Company number 09278104

Prezzo Holdings Limited

Annual Report and Financial Statements

52 weeks ended

31 December 2017

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Prezzo Holdings Limited

Annual Report and Financial Statements for the 52 weeks ended 31 December 2017

Directors and Advisers

Directors

Dirk Eller

Michael Comish

Peter James

Karen Jones

Wayne Arthur

Registered office

Johnston House
8 Johnston Road
Woodford Green
Essex
IG8 OXA

Company number

09278104

Independent Auditors

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

Strategic Report for the 52 weeks ended 31 December 2017

The Directors present the Strategic Report for Prezzo Holdings Limited (the "Company") for the 52 weeks ended 31 December 2017 (2016: 52 weeks ended 1 January 2017).

Principal Activity

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.

The parent entity of the largest group to prepare consolidated accounts including the Company (the "Group") is Papa Topco Limited. The Group also includes, Papa Midco Limited, the Company's immediate holding company, Prezzo Limited, the Company's direct subsidiary and the primary trading entity within the Group, and Prezzo Restaurants Ireland Limited, a subsidiary of Prezzo Limited.

Business review

The results of the Company for the 52 week period ended 31 December 2017 are set out in the Statement of Comprehensive Income and show a loss for the period before taxation of £207.3m (52 weeks ended 1 January 2017: loss of £49.5m). The loss for the period arose primarily from the non-cash accounting write down of the Company's investment in Prezzo Limited, reflecting the challenging trading environment in the UK restaurant sector, and from the interest payable on the amounts drawn down under the bank facility.

At 31 December 2017 Prezzo Holdings Limited had borrowings of £130m of senior debt and £25m of a fully drawn revolving credit facility ("RCF"). Covenants in the facilities agreement were breached as at 31 December 2017 due to difficult trading conditions in the final quarter of 2017. The breaches were subsequently waived by the lenders and a further waiver was obtained in respect of the CVA process described below, and the March 2018 covenant tests. Following the expiry of the March 2018 covenant waiver, a new facilities agreement with reset financial covenants was agreed in August 2018. As part of the new facility agreement, a debt for equity swap was undertaken with the lender group, which resulted in £104m of debt being converted into share capital. As a result of the debt for equity swap, the Company's ultimate controlling party remains unchanged, however control is no longer through Papa Topco Limited and TPG are no longer majority owners.

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.

Events Since the Period End

Following the challenges in 2017, in January 2018 the Directors finalised a detailed strategic review of the Group. This resulted in the development of a turnaround plan (the "Transformation Plan") which includes, but is not limited to:

- Reshaping of the portfolio: Exiting loss making, or marginally profitable restaurants to retain a profitable 'core' of c.190 Prezzo restaurants
- Strengthening the Statement of Financial Position: Restructuring the existing £155m debt facility with reset financial covenants
- More focused approach: Improving operational capability and customer proposition at a restaurant level
- Re-establishing the Prezzo brand: Differentiating ourselves in a more competitive market and reduce the reliance on discounting

The first step of this plan was successfully implemented in 2018 and involved the exit of the Chimichanga, Caffe Uno, Cleaver and MEXIco brands and the closure of unprofitable Prezzo branded restaurants through a Company Voluntary Arrangement ("CVA"). The CVA was announced in February 2018 and was formally approved by 88% of creditors on 23 March 2018. As a result, 104 restaurants have been closed during 2018.

As part of the strategic review, the Group also agreed to dispose of the Group's only restaurant in the Republic of Ireland. The sale of the trade and assets of Prezzo Restaurants Ireland Limited was completed in October 2018.

Following the CVA, which completed in May 2018 the secured lenders and owners concluded negotiations around the Group's capital structure at Prezzo Holdings Limited. A debt for equity swap was undertaken resulting in the reduction of overall gross debt from £155m to £51m in August 2018. The Board and owners are now fully aligned, reflecting the collective belief in the brand and confidence in management's ability to execute the Transformation Plan.

