

Company number

09278104

Prezzo Holdings Limited

Annual Report and Financial Statements

52 weeks ended

1 January 2017

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Prezzo Holdings Limited

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

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Prezzo Holdings Limited

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

Directors and Advisers

Directors

Dirk Eller

Abel Halpern

Jon Hendry Pickup

Registered office

Johnston House

8 Johnston Road

Woodford Green

Essex

IG8 0XA

Company number

09278104

Independent Auditors

PricewaterhouseCoopers LLP

The Portland Building

25 High Street

Crawley

RH10 1BG

Prezzo Holdings Limited

Strategic Report for the 52 weeks ended 1 January 2017

The Directors present their Strategic Report for Prezzo Holdings Limited (the "Company") for the 52 weeks ended 1 January 2017 (2016: 62 weeks ended 3 January 2016).

Introduction

The Company was incorporated on 23 October 2014 to carry out its business as an investment company.

On 2 February 2015, the Company acquired the trading business Prezzo Limited for a total consideration of £303.5m plus transaction costs of £5.25m. Prezzo Limited operates restaurants in the UK casual dining market, principally under the Prezzo and Chimichanga brands.

The results of the Company for the financial period ended 1 January 2017 are set out in the Statement of Comprehensive Income and show a loss for the period before taxation of £49.5m (62 weeks ended 3 January 2016: profit of £7.1m). The loss for the period arose primarily from the impairment of the Company's investment in Prezzo Limited, reflecting the challenging trading environment in the UK restaurant sector, and the interest payable on the amounts drawn down from the bank facility.

Key performance indicators

Given the holding company nature of the business, the Company's directors are of the opinion that analysis using key performance indicators ("KPIs") is not necessary for an understanding of the development, performance or position of the Company.

A more detailed business review is included in the Annual Report and Financial Statements of Papa Topco Limited, the Company's ultimate parent company (together with its subsidiaries, the "Group"), which do not form part of this report.

Principal risks and uncertainties

The Board of Directors (the "Board") has the 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.

Interest rate risk

Interest rate risk arises to the extent that a change in the underlying base rate of interest will affect the level of interest payable on the Company's external banking facilities. The Company holds interest rate swaps to hedge the risk on the interest due on 80% of its bank loans.

Liquidity risk

Liquidity risk is managed at a Group level, by monitoring existing debt facilities for both financial covenants and funding headroom against both short-term and longer term cash flow forecasts.

Maturity Analysis of Company's debt and other liabilities

	Less than 1 Year £'000	1-2 Years £'000	2-5 Years £'000	Over 5 Years £'000	Total £'000
Loans and other borrowings	-	-	-	130,000	130,000
Trade and other payables	22,659	-	-	-	22,659

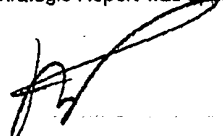
Liquidity risk arises from the Group's management of working capital, including cash and cash equivalents and fixed term deposits. The Board's policy is to manage its working capital flows such that the Group will always have sufficient cash to allow it to meet its liabilities as and when they become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

At the Statement of Financial Position date, the Company had committed bank borrowing facilities of £15m available to it (62 weeks ended 3 January 2016: £15m). None of the facility was drawn down at the Statement of Financial Position date (3 January 2016: £Nil).

Credit risk

The Company's credit risk is attributable to cash and trade and other receivables. The Company places its cash with banks with high quality credit ratings. Trade and other receivables relate to intercompany balances and unamortised fees on debt agreements which were entered into with creditworthy counterparties.

This Strategic Report was approved by the Board and signed on its behalf by:



Jon Hendry Pickup
Director
29 September 2017

Prezzo Holdings Limited

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

The Directors present their annual report together with the audited financial statements for the 52 weeks ended 1 January 2017 (2015: 62 weeks ended 3 January 2016).

Principal activities and future developments

The Company's principal activity is to carry out its business as an investment company and provide the management services of its employees to Prezzo Limited. The directors expect this to continue for the foreseeable future.

Results and dividends

The Statement of Comprehensive Income shows a loss after taxation for the financial period ended 1 January 2017 of £47.4m (62 weeks ended 3 January 2016: profit of £8.9m).

The directors do not recommend the payment of a dividend (62 weeks ended 3 January 2016: £20.0m).

