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DOMINO'S PIZZA GROUP LIMITED
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
28th DECEMBER 1997



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**Domino's Pizza Group Limited
and its Subsidiary Companies**

Directors

C. Halpern
G. Halpern
H.M. Bush
N. Wray
S. Hemsley

Joint Secretaries and Registered Office

A.D. Betley & G. Halpern
Unit 10, Maryland Road, Tongwell, Milton Keynes, MK15 8HF

Auditors

Ernst & Young
400 Capability Green, Luton, LU1 3LU

Report of the Directors

The directors present their report and the audited financial statements for the year ended 28th December 1997.

Review of Activities

The principal activities of the group are the control, administration and development of the Domino's Franchise together with the production and distribution of commissary supplies to franchises, the sale of franchises and the operation of company owned stores. A total of 154 stores were operating at 28th December 1997 (1996: 126). The directors are confident that the group will continue to trade profitably in the future.

During the year one of the company's subsidiaries (DPGS Limited) sold its two remaining Haagen Dazs stores in Bath and Windsor in order to concentrate efforts on the company's core business.

Results and Dividends

The group profit for the year amounted to £663,304 (1996: £370,700).

The directors do not recommend the payment of a dividend.

Changes in Directors

H.M. Bush	Appointed 20 th June 1997
N. Wray	Appointed 20 th June 1997
S.G. Hemsley	Appointed 24 th April 1998

**Domino's Pizza Group Limited
and its Subsidiary Companies**

Report of the Directors (Continued)

Directors' Interests

The directors had no interest, as defined by the Companies Act 1985, in the share capital of the company at any time during the year.

Their interests in the share capital of the immediate parent company, International Franchise Systems, Inc., are disclosed in the financial statements of that company.

Auditors

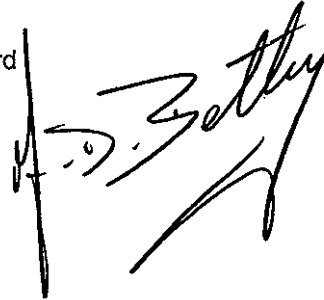
The auditors, Moore Stephens, resigned and Ernst & Young were appointed to fill the casual vacancy. A resolution for their reappointment and authorising the directors to fix their remuneration will be submitted to the annual general meeting.

By Order of the Board

A.D. Betley

Secretary

23rd July 1998

A handwritten signature in black ink, appearing to read 'A.D. Betley', is written over a vertical line that separates the signature from the typed name.

**Domino's Pizza Group Limited
and its Subsidiary Companies**

**Statement of Directors Responsibilities
For the year ended 28th December 1997**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period. In preparing those financial statements the directors are required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and of the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Report of the Auditors to the Members of
Domino's Pizza Group Limited
and its Subsidiary Companies**

We have audited the financial statements on pages 5 to 20 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 8 and 9.

Respective Responsibilities of Directors and Auditors

As described on page 3 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

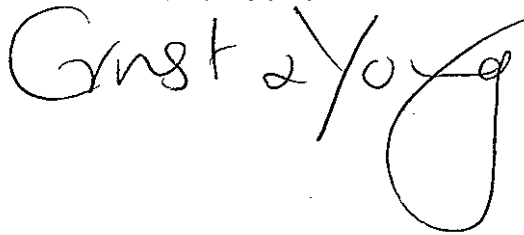
Basis of Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material mis-statements, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group at 28th December 1997 and of the profit of the group and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in dark ink, appearing to read 'Ernst & Young', with a large, stylized loop at the end.