In addition to the financial and estate restructuring, the management team has been upweighted to bring significant turnaround, operational and sector expertise to the Company including the appointment of Karen Jones CBE as Executive Chairman in June 2018, to work with the strengthened management team on the execution of the Transformation Plan.

2018 has proven a challenging year for Prezzo and the sector. The impact of snow, World Cup and hot weather over the summer, along with declining consumer confidence has been well documented by our competitors. In addition Prezzo has faced the challenge of a CVA process which is now complete. We successfully launched a new food menu in September which has improved our offering and we are very encouraged by the revenues from our refurbished restaurants which are significantly out-performing the rest of the Prezzo portfolio.

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

W Arthur

Director

5 November 2018

Report of the Directors for the 52 weeks ended 31 December 2017

The Directors present their annual report together with the audited financial statements for the 52 weeks ended 31 December 2017. (1 January 2017: 52 weeks ended 1 January 2017).

Principal Activities

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 52 weeks ended 31 December 2017 of £206.6m (52 weeks ended 1 January 2017: £47.4m).

The directors are unable to recommend the payment of a dividend (52 weeks ended 1 January 2017: £nil).

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.

Directors

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	Resigned 11 December 2017
Jon Hendry Pickup	Resigned 12 May 2018
Peter James	Appointed 30 January 2018
Michael Comish	Appointed 30 January 2018
Karen Jones	Appointed 12 May 2018
Wayne Arthur	Appointed 30 January 2018

Financial risk management

The Company is exposed to certain financial risks, as disclosed in note 17 to the financial statements. Risk management objectives and policies are managed at a Group level.

Liquidity risk

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.

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	1-2 Years	2-5 Years	Over 5 Years	Total
	£'000	£'000	£'000	£'000	£'000
Loans and other borrowings	155,000	-	-	-	155,000
Trade and other payables	28,830	-	-	-	28,830

On 10 February 2015, the Company raised finance by way of a bank facility for a total of £130m, with a £25m revolving credit facility ("RCF") being made available. As at 31 December 2017 the full £155m borrowing was drawn down by Prezzo Holdings Limited.

The covenants in the facilities agreement were breached in December 2017 due to difficult trading conditions in the final quarter of 2017 and consequently the debt is all classified as current liabilities as at the Statement of Financial Position date. The breaches were subsequently waived by the lenders and a further waiver was obtained in respect of the CVA process and March 2018 covenant tests.

Following the CVA, which completed in May 2018, the secured lenders and owners agreed a revised capital structure, which resulted in the reduction of overall gross debt from £155m to £51m in August 2018. The revised principal debt of £51m is now repayable in June 2023.

Trade and other payables comprises mainly amounts due to the subsidiary's undertakings, Prezzo Limited and accrued interest on the bank loan and RCF.

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 held interest rate swaps to hedge the risk on the interest due on 80% of its bank loans at the Statement of Financial Position date. The Directors continue to manage interest rate risk through interest rate swaps under the new debt structure. Upon completion of the refinancing, one of the interest rate swap contracts was exited with the other hedge remaining in place on existing terms.

Credit risk

The Company's credit risk is attributable to cash and cash equivalents. The Company places its cash with banks with high quality credit ratings

Going concern

The Directors believe it is appropriate to prepare the financial statements on a going concern basis. In making this assessment 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, while trading conditions continue to be challenging, consider that there is sufficient cash to meet its liabilities as they fall due for the foreseeable future. There is risk that the transformation plan will take longer than forecast to positively impact trading results. This could impact profitability and the trading cash flow forecasts. In these circumstances the Directors have the ability to manage liquidity by slowing down, or deferring the capital expenditure programme at short notice.

A revised debt facility was agreed with the lenders in August 2018 and the first covenant test is March 2020. Whilst the current trading environment is challenging, the Group's cash flow forecasts do not indicate an issue with the March 2020 covenant test.

