Domino's Pizza UK & IRL plc

Report and Accounts

26 DECEMBER 1999

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CONTENTS

Domino's Pizza UK & IRL plc

FINANCIAL HIGHLIGHTS
for the year ended 26 December 1999

	1999	*1998*	*1997*	*1996*
System sales (£m)	63.5	54.9	44.1	34.5
Group sales (£m)	25.6	20.7	17.2	14.0
Operating profit (£000's) *	2,058	1,576	1,058	589
Profit before tax (£000's) *	1,848	1,548	922	371
Adjusted earnings per share (pence) *	3.06	2.73	1.92	1.40
Basic earnings per share (pence)	1.91	2.54	1.60	0.89
Dividends per share (pence)	0.71	0.60	–	–
Shareholders funds (£000's)	7,412	3,689	2,882	2,218
Net cash/(indebtedness) (£000's)	(156)	(2,623)	(602)	(108)
Capital gearing	2.1%	71.1%	20.9%	4.9%
Stores at start of year	175	153	125	102
Stores opened	29	27	28	25
Stores closed	(3)	(5)	–	(2)
Stores at year end	201	175	153	125
Corporate stores at year end	14	6	5	3
Average sales per delivery store (£)	6,862	6,725	6,587	5,947
Sales growth (%)	2.0%	2.1%	10.8%	8.9%
Like-for-like sales growth (%)	5.6%	6.3%	11.1%	14.7%

* Including joint venture but excluding discontinued operations and exceptional items

Registered no. 3853545

DIRECTORS

Colin Halpern	Executive Chairman
Gerry Halpern	*Chief Executive*
Stephen G Hemsley FCA	Finance Director
Christopher H L Moore	Marketing Director
Nigel W Wray	Non-Executive
Yoav Gottesman	Non-Executive

SECRETARY

Tony Betley FCA

NOMINATED ADVISER

Seymour Pierce Limited
29/30 Cornhill
London
EC3V 3NF

AUDITORS

Ernst & Young
400 Capability Green
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LU1 3LU

BANKERS

National Westminster Bank PLC
Exchange House
478 Midsummer Boulevard
Milton Keynes
MK9 2EA

SOLICITORS

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London
EC2N 3AQ

REGISTRARS

Hartford Registrars
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London
W1N 6LL

REGISTERED OFFICE

Domino's House
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Kingston
Milton Keynes
MK10 0AB

Chairman's Statement

Looking back often helps us in understanding what lies ahead. When I look back at the history of Domino's Pizza in the United Kingdom, I am filled with enthusiasm and excitement over what the future holds for our growing company.

In 1985, for example, the market for Domino's Pizza in the United Kingdom was predicted to cap out at 100 stores. After all, what true Brit. would order a home-delivered pizza anyway? The market just wouldn't be there. But by 1993, management had revised its projection to 300 stores, citing a new eating trend in Britain that would be likely to increase pizza intake.

Today, with more than 200 stores reaching approximately 30% of all UK households, it is projected that the UK market could support 900 or maybe 1000 stores based on the US model – and Domino's could create career opportunities for at least 20,000 people. Next year at this time, the future may be filled with even more opportunity for growth than we see today.

At the start of the new Millennium, our goal is to build at least double the number of stores in the next five years. We expect to own, rather than franchise, more than a third of these, to benefit even more amply from the success of our units. We are looking to expand Domino's current 20% market share to closer to 50%. This should not only benefit Domino's, but also our many new shareholders that joined our ranks following our successful November 1999 flotation.

We are already on our way to achieving all these goals. In 1999, true to the spirit of innovation that lies at the heart of Domino's Pizza, we became the first pizza delivery company in the UK to launch online and interactive ordering capabilities. By embracing e-commerce at such an early stage, we have already earned a reputation as the primary food-delivery brand in the UK both on the internet and interactive TV. The instant success we witnessed at the end of 1999 promises to be just the start of our e-commerce activities.

In 2000 and beyond, we will build on and expand the strategic e-commerce relationships we have forged, including those with Sky Digital, Open TV, interactive cable providers and many others. We envision hot links to games and interactive web sites that will further set us apart from the competition. After all, we've learned that in business things change fast. If you don't lead that change, you can too easily be trampled.

Our slogan, "Passionate about Pizza" holds true now, but we know that as we continue to grow, we will need to expand our capacity to handle higher volumes of orders without sacrificing the quality that has made our delivered pizzas number one in the UK.

After all, no matter how many stores we open and no matter how many fresh pizzas we bake, we are only as good as the last pizza we deliver on a busy Friday night. With an average of 40,000 pizza deliveries on such a night, it is no small task to make sure that the last pizza is as good as the first.

But growth is only part of the equation at Domino's. We are just as proud of our existing units and our loyal franchisees as we are of our "tech-experts" that designed our phenomenal web site. Our existing stores experienced an average of nearly 6% in sales increases in 1999. This speaks volumes about the quality of our franchisees, store managers and other employees who have continued to make the Domino's experience a positive one for our long-standing customers as well as our new ones.

Still, we give a large measure of credit to our Image 2000 refurbishment scheme where we set out to update the "kerb appeal" of our older stores. Proof that a great image reflects a great product is evidenced by the fact that all stores that have undergone the Image 2000 treatment all experienced significant sales increases.

CHAIRMAN'S STATEMENT

Many people still look at Domino's and say we are a little pizza delivery company. We take that as a compliment. This tells us that the pride we have in every pizza we deliver comes through to all our customers. It also tells us that no matter how much we've grown – and how much we will continue to grow – we haven't lost that "little pizza company" touch. This is why our customer base continues to grow, and why we believe our shareholders will continue to feel the pride – not to mention the financial satisfaction – in owning Domino's Pizza stock now, and for a long time to come.

I thank you for your support.

Colin Halpern
Chairman

Business and Financial Review

I am delighted to report that Domino's Pizza had another year of solid growth and a substantial increase in both sales and operating profits in the UK and Republic of Ireland. The year also saw a number of important milestones achieved with our debut on the Stock Market and the opening of our 200th store. It also saw the launch of our e-commerce strategy that will become a key driver of growth in store sales over the coming years.

