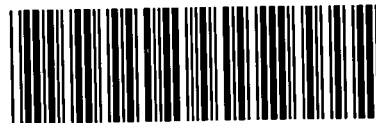


COMPANY REGISTRATION NUMBER 01072921

**PIZZA HUT (U.K.) LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL PERIOD ENDED  
29 NOVEMBER 2020**

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# **PIZZA HUT (U.K.) LTD**

**FOR THE FINANCIAL PERIOD ENDED 29 NOVEMBER 2020**

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# **PIZZA HUT (U.K.) LIMITED**

**FOR THE FINANCIAL PERIOD ENDED 29 NOVEMBER 2020**

## **STRATEGIC REPORT**

The directors present their strategic report, the directors' report and the audited financial statements of the company for the financial period from 2 December 2019 to 29 November 2020.

### **Principal Activities**

The principal activity of the company during the financial period was trading as a restaurant operator. At the balance sheet date, Pizza Hut (U.K.) Limited operated 214 restaurants (2019: 246).

### **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 of hospitality, exemplified by our unlimited free salad bar. Unit level economics are delivered by strong operational disciplines that minimise wastage of resources and a mobile-device ordering platform that helps to deliver an efficient labour model. The economics are further supported by scale purchasing. The model benefits from two strong dayparts, lunch and dinner across all seven days of the week. In addition to a strong core dine-in offer, the mode benefits from fast-growing takeaway and delivery channels, the latter operated in partnership with Deliveroo, Uber Eats and Just Eat. The brand also benefits from a high level of unprompted awareness. This combination of features enables the model to operate profitably across a wide range of real estate locations.

### **Market Review**

Nothing could have prepared the hospitality sector for the challenges faced in 2020. The impact of the COVID-19 pandemic has been unprecedented and has created enormous disruption in the market. The direct impact of trading restrictions has impacted financial results across the sector and has led to a wide range of necessary and unavoidable financial restructuring actions amongst almost all scale restaurant operators.

On 28<sup>th</sup> September 2020 the company itself undertook a Company Voluntary Arrangement due to the impact of COVID-19 on the hospitality sector. The main elements of the arrangements included closure of 29 restaurants, forgiven rents for the period of temporary closures (25<sup>th</sup> March 2020 to 28<sup>th</sup> September 2020) and the renegotiation of lease terms. Lease modifications included variations to the amount of rent payable which included a move to turnover rent basis in some cases and a reduction to zero rent in others, new break clauses in termination rights and the release of some dilapidation obligations. The company was provided with a £15m working capital facility from its existing lenders.

At the same time, necessity has been the mother of invention and many innovations that would in more normal times have developed slowly and cautiously have been accelerated dramatically. Three examples within the company include the rapid development and successful implementation of a mobile-device ordering platform, a move to a completely cashless operating model and a striking acceleration of our capability to offer guests the option of enjoying our mouth-watering menu in the comfort of their homes, either via contactless collection at the restaurant or through delivery partners. This latter development has positioned the business well to compete within the growing market for eating-at-home options.

There has additionally been a significant reduction in capacity in what was previously an over-crowded market. Whilst the market will adjust over time to a growth in demand post the pandemic, it is likely that brands will avoid over-extending their site portfolios and consequently some of this capacity reduction should endure.

# PIZZA HUT (U.K.) LIMITED

FOR THE FINANCIAL PERIOD ENDED 29 NOVEMBER 2020

## STRATEGIC REPORT *(continued)*

### Market Review *(continued)*

It is too early to predict how strongly and quickly demand will bounce back, but the success of the UK vaccination programme augers well for a robust return to strong unit-level results in the second half of 2021. As always, the market will remain one that consistently rewards innovation and the creation of new sources of value for guests. Management believe the long-term fundamentals of the market, grounded in long-term economic growth, growth in real earnings and the highly-valued experience of eat out, continue to be strong. This creates new and exciting growth opportunities for businesses that are willing to evolve and respond to shifting consumer behaviours. Having weathered the storm, and with the benefit of the backing from our committed investors and lenders, the company is well-placed to seize these opportunities in the months and years ahead.

### Strategy

As we operate in the casual dining / fast casual segment of the hospitality sector, our business is amongst the most severely impacted by the Covid pandemic. We have therefore had to resort to extraordinary measures and appeal to generous support to navigate through this crisis. These include:

- Support from landlords by forfeiting rent during the first lockdown period and, in many cases, moving to variable rents during a two year CVA period.
- A new credit line of £15m provided by our lenders Pricoa Capital.
- A voluntary salary sacrifice by many of our employees, managers and directors.
- Government support through the furloughing scheme, rates holiday, reduced VAT, business grants and the Eat Out to Help Out scheme.
- Solidarity demonstrated by our supplier base and franchisor.

We are deeply grateful for and humbled by the solidarity shown by our employees, business partners and the broader community.

We have also stepped up to implement a number of self-help measures including:

- Streamlining our cost base.
- Growing our take away and aggregator delivery business.
- Speedy reopening of dine-in in July 2020 with all required measures in place.
- Frequent and transparent staff communications to strengthen our culture and retain our managers and teams ahead of reopening.
- Reaching out to the broader community by providing free or heavily discounted food to NHS workers and the homeless during the lockdown period.

As a result we have succeeded in steering the Company through this crisis and will now be in a position to rebuild our business.

Our strategy in the wake of the Covid pandemic has gained in boldness and clarity. The key components are as follows:

### Regain financial strength and investment capability

- The Company successfully re-opened its dine-in operations in July 2021, in time for the peak summer trading. Trading performance during the summer school holiday exceeded expectations and led to a significantly improved cash position. The company continues to regain financial strength through strong operations and careful cash management.

# PIZZA HUT (U.K.) LIMITED

FOR THE FINANCIAL PERIOD ENDED 29 NOVEMBER 2020

## STRATEGIC REPORT *(continued)*

### **Regain financial strength and investment capability *(continued)***

- Step change our model towards a Fast Casual experience using our mobile device ordering solution developed during the Covid crisis. Whilst avoiding the need for counter-ordering, this transition to Fast Casual (already planned pre-Covid) can now be accomplished rapidly without an onerous CAPEX programme.
- Ensure our sales performance translates into strong cash generation (reduced VAT, business rates, business grants and streamlined cost base) to bolster our balance sheet and ensure future investment capability.