Directors of the Company

The directors of the Company who were in office during the period and up to the date of signing the financial statements, unless stated otherwise, were:

Dirk Eller

Abel Halpern

Jon Hendry Pickup

Philippe Schneliter

David Niven

Jonathan Kaye

Appointed 25 July 2016

Resigned 30 June 2016

Resigned 15 April 2016

Resigned 29 June 2016

Financial Instruments

On 10 February 2015, the Company raised finance by way of a bank facility for a total of £155m of which £130m is currently drawn down. Of the undrawn £25m Revolving Credit Facility ("RCF"), £15m is currently assigned to the Company. The remaining £10m is currently assigned to Prezzo Limited, the Company's subsidiary undertaking.

The Company has put in place interest rate swap contracts to fix interest on 80% of the senior loan facility and consequently it was exposed to interest rate risk only in so far as changes in base rates affect the unhedged element (20%) of its borrowings.

Further information on financial instruments and the risks facing the business is contained in note 18 to the financial statements.

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 the Directors throughout the period and up to the date of approval of the financial statements.

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have prepared the financial statements in accordance with 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 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) the director 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 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 Holdings Limited

Independent Auditors' Report to the members of Prezzo Holdings Limited

Report on the financial statements

Our opinion

In our opinion, Prezzo Holdings 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 loss 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 within 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 Changes in Equity for the period then ended;
- the Statement of Cash Flows 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.

Prezzo Holdings Limited

Independent Auditors' Report to the members of Prezzo Holdings Limited (continued)

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

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 the 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.

Rosemary Shapland

Rosemary Shapland (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Gatwick

29 September 2017

Prezzo Holdings Limited

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

		52 weeks ended 1 January 2017 £'000	62 weeks ended 3 January 2016 £'000
	Notes		
Revenue	4	1,500	1,356
Administration costs		(1,591)	(5,023)
Other income	5	-	20,000
Operating (loss)/profit excluding non-trading items		(91)	20,041
Non-trading items	6	(39,155)	(3,708)
Operating (loss)/profit	7	(39,246)	16,333
Finance income	10	7	4
Finance costs	11	(10,225)	(9,259)
(Loss)/profit before taxation		(49,464)	7,078
Income tax credit	12	2,062	1,858
(Loss)/profit for the period		(47,402)	8,936
Other comprehensive income/ (expense) that may subsequently be reclassified to profit or loss:			
Cash flow hedges		(2,163)	(320)
Deferred tax credit on cash flow hedge		472	-
Total comprehensive (loss)/income for the financial period attributable to owners of the parent		(49,093)	8,616

The notes on pages 13 to 23 are an integral part of these financial statements.

Prezzo Holdings Limited

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

	Share Capital	Other Reserves	Retained Earnings	Total Equity
	£'000	£'000	£'000	£'000
Balance as at 23 October 2014	-	-	-	-
Profit for the period	-	-	8,936	8,936
Other comprehensive expense for the period	-	(320)	-	(320)
Total comprehensive income for the period	-	(320)	8,936	8,616
Dividend paid	-	-	(20,000)	(20,000)
Issue of new ordinary shares	183,619	-	-	183,619
Reduction of share capital	(100,000)	-	100,000	-
Balance as at 3 January 2016	83,619	(320)	88,936	172,235
Loss for the period	-	-	(47,402)	(47,402)
Other comprehensive expense for the period	-	(2,163)	-	(2,163)
Deferred tax on cash flow hedge	-	472	-	472
Total comprehensive loss for the period	-	(1,691)	(47,402)	(49,093)
Balance as at 1 January 2017	83,619	(2,011)	41,534	123,142

The notes on pages 13 to 23 are an integral part of these financial statements.

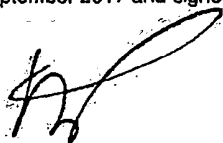
Prezzo Holdings Limited

Company number - 09278104

Statement of Financial Position as at 1 January 2017

	Notes	As at 1 January 2017 £'000	As at 3 January 2016 £'000
Non-current assets			
Investment in subsidiaries	13	269,628	308,783
Deferred tax asset	14	472	
		<u>270,100</u>	<u>308,783</u>
Current assets			
Trade and other receivables	15	832	736
Cash and cash equivalents		5,336	9,615
		<u>6,168</u>	<u>10,351</u>
Total assets		<u>276,268</u>	<u>319,134</u>
Current liabilities			
Trade and other payables	16	(25,061)	(21,714)
		<u>(25,061)</u>	<u>(21,714)</u>
Non-current liabilities			
Borrowings	17	(125,582)	(124,865)
Financial Instruments	21	(2,483)	(320)
		<u>(128,065)</u>	<u>(125,185)</u>
Total liabilities		<u>(153,126)</u>	<u>(146,899)</u>
Net assets		<u>123,142</u>	<u>172,235</u>
Equity			
Share capital	22	83,619	83,619
Other reserves		(2,011)	(320)
Retained earnings		41,534	88,936
Total equity attributable to owners of the parent		<u>123,142</u>	<u>172,235</u>

