

Company number

3919682

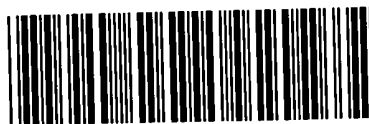
**Prezzo Limited**

**Annual Report and Financial Statements**

**52 Weeks Ended**

**1 January 2017**

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**Prezzo Limited**

**Annual Report and financial statements for the 52 weeks ended 1 January 2017**

**Directors and advisers**

**Directors**

Jon Hendry Pickup  
Wayne Arthur

**Registered office**

Johnston House  
8 Johnston Road  
Woodford Green  
Essex  
IG8 0XA

**Company number**

3919682

**Independent auditors**

PricewaterhouseCoopers LLP  
The Portland Building  
25 High Street  
Crawley  
RH10 1BG

## **Prezzo Limited**

### **Strategic Report for the 52 weeks ended 1 January 2017**

The Directors present their Strategic Report for the 52 weeks ended 1 January 2017 (2015: 53 weeks ended 3 January 2016).

#### **Introduction**

Our principal objective in growing our business is to maximise value for our shareholders by developing an enlarged estate of restaurants across the UK which will generate stable, predictable profits and cashflow growth. We seek to achieve this by maintaining a steady and manageable rate of new openings, while still focusing strongly on the day to day performance of our existing operations and brands.

The Directors believe that our emphasis on providing quality dishes at affordable prices, in attractive and comfortable surroundings means that the business is well-positioned to achieve further growth. Our strong internal cash generation means that going forward we will be able to fund expansion each year without recourse to external financing.

In addition to the quality of the food and drink we serve, we recognise that one of the most important aspects of our business is the interface between staff and our guests and we therefore take steps to ensure that guest service levels are high. To this end, we are committed to providing ongoing training and development to all levels of staff in the Prezzo Training Academy. In addition, we continue to monitor customer feedback.

#### **Key performance indicators**

The key performance indicators ("KPIs") used by management to monitor and measure performance are as follows:

- Total revenue growth (%);
- Gross profit margin (%);
- Return on investment (%);
- Adjusted operating profit growth and margin (%); and
- Number of new restaurants opened.

Each KPI is monitored by the Executive Management Team against budget and forecasts for the current period, and against performance in the comparable period.

In addition, we also use a number of non-financial KPIs to measure our progress and success in other areas of the business. For example, we monitor staff turnover at all levels in the business in order to assess the success of our employee engagement initiatives and we monitor guest feedback collected through a number of channels, both internally and externally to ensure that we are doing all we can to promote guest satisfaction.

#### **Business review**

We have continued to increase the representation of both our new and established brands across the UK during the 52 week period to 1 January 2017 via a continued programme of organic openings. At 1 January 2017 there were 294 restaurants (53 weeks ended 3 January 2016: 276) in the estate.

For the 52 weeks ended 1 January 2017, revenue increased 2.2% to £218.6m (53 weeks ended 3 January 2016: £213.8m) and adjusted profit before tax (see note 8) remained consistent with the prior period at £23.0m (53 weeks ended 3 January 2016: £23.1m).

Gross (or restaurant) profit remained flat at £34.7m (53 weeks ended 3 January 2016: £35.2m) and gross profit margin decreasing slightly to 15.9% (53 weeks ended 3 January 2016: 16.5%), reflecting strong new openings and diligent control of restaurant costs.

Operating profit excluding non-trading items was flat at £23.2m (53 weeks ended 3 January 2016: £23.2m) reflecting diligent control of costs, resulting in an operating profit margin (excluding non-trading items) of 10.6% (53 weeks ended 3 January 2016: 10.8%).

The Group routinely reviews the casual dining market and wider economic environment, including regulatory and input cost inflation, and the ongoing profitability of our core restaurants. Consequently, the Group completed an estate review resulting in the decision to dispose of a number of uneconomic restaurants. This process has led to an impairment of tangible fixed assets of £12.8m (2015: £3.5m).

#### **Principal risks and uncertainties**

The Board of Directors (the "Board") has the principal responsibility for identifying the principal risks which the business faces and for developing appropriate policies to manage those risks.

The following are judged to be the principal risks affecting the Company's operations, but it should be noted that this is not an exhaustive list and the Company has policies and procedures in place to address other areas of risk facing the business.

##### **UK macro-economy and competition in the UK casual dining market**

We anticipate that the casual dining market will continue to be a growth sector, attracting continued investment and will therefore become increasingly competitive. The strength of the UK economy is correlated to consumer discretionary spend and we are mindful that there may be unforeseen consequences of the BREXIT vote on the UK economy.

## Prezzo Limited

### Strategic Report for the 51 weeks ended 1 January 2017 (continued)

#### Principal risks and uncertainties (continued)

##### UK macro-economy and competition in the UK casual dining market (continued)

The disposable income of customers and their leisure activity are affected by changes in the general economic environment and we expect this to become more challenging as real incomes fall. The Group regularly reviews its product offering and engages with customers to ensure it provides a value for money offering and meets customer needs.

##### Market and regulatory cost pressure

The introduction of the UK National Living Wage from April 2016 and the impact of changes in business rates from April 2017 were the latest in a series of regulatory driven cost increases. We have sought to mitigate these incremental cost through increased focus on labour productivity and supply chain efficiencies.

##### Employee recruitment and retention

We regularly review our employment policies and benchmark remuneration against the market. We are also committed to providing high quality training and development programmes.

##### Quality control and health & safety

We have a comprehensive system of policies and procedures in place to ensure compliance with all relevant legislation, and best practice, with a dedicated Health and Safety team who ensure that the highest standards are maintained.

##### Reputation

We aim to deliver to the highest standards of guest experience and recognise that this encompasses not only providing quality food and drinks in attractive surroundings, but efficient and attentive service. We continue to invest in our dedicated guest services team and infrastructure, monitoring customer service levels across all our restaurants with the aspiration to drive continuous improvement.

##### Supply chain

Due to the nature of our business, we have a dedicated team of food technician and supply chain professionals, who monitor supplier performance against service level agreements.

#### Future developments

It is our expectation that casual dining will continue to be a growth sector in the UK and Republic of Ireland economies, continuing to attract increasing levels of investment and competitiveness.

However, the casual dining market is currently facing a turbulent time as consumer, competitive and economic headwinds intensify.

During 2017 the sector has witnessed declining consumer visit frequencies, rising cost pressures and in some locations over expansion. These factors are creating a downward pressure on profit margins due to intensified competition, discounting and increased operating costs from the national living wage, apprenticeship levy, business rates and input inflation.

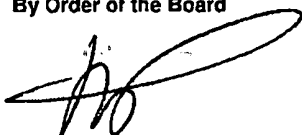
The Group is currently facing all these challenges and is working hard to grow sales through an improved customer journey, value for money proposition and new customer channels.

In recognition of the challenging outlook the Group has undertaken an estate review which has resulted in the active marketing of a number of uneconomic restaurants and reduced the number of planned new openings to 8 in 2017.

The short-medium outlook for the casual dining market for restaurants is expected to be challenging, but brands relevant to the consumer will continue to outperform. The focus for the Group is to improve its current brand positioning and we are encouraged by the early response to our new 'look and feel' Prezzo restaurants.