### **Engage with our landlord community to arrive at fair and balanced rent arrangements by the end of the CVA period**

- Our landlords have been severely affected by the Covid crisis alongside us and we are very grateful for their support.
- Our CVA was set out for two years, a comparatively short period reflecting our desire to not ask for more than what is needed and to return to normality sooner rather than later. At the end of the CVA period we have committed to return to a minimum of 70% of pre-Covid contract rent or more depending on market conditions and market rents in 2022.
- As the Company continues to recover financial strength during the second half of 2021, we remain engaged with landlords regarding our future growth strategy and the opportunities this strategy presents.

### **Reignite growth and new store development**

- Build on our more contemporary Fast Casual guest experience and menu to unlock capacity and drive footfall in our existing Pizza Hut estate.
- Continue to drive the take-away and aggregator delivery sales layers developed during the Covid crisis through competitive pricing, relevant consumer communication and a frictionless guest experience.
- Reframe our business as the largest, most professional franchisee in the UK. Partner with additional brands to broaden our portfolio and reignite our new store opening programme. At time of writing, the Company has entered into a franchise agreement with itsu and opened its first itsu shop in Reading, by converting a former Pizza Hut. This new site is performing strongly and ahead of business case expectations.

### **Pizza Hut Performance**

Due to the unprecedented, exceptional impact of the COVID-19 pandemic, like-for-like sales results are not meaningful to report. However, total Turnover fell by 39% to £129m. In the 12 weeks prior to the pandemic, the business had delivered like-for-like sales growth of 5.9%. Operating Losses before Exceptional Items increased by just over £8.2m million year-on-year, from a £0.5 million loss in 2019 to a £8.8m loss in 2020. These results include the direct impact of the pandemic on trading.

The company reported net Exceptional Costs totalling £14.5 million (2019: £2.6 million). These are detailed on page 29 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. The significant impairment charge in the year takes into account Management's prudent evaluation of the future risk of restaurant closures at the balance sheet date. There was also a significant increase in advisor fees in during the year as a result of the Company Voluntary Arrangement on 28th September 2020 for which legal and advisor costs were incurred.

# **PIZZA HUT (U.K.) LIMITED**

**FOR THE FINANCIAL PERIOD ENDED 29 NOVEMBER 2020**

## **STRATEGIC REPORT** *(continued)*

### **Pizza Hut Performance** *(continued)*

The overall loss for the financial period was £18.5 million (2019: £3.1 million loss), which is the net effect of the items outlined above. The strong cash position of the company is reflected by a cash balance of £8.8 million at balance sheet date.

#### **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 period were £129.4 million (2019: £211.0 million).

Trading EBITDA, including central costs and excluding exceptional items, was a loss of £0.4 million in the year (2019: £26.0 million). The company recognised £17.3 million of the Job Retention Scheme grant in the year and £0.5 million of Local Restrictions Support Grants as a result of the hospitality sector having to temporarily close. Factors impacting performance are outlined in the Market Review and Pizza Hut Performance sections earlier in this report.

#### **Principal Risks and Uncertainties**

In the current environment, a strong and successful recovery relies on the effectiveness of the UK vaccination programme in reducing cases of COVID-19 and critically, hospitalisations pressure on the NHS. The latter has been the main driver of the need to enforce lockdowns and other restrictions which negatively impact trading. The pace and scale of the vaccination programme has been strong and initial indications are that the vaccine provides good protection against developing a serious illness and additionally appears to significantly reduce the risk of person to person transmission. However there remains a risk that new variants of the virus may lead to some restrictions in the future. This risk is mitigated in part by the established Government practice of providing targeted support to the sector during times of restrictions. Additionally, the CVA has enabled many lease arrangements to be agreed which flex the rents payable during times of Covid-led restrictions.

As a customer facing business, the health of the UK economy as a whole, and in particular consumer sentiment and spending can impact on the performance of the company. As the economy begins to recover the company and sector may need a level of targeted support to facilitate as rapid a recovery as possible. Nevertheless, in this environment the brand is relatively well positioned as a result of the overall affordability of the Pizza Hut (U.K.) Limited offer and the longed-for experience it brings. Additionally, the risk to earnings performance can be mitigated, in part, by savings in labour, which reduce at lower volumes, a higher proportion of leases containing turnover-related rents and by controlling discretionary costs and capital expenditure.

Significant food and wage inflation are also risk factors, although the business can mitigate this inflationary pressure through ongoing productivity, menu architecture and moderate menu price increases.

As the UK has left the European Union, some disruption to cross-border trade has been experienced. This has yet to have a material impact on the availability and cost of supplies to the company, but there remains a risk that additional inbound controls to be phased in, in January and July 2022 may create a degree of food cost inflation on certain product lines and that temporary shortages of supply may be experienced. The company has made allowance for this potential impact in its cash flow and business planning.

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

# **PIZZA HUT (U.K.) LIMITED**

**FOR THE FINANCIAL PERIOD ENDED 29 NOVEMBER 2020**

## **STRATEGIC REPORT** *(continued)*

### **Section 172 of the UK's Companies Act**

#### **Directors' duties**

The Directors are required to act in a manner which complies with their duties as set out in the UK Companies Act 2006. These duties include a duty to promote the success of the Company, which is summarised below.

In summary, as required by section 172 of the Companies Act 2006, a Director of a company must act in the way he/she considers, in good faith, would most likely promote the success of the company for the benefit of its shareholders. In doing this, the Director must have regard, amongst other matters, to the:

- likely consequences of any decisions in the long term;
- interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and environment;
- company's reputation for high standards of business conduct;
- need to act fairly between members of the company.

The following is an overview of how the board have performed its duties during the year.

#### **Shareholders**

The Chairman, Chief Executive Officer, Chief Financial Officer and Senior leadership Team have regular contact with major shareholders. The board receives regular updates on the views of shareholders which are taken into account when the board makes decisions. In particular, the board is focused on the long term strategy and growth of the business and ensuring that the business creates strong and enduring value for its stakeholders, including the shareholders. As an example, the business has invested to reposition the business more effectively away from a 'full service' dine-in model to a 'fast casual' model that will better match the emerging consumer needs for speed, control and access to products through multiple channels, including collection and delivery.

#### **Employee Engagement**

To deliver great food and service to our guests, our teams need to be skilled, confident and happy. People make the Pizza Hut Restaurants brand what it is and that's why the company vision is to be 'The Most Loved Place to Eat and Work'.