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/ she ought to have taken as a director in order to make himself/ herself aware of any relevant audit information and to establish 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 5 November 2018.

By order of the Board

W Arthur
Director

Report on the audit of the financial statements

Opinion

In our opinion, Prezzo Holdings Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 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.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2017; the Statement of Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flows for the period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

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

Strategic Report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the Directors for the period ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Rosemary Shapland

Rosemary Shapland (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Gatwick
5 November 2018

Statement of Comprehensive Income for the 52 weeks ended 31 December 2017

	Notes	52 weeks ended 31 December 2017	52 weeks ended 1 January 2017
		£'000	£'000
Revenue	4	1,500	1,500
Administration costs		(664)	(1,591)
Operating profit/(loss) excluding non-trading items		836	(91)
Non-trading items	5	(197,776)	(39,155)
Operating loss	6	(196,940)	(39,246)
Finance income	9	3	7
Finance cost	10	(10,381)	(10,225)
Loss before taxation		(207,318)	(49,464)
Income tax credit	11	746	2,062
Loss for the period		(206,572)	(47,402)
Other comprehensive income/(expense) that may subsequently be reclassified to profit or loss:			
Cash flow hedges		1,234	(2,163)
Deferred tax (charge)/credit on cash flow hedge		(238)	472
Total comprehensive loss for the financial period		(205,576)	(49,093)

The notes on pages 13 to 24 are an integral part of these financial statements.

Statement of Changes in Equity for the 52 weeks ended 31 December 2017

	Share Capital	Other Reserves	Retained earnings	Total Equity
Group	**£'000**	**£'000**	**£'000**	**£'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
Balance as at 1 January 2017	83,619	(2,011)	41,534	123,142
Loss for the period	-	-	(206,572)	(206,572)
Other comprehensive income for the period	-	1,234	-	1,234
Deferred tax on cash flow hedge	-	(238)	-	(238)
Total comprehensive loss for the period	-	996	(206,572)	(205,576)
Balance as at 31 December 2017	**83,619**	**(1,015)**	**(165,038)**	**(82,434)**

The notes on pages 13 to 24 are an integral part of these financial statements.

Prezzo Holdings Limited

Company number - 09278104

Statement of Financial Position as at 31 December 2017

	Notes	As at 31 December 2017	As at 1 January 2017
		£'000	£'000
Non-current assets			
Investment in subsidiaries	12	**71,852**	269,628
Deferred tax asset	13	**234**	472
		72,086	270,100
Current assets			
Trade and other receivables	14	**325**	832
Cash and cash equivalents		**29,025**	5,336
		29,350	6,168
Total assets		**101,436**	276,268
Current libilities			
Trade and other payables	15	**(31,199)**	(25,061)
Borrowings	16	**(151,422)**	-
Financial derivatives	19	**(1,249)**	-
		(183,870)	(25,061)
Non-current liabilities			
Borrowings	16	**-**	(125,582)
Financial derivatives	19	**-**	(2,483)
		-	(128,065)
Total liabilities		**(183,870)**	(153,126)
Net (liabilities)/assets		**(82,434)**	123,142
Equity			
Share capital	20	**83,619**	83,619
Other reserves		**(1,015)**	(2,011)
(Accumulated losses)/ retained earnings		**(165,038)**	41,534
Total equity		**(82,434)**	**123,142**

The financial statements on pages 9 to 24 were authorised by the Board of Directors for issue on 5 November 2018 and signed on its behalf by:

