 6 | | (5,044) | | (2,976) |
| Other finance costs | | | (223) | | (259) |
| Interest receivable | | 38 | | 44 | |
| Interest payable and similar charges | 7 | (1,681) | | (1,167) | |
| | | | (1,643) | | (1,123) |
| (LOSS) / PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | | | (6,366) | | 6,879 |
| Tax charge on (loss) / profit on ordinary activities | 8 | | (950) | | (5,058) |
| (LOSS) / PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION | 18 | | (7,316) | | 1,821 |

All turnover and operating profit arises from continuing operations

The notes on pages 9 to 22 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 2nd DECEMBER 2007

| | | 2007 | | 2006 | |
|--|-------|-----------------|-----------------|-----------------|-----------------|
| | Notes | £'000 | £'000 | £'000 | £'000 |
| FIXED ASSETS | | | | | |
| Intangible assets | 9 | 2,343 | | 2,410 | |
| Tangible assets | 10 | 120,432 | | 124,138 | |
| Shares in subsidiary undertakings | 11 | <u>2,453</u> | | <u>2,453</u> | |
| | | | 125,228 | | 129,001 |
| CURRENT ASSETS | | | | | |
| Stocks | 12 | 2,012 | | 2,088 | |
| Debtors | 13 | 10,145 | | 11,759 | |
| Cash at bank and in hand | | <u>2,796</u> | | <u>4,008</u> | |
| | | 14,953 | | 17,855 | |
| CREDITORS | | | | | |
| Amounts falling due within one year | 14 | <u>(97,010)</u> | | <u>(86,033)</u> | |
| NET CURRENT LIABILITIES | | | <u>(82,057)</u> | | <u>(68,178)</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | 43,171 | | 60,823 |
| DEFERRED TAX LIABILITY | | | | | |
| | 15 | | (8,717) | | (9,646) |
| PENSION LIABILITY | 20 | | (9,284) | | (11,884) |
| NET ASSETS | | | <u>25,170</u> | | <u>39,293</u> |
| CAPITAL AND RESERVES | | | | | |
| Called up share capital | 16 | | 805 | | 805 |
| Profit and loss account | 17 | | 24,189 | | 38,488 |
| Other Reserves | 17 | | 176 | | - |
| SHAREHOLDERS' FUNDS | 18 | | <u>25,170</u> | | <u>39,293</u> |

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

N Barsegryan
Director



1st September 2008

The notes on pages 9 to 22 form part of these financial statements

PIZZA HUT (UK) LIMITED

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE PERIOD ENDED 02 DECEMBER 2007**

| | 2007 | 2006 |
|---|-----------------|----------------|
| | £'000 | £'000 |
| (Loss) / profit for the financial year after taxation | (7,316) | 1,821 |
| Dividend | (10,000) | (10,000) |
| Actuarial gain / (loss) recognised in the pension scheme | 4,638 | (2,560) |
| Deferred tax arising on other gains / (losses) recognised in this statement | (1,621) | 768 |
| Total gains and losses recognised since last annual report | <u>(14,299)</u> | <u>(9,971)</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.

The presentation requirements of the Financial Reporting Standard 25 – Financial Instruments: Disclosure and Presentation (FRS 25) have been adopted for the first time in these financial statements. The adoption of FRS 25 had no impact on these financial statements.

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 Company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare group accounts.

As 100% of the company's voting rights are controlled within the group headed by Yum! Brands Inc, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group. The consolidated financial statements of Yum! Brands Inc within which this company is included, can be obtained from the address in note 21.