Ernst & Young
Registered Auditor
Luton
23rd July 1998

**Domino's Pizza Group Limited
and its Subsidiary Companies**

**Consolidated Profit and Loss Account
For the year ended 28th December 1997**

	Note	1997	1997	1997	1996	1996	1996
		Continuing Operations £	Discontinued Operations £	Total £	Continuing Operations £	Discontinued Operations £	Total £
Turnover	2	17,187,381	557,911	17,745,292	14,042,140	512,577	14,554,717
Cost of sales		10,866,411	337,417	11,203,828	8,689,811	361,273	9,051,084
Gross Profit		6,320,970	220,494	6,541,464	5,352,329	151,304	5,503,633
Distribution costs		2,058,365	-	2,058,365	2,055,638	-	2,055,638
Administration Expenses	3	3,358,594	354,942	3,713,536	2,840,718	361,518	3,202,236
		904,011	(134,448)	769,563	455,973	(210,214)	245,759
Other operating income		154,542	-	154,542	133,210	-	133,210
Operating Profit	4	£1,058,553	£(134,448)	924,105	£589,183	£(210,214)	378,969
Interest Receivable	6			69,730			43,276
Interest payable and similar charges	7			(71,531)			(51,545)
Profit on Ordinary Activities before taxation				922,304			370,700
Taxation on ordinary activities	8			259,000			-
Retained Profit for the year				£663,304			£370,700
Summary of Accumulated Reserves							
At 30th December 1996				1,018,292			647,592
Profit for the financial year				663,304			370,700
At 28th December 1997				£1,681,596			£1,018,292

There are no recognised gains or losses other than those included in the profit and loss account.

**Domino's Pizza Group Limited
and its Subsidiary Companies**

Balance Sheets at 28th December 1997

		1997 £	1997 £	1996 £	1996 £
	Note	Group	Company	Group	Company
Fixed Assets					
Intangible assets	9	629,313	535,138	688,730	583,786
Tangible assets	10	3,147,622	596,874	2,003,150	589,616
Investments	11	122,500	275,101	-	275,091
		<u>£3,899,435</u>	<u>£1,407,113</u>	<u>£2,691,880</u>	<u>£1,448,493</u>
Current Assets					
Stock	12	617,267	608,192	511,853	497,791
Debtors	13	2,265,625	4,189,585	2,648,637	3,771,339
Cash at bank and in hand		1,133,689	1,031,983	413,915	338,966
		<u>4,016,581</u>	<u>5,829,760</u>	<u>3,574,405</u>	<u>4,608,096</u>
Creditors: amounts falling due within one year	14	(4,113,518)	(3,630,141)	(3,775,694)	(3,185,117)
		<u>(96,937)</u>	<u>2,199,619</u>	<u>(201,289)</u>	<u>1,422,979</u>
Net Current Assets/ (Liabilities)					
Creditors: amounts falling due after more than one year	15	(920,902)	(260,902)	(272,299)	(272,299)
		<u>£2,881,596</u>	<u>£3,345,830</u>	<u>£2,218,292</u>	<u>£2,599,173</u>
Equity Capital and Reserves					
Called-up share capital	17	1,200,000	1,200,000	1,200,000	1,200,000
Profit and loss account		1,681,596	2,145,830	1,018,292	1,399,173
Shareholders Funds		<u>£2,881,596</u>	<u>£3,345,830</u>	<u>£2,218,292</u>	<u>£2,599,173</u>

These financial statements were approved by the board on 23rd July 1998
and signed on their behalf by


G. Halpern

Director

**Domino's Pizza Group Limited
and its Subsidiary Companies**

**Consolidated Cash Flow Statement
For the year ended 28th December 1997**

	Note	1997 £	1997 £	1996 £	1996 £
Net Cash Inflow from Operating Activities	21		1,923,979		471,089
Returns on Investments and Servicing of Finance					
Interest received		69,730		43,276	
Interest paid		(53,526)		(31,713)	
Interest element of finance lease payments		(18,005)		(19,832)	
Net cash inflow/(outflow) from returns on investments and servicing of finance			(1,801)		(8,269)
Capital Expenditure					
Purchase of tangible fixed assets		(1,936,796)		(639,539)	
Purchase of intangible fixed assets		(16,000)		(41,011)	
Proceeds on sale of:					
tangible fixed assets		237,677		422,781	
intangible fixed assets		12,756		24,764	
Net cash outflow from investing activities			(1,702,363)		(233,005)
Net Cash Inflow before Financing			219,815		229,815
Financing					
Loans drawn down		780,000		120,000	
Loan repayments made		(137,267)		(105,267)	
Capital element of finance lease rental payments		(142,774)		(134,910)	
Net cash (outflow)/inflow from financing			499,959		(120,177)
Increase in Cash	22		<u>£719,774</u>		<u>£109,638</u>

**Domino's Pizza Group Limited
and its Subsidiary Companies**

Financial Statements for the year ended 28th December 1997

Notes

1. Principal Accounting Policies

(a) Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable Accounting Standards.