W Arthur
Director

Statement of Cash Flows for the 52 weeks ended 31 December 2017

	Note	52 weeks ended 31 December 2017 £'000	52 weeks ended 1 January 2017 £'000
Cash flows from operating activities			
Net cash inflow from operating activities	21	7,335	7,314
Net cash inflow from operating activities		7,335	7,314
Cash flows from investing activities			
Finance income		3	7
Net cash inflow from investing activities		3	7
Cash flows from financing activities			
Increase in borrowings, net of issue costs		25,000	-
Interest paid		(8,649)	(11,600)
Net cash inflow/(outflow) from financing activities		16,351	(11,600)
Net increase/(decrease) in cash and cash equivalents		23,689	(4,279)
Cash and cash equivalents as at 2 January 2017		5,336	9,615
Cash and cash equivalents as at 31 December 2017		29,025	5,336

The notes on pages 13 to 24 are an integral part of these financial statements.

Notes forming part of the financial statements for the 52 weeks ended 31 December 2017

1 General Information

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

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 brand.

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, with the exception of financial derivatives, which are valued at fair value. 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.

At the Statement of Financial Position date 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 OXA.

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

Going concern

The Directors believe it is appropriate to prepare the financial statements on a going concern basis. In making this assessment 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, while trading conditions continue to be challenging, consider that there is sufficient cash to meet its liabilities as they fall due for the foreseeable future. There is risk that the transformation plan will take longer than forecast to positively impact trading results. This could impact profitability and the trading cash flow forecasts. In these circumstances the Directors have the ability to manage liquidity by slowing down, or deferring the capital expenditure programme at short notice.

A revised debt facility was agreed with the lenders in August 2018 and the first covenant test is March 2020. Whilst the current trading environment is challenging, the Group's cash flow forecasts do not indicate an issue with the March 2020 covenant test.

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

No new standards, amendments or interpretations, effective for the first time for the financial period beginning on or after 1 January 2017 have had a material impact on the Company's financial statements.

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

The following standards and revisions will be effective for future years and are not yet adopted:
- IFRS 9 'Financial instruments'
- IFRS 15 'Revenue from contracts with customers'
- IFRS 16 'Leases'

The Company has considered the impact of IFRS 9 and IFRS 15 and has concluded that they will not have a significant impact on the Company's or the Group's financial statements.

The Company has also concluded that IFRS 16 will not have a significant impact on the Company's financial statements. IFRS 16 will be effective for the Group's financial statements for annual reporting periods beginning on or after 1 January 2019. IFRS 16 specifies how an entity is to recognise, measure, present and disclose leases. IFRS 16 requires lessees to recognise assets and liabilities for all leases unless the lease term is less than 12 months, the underlying asset has a low value or the leases are under other practical expedients as specified in IFRS 16. Lessors continue to classify leases as operating or finance with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor IAS 17.

The Group is assessing the impact of the new standard and although it is not practicable to provide a reasonable estimate it is expected to have a material impact on the balance sheet as both assets and liabilities will increase and it is also expected to have a material impact on key components within the income statement. IFRS 16 will not have any impact on the underlying commercial performance of the Group nor the cash flows generated in the period. It is not possible to provide an accurate assessment of this standard until a detailed review has been completed on an individual lease basis.

2 Accounting policies *(continued)*

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

(c) Revenue

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 its subsidiary undertaking, Prezzo Limited.

(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.

(f) 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.

Deferred tax is provided using the Statement of Financial Position lability 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.

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 Reporting Period 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.

(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.

(i) Impairment of 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)*

(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 we 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.

Significant estimates

(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.

Significant judgements

(a) Going concern

The Directors believe it is appropriate to prepare the financial statements on a going concern basis. In making this assessment 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 to meet its liabilities as they fall due for the foreseeable future. The Directors have reviewed assumptions within the cash flow forecasts, including sales growth, profit margins and expected capital expenditure, and believe these assumptions to be appropriate

4 Revenue

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

5 Non-trading items

	52 weeks ended 31 December 2017	52 weeks ended 1 January 2017
	£'000	£'000
Provision for impairment of investment in subsidiaries	197,776	39,155

6 Operating loss

	52 weeks ended 31 December 2017	52 weeks ended 1 January 2017
This has been arrived at after crediting/(charging):	£'000	£'000
Directors' remuneration (see note 8)	(389)	(354)
Foreign exchange differences	20	(3)
Administrative costs	(285)	(1,230)
Auditors' remuneration	(10)	(4)
Management services (see note 4)	1,500	1,500
Non-trading items (see note 5)	(197,776)	(39,155)
	(196,940)	(39,246)

7 Employees

The Company has no employees other than the directors (52 weeks ended 1 January 2017: None).