This strategic report was approved by the Board on 29 September 2017.

By Order of the Board



Jon Hendry Pickup  
Director

## **Prezzo Limited**

### **Report of the Directors for the 52 weeks ended 1 January 2017**

The Directors present their report together with the audited financial statements for the 52 weeks ended 1 January 2017 (2015: 53 weeks ended 3 January 2016).

#### **Principal activities**

The Company's principal activity is the operation of restaurants positioned in the smart but affordable segment of the UK casual dining market.

#### **Results and dividends**

The Statement of Comprehensive Income shows the profit for the financial period of £3.8m (53 weeks ended 3 January 2016: £17.0m).

The directors do not recommend the payment of a dividend (53 weeks ended 3 January 2016: £20.0m).

#### **Directors**

The directors of the Company during the period and up to the date of signing the financial statements were:

Kuldip Sehmi	(resigned 4 August 2017)	
Mehdi Gashi	(resigned 31 March 2016)	
Alan Millar	(resigned 5 December 2016)	
Jon Hendry Pickup	(appointed 5 December 2016)	
Wayne Arthur	(appointed 27 September 2017)	
Stephen Holloway	(appointed 2 August 2016)	(resigned 15 September 2017)

Details of directors' transaction during the period are disclosed in note 7 to the financial statements.

#### **Financial Instruments**

The Company does not trade in derivative-based financial instruments and during the period the Company was exposed to interest rate risk only in so far as changes in base rates affect the amount of interest it earned on its financial assets. Further information on financial instruments and the risks facing the business is contained in note 28 to the financial statements.

On 24 February 2015, the Company entered into a cross guarantee for a bank facility in the name of Papa Midco Limited an intermediate parent undertaking, for a total of £155m of which £130m is currently drawn down by Prezzo Holdings Limited, the immediate parent of the Company. Of the undrawn £25m Revolving Credit Facility ("RCF"), £10m is currently assigned to the Company. The remaining £15m is currently assigned to Prezzo Holdings Limited, the Company's immediate parent.

#### **Employee engagement**

People are at the heart of everything we do, with passion and attention focused on giving our guests the best possible experience, we believe that the same should apply to our staff. We nurture talent and reward excellence at work every step of the way.

Applications from disabled persons are given full consideration providing the disability does not seriously affect the performance of their duties. Such persons, once employed, are given appropriate training and equal opportunities. Continued employment and retraining is available to any employee who becomes disabled whilst employed by the Group.

The Group takes a positive view of employee communication and has established systems for keeping employees informed of developments and also for regular consultation.

#### **Going concern**

The Directors have reviewed the cash flow forecasts of the Group for the 12 months from the date of approval of these financial statements and consider that there is sufficient cash and borrowing facilities to meet its liabilities as they fall due for the foreseeable future. The Directors recognise that the trading environment will prove challenging and whilst the Group is expected to maintain a strong liquidity position, covenant headroom has deteriorated and is likely to remain under pressure for the next 12 months, although the Group's sensitised cash flow forecasts do not indicate a covenant breach.

In making their assessment of going concern, the Directors have taken into account forecast trading cash flows and covenant compliance under the bank facilities. Taking these factors into account, the Directors believe it is appropriate to prepare the financial statements on a going concern basis.

#### **Directors' indemnity**

Qualifying third party indemnity provisions as defined by the Companies Act 2006 were in force for the benefit of Directors throughout the period and up to the date of approval of the financial statements.

**Prezzo Limited**

**Report of the Directors for the 52 weeks ended 1 January 2017 (continued)**

**Statement of directors' responsibilities**

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

Company law requires the directors to prepare financial statements for each financial 52 week period. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. 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 IFRSs as adopted by the European Union 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 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.

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.

**Statement of disclosure of information to the auditors**

In accordance with Section 418 of the Companies Act 2006, each director in office at the date of the Report of the Directors is approved, confirms that:

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

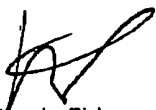
**Independent auditors**

The Directors are not aware of any relevant audit information of which the auditors are unaware.

The independent auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

This Report of the Directors was approved by the Board on 29 September 2017.

**By order of the Board**



Jon Hendry Pickup  
Director

## **Prezzo Limited**

### **Independent auditors' report to the members of Prezzo Limited**

#### **Report on the financial statements**

##### **Our opinion**

In our opinion, Prezzo Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 1 January 2017 and of its profit and cash flows for the 52 week period (the "period") then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

##### **What we have audited**

The financial statements included in the Annual Report and Financial Statements (the "Annual Report") comprise:

- the Statement of Financial Position as at 1 January 2017
- the Statement of Comprehensive Income for the period then ended;
- the Statement of Cash Flows for the period then ended;
- the Statement of Changes in Equity for the period then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union and applicable law.

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

##### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Report of the Directors for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Report of the Directors have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Report of the Directors. We have nothing to report in this respect.

##### **Other matters on which we are required to report by exception**

###### **Adequacy of accounting records and information and explanations received**

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

###### **Directors' remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.



**Responsibilities for the financial statements and the audit**

**Our responsibilities and those of the directors**

As explained more fully in the Statement of directors' responsibilities set out on page 7, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK and Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the parent 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 who this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**What an audit of financial statements involves**

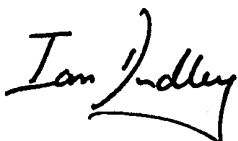
We conducted our audit in accordance with ISAs (UK and Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Report of the Directors, we consider whether those reports include the disclosures required by applicable legal requirements.



*Ian Dudley (Senior Statutory Auditor)*

*For and on behalf of PricewaterhouseCoopers LLP*

*Chartered Accountants and Statutory Auditors*

*Gatwick*

29 September 2017

**Prezzo Limited**

**Statement of Comprehensive Income for the 52 weeks ended 1 January 2017**

		52 weeks ended 1 January 2017 £'000	Restated* 53 weeks ended 3 January 2016 £'000
	Notes		
Revenue	4	218,618	213,812
Cost of sales	5	(183,944)	(178,638)
Gross profit		34,674	35,174
Administration costs		(29,410)	(13,389)
Operating profit excluding non-trading items		23,156	23,190
Non-trading items	8	(17,892)	(1,405)
Operating profit	9	5,264	21,785
Finance income		15	50
Finance expense	10	(180)	(120)
Profit before taxation		5,099	21,715
Income tax expense	11	(1,275)	(4,713)
Profit and total comprehensive income for the financial period attributable to owners of the parent		3,824	17,002

\*The prior period cost of sales and administration cost figures have been restated, see note 5 for further details.