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the parent undertaking, Domino's Pizza Group Limited and its subsidiary undertakings which are held for the long term. They exclude all intra-group transactions.

(c) Turnover

Turnover comprises royalties received, commissary and equipment sales, sale of franchises, pizza delivery sales and rental income on leasehold properties. Substantially all of the goods and services are sold or rendered within the United Kingdom.

(d) Depreciation of tangible fixed assets

Provision is made for depreciation on all tangible assets, at rates calculated to write off the cost of each asset over its expected useful life, as follows:

Plant and production equipment	- over 7 years
Leasehold building improvements	- over life of lease
Computers, fixtures and fittings and other equipment	- over 1 to 7 years
Motor vehicles	- over 2 to 5 years
Mopeds	- over 18 months

(e) Amortisation of intangible fixed assets

Amortisation is provided on all intangible fixed assets at rates calculated to write off the cost of each asset over its expected useful life, as follows:

Master franchise fee	- over 10 to 20 years
Interest in leases	- over 10 years
Store franchise fee	- over life of lease
Goodwill	- over 10 years

(f) Stocks

Stocks comprise raw materials and consumables and goods for resale (being equipment for resale to franchises) and are stated at the lower of cost and net realisable value. Cost of stock is determined on the average cost basis or the FIFO (for computer and food stock) basis.

**Domino's Pizza Group Limited
and its Subsidiary Companies**

**Financial Statements for the year ended 28th December 1997
Notes (Continued)**

1. Principal Accounting Policies (Continued)

(g) Deferred taxation

Deferred taxation is provided on the liability method on all timing differences which are expected to reverse in the future, calculated at the rate at which it is estimated that tax will be payable. Deferred taxation balances are only recognised if recovery without replacement by equivalent balances is reasonably certain.

(h) Foreign currencies

Transactions in foreign currencies are translated into sterling at the rates ruling at the date of the transactions. Assets and liabilities denominated in foreign currencies are translated into sterling at the rate ruling on the balance sheet date. Any resultant gains or losses on exchange are dealt with through the profit and loss account in the period in which they arise.

(i) Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives.

The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

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

(j) Rental

Income and expenditure from the rental of leasehold properties have been included in the gross income in turnover and the related expenditure within cost of sales.

2. Turnover

Turnover represents the amounts derived from the provision of goods and services which fall within the company's ordinary activities, stated net of Value Added Tax. An analysis of turnover attributable to each of the company's activities is given below:

**Domino's Pizza Group Limited
and its Subsidiary Companies**

**Financial Statements for the year ended 28th December 1997
Notes (Continued)**

2. Turnover (Continued)

	1997 Continuing	1997 Discontinued	1997 Total	1996
	£	£	£	£
Franchise development fees	310,000	-	310,000	330,000
Commissary, equipment, computer and other sales to franchisees and corporate store sales	13,413,767	557,911	13,971,678	11,589,608
Property income	1,141,386	-	1,141,386	871,286
Royalties £2,421,903 (1996: £1,878,653) prior to group eliminations	2,322,228	-	2,322,228	1,763,823
	<u>£17,187,381</u>	<u>£557,911</u>	<u>£17,745,292</u>	<u>£14,554,717</u>

3. Administration Expenses

	1997 £	1996 £
Continuing operations	3,358,594	2,840,718
Discontinued operations	<u>354,942</u>	<u>361,518</u>
Administrative expenses	<u>£3,713,536</u>	<u>£3,202,236</u>

4. Operating Profit

Operating profit is stated after charging/(crediting):

	1997 £	1996 £
Directors' emoluments (note 5)	44,252	-
Auditors' remuneration	39,750	50,000
Depreciation of tangible fixed assets	530,405	416,295
Rental payments under operating leases	391,646	474,570
Amortisation of intangible fixed assets	62,661	62,815
Hire of plant, machinery and vehicles	456,673	378,253
Profit on disposal of tangible and intangible fixed assets	<u>(8,984)</u>	<u>(208,210)</u>

**Domino's Pizza Group Limited
and its Subsidiary Companies**

**Financial Statements for the year ended 28th December 1997
Notes (Continued)**

5. Directors and Employees

Directors' emoluments

	1997	1996
	£	£
Directors' Fees	7,000	-
Directors' Remuneration	37,252	-
	<u>£44,252</u>	<u>£-</u>

