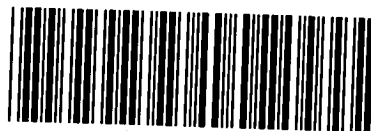


COMPANY REGISTRATION NUMBER 01072921

PIZZA HUT (U.K.) LIMITED

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED
2 December 2018**

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PIZZA HUT (U.K.) LIMITED

FOR THE YEAR ENDED 2 DECEMBER 2018

THE STRATEGIC REPORT

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PIZZA HUT (U.K.) LIMITED

FOR THE YEAR ENDED 2 DECEMBER 2018

THE STRATEGIC REPORT

The directors present their strategic report, the directors report and the audited financial statements of the company for the financial year from 4 December 2017 to 2 December 2018.

Principal Activities

The principal activity of the company during the financial year was trading as a restaurant operator. At the balance sheet date, Pizza Hut (U.K.) Limited operated 253 restaurants (2017: 262).

Business Model

Our restaurant model offers a warm, accessible and great value experience to a broad demographic of guests across all UK mainland geographies. Value is delivered through great-tasting, proprietary-recipe pizzas, affordable prices and a generous spirit to hospitality, exemplified by our unlimited free salad bar. Unit level economics are delivered by strong operational disciplines that minimise wastage of resources and are supported by scale purchasing. The model benefits from two strong dayparts, lunch and dinner, and a high level of unprompted awareness, which enable the model to operate profitably across a wide range of real estate locations.

Market Review

Market conditions remained challenging for casual dining operators throughout 2018. Demand growth was limited by low consumer confidence, low rates of real income growth, economic uncertainty, a rise in online shopping and, despite a number of high profile closure actions, a continuing overhang of overcapacity in the sector. This weakness in demand was exacerbated by a very hot Spring and Summer which benefited wet-led pub restaurant venues at the expense of traditional casual dining sites. Sector cost increases continued to put pressure on margins, particularly across labour, utilities and property cost lines. Nevertheless, whilst the market continues to be an extremely competitive and dynamic environment, it is one that consistently rewards innovation and the creation of new sources of value for guests. This creates new and exciting growth opportunities for businesses that are willing to evolve and respond to shifting consumer behaviours.

Strategy

In April of 2018, following the completion of a successful 5 year turnaround plan for the business, Pizza Hut Restaurant's senior leadership team completed a management buy-out (MBO) of the UK chain from its private equity backer Rutland Partners. The MBO, assisted through funding from Pricoa Capital Group, saw the long-serving management team, led by CEO Jens Hofma, take control of the business.

This new ownership structure provides the platform for the next 5 year growth plan and strategy. This strategy builds on the turnaround delivered since 2012, the main components of which were:

- A £40m refurbishment programme, delivering a distinctive, American-inspired contemporary look and feel across the dine-in estate.
- A rejuvenated menu, building new layers of choice for guests across all categories
- A distinctive brand voice and positioning, emphasising the unique freedom of choice and experience that guests enjoy at Pizza Hut.
- A reengineered economic model, less reliant on discount offers.

Notwithstanding the success that this changes delivered, management believe that the market around us continues to be very competitive and customer behaviours are continuing to evolve. These are being driven by innovation whether that be disruptive technology (Uber,

PIZZA HUT (U.K.) LIMITED

FOR THE YEAR ENDED 2 DECEMBER 2018

THE STRATEGIC REPORT (*continued*)

Deliveroo), the explosive growth in internet shopping, the rise of the smart phones, the growth in fast casual restaurants, the use of social media and the increasing influence of the young generations. These changes bring fresh opportunities for the business to adapt and grow. Our strategy powerfully combines three emerging opportunities to create significant new value for guests.

- 'Fast Casual' concept conversion
- New channels to access our food
- A best-in-class framework for improvement in operational practices

Fast Casual Concept

In 2017 the business began to experiment with a service model that enabled guests to order and pay before their meal at the counter/bar area. At the same time it became quickly apparent that customer trends were rapidly changing and this new way of enjoying a meal at Pizza Hut was becoming strongly preferred by a new generation of diners who want greater control of their experience and want it to be far quicker. Meanwhile, a number of brands have demonstrated that families are becoming increasingly content to use technology to order and pay and are placing less and less value on traditional dining. As a result of these early tests and observations, a fast casual concept has been developed which addresses some of the key structural challenges faced by the sector:

1. The demand for full service dine in is dwindling in favour of "fast casual" and "quick service"
 - preferences amongst young adults and millennials for greater control and speed
 - the need for a frictionless experience
 - lower value placed on formal interactions with staff
 - technology is already playing a key role in how guests order and pay as witnessed in McDonalds and Weatherspoon's
 - millennial attitudes are rubbing off on other age groups
2. The cost of delivering a full service (table-waited) experience is highly inflationary:
 - National minimum wage inflation is running at 5-7% per annum with additional rules and associated risks. Inflation beyond this level is not out of the question
 - Businesses in the sector face new costs - for example the Apprenticeship Levy which is funded through a government charge on payroll
 - There is likely to be a tightening in the labour market post Brexit

This cost inflation has historically been funded in part through menu pricing. However guests increasingly do not value full service enough to justify material increases in pricing.