Trading results

System sales, which are the sales of all stores in the Domino's system in the UK and Republic of Ireland, rose by 15.7% to £63.5m from £54.9m. Group turnover was up 24% to £25.6m from £20.7m. The sales growth was achieved as a result of opening 29 new delivery stores (1998: 27 stores) and an increase in the average sales of delivery stores of 2.0% (1998: 2.1%). Like-for-like sales are up 5.6% (1998: 6.3%) demonstrating the value to the system of established franchisees.

Just before the end of 1999 we reached an important landmark for the company with the opening of our 200th store in West India Dock Road, close to Canary Wharf in London. By the year-end the total number of stores in the UK and Republic of Ireland had reached 201. Three experimental stores located within Alldays convenience stores and Total petrol stations were closed in 1999 (1998: five experimental stores closed) leaving only seven such stores in the system at the year-end. This store format was appropriate in the early days of expansion in the UK when the brand was not as well recognised. However, most of these territories are now capable of supporting stand-alone delivery stores.

Operating profits before exceptional items were up 30.6% to £2,058,000 from £1,576,000. This included a maiden contribution of £57,000 from our 41% shareholding in Full House Restaurants Ltd, a joint venture with a franchisee. Gross profit margin increased to 41.3% from 38.1% as a result of the improved operating efficiency of our new freehold head office, commissary and distribution facility in Milton Keynes. 1999 was the first full year of operating from this site, which gives us significant room for future expansion. The costs of operating from this significantly larger facility were reflected in a stepped change in the level of overheads, which increased by 35.7%. Future increases in overheads will be less dramatic. Despite this increase in overheads, the net operating margin continued to improve, rising to 7.8% from 7.6% in 1998.

Pre-tax profits before exceptional items were up 19.4% to £1,848,000 from £1,548,000. The interest charge increased substantially in the year to £210,000 (1998: £28,000) as full occupation of the new facility resulted in interest on the mortgage being expensed. During the development phase this cost had been capitalised. The mortgage was repaid in full by the year-end from the proceeds of the flotation. The charge also included our share of the significant interest expense incurred by our joint-venture partner of £32,000, which resulted from the mainly debt financing of store acquisitions.

The exceptional items of £495,000 incurred during the year related principally to the professional fees and other costs incurred in advice leading up to a flotation in early 1999 that was aborted due to market conditions. In addition, a charge of £62,000 was incurred on the loss incurred in vacating the leasehold property previously used as the Group's head office, commissary and distribution centre. Similar costs were incurred in 1998.

Profit before tax but after exceptional items was £1,353,000 (1998: £1,473,000) reflecting the effect of these non-recurring costs and an increased interest charge. The effective tax rate for the year at 38.9% (1998: 28.2%) results from the prudent assumption that certain exceptional costs may not be allowed for tax purposes. Tax on the underlying profit remains at a similar effective rate as in 1998.

Earnings per share and dividend

Underlying earnings per share, adjusted for the one-off exceptional items, were 3.06 pence, a 12.1% increase over 1998. Fully diluted adjusted earnings per share were 3.01 pence, a 10.3% increase over 1998.

The Board is pleased to propose a final dividend for the year of 0.29 pence per share bringing the total for the year to 0.71 pence per share, an 18.3% increase over 1998 (1998: 0.6 pence per share).

The proposed dividend for the year is 2.50 times (1998: 4.2 times) covered by profits after tax. Excluding exceptional items the cover for 1999 was four times, the level of cover indicated in our November 1999 prospectus and that which we expect to maintain in the future.

Balance Sheet

The cash position of the Group improved significantly during the year as a result of the strong cash generating ability of the business and the proceeds of the flotation. At the year-end, the Group had net borrowings of £156,000 (1998: £2,623,000) against shareholders funds of £7,412,000 (1998: £3,689,000), a capital gearing ratio of only 2.1% (1998: 71.1%). Whilst we have significant unutilised bank facilities to finance future expansion, we will continue to adopt a cautious approach to gearing.

Flotation

On 24 November 1999, the company made its debut on the Alternative Investment Market of the London Stock Exchange. The offer for subscription was primarily targeted at our franchisees and employees, who I am pleased to say enthusiastically embraced the opportunity to become shareholders. The reception we received from institutional investors was also very positive, leading to the overall offer being more than three times over-subscribed. The shares have subsequently traded at a premium to the flotation price, justifying the trust of our investors.

Strategy

The strategy for the future expansion of the Group will be based on three key fundamentals. To grow store sales, particularly by the use of e-commerce, to increase the coverage of the system by an accelerated roll-out programme in our franchise territories and the enhancement of profitability by the operation of more corporate stores.

We consider that the growth of e-commerce will have a fundamental effect on our business in two different ways - how we advertise our offering and how we receive orders. Traditionally, the most cost-effective medium has been direct mail (e.g. leaflets) and to this end we printed over 90 million pieces during the course of last year. However, due to the relatively low cost of this form of marketing, it is increasingly being employed by virtually every food delivery company resulting in what we feel is an increasing customer fatigue of this medium. Furthermore, the only means by which we could receive customers' orders were either personally at the store or over the telephone.

E-commerce has transformed this environment. We can now provide full menu information to every home in the country capable of accessing the Internet or receiving digital television via satellite and cable and at a fraction of the cost of direct mail. We can receive orders back from our customers (in our delivery areas) using any of these new sales channels and fulfil those orders in 30 to 40 minutes. This ease of ordering and most importantly the almost instant fulfillment capability is second to none and is why we believe e-commerce represents such an exciting opportunity for us. We also have a distinctive advantage as very few competitors have the scale, geographic spread and infrastructure to capitalise on these opportunities.

To ensure that we maximise this opportunity we have installed in every delivery store in the UK the technical infrastructure necessary to allow us to take orders from any e-commerce platform. This installation was completed in time for the launch of our first national interactive television ordering service on Open TV at the end of September and use of this service is growing rapidly. In December, we rolled out the online ordering service (e-pizza™) via our website to all delivery stores using the same infrastructure. Since the year-end we have secured deals with Telewest and others are expected shortly, to provide pizza delivery services on their forthcoming interactive TV ventures. We will also continue our relationship with Yes TV - the company responsible for our first interactive trial - as it expands to other areas of the country.