The financial statements on pages 9 to 23 were approved by the Board of Directors and authorised for issue on 29 September 2017 and signed on their behalf by:



Jon Hendry Pickup
Director

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

	Note	52 weeks ended 1 January 2017 £'000	62 weeks ended 3 January 2016 £'000
Cash flows from operating activities			
Net cash inflow from operating activities	23	7,314	36,181
Net cash inflow from operating activities		<u>7,314</u>	<u>36,181</u>
Cash flows from investing activities			
Finance income		7	4
Acquisition of subsidiaries		-	(308,783)
Net cash inflow/(outflow) from investing activities		<u>7</u>	<u>(308,779)</u>
Cash flows from financing activities			
Increase in borrowings, net of issue costs			123,295
Issue of new ordinary shares			183,619
Interest paid		(11,600)	(4,701)
Equity dividend paid			(20,000)
Net cash (outflow)/inflow from financing activities		<u>(11,600)</u>	<u>282,213</u>
Net (decrease)/increase in cash and cash equivalents		<u>(4,279)</u>	<u>9,615</u>
Cash and cash equivalents as at 4 January 2016		<u>9,615</u>	-
Cash and cash equivalents as at 1 January 2017		<u>5,336</u>	<u>9,615</u>

The notes on pages 13 to 23 are an integral part of these financial statements.

Prezzo Holdings Limited

Notes to the financial statements for the 52 weeks ended 1 January 2017

1. General Information

Prezzo Holdings 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 acts as an investment company under which the Group operates restaurants within the UK and Republic of Ireland 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 as adopted by the European Union and the Companies Act 2006 as applicable to companies reporting under IFRS.

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 IAS 38 'Intangible Assets'.

Amendment to IAS 28 'Investments in associates and joint ventures'.

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 period 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 change being that which may potentially have a future impact:

IFRS 9 'Financial Instruments' is effective from 1 January 2018 (subject to EU endorsement). The amendments relate to the interaction between IFRS 4 and IFRS 9.

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

(b) Basis of preparation

The financial statements have been prepared on a going concern basis, under the historical cost convention, except for the revaluation of financial instruments that are measured at fair value at the end of each reporting period. The financial statements are presented in pounds sterling and rounded to the nearest thousand pounds.

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.

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.

The principal accounting policies, which have been applied consistently throughout the period are set out below.

(c) Revenue recognition

Revenue is recognised in relation to management fees received for providing support to other Group companies. Revenue is recognised at the time at which the relevant services are provided to each company.

2 Accounting policies (continued)

(d) 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 Company's principal activity and therefore merit separate presentation to allow shareholders to understand better the elements of financial performance.

(e) 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.

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.

(f) Taxation

The tax expense included in the Statement of Comprehensive Income comprises current tax 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.

Deferred tax is provided using the Statement of Financial Position 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 profit or loss except to the extent that IAS 12 requires certain elements of the total tax expense to be recorded in other comprehensive income or directly in equity. These elements are separately disclosed in the Statement of Comprehensive Income and the Statement of Changes in Equity.

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.

(g) Dividends

In accordance with IAS 10, 'Events after the balance sheet date', dividends declared after the balance sheet date are recognised in the period in which they are approved by shareholders, as no liability existed at the balance sheet date.

(h) Investments

The value of the investment in each subsidiary held by the Company is recorded at cost including directly attributable transaction costs, less any impairment in the value.

2 Accounting policies (continued)

(i) Impairment - non-financial assets

The carrying values of the Company's non-financial assets are reviewed at each balance sheet 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.

(j) Financial instruments

Financial assets and liabilities are recognised when the Company has become a party to the contractual provisions of the instrument.

The carrying amounts of cash and cash equivalents, trade receivables, other accounts receivable, trade payables and other accounts payable approximate to their fair value.