The notes on pages 14 to 28 are an integral part of these financial statements

**Prezzo Limited**

**Statement of Changes In Equity for the 52 weeks ended 1 January 2017**

	Share Capital	Share Premium Account	Capital Redemption Reserve	Share Option Reserve	Retained Earnings	Total Equity
	£'000	£'000	£'000	£'000	£'000	£'000
Balance as at 28 December 2014	11,744	23,399	168	1,178	84,782	121,271
Profit and total comprehensive income for the period (restated)	-	-	-	-	17,002	17,002
Dividend paid	-	-	-	-	(20,000)	(20,000)
Share-based payments - credit to equity for the period	-	-	-	694	-	694
Transfer in respect of options exercised	-	-	-	(1,872)	1,872	-
Issue of new ordinary shares	253	3,784	-	-	-	4,037
Balance as at 3 January 2016	11,997	27,183	168	-	83,656	123,004
Profit and total comprehensive income for the period	-	-	-	-	3,824	3,824
Balance as at 1 January 2017	11,997	27,183	168	-	87,480	126,828

The notes on pages 14 to 28 are an integral part of these financial statements

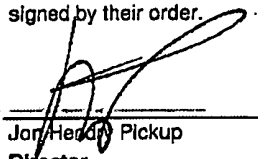
**Prezzo Limited**

Company number - 3919682

**Statement of Financial Position as at 1 January 2017**

	Notes	As at 1 January 2017 £'000	As at 3 January 2016 £'000
<b>Non-current assets</b>			
Intangibles	13	1,218	1,218
Property, plant and equipment	14	115,926	121,006
Prepaid operating leases	15	4,881	5,227
		<b>122,025</b>	<b>127,451</b>
<b>Current assets</b>			
Inventories	16	5,409	5,840
Prepaid operating leases	15	6,068	5,684
Trade and other receivables	17	30,506	29,407
Cash and cash equivalents		10,983	12,443
		<b>52,966</b>	<b>53,354</b>
<b>Total assets</b>		<b>174,991</b>	<b>180,805</b>
<b>Current liabilities</b>			
Trade and other payables	18	(31,474)	(41,345)
Current tax liabilities		(107)	(2,959)
Provisions	19	(3,277)	-
		<b>(34,858)</b>	<b>(44,304)</b>
<b>Non-current liabilities</b>			
Accruals	18	(9,334)	(8,658)
Deferred tax liabilities	20	(3,971)	(4,839)
		<b>(13,305)</b>	<b>(13,497)</b>
<b>Total liabilities</b>		<b>(48,163)</b>	<b>(57,801)</b>
<b>Net assets</b>		<b>126,828</b>	<b>123,004</b>
<b>Equity</b>			
Share capital	21	11,997	11,997
Share premium account		27,183	27,183
Capital redemption reserve		168	168
Share option reserve		-	-
Retained earnings		87,480	83,656
<b>Total equity attributable to owners of the parent</b>		<b>126,828</b>	<b>123,004</b>

The financial statements on pages 10 to 28 were authorised for issue on 29 September 2017 by the Board of Directors and signed by their order.

  
Jon Hendry Pickup  
Director

**Prezzo Limited**

**Statement of Cash Flows for the 52 weeks ended 1 January 2017**

		<b>52 weeks ended 1 January 2017 £'000</b>	<b>53 weeks ended 3 January 2016 £'000</b>
	<b>Notes</b>		
<b>Cash flows from operating activities</b>			
Net cash inflow from operating activities	27	<b>19,809</b>	<b>13,872</b>
Income tax paid		<b>(1,326)</b>	<b>(3,235)</b>
<b>Net cash inflow from operating activities</b>		<b>18,483</b>	<b>10,637</b>
<b>Cash flows from investing activities</b>			
Finance income		<b>15</b>	<b>50</b>
Payments to acquire property, plant and equipment		<b>(20,678)</b>	<b>(26,778)</b>
Proceeds from sale of property, plant and equipment		<b>675</b>	<b>29,827</b>
<b>Net cash (outflow)/inflow from investing activities</b>		<b>(19,988)</b>	<b>3,099</b>
<b>Cash flows from financing activities</b>			
Finance expense		<b>(45)</b>	<b>(120)</b>
Issue of new ordinary shares		<b>-</b>	<b>4,037</b>
Equity dividend paid		<b>-</b>	<b>(20,000)</b>
<b>Net cash (outflow) from financing activities</b>		<b>(45)</b>	<b>(16,083)</b>
<b>Net (decrease) in cash and cash equivalents</b>		<b>(1,550)</b>	<b>(2,347)</b>
Cash and cash equivalents as at 4 January 2016		<b>12,443</b>	<b>14,790</b>
<b>Cash and cash equivalents as at 1 January 2017</b>		<b>10,983</b>	<b>12,443</b>

The notes on pages 14 to 28 are an integral part of these financial statements

**Notes forming part of the financial statements for the 52 weeks ended 1 January 2017**

**1 General Information**

Prezzo Limited is a limited company domiciled and incorporated in the United Kingdom. The Company's registered office is Johnston House, 8 Johnston Road, Woodford Green, Essex IG8 0XA.

The Company operates restaurants within the UK casual dining market, principally under the Prezzo and Chimichanga brands.

**2 Accounting policies**

**(a) Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and IFRS Interpretations Committee ("IFRS-IC") interpretations adopted by the European Union and in accordance with the Companies Act 2006 as applicable to companies reporting under IFRS.

**(b) Basis of preparation**

The financial statements have been prepared on a going concern basis, under the historical cost convention. The financial statements are presented in pounds sterling and rounded to the nearest thousand pounds. The principal accounting policies, which have been applied consistently throughout the period, are set out below.

The Company is a wholly owned subsidiary of Papa Midco Limited and its ultimate parent, Papa Topco Limited. It is included in the consolidated financial statements of Papa Midco Limited and Papa Topco Limited which are publicly available. Therefore the Company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements. The address of the ultimate parent's registered office is Johnston House, 8 Johnston Road, Woodford Green, Essex, IG8 0XA.

**Going concern**

The Directors have reviewed the cash flow forecasts of the Group for the 12 months from the date of approval of these financial statements and consider that there is sufficient cash and borrowing facilities to meet its liabilities as they fall due for the foreseeable future. The Directors recognise that the trading environment will prove challenging and whilst the Group is expected to maintain a strong liquidity position, covenant headroom has deteriorated and is likely to remain under pressure for the next 12 months, although the Group's sensitised cash flow forecasts do not indicate a covenant breach.

In making their assessment of going concern, the Directors have taken into account forecast trading cash flows and covenant compliance under the bank facilities. Taking these factors into account, the Directors believe it is appropriate to prepare the financial statements on a going concern basis.

**(c) Impact of standards and interpretations on the financial period**

The following new and revised Standards and Interpretations have been adopted in the current period. Their adoption has not had a material impact on the amounts reported in the financial statements.

Amendment to IFRS 11 'Joint arrangements on acquisition of an interest in a joint operation'.

Amendment to IAS 16 'Property, Plant and Equipment' and IAS 38 'Intangible Assets'.

Amendment to IFRS 10 'Consolidated financial statements' and IAS 28 'Investments in associates and joint ventures'.

**(d) Impact of standards and interpretations in issue but not yet effective**

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 1 January 2017, and have not been applied in preparing these financial statements. The Directors are currently assessing the impact of these standards, with the following changes being those that may potentially have a future impact:

IFRS 9 'Financial Instruments' is not effective until 2018 (subject to EU endorsement). The Company is currently assessing the impact of the standard on its results and financial position and will continue to assess the impact as the standard is revised by the IASB. However, it is possible that this amendment may impact upon the way the Company recognises fair value gains and losses on its Available for Sale assets.

IFRS 15 'Revenue from contracts with customers' was issued in May 2014 and will apply from 1 January 2018.

IFRS 16 'Leases' will apply to the Company from 1 January 2019.