We are now also in the process of establishing connectivity between our website and those of both internet portals and other frequently visited entertainment sites.

The range of such sites is considerable, as is the opportunity to generate a two-way flow of users and increase our income potential. After just 18 weeks of trading on Open and 14 weeks of online ordering, e-commerce sales have already reached 2% of delivery sales in the UK. Encouragingly, average spend per order is high, with orders via Open TV approximately 25% higher than non e-commerce orders, and orders via the internet showing an even greater 35% increase. Furthermore, 54% of Open TV orders come from customers that are entirely new to Domino's.

The opportunities created by e-commerce can only be fully exploited if we have the delivery infrastructure to service this demand. It is therefore fundamental to our strategy that we continue a rapid roll out of new stores. The present 201 stores cover around 30% of the UK population. We therefore intend to accelerate the rate of openings and are confident that this can be maintained for a number of years.

The number and demographics of households within a safe delivery time dictate the siting of new stores. The increased awareness of Domino's and acceptance of high quality home delivered food is such that new stores require fewer households to support viable operation. This also gives us the opportunity to split many of the existing territories thereby increasing the maximum potential number of new stores in the franchise territory.

The award winning sponsorship of The Simpsons on Sky One has played a major part in increasing brand awareness to 81% from 65% in early 1998 in all UK homes (and 90% in homes with satellite/cableTV). Encouragingly, research has recently confirmed that our sponsorship with The Simpsons shows no sign of "stagnation". Additionally the number of homes with access to Sky One continues to increase with the improved penetration of satellite and cable TV. This increased awareness coupled with an aggressive new store opening package that was introduced in 1999 has also helped the performance of new stores. In the first 12 weeks of trading, new stores in 1999 performed on average 43% higher than new stores in 1998.

The final element of our strategy is to increase significantly the number of stores that we own and operate ourselves. The store level economics of the Domino's system can be very attractive once a minimum level of sales is achieved. Historically the Group's efforts have been focused on the rapid expansion of total number of stores, with the necessary capital investment being provided by our franchisees. With our flotation we now have access to the capital necessary both to purchase existing franchised stores and also to open new stores corporately. A number of acquisitions of existing stores are currently under negotiation. We remain committed, however, to the long-term development of the franchised system and expect franchised stores to represent the majority of the system for the foreseeable future.

Current trading and prospects

The beginning of year 2000 saw the launch of an aggressive price-based marketing campaign designed to combat the effects of reduced post-Millennium consumer spending which, as anticipated, was subdued in the first month of the year. We are confident of another strong performance in the current year.

Stephen Hemsley
Finance Director

REPORT ON DIRECTORS' REMUNERATION

The remuneration committee consists of Yoav Gottesman, Nigel Wray and Colin Halpern. It has the primary responsibility to review the performance of executive directors and similar employees and set the scale and structure of their remuneration.

Service agreement
On 24 November 1999, Gerry Halpern, Stephen Hemsley and Christopher Moore entered into service agreements with the company. Gerry Halpern's contract is for a fixed term ending 31 December 2000, after which he will be engaged as a consultant for a fixed two year period. Stephen Hemsley's and Christopher Moore's agreements are subject to a twelve month notice by the company.

The remuneration packages consist of basic salary, pension contributions, health and life insurance benefits and the use of a company car or cash equivalent allowance.

Colin Halpern is seconded to the company from International Franchise System Inc. ("IFS") as executive chairman on the terms of a management agreement. The agreement is reviewed annually and the level of compensation paid to IFS agreed.

The non-executive directors are appointed on three year agreements with the company terminable at one weeks notice. Fees for non-executive directors are set by the board.

Directors' remuneration

	Salary or fees £000	*Bonus £000*	*Benefits £000*	*Pension contributions £000*	*Total £000*
Executive directors:					
Colin Halpern	137	–	–	–	137
Gerry Halpern	124	5	9	–	138
Stephen G Hemsley	97	4	8	4	113
Christopher H L Moore	71	4	8	1	84
Non-executive directors:					
Nigel W Wray	12	–	–	–	12
Yoav Gottesman	12	–	–	–	12
	453	13	25	5	496

The value of benefits results primarily to the provision of company car or equivalent allowance. Colin Halpern is not remunerated by the company. A management fee of £137,000 was paid to IFS in respect of his services. The company makes contributions of up to 5% of annual basic salary to personal pension plans of Stephen Hemsley and Christopher Moore.

The above details are in respect of the 52 weeks to 26 December 1999, despite the fact that the company was only incorporated on 5 October 1999 (see note on consolidation on page 17).

Directors' interests
The directors' interests in the ordinary shares are set out in the directors' report on page 8.

On behalf of the remuneration committee.

REPORT ON DIRECTORS' REMUNERATION

Chairman

DIRECTORS' REPORT

The directors present their report and the group accounts for the 52 weeks ended 26 December 1999.

INCORPORATION

The company was incorporated on 5 October 1999 as a public limited company with the name of Doublemeasure plc. It changed its name to Domino's Pizza plc on 15 October 1999 and to Domino's Pizza UK & IRL plc on 1 November 1999.

On 24 November 1999, Domino's Pizza UK & IRL plc was admitted to the Alternative Investment Market through a Placing and Offer for Subscription of 8,000,000 ordinary shares of 5p each at a price of 50p per share. Of these, 6,000,000 were placed on behalf of the company representing 12% of the enlarged issued share capital of the company.

GROUP STRUCTURE AND REORGANISATION

On 24 November 1999 the company acquired all of the share capital of Domino's Pizza Group Limited in a share for share exchange. On the same day a group reorganisation was carried out, so that the shares of DPGS Limited, DP Realty Limited and DP Group Development Limited were transferred up from Domino's Pizza Group Limited to become direct subsidiaries of the company. On 26 December 1999, the 41% interest in Full House Restaurants Limited held by Domino's Pizza Group Limited was transferred to the company.