All of our team members, whether or not they join us with a long term career plan, have the opportunity to develop a range of transferable skills from the moment they start. In addition to technical skills, Restaurant Management receive behavioural training and, as skilled coaches, they are passionate about unlocking the inner potential of their team. Our long term people mission is to professionalise careers in hospitality. In January 2020 the company became a registered Employer Provider authorised to deliver Apprenticeship programmes in-house and as a result the company have a network of highly skilled Managers who have been internally licensed to manage entry level Apprenticeship placements supported by a central team of professional teachers. The company offer qualifications including Level 2/3 & 4 (equivalent of 5 GCSEs, 2 A levels and foundation degree respectively), and partner with a

# **PIZZA HUT (U.K.) LIMITED**

**FOR THE FINANCIAL PERIOD ENDED 29 NOVEMBER 2020**

## **STRATEGIC REPORT *(continued)***

### **Employee Engagement *(continued)***

number of Universities to offer L6 (bachelor's degree equivalent) up to the highest L7 MBA qualification.

In terms of communicating and listening to our teams the board host a fortnightly 'All Company' live interactive webcast. The company's CEO plus guests, presents general news, hot topics and an open Q&A where anyone can ask anything (no matter how sensitive) and receive a straight and honest answer. Recent subjects have included sensitive topics regarding remuneration, furlough treatment and hut closures.

Hundreds of people participate in the webcast and from it ideas are shared, issues discussed and everyone is kept up to date with what is happening across the company. In addition to this the company uses internal social media (Yammer) to enable further daily two-way communication and a weekly 'Mycomms' information based news-letter to ensure that everyone has access to key information. The culture is open and based on a democratic sharing of information and enabling everyone to have the ability to make their opinion heard.

The company goes beyond the basics to enable the teams to work in a safe and fair environment and one in which everyone can flourish. Our gender-pay report is published annually and initiatives are launched each year to support the diversity agenda including things like cross-company mentoring programmes.

In terms of governance, the company maintain an internal remuneration committee, a board level REMCO and specifically for the treatment of tips, a Troncs committee which is made up of team member representatives. The teams are provided with access to a confidential help-line to retrieve a variety of personal support services and there is a whistle-blowing process in place to ensure that risk information can be escalated in confidence. The board recognise that during these challenging times it is fundamental to provide a safe and meaningful workplace to support the teams to enable them to develop 'skills for life' and to provide a solid foundation for the future.

### **Customers**

The main source of customer feedback is taken from survey data of both on and off-premise experiences. This data is reviewed weekly and monthly by both field and central teams to affect change as needed, such as where service has not been as expected or to recognise team members for a job well done. Longer term trends or test cell feedback from the survey data are read at set points throughout the year for key strategic activity, for example how the company have navigated the self-serve model with COVID-19 and the re-introduction of free refills in November.

The company have utilised this data to form the remainder of the plan out of COVID operations. When the Dine-In is able to re-open post lockdown, the social channels will be reviewed alongside the survey feedback to provide a wider breadth of understanding from our guests.

### **Suppliers**

Suppliers are an important part of the companies' ecosystem and are treated as such. The suppliers are treated fairly and with respect, and relationships with the suppliers are governed by multiple policies on code of conduct, modern slavery and ethical trading. Many of the company's key supplier relationships are long term strategic partnerships that have existed for up to 30 years and are based upon regular and honest two way feedback.



# PIZZA HUT (U.K.) LIMITED

FOR THE FINANCIAL PERIOD ENDED 29 NOVEMBER 2020

## STRATEGIC REPORT *(continued)*

### Suppliers *(continued)*

The company build strong relationships with suppliers through regular one to one reviews, factory visits and an annual supplier conference. Virtual webcasts are also published with a two way Q&A session to keep suppliers informed on the company's strategy.

### Community and Environment

The board recognise that Pizza Hut Restaurants has an important role in contributing to wider society and as such take the responsibilities seriously. For the last couple of years the company have invested in an in-house Corporate Social Responsibility expert to help identify the ways in which we can make progress in areas where we have identified we can make a difference. We have defined pillars of corporate social responsibility from 'people' to the 'planet'.

In terms of the 'people' pillar, and in-addition to our investment in education that enables social mobility, the company was the first restaurant business to sign up to support the Mental Health UK 'Rethink' Pledge with the goal of raising awareness of mental health in the work place and tackling stigmas. Particularly in the context of the pandemic, mental health is a serious and growing issue which is why the board are committed to balancing the skills based training with emotional development, and creating a safe and open working culture where frank and honest conversations can be had about mental health. Mental Health UK is also our company-wide nominated charity and we fund raise and support events local to our Huts.

The company's 'planet' environmental pillar is also moving in the right direction with reduction of electricity, gas and water usage, introducing more efficient equipment and LED lighting, and driving better usage via regular reports from smart meters and educating teams on energy conservation. The company has made good progress on packaging and works closely with industry experts to assess the impact packaging really has on the environment. All of our takeaway boxes come from FSC certified sustainable sources. In 2018, the company introduced paper straws and eradicated the plastic ones from the restaurants forever and in 2021 are making a switch to an even more sustainable straw made from bamboo from certified forests.

The board are proud to play a broader leadership role in the sector, and are active members of a number of organisations committed to positive change as detailed below;

- Commitment to Courtauld 2025 - an ambitious voluntary agreement that brings together organisations across the food system to make food and drink production and consumption more sustainable. We are also part of the policy steering group on reducing food waste. Our shared ambition is to cut the resource needed to provide food and drink by one-fifth in ten years. That's good news for everyone.
- We are also co-chairing one of the three working groups of the ZCF tackling scope 3 emissions across the value chain, co-ordinating efforts with other hospitality operators and their suppliers. As a business and brand we are committed to making a positive difference.
- Achieved 2 star status of the Sustainable Restaurant Association who independently assess our sustainable practices and who facilitate cross sector collaboration on environmental issues.

# PIZZA HUT (U.K.) LIMITED

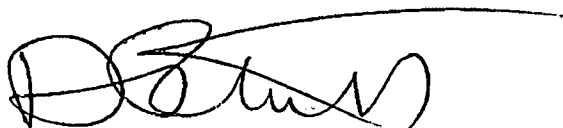
FOR THE FINANCIAL PERIOD ENDED 29 NOVEMBER 2020

## STRATEGIC REPORT *(continued)*

### Community and Environment *(continued)*

- In 2019 we completed a full carbon foot-printing assessment, and in 2020 we joined the Zero Carbon Forum as a founding signatory. This sector wide initiative is the most ambitious environmental programme in hospitality, and is aimed at moving the sector to net zero emissions in a timescale that meets or beats globally accepted deadlines for tackling the climate emergency. We are also co-chairing one of the three working groups of the ZCF, tackling scope 3 emissions across the value chain, co-ordinating efforts with other hospitality operators and their suppliers.

As a business and brand the board are committed to making a positive difference.

A handwritten signature in black ink, appearing to read 'A Platt', with a long horizontal line extending from the end of the signature.