The Company is currently carrying out work to assess the changes to systems and procedures that will be required in order to comply with IFRS 16, as it is expected to have a significant impact on the calculation and presentation of assets and liabilities arising from short leasehold properties in the financial statements.

The Company has not early adopted any standard, amendment or interpretation.

## 2 Accounting policies (continued)

### (e) Revenue

Revenue represents amounts received or receivable for goods and services provided in the normal course of business (net of VAT and voluntary gratuities left by customers for the benefit of employees). Revenue is recognised at the point of delivery of goods and services to retail customers.

### (f) Cost allocation

Cost of sales includes the cost of goods sold, direct labour costs, restaurant overheads and also the costs of the Operations and Area Managers who work in and around the restaurants. Administration costs includes the costs of all other central support functions, administration and head office costs.

### (g) Supplier rebates

Rebates from suppliers are recognised in the financial statements period in which they are earned.

### (h) Operating leases

Assets leased under operating leases are not recorded on the Statement of Financial Position. Rental payments under operating leases are charged directly to the Statement of Comprehensive Income on a straight line basis. Lease incentives, primarily rent-free periods, are capitalised and then systematically released to the Statement of Comprehensive Income over the period of the lease term. Payments made to acquire operating leases are treated as prepaid lease expenses and are amortised over the period of the lease.

### (i) Pre-opening costs

Property rentals and other related overhead expenses incurred prior to a new restaurant opening are expensed in the Statement of Comprehensive Income in the period that they are incurred. Similarly, the costs of training new staff during the pre-opening phase are expensed as incurred.

### (j) Share-based payments

The Company operated a number of equity-settled share-based payment schemes under which share options were granted to certain employees. The costs of equity-settled transactions were measured at fair value at the date of grant. The fair value was measured using the Black-Scholes model. In determining the fair value, no account is taken of any vesting conditions, other than conditions linked to the price of the Company's shares (market-based conditions).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional only upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided all other conditions are satisfied.

The fair value determined at the grant date is then expensed on a straight line over the vesting period, based on the Directors' best estimate of the number of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions. The movement in the cumulative expense since the previous Statement of Financial Position date is recognised in the Statement of Comprehensive Income, with the corresponding movement taken into equity.

Where the terms and conditions of options are modified before they vest or where options have been cancelled and reissued with modified terms, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the Statement of Comprehensive Income over the remaining vesting period.

### (k) Non-trading items

Non-trading items are items of income or expense which because of their nature and the events giving rise to them, are not directly related to the delivery of the Company's restaurant service to its patrons and therefore merit separate presentation to allow shareholders greater clarity in understanding the elements of financial performance in the period, so as to facilitate comparison with prior periods and to assess more accurately trends in financial performance.

### (l) Operating profit

Operating profit is stated after all expenses, including any non-trading items, but before finance income or costs.

### (m) Taxation

The tax expense included in the Statement of Comprehensive Income comprises both current and deferred tax. Current tax is the expected tax payable on the taxable income arising in the period reported on, calculated using tax rates relevant to the financial period.

**2 Accounting policies (continued)**

**(m) Taxation (continued)**

Deferred tax is provided using the balance sheet liability method, providing for all temporary differences between the carrying amounts of assets and liabilities recorded for reporting purposes and the amounts used for tax purposes, except for differences arising on the initial recognition of an asset or liability which affects neither accounting or taxable profit at the time of the transaction. Deferred tax is calculated on an undiscounted basis, at the tax rates that are expected to apply when the liability is settled or the asset is realised using tax rates enacted or substantively enacted at the Statement of Financial Position date.

Tax is recognised in the Statement of Comprehensive Income except to the extent that IAS 12 requires certain elements of the total tax expense to be recorded directly in equity. These elements are separately disclosed in the movement in shareholders' equity and the movement in reserves.

The carrying value of deferred tax assets is reviewed at each Statement of Financial Position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

**(n) Dividends**

In accordance with IAS 10, Events after the Statement of Financial Position date, dividends declared after the Statement of Financial Position date are recognised in the period in which they are approved by shareholders, as no liability existed at the Statement of Financial Position date.

**(o) Goodwill**

All business combinations, as defined by IFRS 3 (Revised), are accounted for using the acquisition method. Goodwill represents the difference between the fair value of consideration paid and the fair value of the net identifiable assets acquired. In accordance with IAS 27, IFRS 3 is only applied in an entity's separate financial statements, if the entity acquires an unincorporated business or trade and assets meeting the definition of a business.

Goodwill is stated at the value so calculated less any accumulated provision for impairment. Goodwill is not amortised but is reviewed for impairment at least annually, or more frequently when there is an indication of impairment. For the purposes of impairment testing Goodwill is allocated to specific individual cash generating units and future cashflows are reviewed to assess whether there is any indication of impairment.

**(p) Property, Plant and Equipment**

Items of property, plant and equipment are stated at cost less the accumulated charge for depreciation and any recognised impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset operate as intended.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or scrapping of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset is recognised in income.

Depreciation is charged so as to write-off the cost of assets over their estimated useful economic lives on a straight line basis. It is calculated at the following rates.

Freehold land	Nil depreciation
Freehold properties	2% per annum
Freehold improvements	4% per annum
Short leasehold improvements	over the period of the lease
Fixtures, fittings and equipment	10% per annum
Computer equipment (included in fixtures, fittings and equipment)	20%-33.3% per annum

Restaurants under construction are not depreciated.

All property, plant and equipment is reviewed for impairment in accordance with IAS 36 Impairment of Assets, when there are indications that the carrying value may not be recoverable.

**(q) Impairment - non-financial assets**

The carrying values of the Company's assets are reviewed at each Statement of Financial Position date to determine whether there is any indication of impairment. If any such condition exists, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss. An impairment loss is recognised whenever the carrying value of an asset exceeds its recoverable amount and impairment losses are recognised in the Statement of Comprehensive Income.



**2 Accounting policies (continued)**

**(r) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first-in, first-out basis. Net realisable value is based on estimated selling price less any further costs to be incurred up until the point of sale.

**(s) Financial Instruments**

The carrying amounts of cash and cash equivalents, trade receivables, other accounts receivable, trade payables and other accounts payable approximate to their fair value. The Company does not hold or issue derivative financial instruments.

**Financial assets - Loans and receivables**

**Trade and other receivables**

The trade receivables arising in the business are not amounts owed to the Company from retail customers, but consist of annual retrospective rebates which are received from trade suppliers shortly after the end of the period in which they are earned and accrued and amounts due from Tesco Freetime Limited arising from its clubcard voucher scheme. Trade receivables are initially recognised at fair value and subsequently carried at amortised cost, reduced by any appropriate allowances for irrecoverable amounts. Trade receivables are provided against where there is objective evidence that amounts are not recoverable. Other receivables are initially recognised at fair value and then subsequently carried at amortised cost.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term, highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

**Financial liabilities - Other liabilities**

**Trade and other payables**

Trade and other payables are initially recognised at fair value and then subsequently carried at amortised cost.

**(t) Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the Statement of Financial Position date, taking in to account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

**Restructuring**

A restructuring provision is recognised when the Company has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entitled by the restructuring and not associated with the ongoing activities of the Company.