RESULTS AND DIVIDENDS

The proforma group profit for the year, after taxation and exceptional items, amounted to £827,000 (1998: £1,058,000).

The directors recommend a dividend of £331,000 (1998: £250,000).

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activity of the group is the development of the Domino's franchise system in the UK and Republic of Ireland.

A total of 201 stores were operating at 26 December 1999 (1998: 175). The directors are confident that the group will continue to grow and trade profitably in the future.

CHANGES IN DIRECTORS

On the date of incorporation, Colin Halpern and Stephen Hemsley were appointed directors of the company. On 24 November 1999, Gerry Halpern and Christopher Moore were appointed as additional executive directors and Nigel Wray and Yoav Gottesman were appointed as non-executive directors.

DIRECTORS AND THEIR INTERESTS

The interests of the directors' in the share capital of the company at 26 December 1999 were as follows:

		At 26 December 1999		*At 5 October 1999*
		Ordinary shares		*Ordinary shares*
	Beneficial	*Non-beneficial*	*Beneficial*	*Non-beneficial*
Colin Halpern (i)	–	29,820,899	–	–
Stephen Hemsley (ii)	–	1,472,109	–	–
Nigel Wray (iii)	360,286	7,066,125	–	–

(i) shares are held 26,798,408 by International Franchise Systems Inc and 3,022,491 by HS Real company LLC (the beneficiaries of which are the adult children of Colin and Gail Halpern).

(ii) shares are held by CTG Investment Limited, a discretionary trust of which Stephen Hemsley and his family are potential beneficiaries.

(iii) 7,066,125 shares are held by Abacus (CI) Limited which are beneficially owned by family trust of Nigel Wray, principal beneficiaries of which are Nigel Wray's children.

During the period the following interests in unissued ordinary shares under share options were granted.

Directors	*No. of ordinary shares under option*	*Date of grant*	*Expiry date of option*	*Exercise price per ordinary share*
Colin Halpern	–	–	–	–
Gerald Halpern	519,568	31/03/1999	30/03/2009	42.10p
	103,914	24/11/1999	23/11/2009	50.00p
	623,482			
Stephen Hemsley	415,654	31/03/1999	30/03/2009	42.10p
	432,973	24/11/1999	23/11/2009	50.00p
	848,627			
Christopher Moore	415,654	31/03/1999	30/03/2009	42.10p
	207,827	24/11/1999	23/11/2009	50.00p
	623,481			
Yoav Gottesman	237,269	31/03/1999	30/03/2009	42.10p
	109,110	24/11/1999	23/11/2009	50.00p
	346,379			

DIRECTORS AND THEIR INTERESTS (continued)

The only options in existence at 27 December 1998, were 2,078,272 shares for Nigel Wray, which were exercised at a price of 32 pence per share on 6 July 1999.

OTHER SIGNIFICANT SHAREHOLDERS

Directors' interests in the shares of the company have been disclosed above. The other significant shareholder holding more than 3% of the shares in the company which has been disclosed to the company is RBS Mezzanine Limited which holds a 3.3% interest.

SHARE OPTION SCHEMES

In order to provide employee share incentives in the future the group has adopted three share option schemes, one of which, the Domino's Pizza Group Limited Unapproved Share Option Scheme, has been in place since 30 March 1999, the remaining two schemes were introduced on 24 November 1999. Application has been made for Inland Revenue approval for the new Domino's Pizza Share Option (Approved) Scheme. Save to the extent required for Inland Revenue approval, the provisions of each scheme are in all material respects the same.

All participants in the Domino's Pizza Group Limited Unapproved Share Option Scheme were, on Admission, offered the chance to release their options over shares in DPG in return for equivalent options over ordinary shares in the company. Under this scheme, options have been granted over the equivalent of 4,127,102 ordinary shares, representing 8.25% of the enlarged share capital.

Options were granted over a further 2,232,007 Ordinary Shares, representing 4.46% of the enlarged share capital under the Domino's Pizza Share Option (Unapproved) Scheme to all employees. The remuneration committee has resolved that the exercise of these options which have been granted under the Share Option Schemes will be subject to the condition that the growth in normalised earnings per share in any financial year between grant and vesting exceeds the growth in the Retail Price Index in the previous financial year by at least 5%.

CREDITOR PAYMENT POLICY

It is the group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with. At 26 December 1999, the group had an average of 32 days purchases outstanding in trade creditors.

CORPORATE GOVERNANCE

The directors acknowledge the principles set out in the Combined Code issued by the committee on Corporate Governance and intend to comply over time with the main provisions in-so-far as they are appropriate for smaller quoted companies. At present the main factors are:

- The Board - comprises four executive and two non-executive directors. The directors hold regular board meetings at which operating and financial reports are considered. The board is responsible for formulating, reviewing and approving the group's strategy, budgets, major items of capital expenditure and senior personnel appointments.

- An Audit Committee has been established which consists of the non-executive directors and Colin Halpern. It meets at least twice each year and is responsible for ensuring that the financial performance of the group is properly reported on and monitored, for meeting the auditors and reviewing the reports from the auditors relating to accounts and internal control systems.

CORPORATE GOVERNANCE (continued)

- A Remuneration Committee has been established which consists of the non-executive directors and Colin Halpern. It meets at least twice each year and has a primary responsibility to review the performance of executive directors and senior employees and set the scale and structure of their remuneration having due regard to the interests of shareholders. It also has responsibility for administering the share option schemes.

- Going Concern - the directors are satisfied that the group has adequate resources to continue in existence for the foreseeable future and for this reason, they continue to adopt the going concern basis of preparing the accounts.

- Internal Control - the directors have overall responsibility for ensuring that the group maintains internal controls to provide reasonable assurance on the reliability of the financial information used within the business and for safeguarding the assets. There are limitations in any system of internal controls and accordingly, even the most effective system can only provide reasonable and not absolute assurance with respect to preparation of the financial information and the safeguarding of the assets.

The key elements of financial control are as follows:

- Control Environment - the presence of a clear organisational structure and well-defined lines of responsibility and delegation of appropriate levels of authority.