(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 into 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

(l) Share based payments

The share option programme allows employees to acquire shares of the ultimate parent company, Yum! Brands Inc. The fair value of options granted after 7 November 2002 and those not yet vested as at 1 January 2006 is recognised as an employee expense with a corresponding increase in equity. The total expense related to such plans is based on the fair value of the options and other share based incentives on grant date, calculated using a valuation model and spread over the expected vesting period. The amounts recognised are adjusted to reflect the actual number of options and other share based incentives that are expected to vest

PIZZA HUT (UK) LIMITED

NOTES (continued)

(1) Pension scheme

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**

| | 2007 £'000 | 2006 £'000 |
|--|---------------|---------------|
| This is stated after charging/(crediting) | | |
| <u>Auditors' remuneration</u> | | |
| Fees for the audit of the companies annual accounts | 51 | 52 |
| Fees payable for other services – Sarbanes Oxley Audit | 27 | - |
| Tax Services | 9 | 9 |
| Other | 4 | 3 |
| Rental on operating leases – land and buildings | 37,268 | 36,229 |
| Exchange differences | (28) | (48) |
| Depreciation of fixed assets | 21,674 | 22,957 |
| Amortisation of intangible fixed assets | 194 | 203 |

4. **REMUNERATION OF DIRECTORS**

| | 2007 £'000 | 2006 £'000 |
|-----------------------|---------------|---------------|
| Directors' emoluments | 849 | 212 |

The emoluments, excluding pension contributions, of the highest paid director were £367,669 (2006 £89,942) and the company paid pension contributions of £46,550 (2006 £13,058).

PIZZA HUT (UK) LIMITED

NOTES (continued)

5. STAFF COSTS

| | 2007 | 2006 |
|------------------------------------|----------------|----------------|
| | £'000 | £'000 |
| Wages and salaries | 119,721 | 116,286 |
| Share based payments (see note 21) | 176 | - |
| Social security costs | 7,722 | 7,442 |
| Other pension costs | 1,930 | 1,717 |
| | <u>129,549</u> | <u>125,445</u> |

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

| | Number of employees | |
|-----------------------|----------------------------|---------------|
| | 2007 | 2006 |
| Office and management | 1,220 | 1,237 |
| Restaurants | 18,012 | 18,368 |
| | <u>19,232</u> | <u>19,605</u> |

6. EXCEPTIONAL ITEMS

| | 2007 | 2006 |
|---|----------------|----------------|
| | £'000 | £'000 |
| Exceptional (loss) / profit on disposal of fixed assets | (2,032) | 694 |
| Impairments | (3,012) | (3,670) |
| | <u>(5,044)</u> | <u>(2,976)</u> |

7. INTEREST PAYABLE AND SIMILAR CHARGES

| | 2007 | 2006 |
|-------------------------------|--------------|--------------|
| | £'000 | £'000 |
| Bank overdraft | 859 | 1,066 |
| Interest on Intercompany Loan | 781 | 49 |
| Other | 41 | 52 |
| | <u>1,681</u> | <u>1,167</u> |

PIZZA HUT (UK) LIMITED

NOTES (continued)

8. TAXATION

Analysis of charge in period

| | 2007 £'000 | £'000 | 2006 £'000 |
|--|---------------|------------|---------------|
| <i>UK corporation tax</i> | | | |
| Current tax on income for the period | 2,026 | | 5,225 |
| Adjustments in respect of prior periods | <u>1</u> | | <u>1</u> |
| Total current tax | | 2,027 | 5,226 |
| <i>Deferred tax (see note 15)</i> | | | |
| Origination/reversal of timing differences | (498) | | (168) |
| Effect of increased/decreased tax rate | (579) | | - |
| Adjustment in respect of previous years | <u>-</u> | | <u>-</u> |
| Total deferred tax | | (1,077) | (168) |
| Tax on profit on ordinary activities | | <u>950</u> | <u>5,058</u> |

Factors affecting the tax charge for the current period

The effective tax charge for 2007 is (66.7%) (2006 59.8%) The differences are explained below

| | 2007 £'000 | 2006 £'000 |
|--|----------------|---------------|
| <i>Current tax reconciliation</i> | | |
| (Loss)/Profit on ordinary activities before tax | <u>(6,366)</u> | <u>6,879</u> |
| Current tax at 30% (2006 30%) | (1,910) | 2,064 |
| <i>Effects of</i> | | |
| Expenses not deductible for tax purposes (primarily depreciation of ineligible assets) | 3,608 | 3,118 |
| Differences between capital allowances and depreciation of eligible assets | 328 | 43 |
| Adjustments to tax charge in respect of previous periods | 1 | 1 |
| Total current tax charge (see above) | <u>2,027</u> | <u>5,226</u> |