3. Transactions per restaurant are in decline in the sector, a result of many factors including over expansion amongst competitors, economic uncertainty, growth in eating at home, growth of internet shopping and the associated closure of traffic generators.

The business is addressing these challenges (without sacrificing margin) by innovating away from the traditional full service restaurant model towards a fast casual service model which emphasises three core pillars of the guest experience:

- A frictionless, fast experience delivered consistently (speed)
- A warm, friendly, fun, unconstrained atmosphere and brand identity (suitable for families, warm interactions with guests)

PIZZA HUT (U.K.) LIMITED

FOR THE YEAR ENDED 2 DECEMBER 2018

THE STRATEGIC REPORT (*continued*)

- Delicious pizza and sides with everyday permissible options (taste, health)

Pizza Hut is particularly well-positioned to deliver these concept features. This strategy is being pursued primarily through the gradual conversion of existing sites from a full service model to a fast casual model. Further details are provided below, in the 'Highlights of 2018' commentary.

New Channels

Management recognise that a new generation of guests expect to access the brand in a variety of ways, and for that access to be easy and free of barriers. Management is pursuing three principal avenues to extend our guest's choice of how to access our great tasting pizzas:

- Reinvigorating our existing takeaway channel
- Developing strong partnerships with complementary consumer businesses
- Exploring trials of delivery service in certain locations.

Management expects to more than double the share of business that comes from these channels over the next 5 years.

Best-in-class Operational Practices

Operating at scale has always been a very strong core competence of the business and our guests value and rely on the consistency and reliability of our operations. Management is building on this strong platform by continuing to embed a new framework for Operational practice improvement – 'Heart with Smart'. This framework has been developed by operators, for operators and for the first time brings together all our operational improvement tools in one holistic scheme. This includes standardised routines for all components of running a restaurant, a standard assessment and measurement scheme and a complete set of problem-solving and action-driving tools that apply continuous improvement methodologies to the restaurant environment. In-store, this framework helps teams to deliver great shift experiences and to identify in a structured fashion, opportunities for further improvement and growth. Above store, the consistency and common language of the framework helps management to identify across the restaurant estate the practices that really drive better guest experiences and to focus resource and investment behind these practices.

Strategic Highlights of 2018

Highlights for the year included:

- **Fast Casual Conversions**

Consistent with the strategy outlined above, the business converted 16 restaurants to a fast casual format, building on the 6 converted in the 2017 financial year. Results from these sites were very encouraging, demonstrating good retention of guests and significantly improved margins. A staged rollout of the programme continues, capturing concept learnings and guest feedback at each stage.

- **New Channels**

Consistent with our strategic objective of establishing strong relationships with complementary consumer businesses, partnership agreements were signed with Compare the Market (Meerkat Meals), Unidays and Tastecard. The Meerkat Meals

PIZZA HUT (U.K.) LIMITED

FOR THE YEAR ENDED 2 DECEMBER 2018

THE STRATEGIC REPORT (*continued*)

programme provides guests who are members of Compare the Market's loyalty programme with a 2-4-1 offer for weekday evening visits. This provides the business with substantial new reach and drives volumes into a part of the week with spare capacity. Equally, our strong relationship with the student Unidays gives access to a large closed group of new guests with potential to create a lifelong relationship with the brand. During November 2018, in partnership with the franchisor Yum Brands!, the business began trials of a delivery service via a delivery aggregator in 3 locations. Initial results have been very encouraging. Additionally, the business put additional resources behind the takeaways channel, driving LFL growth in this channel of 1.8%.

- **Sunday Buffet**

Beginning in the Summer of 2018, the business extended its famous weekday lunchtime buffet offer into Sundays, with an enhanced product and at a higher price point. The offer was available throughout the balance of the year from opening time on Sunday to 5pm. Results have been very strong, achieving a 47% mix of transactions across these hours with a good degree of incremental business delivered. The offer continues in 2019.

- **Best in Class Operational Practices**

To support these strategic initiatives, the 'Heart with Smart' framework for operational excellence and improvement was fully embedded across the full estate in 2018, following a period of trial and refinement in 2017. Created by Pizza Hut experts, this programme is designed to strengthen compliance and brand standards whilst also providing direction to Restaurant Managers to help them to identify the opportunities within their restaurant. Each restaurant has 4 un-announced visits per annum and each includes a review of c.300 practices. The programme strengthens the Restaurant Manager's ability to cope with change, reinforces operational fundamentals, drives strength and consistency across the estate and links specific practices and behaviour. The programme allows the ability to collect valuable data and insights centrally providing a useful tool to unlock opportunities across the estate.

Pizza Hut Performance

During this difficult year for the sector, results were significantly impacted by the record warm weather over much of Spring and Summer. This was further impacted by reductions in consumer confidence across the year, as the outlook for the economy became more uncertain.