- Risk Management - business strategy and plans are reviewed by the board.

- Financial Reporting - a comprehensive system of budgets and forecasts with monthly reporting of actual results against targets.

- Control Procedures and Monitoring Systems - ensuring authorisation levels and procedures and other systems of internal financial controls are documented, applied and regularly reviewed.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

- select suitable accounting policies and then apply them consistently;

- make judgements and estimates that are reasonable and prudent;

- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and

- prepare the accounts on the going concern basis unless it is inappropriate to presume that the group will continue in business.

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

EMPLOYEES
Employees of group companies are encouraged to participate in the success of the business through incentive and share option schemes. Progress is regularly communicated to the management of subsidiary companies and all management and staff are expected to communicate fully within their own area of responsibility.

DISABLED EMPLOYEES
The group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

Where existing employees become disabled, it is the group's policy wherever practicable, to provide continuing employment under normal terms and conditions and to provide training, career development and promotion to disabled employees wherever appropriate.

YEAR 2000 COMPLIANCE
Prior to 31 December 1999, steps were taken to review computer and date-dependent systems critical to the group's ongoing operations and preparation of financial information to establish the impact, if any, which the Year 2000 might have on the accuracy of their calculations, processing and reporting. Although it is not possible to guarantee that no Year 2000 problems remain, the group believes that its internal systems are Year 2000 compliant.

The group continues to address the business risk from third parties with whom it deals on business or financial matters, including key customers and suppliers. Contingency plans have been developed to minimise the risk of disruption. No significant disruption has occurred to date.

Although the millennium date change has passed and no significant problems have been encountered, the directors recognise that there is still a risk of Year 2000 impacting the business but do not expect this to be significant.

AUDITORS
A resolution to reappoint Ernst & Young as auditors will be put to the members at the Annual General Meeting.

By order of the board

Secretary

ERNST & YOUNG

REPORT OF THE AUDITORS
to the members of Domino's Pizza UK & IRL plc

We have audited the accounts on pages 17 to 39, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 22 to 24.

Respective responsibilities of directors and auditors
As described on page 14 the company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you. Our responsibilities as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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

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

Opinion
In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group at 26 December 1999 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young
Registered Auditor
Luton
17 February 2000

GROUP PROFIT AND LOSS ACCOUNT
for the 52 weeks ended 26 December 1999

	Notes	*Before exceptional items 1999 £000*	*Exceptional items 1999 £000*	*Proforma 1999 £000*	*Proforma 1998 £000*
TURNOVER					
Turnover: group and share of joint ventures' turnover		26,758	–	26,758	20,711
Less: share of joint ventures' turnover		(1,148)	–	(1,148)	–
GROUP TURNOVER	2	25,610	–	25,610	20,711
Cost of sales		(15,024)	–	(15,024)	(12,813)
GROSS PROFIT		10,586	–	10,586	7,898
Distribution costs		(3,340)	–	(3,340)	(2,073)
Administrative expenses		(5,475)	(433)	(5,908)	(4,423)
		1,771	(433)	1,338	1,402
Other operating income		236	–	236	174
GROUP OPERATING PROFIT	3	2,007	(433)	1,574	1,576
Share of operating profit in joint venture		57	–	57	–
Amortisation of goodwill on joint venture		(6)	–	(6)	–
		51	–	51	–
TOTAL OPERATING PROFIT: GROUP AND SHARE OF JOINT VENTURE		2,058	(433)	1,625	1,576
Loss on disposal of tangible and intangible fixed assets	3	–	(62)	(62)	(75)
		2,058	(495)	1,563	1,501
Interest receivable		56	–	56	74
Interest payable and similar charges	6	(266)	–	(266)	(102)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		1,848	(495)	1,353	1,473
Tax on profit on ordinary activities	7	(526)	–	(526)	(415)
PROFIT FOR THE FINANCIAL YEAR		1,322	(495)	827	1,058
Dividends on equity shares	8			(331)	(250)
PROFIT RETAINED FOR THE FINANCIAL YEAR	21			496	808

GROUP PROFIT AND LOSS ACCOUNT
for the 52 weeks ended 26 December 1999

		Notes	*Proforma 1999 £000*	*Proforma 1998 £000*
Earnings per share -	basic	9	1.91p	2.54p
	- diluted		1.88p	2.54p
	adjusted for exceptional items			
	- adjusted basic		3.06p	2.73p
	- adjusted diluted		3.01p	2.73p

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

GROUP BALANCE SHEET
at 26 December 1999

	Notes	1999 £000	Proforma 1998 £000
FIXED ASSETS			
Intangible assets	10	594	615
Tangible assets	11	7,328	6,227
Investments	12		
Investments in joint venture:			
Share of assets		696	789
Share of liabilities		(475)	(684)
		221	205
Investment properties		373	198
		594	403
		8,516	7,245
CURRENT ASSETS			
Stocks	13	772	669
Debtors	14	4,012	3,465
Cash at bank and in hand		4,581	1,082
		9,365	5,216
CREDITORS: amounts falling due within one year	15	(5,852)	(5,366)
NET CURRENT ASSETS/(LIABILITIES)		3,513	(150)
TOTAL ASSETS LESS CURRENT LIABILITIES		12,029	7,095
CREDITORS: amounts falling due after more than one year	16	(4,617)	(3,406)
		7,412	3,689
CAPITAL AND RESERVES			
Called up share capital	21	2,500	1,200
Share premium account	21	2,102	–
Profit and loss account	21	2,810	2,489
Equity shareholders' funds		7,412	3,689

Director Director

COMPANY BALANCE SHEET
at 26 December 1999

	Notes	*1999* *£000*
FIXED ASSETS		
Investments in subsidiary undertakings	12	2,475
Investments in joint venture	12	205
		2,680
CURRENT ASSETS		
Debtors	14	2,520
CREDITORS: amounts falling due within one year	15	(598)
NET CURRENT ASSETS		1,922
TOTAL ASSETS LESS CURRENT LIABILITIES		4,602
CAPITAL AND RESERVES		
Called up share capital	21	2,500
Share premium account	21	2,102
Profit and loss account	21	–
Equity shareholders' funds		4,602