8 Directors

	52 weeks ended 31 December 2017	52 weeks ended 1 January 2017
	£'000	£'000
Wages and salaries paid to Directors	343	312
Social security costs	46	42
Total emoluments paid to Directors	389	354

During the period one (52 weeks ended 1 January 2017: three) directors received remuneration in relation to services provided to the Company. Two (52 weeks ended 1 January 2017: three) other directors received no remuneration (52 weeks ended 1 January 2017: £nil). The highest paid director received £343,000 (52 weeks ended 1 January 2017: £242,000) in respect of emoluments.

9 Finance income

	52 weeks ended 31 December 2017	52 weeks ended 1 January 2017
	£'000	£'000
Bank interest received	3	7

10 Finance expense

	52 weeks ended 31 December 2017	52 weeks ended 1 January 2017
	£'000	£'000
Bank interest	9,407	9,251
Amortisation of debt issue costs	974	974
	10,381	10,225

11 Income tax credit

	52 weeks ended 31 December 2017	52 weeks ended 1 January 2017
UK Corporation tax	£'000	£'000
Amounts received for surrender of losses	(746)	(2,062)
Total current tax	(746)	(2,062)

The tax assessed for the period is higher than (52 weeks ended 1 January 2017: higher than) the standard rate of corporation tax in the UK. The differences are explained below:

	52 weeks ended 31 December 2017	52 weeks ended 1 January 2017
	£'000	£'000
Loss before tax	(207,318)	(49,464)
Tax on loss at the average rate of corporation tax in the UK of 19.25% (52 weeks ended 1 January 2017: 20%)	(39,909)	(9,893)
Tax effects of:		
Non-deductible expenses	39,163	7,831
Tax credit for the period as shown above	(746)	(2,062)

The standard rate of corporation tax in the UK changed from 20%, to 19% with effect from 1 April 2017 and accordingly, the loss for the period has been taxed at an effective rate of 19.25%. A further change to the UK corporation tax rate has been substantively enacted, with a reduction 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 31 December 2017	52 weeks ended 1 January 2017
	£'000	£'000
Deferred tax		
Items that will not be reclassified subsequently to profit or		
Cash flow hedge – (credit)/charge arising in the period	(238)	472

12 Investment in subsidiaries

	Investments in subsidiary company
	£'000
Cost at 4 January 2016	**308,783**
Impairment of investment	**(39,155)**
At 1 January 2017	**269,628**
Impairment of investment	**(197,776)**
At 31 December 2017	**71,852**

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 £25.3m. These costs have been capitalised in accordance with the Company's accounting policy.

The recent trading performance of the Company's subsidiary undertaking, Prezzo Limited indicated an impairment. A value in use calculation has been prepared using the Group's forecast cash flows, applying an 11% discount rate . As a result of this assessment 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 OXA, 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 Eyl Place, Dublin 2, Republic of Ireland.

13 Deferred tax

Deferred tax asset

	As at 31 December 2017	As at 1 January 2017
	£'000	£'000
At 2 January 2017 and 4 January 2016	472	-
(Charge)/credit to other comprehensive income	(238)	472
At 31 December 2017 and 1 January 2017	234	472

The deferred tax asset relates to the gain/(loss) in the period arising on the cash flow hedge.