Staff Costs

Staff costs during the year were as follows:

	1997	1996
	£	£
Wages and salaries	2,404,075	2,304,911
Social security costs	209,635	189,836
Other staff costs	5,015	5,015
	<u>£2,618,725</u>	<u>£2,499,762</u>

The average number of persons employed by the group (including directors) during the year was:

Administration	50	49
Production	143	185
	<u>193</u>	<u>234</u>

6. Investment Income

	1997	1996
Interest receivable	£69,730	£43,276
	<u>£69,730</u>	<u>£43,276</u>

7. Interest Payable and Similar Charges

	1997	1996
	£	£
On short term finance	17,791	1,352
On bank loans repayable within 5 years	35,735	30,361
On finance leases repayable within 5 years	18,005	19,832
	<u>£71,531</u>	<u>£51,545</u>

**Domino's Pizza Group Limited
and its Subsidiary Companies**

**Financial Statements for the year ended 28th December 1997
Notes (Continued)**

8. Taxation on Ordinary Activities

	1997 £	1996 £
UK Corporation Tax	259,000	-
Deferred taxation	-	-
	<u>£259,000</u>	<u>£-</u>

UK Corporation Tax is based on the adjusted trading profits of the group at an average rate of 32%.

Deferred taxation liabilities/(assets) not provided are as follows:

	1997 £	1996 £
Capital allowances in advance of depreciation	32,236	44,697
Other timing differences	(133,395)	(109,971)
Losses available for offset	-	(271,315)
	<u>£(101,159)</u>	<u>£(336,589)</u>

9. Intangible Fixed Assets

Group	Franchise Fees £	Goodwill £	Interest in Leases £	Total £
Cost:				
At 30 th December 1996	760,396	8,000	87,631	856,027
Additions	16,000	-	-	16,000
Disposals	(16,666)	-	-	(16,666)
At 28 th December 1997	<u>£759,730</u>	<u>£8,000</u>	<u>£87,631</u>	<u>£855,361</u>
Amortisation:				
At 30 th December 1996	149,496	1,337	16,464	167,297
Charge for the year	53,112	786	8,763	62,661
Disposals	(3,910)	-	-	(3,910)
At 28 th December 1997	<u>£198,698</u>	<u>£2,123</u>	<u>£25,227</u>	<u>£226,048</u>
Net Book Value				
At 28 th December 1997	<u>£561,032</u>	<u>£5,877</u>	<u>£62,404</u>	<u>£629,313</u>
Net Book Value				
At 30 th December 1996	<u>£610,900</u>	<u>£6,663</u>	<u>£71,167</u>	<u>£688,730</u>

**Domino's Pizza Group Limited
and its Subsidiary Companies**

**Financial Statements for the year ended 28th December 1997
Notes (Continued)**

9. Intangible Fixed Assets (continued)

Company	Master Franchise Fee £
Cost:	
At 30 th December 1996	729,730
Additions	-
At 28 th December 1997	<u>£729,730</u>
Amortisation:	
At 30 th December 1996	145,944
Charge for the year	48,648
At 28 th December 1997	<u>£194,592</u>
Net Book Value	
At 28 th December 1997	<u>£535,138</u>
Net Book Value	
At 30 th December 1996	<u>£583,786</u>

10. Tangible Fixed Assets

Group	Freehold Land & Buildings	Leasehold Improvements	Motor Vehicles	Equipment	Total
	£	£	£	£	£
Cost:					
At 30 th December 1996	-	779,433	165,141	1,638,503	2,583,077
Additions	1,141,134	326,394	51,752	383,365	1,902,645
Disposals	-	(44,928)	(41,835)	(248,129)	(334,892)
At 28 th December 1997	<u>£1,141,134</u>	<u>£1,060,899</u>	<u>£175,058</u>	<u>£1,773,739</u>	<u>£4,150,830</u>
Depreciation:					
At 30 th December 1996	-	68,845	103,148	407,934	579,927
Charge for the year	-	138,012	55,930	335,538	529,480
Disposals	-	(7,453)	(25,078)	(73,668)	(106,199)
At 28 th December 1997	<u>£-</u>	<u>£199,404</u>	<u>£134,000</u>	<u>£669,804</u>	<u>£1,003,208</u>
Net Book Value					
At 28 th December 1997	<u>£1,141,134</u>	<u>£861,495</u>	<u>£41,058</u>	<u>£1,103,935</u>	<u>£3,147,622</u>
Net Book Value					
At 30 th December 1996	<u>£-</u>	<u>£710,588</u>	<u>£61,993</u>	<u>£1,230,569</u>	<u>£2,003,150</u>