As a consequence of these factors, total sales fell by (5.2%) to £214m. Despite this pressure, Operating Losses reduced by £1.1m year on year, to £5.9 million loss (2017: £7.0 million loss). This improvement was delivered by an exceptionally strong focus on restaurant and head office costs, which ensured that unnecessary costs were not passed onto guests. As a consequence the Trading EBTIDA margin fell by only (1.3pts) despite the significant deleveraging impact of the sales decline. Additionally, substantial year on year cost savings were provided by reductions in onerous leases, end-of-lease provisions, deal costs, depreciation and bonuses.

The company reported net Exceptional Costs totalling £2.4 million (2017: £6.6 million). These are detailed on page 21 of the financial statements and include non-cash items such as provisions for dilapidations and onerous leases, with the impairments of fixed assets being the largest driver.

PIZZA HUT (U.K.) LIMITED

FOR THE YEAR ENDED 2 DECEMBER 2018

THE STRATEGIC REPORT (*continued*)

The overall loss for the financial year was £5.5 million (2017: £7.8 million loss), which is the net effect of the items outlined above coupled with a reduction in tax and interest costs. The strong cash position of the company is reflected by a cash balance of £10.9 million at balance sheet date.

As previously described, Management acquired the business in April 2018 and the deal transaction has contributed to a reduction in the net assets position principally due to the loss in the year and payment of dividend as shown in the Balance Sheet on page 12. Debtors have reduced by £10.8 million, largely as a result of a reduction in inter-company debt. Cash has fallen by £4.4 million, again largely related to the cash costs of the deal transaction. Finally, Fixed Assets have fallen by £12m as depreciation has exceeded new additions. This reflects the completion of the reimage programme and the transition to a less capital-intensive investment cycle under new ownership.

KPI's

The primary KPIs followed by the company are Sales and Trading EBITDA, which excludes exceptional items, versus prior year.

The sales for the financial year were £214 million (2017: £225 million), which was c. 5% lower than last year. On a like for like basis the decline was 4.1%. Factors impacting performance are outlined in the Market Review and Pizza Hut Performance sections earlier in this report.

Trading EBITDA, including central costs and excluding exceptional items, was £25.3 million (2017: £30.4 million), which was 17% lower year on year.

Principal Risks and Uncertainties

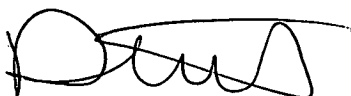
As a customer facing business, any risks to the UK economy as a whole, and in particular to consumer sentiment and spending could impact on overall performance of the company.

Whilst the principal risk to the business is lower guest volumes, the brand is relatively well positioned as a result of the overall affordability of the Pizza Hut (U.K.) Limited offer. The risk to earnings performance can be mitigated, in part, by savings in labour, which reduce at lower volumes, and by controlling discretionary costs and capital expenditure.

Significant food and wage inflation are also risk factors, although the business can to a certain extent offset inflationary pressure through menu mix and moderate menu price increases.

The 'Brexit' process by which the UK will leave the European Union remained unclear at the Balance Sheet date. The business is well-positioned and prepared for a variety of Brexit scenarios, however the risk of a 'No-Deal' Brexit would potentially lead to additional supply costs driven by a likely currency devaluation and reductions in the available supply of some ingredients, notably fresh vegetables. This scenario would also be likely to put further pressure on consumer demand across the sector.

The business undertakes vigorous forward planning by evaluating a broad range of trading scenarios and is consequently well placed to respond to these risks.



Mr A Platt
Director

This report was approved by the board and signed on its behalf on 10 June 2019

PIZZA HUT (U.K.) LIMITED

FOR THE YEAR ENDED 2 DECEMBER 2018

THE DIRECTORS' REPORT

RESULTS AND DIVIDENDS

The loss for the financial year amounted to £5,979,000 (2017: loss of £7,844,000).
The directors paid a dividend of £15,085,000 (2017: nil) to PHH2 Limited, this was immediately used to repay inter-company debt.

On 20 April 2018, Rutland and the management transferred 100% of their shareholding in PHH1 Limited, the previous ultimate parent company to HWS 3 Limited.
On 20 December 2017, the nominal value of each of the ordinary shares of £1.00 each held by the Company was reduced by £0.99 to £0.01 thereby creating a distributable reserve of £70,789,950.

DIRECTORS

The directors of the company who were in office during the financial year and up to the date of signing the financial statements were:

Mr J Hofma
Mr H Birts (resigned 20 April 2018)
Ms K Austin
Mr M Spencer
Mr A Walker (resigned 20 April 2018)
Mr A Platt (appointed 20 April 2018)
Ms S Marshall (appointed 20 April 2018)

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

GOING CONCERN

The company's business activities together with the factors likely to affect its future development, performance, and position are set out in the sections above and in the strategic report. The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future being a period of 12 months from signing these financial statements. Accordingly they continue to adopt the going concern basis.

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.