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 £865,215 (2006 £704,160)

PIZZA HUT (UK) LIMITED

NOTES (continued)

9. INTANGIBLE FIXED ASSETS

| | Operating Rights £'000 |
|----------------------------------|---------------------------------------|
| Cost | |
| At 3 rd December 2006 | 4,905 |
| Additions | 144 |
| Disposals | (26) |
| At 2 nd December 2007 | <u>5,023</u> |
| Amortisation | |
| At 3 rd December 2006 | 2,495 |
| Charge for the period | 194 |
| Disposals | (9) |
| At 2 nd December 2007 | <u>2,680</u> |
| Net book value | |
| At 2 nd December 2007 | 2,343 |
| At 3 rd December 2006 | <u>2,410</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 3 rd December 2006 | 178,043 | 103,550 | 110 | 2,965 | 284,668 |
| Additions | 6,398 | 3,158 | - | 15,090 | 24,646 |
| Disposals | (8,049) | (10,261) | (70) | - | (18,380) |
| Transfer of assets | 3,892 | 10,437 | - | (14,329) | - |
| At 2 nd December 2007 | <u>180,284</u> | <u>106,884</u> | <u>40</u> | <u>3,726</u> | <u>290,934</u> |
| Depreciation | | | | | |
| At 3 rd December 2006 | 86,930 | 73,490 | 110 | - | 160,530 |
| Provided during the period | 10,899 | 10,775 | - | - | 21,674 |
| Impairment charge | 1,807 | 1,205 | - | - | 3,012 |
| Disposals | (5,238) | (9,406) | (70) | - | (14,714) |
| At 2 nd December 2007 | <u>94,398</u> | <u>76,064</u> | <u>40</u> | <u>-</u> | <u>170,502</u> |
| Net book value | | | | | |
| At 2 nd December 2007 | 85,886 | 30,820 | - | 3,726 | 120,432 |
| At 3 rd December 2006 | <u>91,113</u> | <u>30,060</u> | <u>-</u> | <u>2,965</u> | <u>124,138</u> |

| | 2007 | 2006 |
|---|---------------|---------------|
| | £'000 | £'000 |
| Land and buildings | | |
| The net book value of land and buildings can be analysed as follows | | |
| Freehold | 1,750 | 1,887 |
| Long leasehold | 245 | 275 |
| Short leasehold | 83,891 | 88,951 |
| | <u>85,886</u> | <u>91,113</u> |

The gross amount of non-depreciable assets that are included in Land and Buildings is £0.3m (2006 £1.1m)

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

| | 2007 | 2006 |
|------|--------------|--------------|
| | £'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

| | 2007 | 2006 |
|---------------|--------------|--------------|
| | £'000 | £'000 |
| Ingredients | 1,862 | 1,893 |
| Merchandising | 42 | 80 |
| Bike stock | 108 | 115 |
| | <u>2,012</u> | <u>2,088</u> |

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

PIZZA HUT (UK) LIMITED

NOTES (continued)

13. DEBTORS

| | 2007 £'000 | 2006 £'000 |
|--------------------------------|---------------|---------------|
| Trade debtors | 5,104 | 4,740 |
| Other debtors | 4 | 12 |
| Prepayments and accrued income | 5,037 | 7,007 |
| | <u>10,145</u> | <u>11,759</u> |