**Onerous Contracts**

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Company has a contract under which the unavoidable cost of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

**(u) Foreign Currencies**

The individual financial statements of the Company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of these financial statements, the results and financial position are expressed in pounds sterling, which is the functional currency of the Company, and the presentation currency for the financial statements.

In preparing the financial statements of the Company, transactions in currencies other than the functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each Statement of Financial Position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

## Prezzo Limited

### Notes forming part of the financial statements for the 52 weeks ended 1 January 2017 (continued)

#### (u) Foreign Currencies (continued)

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

#### (v) Equity

Equity issued by the Company is recorded as amounts received less direct issue costs.

### 3 Critical accounting estimates and judgements

The preparation of financial statements under IFRS requires the Company to make estimates and judgements that affect the application of policies and reported amounts. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations that are believed to be reasonable under the circumstances. Actual results may differ from these estimates and assumptions. The estimates and assumptions that are considered to have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year are discussed in more detail below.

#### (a) Accruals

In order to provide for all valid liabilities which exist at the Statement of Financial Position date, the finance team is required to estimate and accrue for certain costs or expenses which have not been invoiced and therefore the amount of which cannot be known with certainty. Such accruals are based on management's best judgement and past experience. The total value of accruals as at the Statement of Financial Position date is set out in note 18.

#### (b) Useful lives of property, plant and equipment

Property, plant and equipment are depreciated over their estimated useful lives. Useful lives are based on management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to these estimates - the current rates of depreciation are set out in the accounting policy in note 2(p) - can result in significant variations in the carrying value and amounts charged to the Statement of Comprehensive Income as depreciation in a particular period.

#### (c) Asset Impairment

In carrying out an impairment review in accordance with IAS 36 it has been necessary to make estimates and judgements regarding the future performance and cash flows generated by individual trading units which cannot be known with certainty. Past performance will often be taken as the best available guide to future performance, unless it is known that the circumstances surrounding a particular trading unit have changed. Where the circumstances surrounding a particular trading unit have changed or will change in the future then it can be even more difficult to forecast future performance. For these reasons the actual impairment required in the future may differ from the charge made in the financial statements. Details of any impairment charge required in the financial statements are provided in note 8.

#### (d) Deferred taxation

The deferred tax liability provided in the accounts is based on temporary differences between the tax written down values of assets and liabilities and their carrying values in the accounts and as such it is dependent on assumptions made in the Company's corporation tax computations. The assumptions on the proportion of certain elements of capital expenditure which will be eligible for tax relief are subjective and the final calculations agreed with HMRC could differ from the provision made in the financial statements.

#### (e) Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Company has a contract under which the unavoidable cost of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

### 4 Revenue

Revenue is wholly attributable to the principal activity of the Company and arises solely within the UK.

## Prezzo Limited

### Notes forming part of the financial statements for the 52 weeks ended 1 January 2017 (continued)

#### 5 Cost of sales

	52 weeks ended 1 January 2017 £'000	53 weeks ended 3 January 2016 £'000
Cost of sales can be further analysed as follows:		
Excluding pre-opening costs	183,289	177,835
Pre-opening costs	655	803
	<u>183,944</u>	<u>178,638</u>

The comparative figure for the 53 weeks ended 3 January 2016, have been restated to reflect what the Directors believe is a more accurate reflection of the Company's cost of sales and administration costs. The impact of this restatement was to increase cost of sales by £0.5m and reduce administration costs by £0.5m.

#### 6 Employees

	52 weeks ended 1 January 2017 £'000	53 weeks ended 3 January 2016 £'000
Staff costs (including directors) consist of:		
Wages and salaries	66,528	61,456
Social security costs	4,854	4,387
Other pension costs	331	294
Equity-settled share-based payment schemes (see note 28)	-	694
	<u>71,713</u>	<u>66,831</u>

Of this total cost, £67.6m (53 weeks ended 3 January 2016: £62.1m) was included within cost of sales and the remaining £4.1m (53 weeks ended 3 January 2016: £4.7m) was included in administration expenses. The average monthly number of employees, including directors, during the period was 4,107 (53 weeks ended 3 January 2016: 3,869) with 83 (53 weeks ended 3 January 2016: 76) of these working within the administrative functions and the remainder working in the restaurants.

#### 7 Directors

	52 weeks ended 1 January 2017 £'000	53 weeks ended 3 January 2016 £'000
Wages and salaries	555	506
Social security costs	63	62
Pension costs	1	1
Equity-settled share-based payment schemes (see note 28)	-	307
Total emoluments paid to Directors	<u>619</u>	<u>876</u>

The total amount payable to the highest paid director consisted of £211,400 (53 weeks ended 3 January 2016: £165,000) in respect of emoluments. In 2015, the highest paid Director also received share option gains of £515,375.

#### 8 Non-trading items - charged to administrative expenses

	52 weeks ended 1 January 2017 £'000	53 weeks ended 3 January 2016 £'000
Loss on site closures and asset write downs	915	(6,783)
Write-off of rent premium	46	124
Provision for onerous lease	2,637	581
Provision for impairment of property, plant and equipment	12,811	3,452
Provision for impairment of intangibles	-	201
Expenses in connection with offer for the Company	-	3,726
Restructuring provision	1,266	-
Site abort costs	217	104
	<u>17,892</u>	<u>1,405</u>

In accordance with IAS 36 Impairment of Assets, the Company has carried out a review of the carrying values of plant, property and equipment, taking into account the current trading performance and anticipated future cash flows discounted at a pre-tax rate of 8.2% in order to assess whether there is any indication of impairment. Assets are carried at their cost less accumulated depreciation, but are reduced to their recoverable amount if that is less than cost less depreciation. When a trading unit where recent performance and anticipated cash flows would suggest that it may have reduced economic value in use to the business has been identified, it has been valued at fair value less costs to sell based on the Directors' experience of the commercial property market and their view of its likely value on disposal.

## Prezzo Limited

### Notes forming part of the financial statements for the 52 weeks ended 1 January 2017 (continued)

#### 8 Non-trading items - charged to administrative expenses (continued)

As a result of the above process, a provision for impairment of £12.8m (52 weeks ended 1 January 2017: £3.5m) has been made against the book value of forty two properties.

A £2.6m provision has been made in respect of onerous property leases (52 weeks ended 1 January 2017: £0.6m).

A £1.3m charge has been made relating to costs incurred relating to support team and operational restructuring during the period.

Adjusted profit before tax for headline reporting purposes was calculated as follows:

	52 weeks ended 1 January 2017 £'000	53 weeks ended 3 January 2016 £'000
Profit before taxation	5,099	21,715
Non-trading items (see above)	17,892	1,405
Adjusted profit before taxation	22,991	23,120

#### 9 Operating profit

	52 weeks ended 1 January 2017 £'000	53 weeks ended 3 January 2016 £'000
This has been arrived at after charging/(crediting):		
Staff costs (see note 6)	71,713	66,831
Depreciation	10,482	10,612
Loss/(profit) on disposal of property, plant and equipment and inventory	1,790	(5,717)
Impairment of property, plant and equipment	12,811	3,452
Auditors' remuneration - audit services	62	60
- other-audit services	9	8
Operating lease rentals	23,361	20,882

Of the total £1.8m (53 weeks ended 3 January 2016: £5.7m profit) loss on disposal of property, plant and equipment and inventory, a £nil loss (53 weeks ended 3 January 2016: £1.1m) is included within cost of sales and a loss on site closures and asset write downs of £0.9m (53 weeks ended 3 January 2016: £6.8m) is included within non-trading items (see note 8).