PIZZA HUT (U.K.) LIMITED

FOR THE YEAR ENDED 2 DECEMBER 2018

THE DIRECTORS' REPORT *(continued)*

EMPLOYEE INVOLVEMENT

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

Pizza Hut continues to engage team members via Yammer, which is a social networking tool that enables internal communications across the country. Team members can post photos, ask questions, share success stories and engage with one another. 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 via roadshows, team meetings and social networking.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). 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 company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

DIRECTORS' CONFIRMATIONS

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

PIZZA HUT (U.K.) LIMITED

FOR THE YEAR ENDED 2 DECEMBER 2018

THE DIRECTORS' REPORT *(continued)*

DIRECTORS' INDEMNITIES

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

FINANCIAL RISK MANAGEMENT POLICY

As a customer facing business, any risks to the UK economy as a whole, and in particular to consumer spending could impact on the overall performance of the company. However the brand is relatively well positioned as a result of the overall affordability of the Pizza Hut (U.K.) Limited Restaurants offering. Significant food and wage inflation are also risk factors, although the business can to a certain extent offset inflationary pressure through moderate menu price increases. The risk to earnings performance can be mitigated by savings in labour, which reduce at lower volumes, and by controlling discretionary costs and capital expenditure.

As permitted by Paragraph 1A of Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and reports) Regulations 2008 certain matters which are required to be disclosed in the directors' report have been omitted as they are included in the strategic report on pages 1-5. These matters relate to principal activities, business review, future developments and risks and uncertainties.

DISCLOSURE OF INFORMATION TO AUDITORS

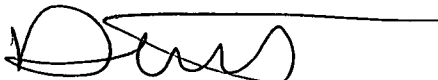
The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make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

INDEPENDENT AUDITORS

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and are deemed to be re-appointed under section 487(2) of the Companies Act 2006.

Registered office:
Building 1 Imperial Place
Elstree Way
Borehamwood
Hertfordshire
WD6 1JN

The financial statements on pages 12 to 29 were approved by the Board of Directors on 10 June 2019 and signed on behalf of the board by



Mr A Platt
Director

PIZZA HUT (U.K.) LIMITED

FOR THE YEAR ENDED 2 DECEMBER 2018

Independent auditors' report to the members of Pizza Hut (U.K.) Limited

Report on the audit of the financial statements

Opinion

In our opinion, Pizza Hut (U.K.) Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 2 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 2 December 2018; the statement of comprehensive income, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information.

PIZZA HUT (U.K.) LIMITED

FOR THE YEAR ENDED 2 DECEMBER 2018

Independent auditors' report to the members of Pizza Hut (U.K.) Limited (Continued)

Reporting on other information (continued)

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities. With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 2 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or

PIZZA HUT (U.K.) LIMITED

FOR THE YEAR ENDED 2 DECEMBER 2018

Independent auditors' report to the members of Pizza Hut (U.K.) Limited (*Continued*)

Companies Act 2006 exception reporting (continued)

- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Matthew Mullins (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
St Albans
12 June 2019

PIZZA HUT (U.K.) LIMITED

FOR THE YEAR ENDED 2 DECEMBER 2018

STATEMENT OF COMPREHENSIVE INCOME

	Note	2018 £000	2017 £000
TURNOVER	5	213,983	225,210
Other operating income	6	<u>103</u>	<u>93</u>
		214,086	225,303
Operating costs	7	<u>(220,015)</u>	<u>(232,315)</u>
Operating Loss	9	(5,929)	(7,012)
Analysed as:			
OPERATING LOSS BEFORE EXCEPTIONAL ITEMS		(3,498)	(390)
Exceptional Items	11	<u>(2,431)</u>	<u>(6,622)</u>
OPERATING LOSS		(5,929)	(7,012)
Interest receivable and similar income	12	38	44
Interest payable and similar expenses	12	(269)	(544)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(6,160)	(7,512)
Tax on Loss	13	181	(332)
LOSS FOR THE FINANCIAL YEAR		(5,979)	(7,844)
Other Comprehensive Income		-	-
TOTAL COMPREHENSIVE (EXPENSE) FOR THE YEAR		(5,979)	(7,844)

The notes on pages 15 to 29 form part of these financial statements.


PIZZA HUT (U.K.) LIMITED

BALANCE SHEET

AS AT 2 December 2018

	Note	2018 £000	2018 £000	2017 £000	2017 £000
FIXED ASSETS					
Intangible assets	14		503		631
Tangible assets	15		<u>51,774</u>		<u>63,751</u>
			52,277		64,382
CURRENT ASSETS					
Stocks	16	988		1,168	
Debtors	17	5,343		16,522	
Cash at bank and in hand		<u>10,858</u>		<u>15,236</u>	
		17,189		32,926	
CREDITORS: Amounts falling due within one year					
	18	<u>(31,059)</u>		(37,511)	
NET CURRENT LIABILITIES					
			<u>(13,870)</u>		<u>(4,585)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES					
			38,407		59,797
PROVISIONS FOR LIABILITIES					
Deferred taxation	22		(17)		(762)
Other provisions	23		<u>(6,447)</u>		<u>(6,028)</u>
NET ASSETS					
			<u>31,943</u>		<u>53,007</u>
CAPITAL AND RESERVES					
Called up share capital	25		715		71,505
Retained Earnings/(Accumulated losses)			31,228		(18,498)
TOTAL SHAREHOLDERS' FUNDS					
			<u>31,943</u>		<u>53,007</u>