14 Trade and other receivables

	As at 31 December 2017	As at 1 January 2017
	£'000	£'000
Trade and other receivables	5	9
Amounts owed by Group undertakings	-	375
VAT receivable	21	14
Unamortised bank facility fees	299	434
	325	832

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

15 Trade and other payables

	As at 31 December 2017 £'000	As at 1 January 2017 £'000
Trade payables	10	13
Amounts owed to Group undertakings	28,820	22,646
Accruals	280	1,071
Accrued interest expenses	2,089	1,331
	31,199	25,061

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

16 Borrowings

	As at 31 December 2017 £'000	As at 1 January 2017 £'000
Bank loans – senior facility	130,000	130,000
Capitalised debt issue costs	(3,578)	(4,418)
Bank Loans – Drawn Down RCF	25,000	-
	151,422	125,582
Amounts due for settlement within 12 months	155,000	-
Amounts due for settlement after 12 months	-	130,000

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 31 December 2017, unamortised issue costs amounted to £3.6m (52 weeks ended 1 January 2017. £4.4m).

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	Maturity date
Senior B Facility	£130m	14 Dec 2021
Revolving Credit Facility (RCF) – fully drawn	£25m	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 drawndown. Non-utilisation fees of 1.70% were payable on the undrawn RCF principal during the period.

	Margin per cent per annum	
Leverage ratio	**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

17 Financial risks

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 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 for both financial covenants and funding headroom against both short-term and longer-term cash flow forecasts.

Maturity analysis

The table below analyses the Company's non-derivative financial labilities 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	1-2 Years	2-5 Years	Over 5 Years	Total
As at 1 January 2017	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Loans and other borrowings	-	-	-	130,000	130,000
Trade and other payables	22,659	-	-	-	22,659
	22,659	-	-	130,000	152,659
As at 31 December 2017					
Loans and other borrowings	155,000	-	-	-	155,000
Trade and other payables	28,830	-	-	-	28,830
	183,830	-	-	-	183,830

The £130.0m loan was repayable in December 2021, however the Company was unable to comply with the financial covenants set out in the lending agreement as at 31 December 2017, therefore all amounts are presented as falling due within one year in these financial statements. In May 2018 the secured lenders and owners concluded negotiations around the Group's capital structure at Prezzo Holdings Limited, which resulted in the reduction of overall gross debt from £155m to £51m in August 2018.

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.

17 Financial risks *(continued)*

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	Floating Rate	Non-interest Bearing	Total
As at 1 January 2017	**£'000**	**£'000**	**£'000**	**£'000**
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
As at 31 December 2017				
Loans and other borrowings	129,000	26,000	-	155,000
Trade and other payables	-	-	28,830	28,830
	129,000	26,000	28,830	183,830

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. As the swap counterparties had the ability to terminate their positions, all amounts are presented as falling due within one year in these financial statements. Upon completion of the refinancing after the Statement of Financial Position date, one of the interest rate swap contracts was exited with the other hedge remaining in place on existing terms.

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 of 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 19 for disclosures of the derivative financial Instruments that are measured at fair value.

Credit risk

The Company's credit risk is attributable to cash and cash equivalents. The Company places its cash in banks with high quality credit ratings.

Capital

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 31 December 2017 is summarised as follows:

	As at 31 December 2017	As at 1 January 2017
	£'000	£'000
Total borrowings	**151,422**	125,582
Less cash and cash equivalents	**(29,025)**	(5,336)
Net debt	**122,397**	120,246
Total equity	**(82,434)**	123,142
Total capital	**39,963**	243,388

17 Financial risk management *(continued)*

Capital management *(continued)*

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.

As part of the Company's capital management, subsequent to the Statement of Financial Position date a debt for equity swap was undertaken with the lender group, which resulted in £104m of debt being converted into share capital.