Financial assets

Trade and other receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

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

Borrowings

All borrowings are initially stated at the fair value of consideration received after the deduction of issue costs. The issue costs and interest payable on borrowings are charged to the Statement of Comprehensive Income over the term of the borrowing, or over a shorter period where it is more likely than not that the lender will require earlier repayment or where the borrower intends or is required to redeem early.

Derivative financial instruments

The Company does not trade in derivative financial instruments, however it does hold interest rate swaps in relation to cash flow hedges on borrowings. Interest rate swaps are held at fair value and the movement in fair value is recognised through Other Comprehensive Income.

Financial liabilities

Trade and other payables

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

(k) Equity

Equity issued by the Company is recorded at 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) Investment 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 its subsidiary undertaking 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 the business have changed. Where the circumstances surrounding the business 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.

Prezzo Holdings Limited

Notes to the financial statements for the 52 weeks ended 1 January 2017 (continued)

4 Revenue

	52 weeks ended 1 January 2017 £'000	62 weeks ended 3 January 2016 £'000
Management services	1,500	1,356
	<u>1,500</u>	<u>1,356</u>

5 Other Income

	52 weeks ended 1 January 2017 £'000	62 weeks ended 3 January 2016 £'000
Investment income	-	20,000
	<u>-</u>	<u>20,000</u>

Investment income relates to dividends received from Prezzo Limited, the Company's subsidiary undertaking.

6 Non-trading Items

	52 weeks ended 1 January 2017 £'000	62 weeks ended 3 January 2016 £'000
Expenses in connection with the acquisition of Prezzo Limited	-	3,708
Provision for impairment in investment in subsidiaries	39,155	-
	<u>39,155</u>	<u>3,708</u>

7 Operating (loss)/profit

	52 weeks ended 1 January 2017 £'000	62 weeks ended 3 January 2016 £'000
Operating (loss)/profit can be further analysed as follows:		
Directors' remuneration (see note 9)	(354)	(226)
Foreign exchange differences	(3)	(19)
Administrative costs	(1,230)	(1,066)
Auditors' remuneration	(4)	(4)
Management services (see note 4)	1,500	1,356
Investment income (see note 5)	-	20,000
Non-trading items (see note 6)	(39,155)	(3,708)
	<u>(39,246)</u>	<u>16,333</u>

8 Employees

The Company has no employees other than the directors (62 weeks ended 3 January 2016: None).

9 Directors

	52 weeks ended 1 January 2017 £'000	62 weeks ended 3 January 2016 £'000
Wages and salaries	312	199
Social security costs	42	26
Pension costs	-	1
Total emoluments paid to Directors	<u>354</u>	<u>226</u>

During the period three (62 weeks ended 3 January 2016: two) directors received remuneration in relation to services provided to the Company. Three (62 weeks ended 3 January 2016: five) other directors received no remuneration (62 weeks ended 3 January 2016: £Nil). The highest paid director received total remuneration of £242,000 (62 weeks ended 3 January 2016: £135,873).

Prezzo Holdings Limited

Notes to the financial statements for the 52 weeks ended 1 January 2017 (continued)

10 Finance income

	52 weeks ended 1 January 2017 £'000	62 weeks ended 3 January 2016 £'000
Bank interest received	7	4
	<u>7</u>	<u>4</u>

11 Finance expense

	52 weeks ended 1 January 2017 £'000	62 weeks ended 3 January 2016 £'000
Bank interest	9,251	8,381
Amortisation of debt issue costs	974	878
	<u>10,225</u>	<u>9,259</u>

12 Income tax credit

	52 weeks ended 1 January 2017 £'000	62 weeks ended 3 January 2016 £'000
UK Corporation tax		
Amounts received for surrender of losses	(2,062)	(1,858)
Total current tax	<u>(2,062)</u>	<u>(1,858)</u>
Total tax credit on (loss)/profit for the period	<u>(2,062)</u>	<u>(1,858)</u>

The tax assessed for the period is the same as (62 weeks ended 3 January 2016: lower than) the standard rate of corporation tax in the UK. The differences are explained below:

	52 weeks ended 1 January 2017 £'000	62 weeks ended 3 January 2016 £'000
(Loss)/profit before tax	<u>(49,464)</u>	<u>7,078</u>
Tax on profit at the standard rate of corporation tax in the UK of 20% (62 weeks ended 3 January 2016: 20.17%)	<u>(9,893)</u>	<u>1,428</u>
Tax effects of:		
Dividends from subsidiary undertaking		(4,034)
Non deductible expenses	<u>7,831</u>	<u>748</u>
Tax credit for the period as shown above	<u>(2,062)</u>	<u>(1,858)</u>

The standard rate of corporation tax in the UK for the 52 week period ended 1 January 2017 was 20% (62 weeks ended 3 January 2016: 20.17%). Two further changes to the corporation tax rate have been announced and substantively enacted, with a reduction to 19% from 1 April 2017 and then to 17% from 1 April 2020. Any further changes in the rate of UK corporation tax will have an impact on the future tax charge.

In addition to the amount charged to profit or loss, the following amount relating to tax has been recognised in other comprehensive income:

	52 weeks ended 1 January 2017 £'000	62 weeks ended 3 January 2016 £'000
Deferred tax		
Items that will not be reclassified subsequently to profit or loss:		
Cash flow hedge - loss arising in the period	<u>472</u>	<u>-</u>

Prezzo Holdings Limited

Notes to the financial statements for the 52 weeks ended 1 January 2017 (continued)

13 Investment in subsidiaries

	Investments in subsidiary companies £'000
Cost and net book value	
At 3 January 2016	308,783
Impairment of Investment	(39,155)
At 1 January 2017	269,628

On 2 February 2015 the Company acquired 239,947,000 shares (each with a £0.05 nominal value) in Prezzo Limited, making it a wholly owned subsidiary. As part of this acquisition the Company incurred directly attributable transaction costs of £5.25m. These costs have been capitalised in accordance with the Company's accounting policy.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next three years and extrapolates cash flows for future years with a growth rate of 1%, applying an 8.2% discount rate to the forecast cash flows to test for impairment. As a result of these tests the value in use was found to be materially less than the carrying value, as a result an impairment has been made to the carrying value of the Company's investment in subsidiaries.

Details of undertakings

Details of the investment which the Company holds are as follows:

Undertaking	Country of Incorporation	Proportion of voting rights and Shares held	Principle Activity
Prezzo Limited	UK	100%	Operating Restaurants
Prezzo Restaurants Ireland Limited	Republic of Ireland	100%	Operating Restaurants
Jonathans Restaurants Limited	UK	100%	Dormant
Ultimate Burger Limited	UK	100%	Dormant

Johnston House, 8 Johnston Road, Woodford Green, Essex, IG8 0XA, is the registered office for all entities listed above with the exception of Prezzo Restaurants Ireland Limited. Prezzo Restaurants Ireland Limited is registered at 4 Upper Ely Place, Dublin 2, Republic of Ireland.

14 Deferred tax

Deferred tax asset	As at 1 January 2017 £'000	As at 3 January 2016 £'000
At 4 January 2016 and 23 October 2014	-	-
Credit to the other comprehensive Income	472	-
At 1 January 2017 and 3 January 2016	472	-

The deferred tax asset relates to the loss in the period arising on the cashflow hedge.

15 Trade and other receivables

	As at 1 January 2017 £'000	As at 3 January 2016 £'000
Trade and other receivables	9	22
Amounts owed from Group companies	375	22
VAT	14	-
Unamortised fees	434	692
	832	736

Amounts owed from Group companies are interest free and repayable on demand.

16 Trade and other payables

	As at 1 January 2017 £'000	As at 3 January 2016 £'000
Trade payables	13	411
Amounts owed to Group undertakings	22,646	17,623
Accruals	1,071	-
Accrued interest expenses	1,331	3,680
	25,061	21,714

Amounts owed to Group undertakings are interest free and repayable on demand.

Prezzo Holdings Limited

Notes to the financial statements for the 52 weeks ended 1 January 2017 (continued)

17 Borrowings

	As at 1 January 2017 £'000	As at 3 January 2018 £'000
Bank loans - senior facility	130,000	130,000
Capitalised debt issue costs	(4,418)	(5,135)
	125,582	124,865

On 14 December 2014, the Company entered into borrowing arrangements to partially fund the purchase of Prezzo Limited. The loans were subsequently syndicated to a range of lending institutions and carry interest rates above libor as set out below, interest being payable in arrears at time periods of one, three or six months as periodically agreed in advance.