#### 10 Finance expense

	52 weeks ended 1 January 2017 £'000	53 weeks ended 3 January 2016 £'000
Bank interest	180	120
	180	120

#### 11 Income tax expense

	52 weeks ended 1 January 2017 £'000	53 weeks ended 3 January 2016 £'000
<b>UK Corporation tax</b>		
Current tax on profit for the period	4,217	5,032
Adjustments in respect of prior period	(2,074)	-
Total current tax	2,143	5,032
<b>Deferred tax</b>		
Credit in respect of change in future rate of taxation	(204)	(499)
Origination and reversal of temporary differences	(664)	101
Temporary differences on rolled over gains on property disposals	-	(382)
Share-based payment temporary difference	-	461
Total deferred tax	(868)	(319)
Total expense in the statement of comprehensive income	1,275	4,713

# Prezzo Limited

## Notes forming part of the financial statements for the 52 weeks ended 1 January 2017 (continued)

### 11 Income tax expense (continued)

The tax assessed for the period is lower than (53 weeks ended 3 January 2016: higher than) the standard rate of corporation tax in the UK. The differences are explained below:

	52 weeks ended 1 January 2017 £'000	53 weeks ended 3 January 2016 £'000
Profit before taxation	5,099	21,715
Tax on profit at the average rate of corporation tax in the UK of 20% (53 weeks ended 3 January 2016: 20.25%)	1,020	4,397
Tax effects of:		
Adjustments in respect of prior period	(2,074)	-
Credit in respect of change in future rate of taxation	(204)	(499)
Depreciation on ineligible fixed assets	2,308	707
Non-qualifying impairment charges	-	398
Profit on sale of non-qualifying assets	132	(1,288)
Expenses - non deductible for tax	93	748
Other	-	250
Tax expense for the period as shown above	1,275	4,713

The standard rate of corporation tax in the UK changed from 21% to 20% with effect from 1 April 2015 and accordingly, the profit for the period has been taxed at an effective rate of 20%. Any further changes in the rate of UK corporation tax will have an impact on the future tax charge.

Two further changes to the UK corporation tax rate have been announced and substantively enacted, with a reduction to 19% from 1 April 2017 and then a further reduction to 17% from 1 April 2020.

### 12 Dividends

	52 weeks ended 1 January 2017 £'000	53 weeks ended 3 January 2016 £'000
Amounts recognised as distributions to equity shareholders in the period	-	20,000

A dividend of 8.335 pence per ordinary share was declared on 25 March 2015 and paid in three stages on 31 March, 30 April 2015 and 7 May 2015.

	52 weeks ended 1 January 2017 £'000	53 weeks ended 3 January 2016 £'000
Proposed final dividend	-	-

No final dividend is proposed for the period ended 1 January 2017 (53 weeks ended 3 January 2016: £Nil).

### 13 Intangibles

	Goodwill £'000
At 29 December 2014	1,419
Impairment of goodwill	(201)
At 3 January 2016	1,218
Impairment of goodwill	-
At 1 January 2017	1,218

# Prezzo Limited

Notes forming part of the financial statements for the 52 weeks ended 1 January 2017 (continued)

## 13 Intangibles (continued)

The goodwill balance shown above arose on two trade and assets acquisitions made by the Company in 2010 and 2011. The goodwill is attributable to specific leasehold sites that were subsequently refurbished and rebranded under one of the Company's core trading formats. The recoverable amount of goodwill is reviewed annually as part of the impairment review of the cash generating units ("CGUs") in question. The Company applies an 8.2% discount to estimated future cashflows of each CGU are tested to ensure they provide cover for the net book value of related fixed assets and the goodwill component taken together. The impairment recognised in the prior period follows the disposal of one such site.

## 14 Property, plant and equipment

	Freehold land, properties and improvements £'000	Short leasehold improvements £'000	Fixtures fittings and equipment £'000	Restaurants under construction £'000	Total £'000
<b>Cost</b>					
At 29 December 2014	35,509	111,060	45,905	785	193,259
Additions	-	2,540	3,881	18,854	25,275
Reclassification	(10,306)	24,501	4,053	(18,248)	-
Disposals	(25,203)	(2,977)	(3,200)	(74)	(31,454)
<b>As at 3 January 2016</b>	-	135,124	50,639	1,317	187,080
Additions	-	5,671	4,688	10,319	20,678
Reclassification	-	8,553	1,365	(9,918)	-
Disposals	-	(2,143)	(2,125)	-	(4,268)
<b>As at 1 January 2017</b>	-	147,205	54,567	1,718	203,490
<b>Accumulated depreciation</b>					
At 29 December 2014	5,475	33,618	20,338	-	59,431
Depreciation charge	263	5,529	4,820	-	10,612
Reclassification	(2,922)	2,922	-	-	-
Impairment provisions	-	3,452	-	-	3,452
Disposals	(2,816)	(3,109)	(1,496)	-	(7,421)
<b>As at 3 January 2016</b>	-	42,412	23,662	-	66,074
Depreciation charge	-	5,618	4,864	-	10,482
Impairment provisions	-	12,811	-	-	12,811
Disposals	-	(611)	(1,192)	-	(1,803)
<b>As at 1 January 2017</b>	-	60,230	27,334	-	87,564
<b>Net book value</b>					
As at 1 January 2017	-	86,975	27,233	1,718	115,926
As at 3 January 2016	-	92,712	26,977	1,317	121,006
As at 28 December 2014	30,034	77,442	25,567	785	133,828

Of the total depreciation charge for the period £10.3m (63 weeks ended 3 January 2016: £9.2m) was included within cost of sales and the remaining £0.2m (63 weeks ended 3 January 2016: £0.4m) was included within administration expenses.

For details of impairment provisions please see note 8.

## 15 Prepaid operating leases

	As at 1 January 2017 £'000	As at 3 January 2018 £'000
Held within current assets	6,068	5,664
Held within non-current assets	4,881	5,227
	<b>10,949</b>	<b>10,891</b>

# **Prezzo Limited**

## **Notes forming part of the financial statements for the 52 weeks ended 1 January 2017 (continued)**

### **15 Prepaid operating leases (continued)**

Prepaid operating leases has two components. Included in amounts held within one year is the sum of £6.1m (3 January 2016: £5.6m) which represents quarterly instalments on operating leases paid in advance. In addition, there is a further £4.9m (3 January 2016: £5.2m) which is made up of lease premiums, which IFRS requires to be treated as rent paid in advance and amortised over the length of the lease, normally over 20 or 25 years. As a result, £0.5m (3 January 2016: £0.5m) is classified within current assets, with the remaining balance included in non-current assets.

### **16 Inventories**

	As at 1 January 2017 £'000	As at 3 January 2016 £'000
Raw materials and consumables	2,759	2,489
Crockery and utensils	2,650	3,351
	<u>5,409</u>	<u>5,840</u>

In the Directors' opinion, there is no material difference between the replacement cost of inventory and the amounts stated above.