The financial statements on pages 12 to 29 were approved by the Board of Directors on 10 June 2019 and signed on behalf of the board by:


.....
Mr A Platt
Company Registration Number: 01072921

PIZZA HUT (U.K.) LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 2 DECEMBER 2018

	Called-up share capital	Share Premium	Retained earnings / (Accumulated Losses)	Total
	£000	£000	£000	£000
Balance as at 4 December 2016	71,505	-	(10,654)	60,851
Loss for the financial year	-	-	(7,844)	(7,844)
Other comprehensive income for the year	-	-	-	-
Balance as at 3 December 2017	71,505	-	(18,498)	53,007
Balance as at 3 December 2017	71,505	-	(18,498)	53,007
Loss for the financial year	-	-	(5,979)	(5,979)
Share conversion	(70,790)	-	70,790	-
Dividends	-	-	(15,085)	(15,085)
Balance as at 2 December 2018	715	-	31,228	31,943

PIZZA HUT (U.K.) LIMITED

FOR THE YEAR ENDED 2 DECEMBER 2018

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Pizza Hut (U.K.) Limited trades as a restaurant operator in the UK. At the balance sheet date, Pizza Hut (U.K.) Limited operated 253 restaurants (2017: 262).

The company is a private company limited by shares and is incorporated and domiciled in England. The address of its registered office is Building 1, Imperial Place, Elstree Way, Borehamwood, WD6 1JN.

2. STATEMENT OF COMPLIANCE

The individual financial statements of Pizza Hut (U.K.) Limited have been prepared in compliance with United Kingdom accounting standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS102") and the Companies Act 2006.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principle policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The company has adopted FRS102 in these financial statements.

Basis of preparation

The financial statements have been prepared on a going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable UK accounting standards and the policies have been applied consistently between years.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

Going concern

The company's business activities together with the factors likely to affect its future development, performance, and position are set out in the sections above. The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future being a period of 12 months from signing these financial statements. The company therefore continues to adopt the going concern basis.

Exemptions for qualifying entities under FRS 102

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.39 to 11.48A;
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.29;

This information is included in the consolidated financial statements of HWS4 Limited as at 2 December 2018 and these financial statements may be obtained from Building 1, Imperial Place, Elstree Way, Borehamwood, WD6 1JN.

PIZZA HUT (U.K.) LIMITED

FOR THE YEAR ENDED 2 DECEMBER 2018

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign Currency

The company's functional and presentation currency is pound sterling.

Revenue recognition

Revenue is measured at fair value of the consideration received or receivable and represents the amount receivable for services rendered, net of returns, discounts and value added taxes.

Rental Income

Rentals received under sublease agreements are credited to income on a straight-line basis over the lease term.

Exceptional items

The company classifies certain irregular charges or credits that have a significant impact on the company's financial results and items that do not reflect the underlying trading of the business as 'exceptional items'. These are disclosed separately to provide further understanding of the financial performance of the company.

Fixed assets

Tangible assets are stated at cost (or deemed cost) less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use, dismantling and restoration costs and borrowing costs capitalised.

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 on a straight line basis as follows:

Land and buildings - effective life of the lease.

Fixtures and fittings - 3 years to 10 years.

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 and used in the business. Revenue costs are expensed as incurred.

Stocks

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

Operating lease agreements

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease.

Dilapidations

Provisions for dilapidations are provided when the company becomes obligated and the liability can be reliably estimated.

PIZZA HUT (U.K.) LIMITED

FOR THE YEAR ENDED 2 DECEMBER 2018

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Pension costs and other post-retirement benefits

The Company operates a number of defined contribution pension schemes. A defined contribution plan is a pension plan under which the company pays a fixed contribution into a separate entity. Once the contributions have been paid the company has no further payment obligation. The contributions are recognised as an expense as they are due. Amounts not paid are shown in accruals in the balance sheet. The assets of the plan are held separately from the company in independently administered funds.

Taxation including deferred taxation

Taxation expense for the period comprises of current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income. In this case tax is also recognised in other comprehensive income.

Current or deferred taxation assets and liabilities are not discounted.

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reported date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing differences.

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 term of the lease.

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.

PIZZA HUT (U.K.) LIMITED

FOR THE YEAR ENDED 2 DECEMBER 2018

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets

At each balance sheet date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset (or asset's cash generating unit) may be impaired. If there is such an indication the recoverable amount of the asset (or asset's cash generating unit) is compared to the carrying amount of the asset (or asset's cash generating unit).

The recoverable amount of the asset (or asset's cash generating unit) is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future cash flows before interest and tax obtainable as a result of the asset's (or asset's cash generating unit) continued use. These cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset (or asset's cash generating unit) is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the profit and loss account.

Thereafter any excess is recognised in profit or loss.