**Domino's Pizza Group Limited
and its Subsidiary Companies**

Financial Statements for the year ended 28th December 1997

Notes (Continued)

10. Tangible Fixed Assets (Continued)

The net book value of motor vehicles includes an amount of £2 (1996: £25,858) in respect of assets held under finance leases, the depreciation charge on which was £16,462 (1996: £33,173) (company and group).

The net book value of equipment includes an amount of £250,368 (1996: £231,723) in respect of assets held under finance leases, the depreciation charge on which was £49,956 (1996: £38,118).

Included within leasehold improvements is an amount of £29,221 (1996: £72,242) for the purchase of a short leasehold property (note 11).

Included within fixed assets are the following net book values in respect of a restaurant which closed in Spring 1996.

	1997 £	1996 £
Equipment	70,207	108,742
Leasehold improvements	241,793	301,188
	<u>£312,000</u>	<u>£409,930</u>

The company has now entered into a sub lease in respect of the above restaurant facility at an annual rent of £80,000. The annual rent substantially covers the subsidiary company's annual rent expense and depreciation charge in respect of the fixed assets, which will continue to be used by the sub lessee. The directors evaluate the carrying value of these assets to determine whether any provisions against costs are required.

Company	<u>Motor Vehicles</u> £	<u>Equipment</u> £	<u>Total</u> £
Cost:			
At 30 th December 1996	113,514	776,288	889,802
Additions	29,090	199,521	228,611
Disposals	-	(49,727)	(49,727)
	<u>£142,604</u>	<u>£926,082</u>	<u>£1,068,686</u>
At 28 th December 1997			
Depreciation:			
At 30 th December 1996	80,389	219,797	300,186
Charge for the year	35,093	154,194	189,287
Disposals	-	(17,661)	(17,661)
	<u>£115,482</u>	<u>£356,330</u>	<u>£471,812</u>
At 28 th December 1997			
Net Book Value			
At 28 th December 1997	<u>£27,122</u>	<u>£569,752</u>	<u>£596,874</u>
Net Book Value			
At 30 th December 1996	<u>£33,125</u>	<u>£556,491</u>	<u>£589,616</u>

**Domino's Pizza Group Limited
and its Subsidiary Companies**

Financial Statements for the year ended 28th December 1997

Notes (Continued)

11. Fixed Asset Investments

Group

Investment Properties:

Cost:	£
At 30 th December 1996	-
Addition in the year	<u>£122,500</u>
At 28 th December 1997	<u><u>£122,500</u></u>

Company	1997	1996
Shares in subsidiary undertakings	<u>£275,101</u>	<u>£275,091</u>

At 28th December 1997 the following company's were operating subsidiaries of Domino's Pizza Group Limited.

	<u>Country of Incorporation</u>	<u>Proportion Held</u>	<u>Class of Principal Activity</u>
DPGS Limited	England	100% Ordinary	Producer, retailer and management of pizza delivery stores
DP Realty Limited	England	100% Ordinary	Property management
DP Group Developments Limited	England	100% Ordinary	Property development
Livebait Ltd	England	100% Ordinary	Dormant

During 1995 Domino's Pizza Group Limited purchased the entire equity share capital of Livebait Limited for £77,500. Livebait's sole asset is a short leasehold property used by DPGS Limited. The nominal value of the shares acquired has been included above as an investment, with the balance of the purchase price included within DPGS Limited's accounts as a short leasehold property.