Director

Director

GROUP STATEMENT OF CASH FLOWS
for the 52 weeks ended 26 December 1999

	Notes	*Proforma 1999 £000*	*Proforma 1998 £000*
NET CASH INFLOW FROM OPERATING ACTIVITIES	23(a)	2,489	2,607
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		56	74
Interest paid		(205)	(199)
Interest element of finance lease payments		(30)	(30)
		(179)	(155)
TAXATION			
Corporation tax paid (including advance corporation tax)		(700)	(249)
CAPITAL EXPENDITURE AND FINANCIAL INVESTEMENT			
Payments to acquire intangible fixed assets		(40)	(47)
Payments to acquire tangible fixed assets		(1,850)	(3,575)
Payments to acquire investment properties		(175)	(75)
Receipts from sales of tangible and intangible fixed assets		167	353
		(1,898)	(3,344)
ACQUISITIONS AND DISPOSALS			
Purchase of shares in joint venture		–	(205)
Loan made to joint venture		–	(345)
		–	(550)
EQUITY DIVIDENDS PAID		(435)	–
NET CASH OUTFLOW BEFORE FINANCING		(723)	(1,691)
FINANCING			
Issue of ordinary share capital		3,825	–
Share issue costs		(598)	–
New long-term loans		4,500	4,824
Repayments of long-term loans		(3,000)	(2,820)
Repayment of parent undertaking loan		(400)	(225)
Repayment of capital element of finance leases and hire purchase contracts		(105)	(140)
		4,222	1,639
INCREASE/(DECREASE) IN CASH	23(c)	3,499	(52)

NOTES TO THE ACCOUNTS
at 26 December 1999

1. ACCOUNTING POLICIES

Basis of preparation
The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards. The accounts are in compliance with the Companies Act 1985 except that, as explained below, investment properties are not depreciated.

Basis of consolidation
The group accounts consolidate the accounts of Domino's Pizza UK & IRL plc and all its subsidiary undertakings drawn up to the nearest Sunday to 31 December each year. No profit and loss account is presented for Domino's Pizza UK & IRL plc as permitted by Section 230 of the Companies Act 1985.

Domino's Pizza UK & IRL plc was incorporated on 5 October 1999.

On 24 November 1999 it acquired by way of a share for share exchange the whole of the issued share capital of Domino's Pizza Group Limited. Accordingly, as permitted by Financial Reporting Standard No. 6, the combination has been merger accounted for as if the group as currently constituted had been in place throughout the whole of the period covered by these accounts.

The group profit and loss account for the financial year and the comparatives for the group balance sheet and profit and loss account have been presented on a proforma basis as though they had always been part of Domino's Pizza UK & IRL plc, despite the fact that this company was only incorporated on 5 October 1999, in order to compare meaningfully the performance of the underlying group.

The statutory profit and loss account, which presents the results for the 12 week period since incorporation is included on page 39.

Entities in which the group holds an interest on a long term basis and are jointly controlled by one or more ventures under a contractual agreement are treated as joint ventures in the group accounts. Joint ventures are accounted for using the gross equity method. The group accounts include the appropriate share of assets and liabilities and earnings, based on management accounts for the year to 26 December 1999.

Goodwill
Positive goodwill arising on acquisitions is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its estimated useful economic life.

Investment properties
Investment properties are stated at open market value. The directors intend to obtain valuations of investment properties every third year and adjust the valuation if materially different from cost. The market value of the investment property is currently estimated at £373,000, the same as the cost.

Although the Companies Act would normally require the systematic annual depreciation of fixed assets, the directors believe that the policy of not providing depreciation is necessary in order for the accounts to give a true and fair view, since the current value of investment properties, and changes to that current value, are of prime importance rather than a calculation of systematic annual depreciation. Depreciation is only one of the many factors reflected in the annual valuation, and the amount which might otherwise have been included cannot be separately identified or quantified.

1. **ACCOUNTING POLICIES** (continued)

Significant property developments
Interest incurred on finance provided for significant property development is capitalised up to the date of completion of the project. Where employees participate in the development, the staff costs directly associated with the time spent on those projects are capitalised. These costs are then depreciated in accordance with the group's policy for the relevant class of tangible fixed assets.

Depreciation
Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost less residual value of each asset evenly over its expected useful life as follows:

Freehold buildings	-	over 50 years
Plant and production equipment	-	over 10 years
Leasehold building improvements	-	over the lesser of the life of the lease plus 14 years, or 30 years
Computers, fixtures and fittings and other equipment	-	over 2 to 10 years
Motor vehicles	-	over 3 years
Mopeds	-	over 18 months

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Intangible fixed assets
Intangible assets are amortised on a straight line basis over their estimated useful lives as follows:

Master franchise fee	-	over 20 years
Interest in leases	-	over 20 years
Store franchise fees	-	over 20 years
Goodwill	-	over 20 years

The carrying values of intangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

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

Deferred taxation
Deferred taxation is provided using the liability method on all timing differences to the extent that they are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse.

Deferred taxation assets are only recognised if recovery without replacement by equivalent debit balances is reasonably certain.

NOTES TO THE ACCOUNTS
at 26 December 1999

1. ACCOUNTING POLICIES (continued)

Foreign currencies
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward foreign currency contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate. All differences are taken to the profit and loss account.

Leasing and hire purchase commitments
Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the group, and hire purchase contracts, are capitalised in the balance sheet and depreciated over their useful lives. The capital elements of future obligations under leases and hire purchase contracts are included as liabilities in the balance sheet. The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

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

Pensions
The company makes contributions to certain individuals' personal pension plans. Contributions are charged in the profit and loss account as they become payable.

2. TURNOVER AND SEGMENTAL ANALYSIS

The principal components of turnover are royalties received, commissary and equipment sales, sale of franchises, pizza delivery sales and rental income on leasehold properties stated net of value added tax after eliminating inter-company transactions. All of the turnover is in one continuing business segment and all of it originates in the United Kingdom.