Financial instruments

The company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

Financial assets

Basic financial assets, including trade and other receivables, cash and bank balances and investments in commercial paper, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

PIZZA HUT (U.K.) LIMITED

FOR THE YEAR ENDED 2 DECEMBER 2018

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(Continued)*

Financial liabilities

Basic financial liabilities, including trade and other payables, bank loans, loans from fellow Group companies and preference shares that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

4. CRITICAL ACCOUNTING JUDGEMENT AND ESTIMATION UNCERTAINTY

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

Critical judgements in applying the entity's accounting policies

Critical accounting estimates and assumptions

The company makes estimations and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Store closure provisions

When a restaurant becomes vacant or management take a decision to close early, the company provides for all unavoidable costs, net of anticipated cash inflows.

Onerous lease provision

Where a restaurants cash inflows do not meet its liabilities, and where a decision to close early has not been taken, the company provides for all unavoidable costs, net of anticipated cash inflows.

PIZZA HUT (U.K.) LIMITED

FOR THE YEAR ENDED 2 DECEMBER 2018

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

4. CRITICAL ACCOUNTING JUDGEMENT AND ESTIMATION UNCERTAINTY *(continued)*

Impairment

The company impairs its tangible assets for restaurants where the future discounted cash flows, including their share of central overheads, do not cover the assets of the restaurant.

Dilapidation

The restaurant units are leased based on a defined number of years, the estimated dilapidation cost are calculated based on the historical dilapidation payments made for restaurants where the lease has come to an end.

5. TURNOVER

The turnover and loss on ordinary activities before taxation are attributable to the one principal activity of the company. An analysis of turnover is given below:

	2018 £000	2017 £000
United Kingdom	<u>213,983</u>	<u>225,210</u>

6. OTHER OPERATING INCOME

	2018 £000	2017 £000
Rent receivable	<u>103</u>	<u>93</u>

7. OPERATING COSTS

Year ended 2 December 2018

	Excluding exceptional items £000	Exceptional items £000	Total £000
Raw materials and consumables	(42,293)	-	(42,293)
Other external charges	(88,916)	(487)	(89,403)
Staff costs	(71,574)	-	(71,574)
Depreciation and other amounts written off tangible and intangible assets	<u>(14,801)</u>	<u>(1,944)</u>	<u>(16,745)</u>
Total operating costs	<u>(217,584)</u>	<u>(2,431)</u>	<u>(220,015)</u>

PIZZA HUT (U.K.) LIMITED

FOR THE YEAR ENDED 2 DECEMBER 2018

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

7. OPERATING COSTS *(continued)*

Year ended 3 December 2017

	Excluding exceptional items £000	Exceptional items £000	Total £000
Raw materials and consumables	(45,154)	-	(45,154)
Other external charges	(87,411)	(1,143)	(88,554)
Staff costs	(77,148)	-	(77,148)
Depreciation and other amounts written off tangible and intangible assets	<u>(15,980)</u>	<u>(5,479)</u>	<u>(21,459)</u>
Total operating costs	<u>(225,693)</u>	<u>(6,622)</u>	<u>(232,315)</u>

8. PARTICULARS OF EMPLOYEES

The average monthly number of staff employed by the company during the financial year amounted to:

	2018 No	2017 No
Office and Management	712	738
Restaurants	<u>6,419</u>	<u>7,295</u>
	<u>7,131</u>	<u>8,033</u>

The aggregate payroll costs of the above were:

	2018 £000	2017 £000
Wages and salaries	65,375	71,294
Social security costs	4,431	4,498
Other Pension costs	<u>1,768</u>	<u>1,356</u>
	<u>71,574</u>	<u>77,148</u>

Included within other pension cost are accruals of £228k (2017: £150k) in relation to defined contribution pension schemes.

PIZZA HUT (U.K.) LIMITED

FOR THE YEAR ENDED 2 DECEMBER 2018

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

9. OPERATING LOSS

Operating Loss is stated after charging/(crediting):

	2018 £000	2017 £000
Depreciation of owned fixed assets	14,672	15,852
Amortisation of intangible fixed assets	103	111
Loss on disposal of fixed assets	549	334
Loss on disposal of intangible fixed assets	25	17
Operating lease costs:		
- Land and Buildings	24,422	24,867
Auditors' remuneration – audit of the financial statements	35	52
Auditors' remuneration – other fees:		
- Taxation services	10	7
- Other services	261	164

The company pays for the group audit and tax fees.

10. DIRECTORS' REMUNERATION

The directors' emoluments were as follows:

	2018 £000	2017 £000
Aggregate remuneration excluding pension contributions	214	0
Pension contributions	37	0

Highest paid director

The highest paid director's emoluments were as follows:

	2018 £000
Total amounts of emoluments	125
Accrued pension at the end of the year	21

PIZZA HUT (U.K.) LIMITED

FOR THE YEAR ENDED 2 DECEMBER 2018

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

11. EXCEPTIONAL ITEMS

	2018 £000	2017 £000
Net exceptional (cost) / income on early lease termination	(313)	(4,735)
Impairment of tangible fixed assets	(2,052)	(1,098)
Advisor fees	(66)	(789)
	<u>(2,431)</u>	<u>(6,622)</u>

Lease termination income and costs - These costs relate to store closures which fall outside of the groups re-image programme which was identified and controlled by management as part of the turnaround strategy implemented at the time of Pizza Hut (U.K.) Limited acquisition. These costs are offset by payments received in relation to early termination of leases and includes a provision for onerous leases.