The Company recognised stock purchases of £48.7m in the Statement of Comprehensive Income in the 52 weeks ended 1 January 2017 (53 weeks ended 3 January 2016: £50.0m). The amount of inventories written-off in the period and included in non-trading items was £80,000 (53 weeks ended 3 January 2016: £77,000).

### **17 Trade and other receivables**

	As at 1 January 2017 £'000	As at 3 January 2016 £'000
Trade and other receivables	5,318	6,518
Amounts owed from Group companies	20,653	19,512
Prepayments and accrued income	4,535	3,377
	<u>30,506</u>	<u>29,407</u>

All amounts shown fall due for payment within one year.

Amounts owed from group undertakings of £20.7m (53 weeks ended 3 January 2016: £19.5m) are non-interest bearing, unsecured and repayable on demand.

### **18 Trade and other payables**

	As at 1 January 2017 £'000	As at 3 January 2016 £'000
Trade payables	11,017	16,938
Amounts owed to parent company	311	3,620
Taxation and social security	5,925	6,357
Other payables	4,083	4,156
Accruals	10,138	10,274
	<u>31,474</u>	<u>41,345</u>
All held within current liabilities		
	<u>31,474</u>	<u>41,345</u>
Held within non-current liabilities		
Accruals	9,334	8,658
	<u>9,334</u>	<u>8,658</u>

Provisions (note 19) made during the prior period were included within Accruals.

Amounts owed to group undertakings of £311,000 (3 January 2016: £3.6m) are non-interest bearing, unsecured and repayable on demand.

**Prezzo Limited**

**Notes forming part of the financial statements for the 52 weeks ended 1 January 2017 (continued)**

**19 Provisions**

	Restructuring £'000	Onerous leases £'000	Total £'000
As at 4 January 2016			
Brought forward amounts reclassified from accruals		881	881
Additional provisions	1,266	2,637	3,903
Used during the period	(1,185)	(322)	(1,507)
At 1 January 2017	81	3,196	3,277

**Analysis of total provisions:**

	As at 1 January 2017	As at 3 January 2016
Non-current		
Current	3,277	
Total	3,277	

Provisions in the prior year were classified as current liabilities and included with in accruals (note 18).

**20 Deferred tax**

**Deferred tax asset arising from share options**

	As at 1 January 2017 £'000	As at 3 January 2016 £'000
At 3 January 2016 / 28 December 2014	-	461
Credit to the Statement of comprehensive income (see note 11)	-	(461)
At 1 January 2017 / 3 January 2016	-	-

**Deferred tax liability**

	As at 1 January 2017 £'000	As at 3 January 2016 £'000
At 3 January 2016 / 28 December 2014	4,839	5,619
(Credit) to the Statement of comprehensive income	(868)	(780)
At 1 January 2017 / 3 January 2016	3,971	4,839

The deferred tax liability shown above can be analysed as follows:

	As at 1 January 2017 £'000	As at 3 January 2016 £'000
Accelerated capital allowances	3,449	4,199
Other short term temporary differences	522	640
At 1 January 2017 / 3 January 2016	3,971	4,839

**21 Share capital**

	Authorised			
	As at 1 January 2017 Number	As at 3 January 2016 Number	As at 1 January 2017 £'000	As at 3 January 2016 £'000
Ordinary shares of 5p each	300,000,000	300,000,000	15,000	15,000



**Prezzo Limited**

**Notes forming part of the financial statements for the 52 weeks ended 1 January 2017 (continued)**

**21 Share capital (continued)**

	Allotted, called up and fully paid			
	As at 1 January 2017 Number	As at 3 January 2016 Number	As at 1 January 2017 £'000	As at 3 January 2016 £'000
Ordinary shares of 5p each	239,947,229	239,947,229	11,997	11,997
<b>Movements in share capital</b>			<b>Number</b>	<b>£'000</b>
At 28 December 2014			234,884,582	11,744
Ordinary shares issued			5,062,647	253
At 3 January 2016			239,947,229	11,997
At 1 January 2016			239,947,229	11,997

**22 Reserves**

The nature and purpose of each of the reserves within shareholders' equity is explained below.

Share premium reserve - the accumulated amount subscribed for share capital in excess of nominal value.

Capital redemption reserve - includes amounts transferred from the share capital reserve in order to maintain shareholders capital following the buyback and cancellation of equity shares.

Share option reserve - reflects the credit to equity made in respect of the charge for share options together with the related deferred tax movements.

Retained earnings - the cumulative gains and losses recognised in the Statement of comprehensive income together with other items which are required to be taken direct to equity.

**23 Related party transactions**

The related party transactions which took place with during the period are as follows -

**Transactions with group and parent undertakings**

During the period the Company paid management charges of £1.5m to its immediate parent company, Prezzo Holdings Limited. £375,000 remained outstanding at the end of the period and is included in amounts owed to group undertakings.

During the period the Company paid £800,000 for monitoring fees and £369,000 for field consultancy services to indirect parent companies. £311,000 remained outstanding at 1 January 2017.

**Key management personnel**

Members of the Executive Committee are considered to be key management personnel as they act as the principal decision making body for the trading operations of the Group. Amounts paid to Key Management Personnel, aside from those members of Key Management Personnel that were also directors of the Company during the period, totalled £639,000. Group Directors and Key Management Personnel have contributed £52,800 to a management equity plan held outside of the Group. The share purchases have been at arm's length and at fair value.

**24 Future commitments under operating leases**

The total future minimum rental payments outstanding under non-cancellable operating leases as at 1 January 2017 are set out below:

	As at 1 January 2017 £'000	As at 3 January 2016 £'000
<b>Property leases</b>		
Within one year	23,822	22,355
Within two to five years	95,287	89,418
Over five years	309,507	295,631
	<b>428,616</b>	<b>407,404</b>

The leases for land and buildings are subject to rent reviews. The financial commitments for operating lease amounts payable calculated as a percentage of turnover, have been based on the minimum payment that is required under the terms of the lease. As a result, the amounts charged to the Statement of Comprehensive Income may differ to the minimum financial commitment at the period end.

## Prezzo Limited

### Notes forming part of the financial statements for the 52 weeks ended 1 January 2017 (continued)

#### 24 Future commitments under operating leases (continued)

On 25 March 2015, the Company entered into agreements to sell and leaseback 21 properties, 20 of which were freehold properties and 1 of which was a long leasehold property. The total sales proceeds were £29.8m and 25 year leases were signed on each site, resulting in an annual rental commitment of £1.9m (subject to 5 year rent reviews).

#### 25 Capital commitments

	As at 1 January 2017 £'000	As at 3 January 2016 £'000
Authorised and contracted	1,213	2,036

As at the Statement of Financial Position date, the Company had capital commitments in respect of contracts for the fit out works at three (3 January 2016: four) additional new leasehold sites with a total value as shown above.

#### 26 Contingent liabilities

On 24 February 2015, the Company entered into a cross guarantee for a bank facility for a total of £155m of which £130m is currently drawn down.