Geographical analysis of Group Turnover

	Proforma 1999 £000	*Proforma 1998 £000*
Turnover by destination:		
United Kingdom	24,966	20,447
Republic of Ireland	458	258
Continental Europe	186	6
	25,610	20,711

NOTES TO THE ACCOUNTS
at 26 December 1999

3. OPERATING PROFIT AND EXCEPTIONAL ITEMS

(a) This is stated after charging:

	Proforma 1999 £000	*Proforma 1998 £000*
Auditors' remuneration - audit services	50	56
- non-audit services	195	10
Depreciation of owned assets	527	440
Depreciation of assets held under finance leases and hire purchase contracts	59	31
Amortisation of intangible fixed assets	54	48
Operating lease rentals - land and buildings	2,183	1,732
- plant, machinery and vehicles	749	539
(Profit)/loss on disposal of tangible and intangible fixed assets	(23)	4

Auditors' remuneration for non-audit services includes £150,000 which was charged to exceptional costs.

(b) Exceptional items:

	Proforma 1999 £000	*Proforma 1998 £000*
Professional services rendered in respect of strategic review, various abortive negotiations and a terminated flotation	433	–
Loss on disposal of tangible and intangible fixed assets on relocation	62	75

4. DIRECTORS' EMOLUMENTS

	Proforma 1999 £000	*Proforma 1998 £000*
Emoluments	491	177
Pension contributions	5	–
	496	177

Further information concerning directors' emoluments are disclosed on page 10.

NOTES TO THE ACCOUNTS
at 26 December 1999

5. STAFF COSTS

	Proforma 1999 £000	*Proforma 1998 £000*
Wages and salaries	3,947	2,964
Social security costs	369	268
Other pension costs	28	5
	4,344	3,237

The average monthly number of employees (including directors) during the year was made up as follows:

	Proforma 1999 No.	*Proforma 1998 No.*
Administration	66	56
Production and distribution	63	56
Corporate stores	233	134
	362	246

6. INTEREST PAYABLE AND SIMILAR CHARGES

	Proforma 1999 £000	*Proforma 1998 £000*
Bank loans and overdrafts	191	188
Less: interest capitalised	–	(126)
	191	62
Interest on joint venture	32	–
Other loans	13	10
Finance charges payable under finance leases and hire purchase contracts	30	30
	266	102

NOTES TO THE ACCOUNTS
at 26 December 1999

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

The taxation charge is made up as follows:

	Proforma 1999 £000	*Proforma 1998 £000*
UK corporation tax at 31% (1998: 31%)	498	425
Share of joint venture tax	3	–
Under/(over)provided in prior years	25	(10)
	526	415

The effective box rate is higher than the statutory rate due to the prudent assumption that certain exceptional expenses may not be allowed for tax purposes.

Deferred taxation liabilities not provided are as follows:

	Proforma 1999 £000	*Proforma 1998 £000*
Capital allowances in advance of depreciation	267	133
Other timing differences	(69)	(66)
	198	67

8. DIVIDENDS

Equity dividends on ordinary shares:	*Proforma 1999 £000*	*Proforma 1998 £000*
Interim paid 0.42p (1998: 0.36p)	185	150
Final proposed 0.29p (1998: 0.24p)	146	100
	331	250

9. EARNINGS PER ORDINARY SHARE

The calculation of basic earnings per ordinary share is based on earnings of £827,000 (1998: £1,058,000) and on 43,245,384 (1998: 41,565,443) ordinary shares.

The diluted earnings per share is based on 43,941,773 ordinary shares which takes into account theoretical ordinary shares that would have been issued, based on average market value if all outstanding options were exercised.

An adjusted earnings per share has been provided to eliminate the distortions caused by exceptional items of £495,000 (1998: £75,000). This is presented as in the opinion or the directors this allows a better comparison of ongoing performance.

NOTES TO THE ACCOUNTS
at 26 December 1999

10. INTANGIBLE FIXED ASSETS

Group

	Franchise fees £000	*Interest in leases £000*	*Total £000*
Cost:			
At 27 December 1998	767	119	886
Additions	40	–	40
Disposals	(8)	–	(8)
At 26 December 1999	799	119	918
Amortisation:			
At 27 December 1998	240	31	271
Provided during the year	47	7	54
Disposals	(1)	–	(1)
At 26 December 1999	286	38	324
Net book value:			
At 26 December 1999	513	81	594
At 27 December 1998	527	88	615

NOTES TO THE ACCOUNTS
at 26 December 1999

11. TANGIBLE FIXED ASSETS

Group

	Freehold land and buildings *£000*	*Leasehold improvements* *£000*	*Motor vehicles* *£000*	*Equipment* *£000*	*Total* *£000*
Cost:					
At 27 December 1998	3,736	1,067	214	2,491	7,508
Additions	65	737	72	1,013	1,887
Disposals	–	(69)	(68)	(270)	(407)
At 26 December 1999	3,801	1,735	218	3,234	8,988
Depreciation:					
At 27 December 1998	13	239	155	874	1,281
Provided during the year	56	73	49	408	586
Disposals	–	(10)	(56)	(141)	(207)
At 26 December 1999	69	302	148	1,141	1,660
Net book value:					
At 26 December 1999	3,732	1,433	70	2,093	7,328
At 27 December 1998	3,723	828	59	1,617	6,227

The net book value of equipment includes an amount of £393,000 (1998: £403,000) in respect of assets held under finance leases, the depreciation charge on which was £59,000 (1998: £31,000).

Included within freehold land and buildings is an amount of £999,000 (1998: £999,000) in respect of land which is not depreciated.