All debtors fall due within one year

14. CREDITORS – amounts falling due within one year

| | 2007 £'000 | 2006 £'000 |
|---|---------------|---------------|
| Short term loan | - | 14,300 |
| Trade creditors | 13,476 | 13,936 |
| Amounts owed to Parent and fellow subsidiary undertakings | 37,696 | 11,492 |
| Amounts owed to Subsidiary undertakings | 12,533 | 12,533 |
| Taxation and Social Security | 8,376 | 9,608 |
| Other creditors | 3,626 | 2,723 |
| Accruals | 20,465 | 19,302 |
| Corporation tax | 838 | 2,139 |
| | <u>97,010</u> | <u>86,033</u> |

15. DEFERRED TAXATION

| | |
|--|--------------|
| Provisions for liabilities and charges | £'000 |
| At 03 December 2006 | 9,646 |
| Profit and loss credit | (1,077) |
| Adjustment to pension under FRS 17 | 148 |
| At 02 December 2007 | <u>8,717</u> |

The overall deferred tax position is as follows

| | 2007 £'000 | 2006 £'000 |
|--------------------------------|---------------|---------------|
| Fixed asset timing differences | 8,717 | 9,675 |
| Other timing differences | - | (29) |
| | <u>8,717</u> | <u>9,646</u> |

PIZZA HUT (UK) LIMITED

NOTES (continued)

16. CALLED UP SHARE CAPITAL

| | | 2007 £'000 | 2006 £'000 |
|--------|---|-----------------------------|-----------------------------|
| Equity | Authorised, allotted, called up and fully paid Ordinary shares of £1 each | 805 | 805 |
| | | <u>805</u> | <u>805</u> |

17. CAPITAL AND RESERVES

| | Share Capital £'000 | Profit and loss £'000 | Other Reserves £'000 |
|--|--|--|---|
| At 3 rd December 2006 | 805 | 38,488 | - |
| Actuarial gain recognised in STRGL | - | 4,638 | - |
| Deferred tax recognised in STRGL | - | (1,621) | - |
| Loss on ordinary activities after taxation | - | (7,316) | - |
| Dividend | - | (10,000) | - |
| FRS 20 charge for the year | - | - | 176 |
| At 2 nd December 2007 | <u>805</u> | <u>24,189</u> | <u>176</u> |

18. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

| | 2007 £'000 | 2006 £'000 |
|------------------------------------|-----------------------------|-----------------------------|
| Opening shareholders' funds | 39,293 | 49,264 |
| Dividend | (10,000) | (10,000) |
| Actuarial gain recognised in STRGL | 4,638 | (2,560) |
| Deferred tax recognised in STRGL | (1,621) | 768 |
| (Loss) / profit after taxation | (7,316) | 1,821 |
| FRS 20 charge for the year | 176 | - |
| Closing shareholders' funds | <u>25,170</u> | <u>39,293</u> |

PIZZA HUT (UK) LIMITED

NOTES (continued)

19. COMMITMENTS

At 2nd December 2007 the annual commitments under non-cancellable operating leases were as follows

| | 2007 Land and Buildings £'000 | 2006 Land and Buildings £'000 |
|------------------------------------|--|--|
| Operating leases which expire | | |
| Within one year | 1,314 | 643 |
| In second to fifth years inclusive | 6,888 | 6,532 |
| Over five years | 30,208 | 28,611 |
| | <u>38,410</u> | <u>35,786</u> |

20. PENSION

The company operates a defined benefit scheme in the UK. A full actuarial valuation was carried out at 31/3/2007 and updated to 02 December 2007 by a qualified independent actuary. The major assumptions used by the actuary were

| | At year end 02/12/2007 | At year end 03/12/2006 |
|---|---------------------------|---------------------------|
| Rate of increase in salaries | 4.00% | 3.55% |
| Rate of increase of pensions in payment | 3.25% | 2.80% |
| Discount rate | 5.50% | 5.00% |
| Inflation assumption | 3.25% | 2.80% |

| | At year-end 02/12/2007 | At year-end 02/12/2007 | At year-end 03/12/2006 | At year end 03/12/2006 |
|------------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | | £ 000 | | £ 000 |
| Equities | 8.40% | 21,324 | 7.75% | 18,876 |
| Bonds | 5.00% | 4,502 | 4.40% | 3,755 |
| Property | 3.50% | <u>30</u> | 3.50% | <u>94</u> |
| Total market value of assets | | 25,856 | | 22,725 |
| Actuarial value of liability | | <u>(38,760)</u> | | <u>(39,702)</u> |
| Recoverable deficit in the schemes | | (12,904) | | (16,977) |
| Related deferred tax asset | | <u>3,620</u> | | <u>5,093</u> |
| Net pension liability | | <u>(9,284)</u> | | <u>(11,884)</u> |