Debt issue costs of £5.9m have been capitalised and offset against the Senior Facility principal balance. The issue costs are being amortised over the term to maturity and at 1 January 2017, unamortised issue costs amounted to £4.4m (62 weeks ended 3 January 2016: £5.1m).

The outstanding principal loan amount, the maturity date and the interest rate payable on the Company's debt facilities are set out below:

	Loan principal	Undrawn	Maturity date
Senior B Facility	£130m	-	14 Dec 2021
Revolving Credit Facility (RCF)	£15m	£15m	14 Dec 2020

The rate of interest payable on each loan is the percentage rate per annum which is the aggregate of LIBOR together with a fixed margin, which is determined by the leverage ratio measured at the start of the interest period. The margin which applied in the period was 6.00% for Facility B and 4.50% for the RCF if drawdown. Non-utilisation fees of 1.70% were payable on the undrawn RCF principal during the period:

Leverage ratio	Margin per cent per annum	
	Facility B	RCF
Greater than equal to 3.50 to 1	6.00	4.50
Less than 3.50 but greater than 3.00 to 1	5.75	4.25
Less than 3.00 to 1	5.50	4.00

18 Financial risk management

The Company is exposed to certain risks arising from its exposure to financial instruments and IFRS 7 (Financial Instruments - Disclosures) requires that it provides disclosures regarding the quantum and nature of these risks, together with the policies and procedures put in place to manage them appropriately.

The Board is responsible 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.

The principal financial risks faced by the Company have been identified as liquidity risk, interest rate risk and credit risk. To date the Company has had only very limited exposure to currency risk.

Liquidity risk

The Company finances its operations through a mixture of equity (Company share capital, reserves and retained earnings) and debt. The Company manages its liquidity risk by monitoring its existing debt facilities for both financial covenants and funding headroom against both short-term and longer term cash flow forecasts. 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.

18 Financial risk management (continued)

Maturity analysis

The table below analyses the Company's non-derivative financial liabilities into the relevant maturity groupings based on the remaining period as at the period end to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

	Less than 1 Year £'000	1-2 Years £'000	2-5 Years £'000	Over 5 Years £'000	Total £'000
As at 3 January 2016					
Loans and other borrowings	-	-	-	130,000	130,000
Trade and other payables	18,034	-	-	-	18,034
	18,034	-	-	130,000	148,034
As at 1 January 2017					
Loans and other borrowings	-	-	-	130,000	130,000
Trade and other payables	22,659	-	-	-	22,659
	22,659	-	-	130,000	152,659

The £130.0m loan is repayable in December 2021.

Detailed Group cash flow forecasts are prepared for the Board setting out anticipated working capital flows together with future obligations from capital projects in progress and the resulting impact on the Group's cash balances.

Interest rate risk

Interest rate risk reflects the Company's exposure to movements in interest rates in the market.

The following table sets out the interest rate risk associated with the Company's financial liabilities:

	Fixed Rate £'000	Floating Rate £'000	Non-interest Bearing £'000	Total £'000
As at 3 January 2016				
Loans and other borrowings	104,000	26,000	-	130,000
Trade and other payables	-	-	18,034	18,034
	104,000	26,000	18,034	148,034
As at 1 January 2017				
Loans and other borrowings	104,000	26,000	-	130,000
Trade and other payables	-	-	22,659	22,659
	104,000	26,000	22,659	152,659

The Company's exposure to interest rate risk arises principally from long term bank borrowings. However, the Company has entered into two interest rate swap contracts that have the combined effect of converting £104.0m or 80% of its borrowings into fixed interest syndicated loans through to February 2020.

The Company analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

See note 21 for disclosures of the derivative financial instruments that are measured at fair value.

18 Financial risk management (continued)

Credit risk

The Company's credit risk is attributable to cash and trade and other receivables. The Company places its cash with banks with high quality credit ratings. Trade and other receivables relate to intercompany balances and unamortised fees on debt agreements which were entered in to with creditworthy counterparties.

Capital management

The Company's objectives when managing its capital are to safeguard its ability to continue as a going concern and trade profitably to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce its cost of capital.