12. Stock

	<u>1997 Group</u>	<u>1997 Company</u>	<u>1996 Group</u>	<u>1996 Company</u>
Raw materials and goods for resale	<u>£617,267</u>	<u>£608,192</u>	<u>£511,853</u>	<u>£497,791</u>

**Domino's Pizza Group Limited
and its Subsidiary Companies**

Financial Statements for the year ended 28th December 1997

Notes (Continued)

13. Debtors

	1997 £	1997 £	1996 £	1996 £
	<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
Trade debtors	1,725,643	1,725,643	1,945,112	1,945,112
Amounts owed by group undertakings	-	2,105,467	-	1,544,777
Other debtors	312,314	213,589	392,853	110,845
Prepayments and accrued income	227,668	144,886	310,672	170,605
	<u>£2,265,625</u>	<u>£4,189,585</u>	<u>£2,648,637</u>	<u>£3,771,339</u>

Included within trade debtors for group and company is £197,699 (1996: £413,529) due after more than one year.

Included within group other debtors is £94,631 (1996: £88,687) due after more than one year.

Included within company other debtors is £62,631 (1996: £63,687) due after more than one year.

14. Creditors: amounts falling due within one year

	1997 £	1997 £	1996 £	1996 £
	<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
Bank loans (note 16)	121,933	121,933	121,260	121,260
Trade creditors	1,636,395	1,170,629	2,207,592	1,704,490
Amounts owed to group undertakings	663,404	920,099	302,214	419,558
Amounts owed to related parties (note 24)	-	-	17,622	17,622
Other taxation and social security costs	380,961	361,560	245,989	234,164
Other creditors	207,712	161,674	179,719	165,522
Finance lease creditors	67,828	67,828	128,796	128,796
Accruals and deferred income	776,285	576,418	572,502	393,705
Corporation Tax	259,000	250,000	-	-
	<u>£4,113,518</u>	<u>£3,630,141</u>	<u>£3,775,694</u>	<u>£3,185,117</u>

The bank loans are secured by a fixed and floating charge over certain group assets.

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Financial Statements for the year ended 28th December 1997

Notes (Continued)

15. Creditors: amounts falling due after more than one year

	1997 £ <u>Group</u>	1997 £ <u>Company</u>	1996 £ <u>Group</u>	1996 £ <u>Company</u>
Finance lease creditors	46,702	46,702	40,159	40,159
Bank loans (note 16)	<u>874,200</u>	<u>214,200</u>	<u>232,140</u>	<u>232,140</u>
	<u>£920,902</u>	<u>£260,902</u>	<u>£272,299</u>	<u>£272,299</u>

All of the finance lease creditors are due within 5 years.

The bank loans are secured by a fixed and floating charge over certain group assets. Bank loans includes a mortgage of £660,000 in respect of the purchase of a site in Kingston, Milton Keynes, and the building of a commissary and office accommodation on the site. The loan is available in tranches and is repayable once the loan is fully drawn down which is expected to be more than a year after the balance sheet date. The loan will bear interest of 8.88% p.a. and is repayable over 15 years.

16. Bank Loans

An analysis of bank loans is set out below.

	1997 £ <u>Group</u>	1997 £ <u>Company</u>	1996 £ <u>Group</u>	1996 £ <u>Company</u>
Due within one year or on demand	121,933	121,933	121,260	121,260
Due between one and two years	254,200	166,200	162,540	162,540
Due between two and five years	180,000	48,000	69,600	69,600
Due in five years or more	<u>440,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>£996,133</u>	<u>£336,133</u>	<u>£353,400</u>	<u>£353,400</u>

The company has entered into an agreement with other group companies to obtain bank loans and mortgage facilities. These are secured by a fixed and floating charge over the group's assets. At 28th December 1997 the balance due under these facilities was £996,133 (1996: £353,400).

17. Share Capital

	1997	1996
Authorised 2,000,000 ordinary shares of £1 each	<u>£2,000,000</u>	<u>£2,000,000</u>
Allotted, called up and fully paid 1,200,000 ordinary shares of £1 each	<u>£1,200,000</u>	<u>£1,200,000</u>

**Domino's Pizza Group Limited
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Notes (Continued)

18. Operating Lease Commitments

During the following year the group and company have the following annual commitments under non-cancellable operating leases which expire:

	1997 £ <u>Group</u>	1997 £ <u>Group and Company</u>	1996 £ <u>Group</u>	1996 £ <u>Group and Company</u>
	<u>Land and Buildings</u>	<u>Other</u>	<u>Land and Buildings</u>	<u>Other</u>
Within one year	-	21,913	-	53,763
Within two to five years	147,950	298,326	164,950	189,991
In more than five years	1,588,411	-	1,233,686	-
	<u>£1,736,361</u>	<u>£320,239</u>	<u>£1,398,636</u>	<u>£243,754</u>

19. Commitments

The company has entered into the following contract at 28th December 1997.