Impairments – The impairment of the tangible fixed assets following a review in accordance with FRS 102 on a value in use basis using a pre-tax discount rate of 12%.

Advisor fees - Legal and adviser fees relating to a one-off strategic project.

12. NET INTEREST EXPENSE

Interest receivable and similar income

	2018 £000	2017 £000
Deposit Interest	(38)	(44)
	<u>(38)</u>	<u>(44)</u>

Interest payable and similar expenses

	2018 £000	2017 £000
Other Interest paid	152	211
Inter-company Interest	117	333
	<u>269</u>	<u>544</u>

PIZZA HUT (U.K.) LIMITED

FOR THE YEAR ENDED 2 DECEMBER 2018

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

13. TAX ON LOSS

(a) Analysis of credit in the financial year

	2018 £000	2017 £000
Current tax:		
In respect of the year;		
UK Corporation tax charge based on the loss for the year at 19% (2017 - 19.32%)	309	541
Group relief	(138)	(295)
Under provision in prior years	393	45
Total current tax	564	291
Deferred tax:		
Origination of timing differences	(745)	41
Adjustment in respects of prior period	-	-
Total Deferred tax	(745)	41
Tax on loss	(181)	332

(b) Reconciliation of tax (credit)/charge

Tax expense for the financial year is lower (2017: higher) than the standard rate of corporation tax in the UK for the financial year ended 2 December 2018 of 19% (2017: 19.32%). The differences are explained below:

	2018 £000	2017 £000
Loss on ordinary activities before taxation	(6,160)	(7,512)
Current Tax at 19 % (2017 - 19.32%)	(1,170)	(1,451)
Expenses not deductible for tax purposes	734	1,125
Deferred tax not provided for capital allowances and depreciation	-	908
Corporation tax based on results for the year	(436)	582
Group relief	(138)	(295)
Under provision in prior years	393	45
Total tax (credit)/charge	(181)	332

Note on taxation:

The tax charge for the financial year has been reduced by £138k (2017: £295k) because of losses surrendered by the parent undertaking. No payment for this surrender is to be made by the company.

PIZZA HUT (U.K.) LIMITED

FOR THE YEAR ENDED 2 DECEMBER 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13. TAX ON LOSS (continued)

(c) Factors that may affect future tax charges

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate to reduce the rate to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial.

14. INTANGIBLE ASSETS

	Operating Rights £000
Cost	
At 03 December 2017	4,171
Additions	-
Disposals	(65)
At 02 December 2018	4,106
Accumulated Amortisation	
At 03 December 2017	3,540
Charge for the financial year	103
On Disposals	(40)
At 02 December 2018	3,603
Net Book Value	
At 02 December 2018	503
At 03 December 2017	631

15. TANGIBLE ASSETS

	Land and buildings £000	Assets in the course of construction £000	Fixtures and Fittings £000	Total £000
COST OR VALUATION				
At 03 December 2017	128,041	1,296	83,389	212,726
Additions	1,245	1,330	2,721	5,296
Disposals	(3,572)	-	(4,956)	(8,528)
Transfers	1,735	(2,210)	475	-
At 02 December 2018	127,449	416	81,629	209,494
ACCUMULATED DEPRECIATION				
At 03 December 2017	85,999	-	62,976	148,975
Charge for the year	7,512	-	7,160	14,672
Disposals	(3,270)	-	(4,709)	(7,979)
Impairment charge	1,231	-	821	2,052
At 02 December 2018	91,472	-	66,248	157,720
NET BOOK VALUE				
At 02 December 2018	35,977	416	15,381	51,774
At 03 December 2017	42,042	1,296	20,413	63,751

PIZZA HUT (U.K.) LIMITED

FOR THE YEAR ENDED 2 DECEMBER 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. STOCKS

	2018 £000	2017 £000
Ingredients	925	1,027
Merchandising	63	141
	<u>988</u>	<u>1,168</u>

17. DEBTORS

	2018 £000	2017 £000
Trade debtors	2,450	2,499
Amounts due to group undertaking	-	9,840
Other debtors	85	117
Prepayments and accrued income	2,807	4,066
	<u>5,343</u>	<u>16,522</u>

Amounts owed by group undertakings are unsecured, have no fixed date of repayment and are repayable on demand.

18. CREDITORS: Amounts falling due within one year

	2018 £000	2017 £000
Trade creditors	8,826	11,053
Amounts owed to group undertaking	98	-
Taxation and social security	7,415	7,800
Other creditors	1,135	2,642
	<u>17,474</u>	<u>21,495</u>
Accruals and deferred income	13,585	16,016
	<u>31,059</u>	<u>37,511</u>

On 20 April 2018, HWS 3 Limited and Pizza Hut (U.K.) Limited, subsidiaries of the group, entered into a facility agreement with HSBC Bank plc pursuant to which HSBC Bank plc made a three year multicurrency revolving credit facility in an aggregate amount of up to £5,000,000 available to Pizza Hut (U.K.) Limited. This facility is provided for general corporate and working capital purposes of HWS 3 Limited and its subsidiaries and is supported by guarantees and security provided by Pizza Hut (U.K.) Limited and HWS 3 Limited. Interest is payable on drawn amounts at a rate of LIBOR or EURIBOR (as applicable) plus 3.50% per annum and a commitment fee is payable on undrawn amounts at a rate of 1.4% per annum.