Mr A Platt  
Director

This report was approved by the board and signed on its behalf on 24 November 2021

# **PIZZA HUT (U.K.) LIMITED**

**FOR THE FINANCIAL PERIOD ENDED 29 NOVEMBER 2020**

## **THE DIRECTORS REPORT**

### **RESULTS AND DIVIDENDS**

The loss for the financial period amounted to £18,455,000 (2019: loss of £3,132,000).  
The directors have not recommended a dividend in 2020.

### **DIRECTORS**

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

Mr J Hofma  
Ms K Austin  
Mr M Spencer  
Mr A Platt  
Ms S Marshall

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

### **GOING CONCERN**

The directors have adopted the going concern basis in preparing these accounts after assessing the principal risks and having considered the impact of a severe but plausible downside scenario for COVID-19.

#### **Liquidity**

The directors have considered a number of possible COVID-19 impacts on sales, profits & cash flows. These impacts vary depending on the extent and duration of any restrictions imposed on trading by authorities in England, Wales & Scotland. In order of severity, the restrictions modelled include:

- A. The use of 'vaccine passports' – estimated to impact sales negatively by 10%
- B. A return to 'social distancing' impacting capacity inside the restaurants – estimated to impact sales negatively by 30%
- C. A total restriction on indoor dining – estimated to impact sales negatively by 65%
- D. A additional restriction on outdoor dining – estimated to impact sales negatively by 75% ('lockdown' scenario)

In the most severe scenario D, the business would see a fall in operating cash flow of approximately £1.5m per week, in the absence of any government or local authority support. Absent any restrictions, the company is expected to enjoy an average cash at bank balance of £12m across the next 12 months. This figure is net of discretionary capital expenditure of £5m. Additionally, the company has access to a £15m working capital accordion facility of which £8.5m is undrawn. Consequently, the company is considered to have sufficient liquidity to accommodate a future lockdown lasting between 14 and 17 weeks, without government or local authority support.

In such an event, the company would be likely, but not certain, to enjoy support mechanisms such as local government support grants, furlough schemes and tax benefits such as VAT reductions, rescheduling of HMRC liabilities or reductions in Business Rates. A typical support package would be likely to at least double the period of lockdown resilience to approximately 6-8 months.

# **PIZZA HUT (U.K.) LIMITED**

## **FOR THE FINANCIAL PERIOD ENDED 29 NOVEMBER 2020**

### **THE DIRECTORS REPORT** *(continued)*

#### **Covenants**

The company (as a cross-guarantor of HWS3) must operate within the parameters of its quarterly lending covenants. These include leverage (Debt/EBITDA) covenants and a Debt Service Cover covenant (Cash flow available to service debt costs). The company monitors its projected covenant position weekly, looking forward at least 24 months and regularly discusses the headroom position on these covenants with its lenders. After the outbreak of the pandemic, the directors anticipated a potential breach of these covenants and, through consultation with its lenders, agreed a temporary revised covenant structure well in advance of the anticipated breach date. The company now once again operates within its original covenant framework and is forecasting to remain within its covenants. In the event that COVID-19 outbreaks led to further restrictions, the company would again engage with its lenders with the objective of returning to a temporary revised covenant structure, to avoid any breach of its lending agreements.

The company enjoys excellent relationships with its lenders, some of whom are equity shareholders in the Group and the directors anticipate that the agreement of a temporary covenant framework in the event of further restrictions would be straightforward. However, there remains a technical risk that if this was not achieved, the company may, in these circumstances, be unable to avoid a breach of one or more of the covenants. This in turn would create a technical breach of the lending agreements which would provide the lenders with the option to enforce their security, if they wished to do so.

Given the liquidity position of the company, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Consequently, the directors continue to adopt the going concern basis of accounting in preparing these accounts, although referring to a material uncertainty (arising from the covenant risk), as detailed in note 3 to these accounts.

#### **DISABLED EMPLOYEES**

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

#### **EMPLOYEE INVOLVEMENT**

Throughout this financial period, 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. This year we introduced a fortnightly 'All Company' live interactive webcast hosted by our CEO. Hundreds of people participate in the webcast and from it, ideas are shared, issues discussed and everyone is kept up to date with what is happening across the company

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.

# PIZZA HUT (U.K.) LIMITED

FOR THE FINANCIAL PERIOD ENDED 29 NOVEMBER 2020

## THE DIRECTORS REPORT *(continued)*

### CORPORATE GOVERNANCE ARRANGEMENTS

Pizza Hut (U.K) Limited form part of the HWS 4 Limited group. The principal corporate governance rules applying to HWS 4 Limited group are contained in the Financial Reporting Council's (FRC) UK Corporate Governance code. Further information on the Group's corporate Governance arrangements are disclosed in the published consolidated account of HWS 4 Limited.

### STREAMLINED ENERGY AND CARBON REPORTING

	Metric	2020 (000's)	2019 (000's)	2020 (tCO <sub>2</sub> e)	2019 (tCO <sub>2</sub> e)
Scope 1					
Natural gas	kWh	17,556	25,919	3,228	4,765
Refrigerants	kg	0.4	-	1,060	-
Scope 1 Total				4,288	4,765
Scope 2					
Purchased electricity (location-based method)	kWh	31,807	46,950	7,415	12,000
Purchased electricity (market-based method)	kWh	31,807	46,950	-	-
Scope 2 Total				-	-
		tCO <sub>2</sub> e / £m			
Emissions intensity (Scopes 1 and 2)	revenues			33	23
Scope 3					
Fuel for business travel (rental / employee-owned vehicles)	km	714	1,625	116	269
All other scope 3		-	-	-	-
Scope 3 Total				116	269

Pizza Hut report GHG emissions using the World Resources Institute (WRI) / World Business Council for Sustainable Development (WBCSD) GHG Protocol Corporate Accounting and Reporting Standard (Revised Edition).

The carbon conversion factors as advised in guidance published by the UK's Department for Business, Energy and Industrial Strategy (BEIS) - 2020 version 1.0 and 2019 version 1.3 respectively. All emissions volumes have been reported in tonnes of CO<sub>2</sub> equivalent (tCO<sub>2</sub>e).

Scope 1 emissions have been calculated for natural gas and leaked refrigerants (the net of drawn down and topped up amounts) only. The business does not own or operate any equipment or vehicles that require their own fuels i.e. furnaces and boilers, company owned vehicles.

Scope 2 emissions have been calculated using market-based methodologies in accordance with the GHG Protocol Scope 2 Guidance on procured renewable energy and that the chosen utilities provider has confirmed that the supply of purchased electricity meets the quality criteria as required.