PIZZA HUT (UK) LIMITED

NOTES (continued)

20. PENSION (continued)

Analysis of the amount charged to operating profit

| | Year to 02/12/2007 | Year to 03/12/2006 |
|------------------------|-------------------------------|-------------------------------|
| | £'000 | £'000 |
| Service cost | 1,509 | 1,513 |
| Past service cost | - | - |
| Total operating charge | <u>1,509</u> | <u>1,513</u> |

Analysis of net return on pension scheme

| | Year to 02/12/2007 | Year to 03/12/2006 |
|--|-------------------------------|-------------------------------|
| | £'000 | £'000 |
| Expected return on pension scheme assets | 1,681 | 1,467 |
| Interest on pension liabilities | <u>(1,904)</u> | <u>(1,726)</u> |
| Net interest cost | <u>(223)</u> | <u>(259)</u> |

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

| | Year to 02/12/2007 | Year to 03/12/2006 |
|--|-------------------------------|-------------------------------|
| | £'000 | £'000 |
| Actual return less expected return on assets | 75 | (85) |
| Experience gains and (losses) on liabilities | 5,129 | 0 |
| Changes in assumptions | <u>(565)</u> | <u>(2,475)</u> |
| Actuarial gain/(loss) recognised in STRGL | 4,638 | (2,560) |
| Net (loss) / gain recognised | <u>4,638</u> | <u>(2,560)</u> |

PIZZA HUT (UK) LIMITED

NOTES (continued)

20. PENSION (continued)

Movement in deficit during the year

| | Year to 2/12/2007 £'000 | Year to 2/12/2006 £'000 |
|--|--|--|
| Deficit in scheme at beginning of year | (16,977) | (14,008) |
| Movement in year | | |
| Current service cost | (1,509) | (1,513) |
| Contributions | 1,166 | 1,363 |
| Past service costs | - | - |
| Net interest cost | (223) | (259) |
| Actuarial (loss) / gain | <u>4,638</u> | <u>(2,560)</u> |
| Deficit in scheme at end of year | <u>(12,904)</u> | <u>(16,977)</u> |

History of experience gains and losses

| | Financial year ending in | | |
|---|---------------------------------|-------------|-------------|
| | 2007 | 2006 | 2005 |
| Difference between expected and actual return on scheme assets | | | |
| amount (£000) | 75 | (85) | 2,282 |
| percentage of scheme assets | 0% | 0% | 12% |
| Experience gains and losses on scheme liabilities | | | |
| amount (£000) | 5,129 | 0 | 59 |
| percentage of scheme liabilities | 13% | 0% | 0% |
| Total amount recognised in statement of total recognised gains and losses | | | |
| amount (£000) | 4,638 | (2,560) | (3,535) |
| percentage of scheme liabilities | 12% | -6% | -11% |

21. EMPLOYEE SHARE SCHEMES – SHARE BASED PAYMENTS

Employees of the company are eligible to participate in various share plans as operated by the ultimate parent company, Yum! Brands, Inc. Full details of these plans, and the valuations methodologies applied, are set out in the Annual Report and Accounts of Yum! Brands, Inc. These are available free of charge from the address in Note 22, and are also available on the company's website at www.yum.com

The charge for the year relating to the share option plans amounted to £176,000 (2006 £0)



PIZZA HUT (UK) LIMITED

NOTES (continued)

22. 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 and 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

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