#### 27 Reconciliation of profit before tax to net cash inflow from operating activities

	52 weeks ended 1 January 2017 £'000	53 weeks ended 3 January 2016 £'000
Profit before taxation	5,099	21,715
Finance income	(15)	(50)
Finance expense	180	120
Depreciation	10,482	10,612
Share-based payment charge	-	694
Loss/(profit) on disposal of property, plant and equipment and inventory	(1,790)	(5,717)
Charge in respect of provision for onerous lease	2,637	581
Charge in respect of restructuring provision	81	-
Write-off of rent premium	46	124
Impairment of property, plant and equipment	12,811	3,452
Impairment of intangibles	-	201
Decrease/(increase) in inventories	431	(57)
Decrease/(increase) in receivables	1,064	(24,681)
(Decrease)/increase in payables	(11,217)	6,878
Net cash inflow from operating activities	19,809	13,872

#### 28 Financial risks

The Company is exposed to certain risks arising from its use of financial instruments. The Company does not make any use of derivative-based financial instruments, however, IFRS 7 requires that it provides the following disclosure on its financial assets and liabilities as set out below.

The Company's financial assets and liabilities are shown on the face of the balance sheet and in the table below and they can be classified wholly as either loans and receivables or other liabilities. The Company has operated with a net cash balance throughout the period and consequently has no bank debt or other loan obligations.

	As at 1 January 2017 £'000	As at 3 January 2016 £'000
<b>Financial assets</b>		
Trade and other receivables	25,971	26,030
Cash and cash equivalents	10,983	12,443
<b>Financial liabilities</b>		
Trade and other payables	15,411	24,714

**28 Financial risks (continued)**

In accordance with IAS 39, all financial assets are classified as loans and receivables and all financial liabilities are held at amortised cost. In the Directors' opinion, there is no material difference between the book value and the fair value of any of the financial instruments.

The Company has some exposure to credit risk, interest rate risk and liquidity risk. The Company does not have any material exposure to currency risk. There has been no material change to the financial instruments used within the business during the period and therefore no material changes to the risk management policies put in place by the Board which are now discussed below.

The Board has overall responsibility for the determination of the Company's risk management objectives and policies. Whilst acknowledging this responsibility, it has delegated the authority and day to day responsibility for designing and operating systems and controls which meet these risk management objectives to the finance and administration function. The Board regularly reviews the effectiveness of these processes in meeting its objectives and considers any necessary changes in response to changes within the business or the environment in which it operates.

**Credit risk**

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets held at the balance sheet date. The Company's maximum exposure to credit risk by type of financial asset equals the carrying value of financial assets shown in 2016 and 2015.

	As at 1 January 2017 £'000	As at 3 January 2016 £'000
Trade and other receivables are due:		
Current	30,506	29,407
Within 30-60 days	-	-
Within 61-90 days	-	-
91 days and over	-	-
	<b>30,506</b>	<b>29,407</b>

There are no amounts within receivables that are past due (3 January 2016 - ENII).

All receivables are non-derivative financial assets with fixed or determined payments that are not quoted in an active market. In practice, the company has limited exposure to credit risk as the receivables in the Statement of Financial Position are predominantly receivable from well established trade suppliers or landlords. These relationships are monitored closely and given the ongoing nature of trading with such counterparties, the likelihood of default is considered to be limited. As a result, no provision for doubtful debts has been made in the financial statements.

The loan of £20.7m which has been made to immediate parent undertaking, arises as cash is moved up to that entity predominantly to settle transaction fees and interest charges on bank loans held by Prezzo Holdings Limited. While this loan is technically repayable on demand, the Company is unlikely to request repayment for the foreseeable future given that its role as the principal trading entity provides economic support to the Group.

Cash in our restaurants is banked on a regular basis to ensure that security risks are minimised and that cash resources are utilised efficiently. An analysis of cash deposits held is provided to Board Directors on a weekly basis and any changes in strategy for the treasury function are discussed and approved at Board level at regular monthly meetings. Cash is deposited with AA rated, UK-based financial institutions, in funds that are readily converted into known amounts of cash and the credit risk on such assets is considered to be limited.

**Interest rate risk**

Interest rate risk is the risk that the value of financial assets will fluctuate due to changes in market interest rates. The Company's income and operating cash flows and the value of its financial assets are largely independent of changes in market interest rates. Low levels of surplus funds are invested in short-term secured deposit accounts such that the Company is not unduly exposed to market interest rate fluctuations.

Interest income received on such deposits in the period amounted to £15,000 (2015: £26,000) and represented 0.06% (2015: 0.11%) of adjusted profit before taxation (see note 9). A 1% movement in market interest rates would have had significantly less than 1% impact on profits in either the current or comparative periods.

**Liquidity risk**

Liquidity risk arises from the Company's management of working capital, including cash and cash equivalents and fixed term deposits. The Board's policy is to manage its working capital flows such that it will always have sufficient cash to allow it to meet its liabilities as and when they become due.

The current trading environment is challenging and whilst the Group is expected to maintain a strong liquidity position, covenant headroom has deteriorated and is likely to remain under pressure for the next 12 months, although the Group's sensitised cash flow forecasts do not indicate a covenant breach.

## Prezzo Limited

### Notes forming part of the financial statements for the 52 weeks ended 1 January 2017 (continued)

#### 28 Financial risks (continued)

##### Liquidity risk (continued)

At the Statement of Financial Position date, the Company had committed bank borrowing facilities of £10m (3 January 2016: £10m) available to it. None of the facility was drawn down at the Statement of Financial Position date. The Company's treasury management policy is discussed in the Report of the Directors.

	As at 1 January 2017 £'000	As at 3 January 2016 £'000
Trade and other payables are due for settlement:		
Current	31,474	41,345
Within 30-60 days	-	-
Within 61-90 days	-	-
91 days and over	-	-
	<hr/> 31,474	<hr/> 41,345

##### Capital

The Company considers its capital to comprise its ordinary share capital, share premium, capital redemption reserve and accumulated retained earnings.

The primary objective of the Company is to maximise the return for equity shareholders through a combination of capital growth and equity distributions. In order to achieve its objectives in this area, the Company seeks to maintain a capital structure appropriate to its size, strategy for growth and underlying business risks.

#### 29 Share-based payments

The share-based payment schemes are no longer open following the change in ownership in the prior period.

In accordance with the rules of the schemes, all remaining options vested and became immediately exercisable as a result of the change of control that occurred on 2 February 2015. During the 53 weeks ended 3 January 2016 5,062,647 options were exercised during and the weighted average value of options exercised was 79.8p. The remaining nil options were forfeited.

#### 30 Ultimate parent and controlling party

The immediate parent company of Prezzo Limited is Prezzo Holdings Limited, a company which is a direct subsidiary of Papa Midco Limited, a limited company under the laws of England and Wales and the smallest group for which consolidated financial statements are prepared. Papa Midco Limited is a direct subsidiary of Papa Topco Limited, also a limited company incorporated under the laws of England and Wales and the largest group for which consolidated financial statements are prepared. The consolidated financial statements of Papa Midco Limited and Papa Topco Limited are available upon request from, Johnston House, 8 Johnston Road, Woodford Green, Essex, IG8 0XA.

The Directors consider Papa Jersey Topco Limited, a company incorporated in Jersey to be the ultimate parent company and TPG Advisors VI-AIV, Inc. ("Advisors"). Advisors is controlled by the principals of TPG VI Management LLC, a registered adviser with the U.S. Securities and Exchange Commission, to be the ultimate controlling party.