	1997	1996
Contract for development of Commissary facility	<u>£2,522,000</u>	<u>£ -</u>

20. Profit and Loss Account

The company has taken advantage of the exemption under section 230 of the Companies Act 1985 in not presenting its own profit and loss account. Profit after taxation amounting to £746,657 (1996: £391,620) has been dealt with in the financial statements of the company.

**Domino's Pizza Group Limited
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Financial Statements for the year ended 28th December 1997

Notes (Continued)

21. Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

	1997	1996
	£	£
Operating profit	924,105	378,969
Depreciation charge	530,405	416,295
Amortisation charge	62,661	62,815
Profit on sale of tangible and intangible fixed assets	(8,984)	(208,210)
Increase in stocks	(105,414)	(111,616)
Decrease/(Increase) in debtors	383,012	(525,391)
Increase in creditors	138,194	458,227
	<u>£1,923,979</u>	<u>£471,089</u>

22. Analysis of Changes in Cash

	1997	1996
	£	£
Cash at bank and in hand at 30 th December 1996	413,915	304,277
Net cash inflow	<u>719,774</u>	<u>109,638</u>
Cash at bank and in hand at 28 th December 1997:	<u>£1,133,689</u>	<u>£413,915</u>

23. Analysis of Changes in Net Debt

	At 30 th December 1996 £	Cash flow £	Other Changes £	At 28 th December 1997 £
Cash at bank and in hand	413,915	719,774	-	1,133,689
Bank loans (within one year)	(121,260)	-	(673)	(121,933)
Bank loans (due after one year)	(232,140)	(642,733)	673	(874,200)
Finance leases	(168,955)	142,774	(88,349)	(114,530)
Net Debt	<u>£(108,440)</u>	<u>£219,815</u>	<u>£(88,349)</u>	<u>£23,026</u>

During the period the group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the lease of £88,349 (1996: £56,119).

24. Related Parties

In the opinion of the directors the immediate parent company is International Franchise Systems, Inc., a company incorporated in United States of America. Copies of the accounts of International Franchise Systems, Inc. can be obtained from 6701 Democracy Boulevard, Bethesda, MD 20817, U.S.A.. Ultimate control rests with Woodland Limited Partnership, a limited partnership controlled by members of the Halpern family.

**Domino's Pizza Group Limited
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Financial Statements for the year ended 28th December 1997

Notes (Continued)

24. Related Parties (continued)

Transactions between the company and International Franchise Systems, Inc. are set out below:

	1997 £	1996 £
Opening debt due to International Franchise Systems, Inc.	(302,214)	(387,202)
Costs incurred by Domino's Pizza Group Limited on behalf of International Franchise Systems, Inc.	120,189	235,057
Costs incurred by International Franchise Systems, Inc. on behalf of Domino's Pizza Group Limited	(29,735)	-
Transfer of funds to International Franchise Systems, Inc.	440,482	149,931
Management Charges from International Franchise Systems, Inc.	(267,125)	(300,000)
Loan from International Franchise Systems, Inc.	<u>(625,000)</u>	<u>-</u>
Closing debt due to International Franchise Systems, Inc.	<u>£(663,403)</u>	<u>£(302,214)</u>

The loan from International Franchise Systems, Inc. bears interest at a rate of 6% in 1997 rising to 8% in 1999 and is repayable not later than December 1999.

Transactions between the company and Restaurant House Limited, a company which was until 15th December 1997 controlled by Woodland Limited Partnership, are set out below.

	1997 £	1996 £
Administration support and services	37,385	22,700
Delivery charges	-	20,214
Rent	<u>4,000</u>	<u>4,000</u>

During 1996 and 1997 the two companies provided short term finance to each other as required which was repaid on a short term basis. The balance due to Restaurant House Limited at 30th December 1996 and 28th December 1997 is shown in note 14.