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

	As at 31 December 2017	As at 1 January 2017
Financial assets	**£'000**	£'000
Trade and other receivables	5	384
Cash and cash equivalents	29,025	5,336
	29,030	5,720

	As at 31 December 2017	As at 1 January 2017
Financial liabilities	**£'000**	£'000
Borrowings	151,422	125,582
Trade and other payables	28,830	22,659
Financial derivatives	1,249	2,483
	181,501	150,724

With the exception of interest rate swaps held, all financial assets and labilities 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.

18 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.

19 Derivative financial instruments

	52 weeks ended 31 December 2017	52 weeks ended 1 January 2017
	£'000	£'000
Cash flow hedge	1,249	2,483

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 is classified as current liabilities as the swap counterparties had the ability to terminate their positions. Upon completion of the refinancing after the Statement of Financial Position date, one of the interest rate swap contracts was exited with the other hedge remaining in place on existing terms.

19 Derivative financial instruments (continued)

At 31 December 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.

20 Share capital

Authorised, allotted and fully paid

	As at 31 December 2017	As at 31 December 2017	As at 1 January 2017	As at 1 January 2017
	Number	£'000	Number	£'000
Ordinary shares of £1 each	83,618,794	83,619	83,618,794	83,619
At 31 December 2017	83,618,794	83,619	83,618,794	83,619

21 Cash inflow from operating activities

	As at 31 December 2017	As at 1 January 2017
Group	**£'000**	£'000
Loss before taxation	**(207,318)**	(49,464)
Finance income	**(3)**	(7)
Finance cost	**9,407**	9,251
Amortisation on loan fees	**974**	974
Provision for impairment in investment in subsidiaries	**197,776**	39,155
Decrease in receivables	**507**	(368)
Increase in payables	**5,992**	7,773
Net cash inflow from operating activities	**7,335**	7,314

22 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 (52 weeks ended 1 January 2017: £1.5m) from its subsidiary undertaking in relation to management services provided. There were no further related party transactions during the period.

23 Contingent liabilities

On 10 February 2015, the Company entered into a cross guarantee for a bank facility for a total of £155m of which £155m is drawn down, as at the Statement of Financial Position date.

24 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 OXA.

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.

24 Post balance sheet events

Following the challenges in 2017, in January 2018 the Directors finalised a detailed strategic review of the Group. This resulted in the development of a turnaround plan (the "Transformation Plan") which includes, but is not limited to:

- Reshaping of the portfolio: Exiting loss making, or marginally profitable restaurants to retain a profitable 'core' of c.190 Prezzo restaurants
- Strengthening the Statement of Financial Position: Restructuring the existing £155m debt facility with reset financial covenants
- More focused approach: Improving operational capability and customer proposition at a restaurant level
- Re-establishing the Prezzo brand: Differentiating ourselves in a more competitive market and reduce the reliance on discounting

The first step of this plan was successfully implemented in 2018 and involved the exit of the Chimichanga, Caffe Uno, Cleaver and MEXIco brands and the closure of unprofitable Prezzo branded restaurants through a Company Voluntary Arrangement ("CVA"). The CVA was announced in February 2018 and was formally approved by 88% of creditors on 23 March 2018. As a result, 104 restaurants have been closed during 2018.

As part of the strategic review, the Group also agreed to dispose of the Group's only restaurant in the Republic of Ireland. The sale of the trade and assets of Prezzo Restaurants Ireland Limited was completed in October 2018.

Following the CVA, which completed in May 2018 the secured lenders and owners concluded negotiations around the Group's capital structure at Prezzo Holdings Limited. A debt for equity swap was undertaken resulting in the reduction of overall gross debt from £155m to £51m in August 2018. The Board and owners are now fully aligned, reflecting the collective belief in the brand and confidence in management's ability to execute the Transformation Plan.

In addition to the financial and estate restructuring, the management team has been upweighted to bring significant turnaround, operational and sector expertise to the Company including the appointment of Karen Jones CBE as Executive Chairman in June 2018, to work with the strengthened management team on the execution of the Transformation Plan.