Scope 3 emissions include emissions associated with fuel for business travel only. Omissions have been made for other scope 3 emissions as these were not calculated for the financial periods 2020 or 2019.

# **PIZZA HUT (U.K.) LIMITED**

**FOR THE FINANCIAL PERIOD ENDED 29 NOVEMBER 2020**

## **THE DIRECTORS REPORT *(continued)***

### **STREAMLINED ENERGY AND CARBON REPORTING *(continued)***

#### **Methodology:**

- Energy volumes have been calculated using kilowatt hours (kWh) as provided by regular invoicing from the chosen utilities supplier.
- Refrigerants have been reported in kilograms (kg) as per regular purchasing behaviours and represent the amount of 'leaked' refrigerant within the reporting period only.
- Business mileage has been measured in kilometres (km) and was calculated using expensed mileage claims.
- For this submission, emissions intensity has been measured in tonnes CO<sub>2</sub>e per £1 million of sales revenues however, this is subject to review for future submissions.
- Scope 1, 2 and 3 emissions for both FY 2020 and FY 2019 have been reported where possible to do so.

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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

Company law requires the directors to prepare financial statements for each financial period. 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.

# **PIZZA HUT (U.K.) LIMITED**

**FOR THE FINANCIAL PERIOD ENDED 29 NOVEMBER 2020**

## **THE DIRECTORS REPORT *(continued)***

### **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.

### **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 period and is currently in force. The company also purchased and maintained throughout the financial period 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 1-8. 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.

# **PIZZA HUT (U.K.) LIMITED**

**FOR THE FINANCIAL PERIOD ENDED 29 NOVEMBER 2020**

## **THE DIRECTORS REPORT *(continued)***

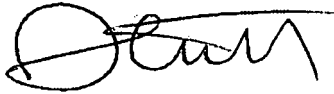
### **INDEPENDENT AUDITORS**

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 18 to 37 were approved by the Board of Directors on 24 November 2021 and signed on behalf of the board by

Mr A Platt  
Director

A handwritten signature in black ink, appearing to be 'A Platt', written over a horizontal line.



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

## **Report on the audit of the financial statements**

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### **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 29 November 2020 and of its loss for the period 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 29 November 2020; the statement of comprehensive income, and statement of changes in equity for the period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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### **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.

### **Material uncertainty related to going concern**

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 3 to the financial statements concerning the company's ability to continue as a going concern. The Company is a cross guarantor for the borrowings of its intermediate parent undertaking HWS 3 Limited and its subsidiary undertakings (together "the HWS 3 group"). Based on the Directors' forecasts for the HWS 3 group it is forecast to remain within its covenants and facilities. These forecasts, however, are based on certain revenue and other assumptions. The continuing presence and impact of COVID-19 in the UK on the casual dining market is such that there is inherent uncertainty over these assumptions and the HWS 3 group could breach covenants which would make the loans repayable on demand. These conditions, along with the other matters explained in note 3 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

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### **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. 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.

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

## ***Strategic Report and Directors' Report (continued)***

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 period ended 29 November 2020 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.

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## **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, 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](http://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.

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

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## **Other required reporting**

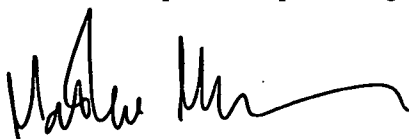
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### **Companies Act 2006 exception reporting**

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
- 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  
Watford

29 November 2021

**PIZZA HUT (U.K.) LIMITED****STATEMENT OF COMPREHENSIVE INCOME****FOR THE FINANCIAL PERIOD ENDED 29 NOVEMBER 2020**

	Note	2020 £000	2019 £000
<b>TURNOVER</b>	<b>5</b>	<b>129,402</b>	<b>210,990</b>
Operating costs	6	(170,553)	(214,193)
Other operating income	7	17,823	112
<b>Operating Loss</b>	<b>9</b>	<b>(23,328)</b>	<b>(3,091)</b>
<b>Analysed as:</b>			
<b>OPERATING LOSS BEFORE EXCEPTIONAL ITEMS</b>		<b>(8,878)</b>	<b>(510)</b>
Exceptional Items	11	(14,450)	(2,581)
<b>OPERATING LOSS</b>		<b>(23,328)</b>	<b>(3,091)</b>
Interest receivable and similar income	12	46	102
Interest payable and similar expenses	12	(315)	(190)
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>(23,597)</b>	<b>(3,179)</b>
Tax on loss on ordinary activities	13	5,142	47
<b>LOSS FOR THE FINANCIAL YEAR</b>		<b>(18,455)</b>	<b>(3,132)</b>

The notes on pages 21 to 37 form part of these financial statements.

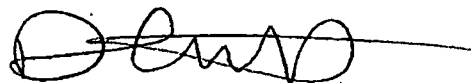
# PIZZA HUT (U.K.) LIMITED

## BALANCE SHEET

AS AT 29 NOVEMBER 2020

	Note	2020 £000	2020 £000	2019 £000	2019 £000
<b>FIXED ASSETS</b>					
Intangible assets	14		236		367
Tangible assets	15		18,619		41,468
			<u>18,855</u>		<u>41,835</u>
<b>CURRENT ASSETS</b>					
Stocks	16	311		946	
Debtors	17	16,404		11,846	
Cash at bank and in hand	18	8,773		10,859	
		<u>25,488</u>		<u>23,651</u>	
<b>CREDITORS: Amounts falling due within one year</b>	19	<u>(29,972)</u>		<u>(29,602)</u>	
<b>NET CURRENT LIABILITIES</b>			<u>(4,484)</u>		<u>(5,951)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			14,371		35,884
<b>PROVISIONS FOR LIABILITIES</b>					
Other provisions	24		<u>(4,015)</u>		<u>(7,073)</u>
<b>NET ASSETS</b>			<u>10,356</u>		<u>28,811</u>
<b>CAPITAL AND RESERVES</b>					
Called up share capital	26		715		715
Retained Earnings			9,641		28,096
<b>TOTAL SHAREHOLDERS' FUNDS</b>			<u>10,356</u>		<u>28,811</u>

The financial statements on pages 21 to 37 were approved by the Board of Directors on 24 November 2021 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 FINANCIAL PERIOD ENDED 29 NOVEMBER 2020

	Called-up share capital	Retained earnings	Total
	£000	£000	£000
Balance as at 3 December 2018	715	31,228	31,943
Loss for the financial year	-	(3,132)	(3,132)
Balance as at 2 December 2019	715	28,096	28,811
Balance as at 2 December 2019	715	28,096	28,811
Loss for the financial year	-	(18,455)	(18,455)
Balance as at 29 November 2020	715	9,641	10,356

# PIZZA HUT (U.K.) LIMITED

FOR THE FINANCIAL PERIOD ENDED 29 NOVEMBER 2020

## 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 214 restaurants (2019: 246).

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 principal policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the financial periods 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 is a cross guarantor for the borrowings of HWS 3 Limited and its subsidiary undertakings (together "the HWS 3 group"). As such, the Company operates within a framework of covenants related to these borrowings as described in the Directors' Report. The HWS 3 group is forecast to remain within the limits of its covenants and facilities.