PIZZA HUT (U.K.) LIMITED

FOR THE YEAR ENDED 2 DECEMBER 2018

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

19. POST-EMPLOYMENT BENEFITS

The company provides a defined contribution scheme for its employees.

The amount recognised as an expense for the defined contribution scheme was:

	2018 £000	2017 £000
Current period contribution	1,768	1,353

20. RELATED PARTY DISCLOSURES

The company has taken advantage of the exemption provided by FRS102 from disclosing related party transactions with other companies within the HWS 4 Limited Group on the basis that it is a wholly owned subsidiary and its ultimate parent publishes consolidated financial statements.

21. GUARANTEE

There was a charge over the assets of Pizza Hut (U.K.) Limited for Loan Notes of £20.27 million, issued by PHH2 Limited. The guarantee was satisfied on the 1st May 2018. Pizza Hut (U.K.) Limited provides guarantees and security in relation to the credit facilities as described in note 18.

22. DEFERRED TAXATION

The movement in the deferred taxation provision during the financial year was:

	2018 £000	2017 £000
Provision brought forward	(762)	(721)
Profit and loss account movement arising during the year	745	(41)
Provision carried forward	<u>(17)</u>	<u>(762)</u>

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

	2018 £000	2017 £000
Lower depreciation on fixed assets over taxation allowance	(17)	(762)
	<u>(17)</u>	<u>(762)</u>

There are no unused tax losses or unused tax credits.

PIZZA HUT (U.K.) LIMITED

FOR THE YEAR ENDED 2 DECEMBER 2018

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

23. OTHER PROVISIONS

	Dilapidations	Onerous Lease	Total
	£000	£000	£000
At 03 December 2017	3,343	2,685	6,028
Charged to the profit and loss account	160	498	658
Utilised this year	(181)	(224)	(405)
Amortisation of discount	41	125	166
At 02 December 2018	<u>3,363</u>	<u>3,084</u>	<u>6,447</u>

Dilapidations provisions relate to the expected future exit costs of operating lease agreements. In the prior year, a provision was made in respect of the costs of future store closures. These costs were classified as exceptional as management were undergoing a re-image and portfolio rationalisation. In the current year, management have revised the estimated cost of exit, utilised some of the provision and amortised the discount, this has resulted in the increase of the provision.

Onerous lease provisions relate to leasehold properties where cash inflows are unable to meet its liabilities and the company provides for all unavoidable costs, net of anticipated income, to the earlier of break option or lease expiry.

24. COMMITMENTS

At 3 December 2017 and 2 December 2018 the company had annual commitments under non-cancellable operating leases as set out below.

	Land and buildings	
	2018	2017
	£000	£000
Operating lease which expire:		
Within 1 year	23,882	24,506
Within 2 to 5 years	71,957	75,292
After more than 5 years	42,326	48,390
	<u>138,165</u>	<u>148,188</u>

In relation to the amounts shown above, the company has sublease agreements with an income of £102,047 (2017: £93,297).

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

PIZZA HUT (U.K.) LIMITED

FOR THE YEAR ENDED 2 DECEMBER 2018

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

25. CALLED UP SHARE CAPITAL

Authorised share capital:

	2018 £000	2017 £000
100,000,000 (2017: 100,000,000) Ordinary shares of £1 each	100,000	100,000

Allotted, called up and fully paid:

	2018		2017	
	No	£000	No	£000
Ordinary shares of £0.01 each	71,505,000	715	71,505,000	71,505

On 17th December 2017, the directors of the company agreed to reduce the nominal value of each ordinary share of £1.00 each held by the Company by £0.99 to £0.01 thereby creating distributable reserves of £70,789,950.

26. ULTIMATE PARENT COMPANY

The immediate parent of Pizza Hut (U.K.) Limited is PHH2 Limited, a company registered in England and Wales.

Until 19 April 2018, the Ultimate parent company was PHH1 Limited, a company incorporated in England and Wales. On 20 April 2018, Rutland and the management transferred 100% of their shareholding in PHH1 Limited to HWS 3 Limited. Starting from this date, the Company become wholly-owned subsidiary of HWS 4 Limited, a company incorporate in England and Wales.

The address of the immediate and ultimate parent companies where the financial statements can be obtained from is Building 1 Imperial Place, Elstree Way, Borehamwood, Hertfordshire, WD6 1JN.

Until 19 April 2018, the Ultimate controlling party was deemed to be Rutland Partners LLP through its majority shareholding in PHH1 Limited. From 20 April 2018 the ultimate controlling party is deemed to be the management through their majority shareholding in HWS 4 Limited.