The capital of the Company as at 1 January 2017 is summarised as follows:

	As at 1 January 2017 £'000	As at 3 January 2016 £'000
Total borrowings	125,582	124,865
Less cash and cash equivalents	(5,336)	(9,615)
Net debt	120,246	115,250
Total equity	123,142	172,235
Total capital	243,388	287,485

The Company manages its capital with regard to the risks inherent in the business and the industry in which it operates. The Company monitors the gearing ratio which is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (as shown on the Statement of Financial Position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the Statement of Financial Position plus net debt.

In order to maintain or adjust the capital structure, the Group may adjust the amounts of dividends paid to shareholders, return capital to shareholders, issue new shares or sell marketable assets to reduce debt.

The Company's financial assets and liabilities included in the Statement of Financial Position are classified as set out below:

	As at 1 January 2017 £'000	As at 3 January 2016 £'000
Financial assets		
Trade and other receivables	384	44
Cash and cash equivalents	5,336	9,615
	<u>5,720</u>	<u>9,659</u>
Financial liabilities		
Borrowings	125,582	124,865
Trade and other payables	22,659	18,034
Financial Instruments	2,483	320
	<u>150,724</u>	<u>143,219</u>

With the exception of interest rate swaps held, all financial assets and liabilities are measured at amortised cost. In the opinion of the Directors, the fair value of these financial instruments is not considered to be materially different from their amortised cost.

19 Reserves

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

Other reserves - reflects the fair value of interest rate swaps in respect of cash flow hedges relating to borrowings.

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.

20 Dividends

	52 weeks ended 1 January 2017 £'000	62 weeks ended 3 January 2016 £'000
Amounts recognised as distributions to equity shareholders in the period	-	20,000

A dividend of £0.24 per ordinary share (amounting to £20.0m in aggregate) was declared on 25 March 2015 and paid in three stages on 31 March 2015, 30 April 2015 and 7 May 2015.

No final dividend is proposed for the period ended 1 January 2017 (62 weeks ended 3 January 2016: £Nil).

21 Derivative financial instruments

	52 weeks ended 1 January 2017 £'000	62 weeks ended 3 January 2016 £'000
Cash flow hedge	2,483	320

The fair value of financial instruments that are not traded in an active market (for example over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates, and therefore are classified as level 2. The fair value of interest rate swaps are classified as non-current liabilities as the remaining maturity of the hedged item is greater than 12 months.

At 1 January 2017, the fixed interest rates vary from 7.2% to 7.7% and the main floating rate is LIBOR. Fair value adjustments on the interest rate contracts will be recognised within non-current assets and other reserves in equity through to maturity.

22 Share capital

Authorised, allotted and fully paid

	As at 1 January 2017 Number	As at 1 January 2017 £'000	As at 3 January 2016 Number	As at 3 January 2016 £'000
Ordinary shares of £1 each	83,618,794	83,619	83,618,794	83,619
At 1 January 2017	83,618,794	83,619	83,618,794	83,619

The Company was incorporated on 23 October 2014 with the issue of one ordinary £1 share for total consideration of £1. On 24 November a further 9.6m ordinary £1 shares were issued for total consideration of £9.6m and then on 10 February 2015 a further 174,067,569 ordinary shares were issued for consideration of £174.1m.

On 26 March 2015, the Board passed a resolution that the issued and allotted share capital be reduced by 100m ordinary £1 shares, with the corresponding value of £100m being transferred to distributable reserves.

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Notes to the financial statements for the 52 weeks ended 1 January 2017 (continued)

23 Cash Inflow from operating activities

	52 weeks ended 1 January 2017 £'000	62 weeks ended 3 January 2018 £'000
(Loss)/profit before taxation	(49,464)	7,078
Finance income	(7)	(4)
Finance cost	9,251	8,381
Amortisation of loan fees	974	878
Provision for impairment in Investment in subsidiaries	39,155	-
Increase in receivables	(368)	(22)
Increase in payables	7,773	19,870
Net cash inflow from operating activities	7,314	36,181

24 Related party transactions

The Directors are considered to be the key management personnel. Details of Directors' remuneration is given in note 9. The Company has no employees other than the Directors.

During the period, the Company received income of £1.5m (62 weeks ended 3 January 2016: £1.4m) from its subsidiary undertaking in relation to management services provided. There were no further related party transactions during the period.

25 Contingent liabilities

On 10 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.

26 Ultimate parent and controlling party

The immediate parent company of Prezzo Holdings Limited is Papa Midco Limited, a company which is a subsidiary of Papa Topco Limited, a limited company 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 ultimate controlling interest in the Company is held by 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.