However the continuing presence of COVID-19 creates an inherent uncertainty over these assumptions (which include projections relating to the slow recovery of trading in central London, consumer propensity to use restaurants, the absence of government restrictions that would materially impact trading, energy inflation estimates and estimates of the cost of food inflation and other direct input costs), such that the HWS 3 group could breach covenants, within the period of 12 months from the date of approval of the financial statements, which would make the loans repayable on demand.

In these circumstances, the HWS 3 group would expect to remedy the forecast breach in advance through management action, such as reductions in discretionary expenditure or to negotiate revised covenants in advance to avoid a breach. The avoidance of such a breach, however, may not be possible and as such these conditions indicate the existence of a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern. These financial statements do not include the adjustments that would result if the Company were unable to continue as a going concern.

# PIZZA HUT (U.K.) LIMITED

FOR THE FINANCIAL PERIOD ENDED 29 NOVEMBER 2020

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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

#### **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 29 November 2020 and these financial statements may be obtained from Building 1, Imperial Place, Elstree Way, Borehamwood, WD6 1JN.

#### **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.

#### **Government grants**

Grants received relating to the Job Retention Scheme, Local Restrictions Support Grants and Closed Businesses Lockdown Payments are recognised on an accrual basis in accordance with FRS102.

#### **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.

Intangibles assets (operating rights) are stated at cost less accumulated amortisation and accumulated impairment losses and amortised over 20 years. Operating rights, representing initial franchise fees payable for new restaurants, are receivable on franchise restaurants and recognised in the period of opening.



# PIZZA HUT (U.K.) LIMITED

FOR THE FINANCIAL PERIOD ENDED 29 NOVEMBER 2020

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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

#### **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 are available for use. 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.

#### **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

# PIZZA HUT (U.K.) LIMITED

FOR THE FINANCIAL PERIOD ENDED 29 NOVEMBER 2020

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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

#### **Taxation including deferred taxation *(continued)***

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.

#### **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.

# **PIZZA HUT (U.K.) LIMITED**

**FOR THE FINANCIAL PERIOD ENDED 29 NOVEMBER 2020**

## **NOTES TO THE FINANCIAL STATEMENTS *(continued)***

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

#### **Financial assets *(continued)***

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.

#### **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. During 2020 a new working capital facility has come into place where fees are expensed as occurred.

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 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.

# PIZZA HUT (U.K.) LIMITED

FOR THE FINANCIAL PERIOD ENDED 29 NOVEMBER 2020

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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

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 period are addressed below.

#### **Onerous lease provision**

Where a restaurant's 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. In addition, the timing of the cash flows and the discount rates used to establish net present value of the obligations require estimation.

#### **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. In addition, the assumption of cash flows and the discount rates used to establish net present value of the obligations require estimation.

#### **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. In addition, the timing of the cash flows and the discount rates used to establish net present value of the obligations require estimation.

### 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:

	2020 £000	2019 £000
United Kingdom	<u>129,402</u>	<u>210,990</u>

In FY2020, as a result of the COVID19, the governments' decision to close the hospitality sector forced the temporary closure of all Dine-In services which resulted in a significant loss of sales.

# PIZZA HUT (U.K.) LIMITED

FOR THE FINANCIAL PERIOD ENDED 29 NOVEMBER 2020

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 6. OPERATING COSTS

#### Year ended 29 November 2020

	Excluding exceptional items £000	Exceptional items £000	Total £000
Raw materials and consumables	(25,317)	-	(25,317)
Other external charges	(53,857)	(981)	(54,838)
Staff costs	(65,955)	-	(65,955)
Depreciation and other amounts written off tangible and intangible fixed assets	<u>(10,974)</u>	<u>(13,469)</u>	<u>(24,443)</u>
Total operating costs	<u>(156,103)</u>	<u>(14,450)</u>	<u>(170,553)</u>

#### Year ended 1 December 2019

	Excluding exceptional items £000	Exceptional items £000	Total £000
Raw materials and consumables	(41,212)	-	(41,212)
Other external charges	(86,030)	(465)	(86,495)
Staff costs	(71,103)	-	(71,103)
Depreciation and other amounts written off tangible and intangible fixed assets	<u>(13,267)</u>	<u>(2,116)</u>	<u>(15,383)</u>
Total operating costs	<u>(211,612)</u>	<u>(2,581)</u>	<u>(214,193)</u>

### 7. OTHER OPERATING INCOME

	2020 £000	2019 £000
Rent receivable	73	112
Job Retention Scheme grant	17,250	-
Local Restrictions / closed business support grants	500	-
	<u>17,823</u>	<u>112</u>

In FY2020, as a consequence of COVID 19, a significant number of the team were furloughed giving rise to the receipt of the Job Retention Scheme.

As a result of the substantial temporary store closures the company was also eligible for the Local Restrictions and Closed Business Support grants.

# PIZZA HUT (U.K.) LIMITED

FOR THE FINANCIAL PERIOD ENDED 29 NOVEMBER 2020

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 8. PARTICULARS OF EMPLOYEES

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

	2020 No	2019 No
Office and Management	574	661
Restaurants	<u>4,821</u>	<u>5,715</u>
	<u>5,395</u>	<u>6,376</u>

In FY2020, as a result of the Company Voluntary Arrangement, 29 restaurants were closed and teams restructured which have driven a reduction in the average number of staff employed as at the Balance Sheet date.

The aggregate payroll costs of the above were:

	2020 £000	2019 £000
Wages and salaries	59,213	63,948
Social security costs	3,947	4,397
Other Pension costs	<u>2,795</u>	<u>2,103</u>
	<u>65,955</u>	<u>70,448</u>

In FY2020, as a result of the Company Voluntary Arrangement, 29 restaurants were closed and teams restructured which have driven a reduction in the aggregate payroll costs.

Included within other pension cost are accruals of £253k (2019: £275k) in relation to defined contribution pension schemes.

### 9. OPERATING LOSS

Operating Loss is stated after charging:

	2020 £000	2019 £000
Depreciation of owned fixed assets	10,843	13,169
Amortisation of intangible fixed assets	76	94
Loss on disposal of fixed assets	1,741	789
Loss on disposal of intangible fixed assets	55	4
Operating lease costs:		
- Land and Buildings	20,367	23,717
Auditors' remuneration – audit of the financial statements	53	46
Auditors' remuneration – other fees:		
- Taxation services	32	27
- Other services	44	13

The company pays for the group audit and tax fees.

# PIZZA HUT (U.K.) LIMITED

FOR THE FINANCIAL PERIOD ENDED 29 NOVEMBER 2020

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 10. DIRECTORS' REMUNERATION

The directors' emoluments were as follows:

	2020 £000	2019 £000
Aggregate remuneration excluding pension contributions	330	352
Pension contributions	<u>36</u>	<u>39</u>

#### Highest paid director

The highest paid director's emoluments were as follows:

	2020 £000	2019 £000
Total amounts of emoluments	<u>184</u>	<u>196</u>
Accrued pension at the end of the year	<u>33</u>	<u>35</u>

### 11. EXCEPTIONAL ITEMS

	2020 £000	2019 £000
Net exceptional income/(cost) on early lease termination	2,848	(1,067)
Impairment of tangible fixed assets	(12,945)	(1,502)
Advisor fees	<u>(4,353)</u>	<u>(12)</u>
	<u>(14,450)</u>	<u>(2,581)</u>

**Lease termination income and costs** - These costs relate to store closures during the year offset by payments received in relation to early termination of leases. A provision for onerous leases is also included.

In FY2020, as a result of the Company Voluntary Arrangement, certain expected costs in relation to dilapidations and onerous leases, which were provided for in prior years, will no longer be incurred and have been released, resulting in a net exceptional credit overall.

**Impairments** – The significant impairment charge in the year takes into account restaurant closures which are considered more likely than not as at the balance sheet date.

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

**Advisor fees** - As a result of the Company Voluntary Arrangement on 28<sup>th</sup> September 2020 legal and advisor costs were incurred to renegotiate lease terms and an arrangement of rent forgiveness concessions for the period of temporary closures (25<sup>th</sup> March 2020 to 28<sup>th</sup> September 2020).

# PIZZA HUT (U.K.) LIMITED

FOR THE FINANCIAL PERIOD ENDED 29 NOVEMBER 2020

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 12. NET INTEREST EXPENSE

#### Interest receivable and similar income

	2020 £000	2019 £000
Deposit Interest	(46)	(102)
	<u>(46)</u>	<u>(102)</u>

#### Interest payable and similar expenses

	2020 £000	2019 £000
Other Interest paid	-	17
Finance charge on provisions	315	173
	<u>315</u>	<u>190</u>

### 13. TAX ON (LOSS)/PROFIT

#### (a) Tax credit included in loss

	2020 £000	2019 £000
Current tax:		
In respect of the year;		
UK Corporation tax (credit)/charge based on the loss for the year at 19% (2019 - 19%)	(3,944)	634
Group relief	(68)	(68)
Under provision in prior years	32	42
Total current tax	<u>(3,980)</u>	<u>608</u>
Deferred tax:		
Origination of timing differences	(1,057)	(655)
Adjustment in respects of prior period	(105)	-
Total Deferred tax	<u>(1,162)</u>	<u>(655)</u>
Tax on loss	<u>(5,142)</u>	<u>(47)</u>



# PIZZA HUT (U.K.) LIMITED

FOR THE FINANCIAL PERIOD ENDED 29 NOVEMBER 2020

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 13. TAX ON LOSS *(continued)*

#### (b) Reconciliation of tax credit

Tax expense for the financial period is lower (2019: lower) than the standard rate of corporation tax in the UK for the financial period ended 29 November 2020 of 19% (2019: 19%). The differences are explained below:

	2020 £000	2019 £000
Loss on ordinary activities before taxation	(23,597)	(3,179)
Current Tax at 19 % (2019 - 19%)	(4,483)	(604)
Income not subject to tax	(2,763)	-
Expenses not deductible for tax purposes	<u>2,245</u>	<u>583</u>
Corporation tax based on results for the	(5,001)	(21)
Group relief	(68)	(68)
Under provision in prior years	(73)	42
Total tax credit	<u>(5,142)</u>	<u>(47)</u>

#### Note on taxation:

The tax charge for the financial period has been reduced by £68k (2019: £68k) because of losses surrendered by the parent undertaking. No payment for this surrender is to be made by the company.

#### (c) Tax rate changes

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. As the proposal to increase the rate to 25% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the balance sheet date, would be to reduce the tax expense for the period by £568k, to increase the deferred tax asset by £568k.

# PIZZA HUT (U.K.) LIMITED

FOR THE FINANCIAL PERIOD ENDED 29 NOVEMBER 2020

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 14. INTANGIBLE ASSETS

	£000
Cost	
At 02 December 2019	3,993
Additions	-
Disposals	(414)
At 29 November 2020	3,579
Accumulated Amortisation	
At 02 December 2019	3,626
Charge for the financial year	76
On Disposals	(359)
At 29 November 2020	3,343
Net Book Value	
At 29 November 2020	236
At 02 December 2019	367

Subsequent to the Balance Sheet date, and as a result of the Company Voluntary Arrangement, a further 30 restaurants have closed which would have driven an impairment charge of £26k.

### 15. TANGIBLE ASSETS

	Land and buildings £000	Assets in the course of construction £000	Fixtures and Fittings £000	Total £000
<b>COST OR VALUATION</b>				
At 02 December 2019	93,276	390	40,514	134,180
Additions	998	1,035	647	2,680
Disposals	(16,304)	(127)	(12,233)	(28,664)
Transfers	489	(1,028)	539	-
At 29 November 2020	78,459	270	29,467	108,196
<b>ACCUMULATED DEPRECIATION</b>				
At 02 December 2019	63,412	-	29,300	92,712
Charge for the year	6,415	-	4,428	10,843
Disposals	(15,342)	-	(11,581)	(26,923)
Impairment charge	8,801	-	4,144	12,945
At 29 November 2020	63,286	-	26,291	89,577
<b>NET BOOK VALUE</b>				
At 29 November 2020	15,173	270	3,176	18,619
At 02 December 2019	29,864	390	11,214	41,468

Subsequent to the Balance Sheet date, and as a result of the Company Voluntary Arrangement, a further 30 restaurants have closed which would have driven an impairment charge of £135k.

The significant impairment charge in the year takes into account where restaurant closures are considered more likely than not as at the balance sheet date.

# PIZZA HUT (U.K.) LIMITED

FOR THE FINANCIAL PERIOD ENDED 29 NOVEMBER 2020

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 16. STOCKS

	2020 £000	2019 £000
Ingredients	291	937
Merchandising	20	9
	<u>311</u>	<u>946</u>

In FY2020, as a result of the COVID19, the governments' decision to close the hospitality sector forced the temporary closure of all Dine-In services which resulted in lower food stock held as at 29 November 2020.

### 17. DEBTORS

	2020 £000	2019 £000
Trade debtors	1,122	2,957
Amounts owed by group undertakings	7,798	5,293
Deferred Tax Asset	1,800	638
Other debtors	4,012	13
Prepayments and accrued income	1,672	2,945
	<u>16,404</u>	<u>11,846</u>

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

### 18. CASH

	2020 £000	2019 £000
Cash at bank and in hand	6,132	8,218
Deposits on call	2,641	2,641
	<u>8,773</u>	<u>10,859</u>

The deposit on call is subject to restrictions and is therefore not available for general use by the entity and other entities within the group.

# PIZZA HUT (U.K.) LIMITED

FOR THE FINANCIAL PERIOD ENDED 29 NOVEMBER 2020

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 19. CREDITORS: Amounts falling due within one year

	2020 £000	2019 £000
Trade creditors	10,758	7,772
Taxation and social security	8,292	7,546
Other creditors	1,180	1,734
	<u>20,230</u>	<u>17,052</u>
Accruals and deferred income	9,742	12,550
	<u>29,972</u>	<u>29,602</u>

On 28<sup>th</sup> September 2020, HWS 3 Limited and Pizza Hut (U.K.) Limited, subsidiaries of the group, entered into a working capital facility agreement with Pricoa for an aggregate amount of up to £15,000,000 available to Pizza Hut (U.K.) Limited. This facility is provided for the 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 plus 5.75% per annum and a commitment fee is payable on undrawn amounts at a rate of 1.0% per annum. The credit facility remains undrawn at the year ended 29<sup>th</sup> November 2020.

### 20. 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:

	2020 £000	2019 £000
Current period contribution	2,795	2,103

### 21. 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.

### 22. 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 1<sup>st</sup> May 2018. Pizza Hut (U.K.) Limited provides guarantees and security in relation to the credit facilities as described in note 19.

# PIZZA HUT (U.K.) LIMITED

FOR THE FINANCIAL PERIOD ENDED 29 NOVEMBER 2020

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 23. DEFERRED TAXATION

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

	2020 £000	2019 £000
Provision brought forward	638	(17)
Profit and loss account movement arising during the year	1,162	655
Provision carried forward	<u>1,800</u>	<u>638</u>

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

	2020 £000	2019 £000
Lower depreciation on fixed assets over taxation allowance	1,800	638
	<u>1,800</u>	<u>638</u>

There are no unused tax losses or unused tax credits.

### 24. OTHER PROVISIONS

	Dilapidations £000	Onerous Lease £000	Total £000
At 02 December 2019	4,067	3,006	7,073
(Credited)/Charged to the profit and loss account	(2,636)	146	(2,490)
Utilised this year	(150)	(733)	(883)
Amortisation of discount	146	169	315
At 29 November 2020	<u>1,427</u>	<u>2,588</u>	<u>4,015</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. In FY2020, as a result of the Company Voluntary Arrangement, certain expected costs in relation to dilapidations, which were provided for in prior years, will no longer be incurred and have been released.

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. In FY2020, as a consequence of the Company Voluntary Arrangement, 29 restaurants closed which resulted in the release of the relevant provisions.

# PIZZA HUT (U.K.) LIMITED

FOR THE FINANCIAL PERIOD ENDED 29 NOVEMBER 2020

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 25. COMMITMENTS

At 29 November 2020 and 1 December 2019 the company had annual commitments under non-cancellable operating leases as set out below.

	Land and buildings	
	2020	2019
	£000	£000
Operating leases which expire:		
Within 1 year	20,096	22,822
Within 2 to 5 years	57,710	68,195
After more than 5 years	<u>28,916</u>	<u>35,868</u>
	<u>106,722</u>	<u>126,885</u>

Subsequent to the Balance sheet date, and as a result of the Company Voluntary Arrangement, a further 30 restaurants have closed which would have driven a reduction in the annual commitment by £10.4m. Within the 30 closures one restaurant had a sub-lease agreement. Subsequent to the closure of that restaurant there are no sub lease agreements remaining.

In relation to the amounts shown above, the company has sublease agreements with an income of £73,887 (2019: £111,798).

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

### 26. CALLED UP SHARE CAPITAL

#### Authorised share capital:

	2020	2019
	£000	£000
100,000,000 (2019: 100,000,000)		
Ordinary shares of £1 each	100,000	100,000

#### Allotted, called up and fully paid:

	2020		2019	
	No	£000	No	£000
Ordinary shares of £0.01 each	<u>71,505,000</u>	<u>715</u>	<u>71,505,000</u>	<u>715</u>

# **PIZZA HUT (U.K.) LIMITED**

**FOR THE FINANCIAL PERIOD ENDED 29 NOVEMBER 2020**

## **NOTES TO THE FINANCIAL STATEMENTS *(continued)***

### **27. ULTIMATE PARENT COMPANY**

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

The Company is wholly-owned subsidiary of HWS 4 Limited, a company incorporated 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.

The ultimate controlling party is deemed to be the management through their majority shareholding in HWS 4 Limited.

### **28. EVENTS AFTER REPORTING PERIOD**

Subsequent to the Balance sheet date, and following the Company Voluntary Arrangement on September 28<sup>th</sup> 2020, a further 30 restaurants have closed.

As a result of the pandemic a large number of stores that were in high risk areas were unable to trade for Dine-In during December 2020.

Following the government announcement on 30<sup>th</sup> December 2020 hospitality was ordered to close again for Dine In resulting in all restaurants now reverting back to takeaway and aggregator sales channels. Dine In reopened in England on the 17<sup>th</sup> May 2021 with some restrictions still in place with Scotland and Wales opening up shortly after. All restrictions in the hospitality sector in England were lifted on the 19<sup>th</sup> July 2021 followed soon after by Scotland and Wales.

In order to support the net working capital needs during the temporary closures of the Dine-In trade the company has had to make drawdowns from the working capital facility.

Following the Company Voluntary Arrangement, the loan finance arrangement between HWS 3 Limited and each Pricoa US and LPs was modified, including the amendment of the guarantee given by Pizza Hut (U.K.) Limited. Refer also to notes 14, 15, 19, 24 and 25 for the estimated impact on specific balances.