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

	1999 *£000*	*1998* *£000*
Equipment	46	58
Leasehold improvements	195	222
	241	280

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

NOTES TO THE ACCOUNTS
at 26 December 1999

12. INVESTMENTS

Group

	1999 £000	Proforma 1998 £000
Investments:		
Investment properties (a)	373	198
Joint venture (b)	221	205
	594	403

(a) Investment properties

	£000
Cost:	
At 27 December 1998	198
Addition in the year	175
At 26 December 1999	373

(b) Joint venture

At 28 December 1998	205
Share of retained profit of joint venture	22
Less amortised goodwill	(6)
At 26 December 1999	221

Additional disclosures are given in respect of Full House Restaurants Limited as follows:

	1999 £000	Proforma 1998 £000
Fixed assets	548	604
Current assets	47	77
Share of gross assets	595	681
Liabilities due within one year	(175)	(170)
Liabilities due after more than one year	(300)	(414)
Share of gross liabilities	(475)	(584)
Goodwill on acquisition	101	108
Share of net assets	221	205
Turnover	1,148	–
Profit before tax	25	–
Taxation	(3)	–
Profit after tax	22	–

12. INVESTMENTS (continued)

Company

	Subsidiary undertaking £000	*Joint venture £000*	*Total £000*
Fixed asset investment			
Cost:			
At 5 October 1999	–	–	–
Additions	2,475	205	2,680
At 26 December 1999	2,475	205	2,680

At 26 December 1999 the company held directly more than 20% of the nominal value of the share capital of the following:

Name of company	*Country of incorporation*	*Proportion held*	*Nature of business*
Subsidiary undertakings			
DPGS Limited	England	100% ordinary	Producer, retailer and management of pizza delivery stores
DP Realty Limited	England	100% ordinary	Property management
DP Group Developments Limited	England	100% ordinary	Property development
DP Capital Limited	England	100% ordinary	Dormant
Joint venture			
Full House Restaurants Limited	England	41% ordinary	Management of pizza delivery stores
Indirectly held subsidiary			
Livebait Limited	England	100% ordinary	Dormant

On 24 October 1998, a 41% interest in Full House Restaurants Limited was acquired for £205,000. Additionally, a loan of £345,000 was advanced to Full House Restaurants Limited which is repayable by 8 equal quarterly instalments commencing on 30 June 2001. The loan bears interest at a rate of 2% above National Westminster base rate.

At 26 December 1999, there was a receivable of £116,000 (1998: £63,000) from Full House Restaurants which has arisen through normal trading activities.

13. STOCKS

	1999 £000	*Proforma Group 1998 £000*
Raw materials and goods for resale	772	669

NOTES TO THE ACCOUNTS
at 26 December 1999

14. DEBTORS

	1999 £000	Proforma Group 1998 £000	Company 1999 £000
Trade debtors	2,486	1,577	–
Amounts owed by group undertakings	–	–	2,520
Amounts owed by joint venture	345	345	–
Other debtors	870	940	–
Prepayments and accrued income	311	603	–
	4,012	3,465	2,520

Included within trade debtors for group is £192,000 (1998: £54,000) due after more than one year.

The amount of £345,000 owed by the joint venture is due after more than one year.

Included within group other debtors is £75,000 (1998: £80,000) due after more than one year.

15. CREDITORS: amounts falling due within one year

	1999 £000	Proforma Group 1998 £000	Company 1999 £000
Bank loans (note 17)	–	200	–
Finance lease creditors (note 18)	120	99	–
Trade creditors	3,261	2,711	–
Amounts owed to parent undertaking (note 24)	1	8	–
Corporation tax	311	488	–
Other taxes and social security costs	578	412	–
Other creditors	247	199	–
Accruals and deferred income	1,188	999	598
Proposed dividend	146	250	–
	5,852	5,366	598

16. CREDITORS: amounts falling due after more than one year

Group	*1999* *£000*	*Proforma 1998* *£000*
Bank loans (note 17)	4,500	2,800
Finance lease creditors (note 18)	117	206
Amounts owed to parent undertakings (note 24)	–	400
	4,617	3,406

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

17. LOANS

Group	*1999* *£000*	*Proforma 1998* *£000*
Amounts falling due:		
In one year or less or on demand	–	200
Due between one and two years	–	200
In more than two years but not more than five years	4,500	600
In more than five years	–	2,000
	4,500	3,000

The group has entered into an agreement to obtain bank loans and mortgage facilities. These are secured by a fixed and floating charge over the group's assets. At 26December 1999 the balance due under these facilities was £4,500,000 (1998: £3,000,000). The loans will bear interest at 1.5% over base.

18. OBLIGATIONS UNDER LEASES AND HIRE PURCHASE CONTRACTS

Amounts due under finance leases and hire purchase contracts:

Group	*1999* *£000*	*Proforma 1998* *£000*
Amount payable:		
Within one year	117	128
In two to five years	157	239
	274	367
Less: finance charges allocated to future periods	(37)	(62)
	237	305

18. OBLIGATIONS UNDER LEASES AND HIRE PURCHASE CONTRACTS (continued)

Annual commitments under non-cancellable operating leases are as follows:

		Proforma		*Proforma*
	Land and buildings			*Other*
	1999	*1998*	*1999*	*1998*
	£000	*£000*	*£000*	*£000*
Operating leases which expire:				
Within one year	9	33	18	65
In two to five years	121	135	609	478
In over five years	2,246	2,108	–	–
	2,376	2,276	627	543

19. DERIVATIVES AND OTHER FINANCIAL INVESTMENTS

The group's principal financial instruments are bank loans, finance leases and cash. The financial instruments are principally in place to finance the new head office facility and associated equipment. The group has other financial instruments such as trade debtors and trade creditors that arise directly from its operations. As permitted by FRS 13 short term debtors and creditors have been excluded from the disclosure of financial liabilities and financial assets. The group has not entered into any derivative transactions such as interest rate swaps or financial foreign currency contracts. In view of the low level of foreign currency transactions, the board does not consider that there are significant risks in respect of this. All financial assets and liabilities are denominated in £ sterling. The main risk area is in respect of any change in interest rates on the floating rate loans, which the board will continue to monitor.

Financial assets

The group has no financial assets that require disclosure under FRS 13 other than £75,000 of non interest bearing debt due in more than one year the loan to the joint venture of £345,000 which is at an interest rate of 2% over basic rate and cash of £4,581,000 which bears interest at floating rate with full offset against bank borrowings. The loan to the joint venture is repayable in eight equal instalments commencing on 30 June 2001. The average period to maturity of non interest bearing assets is 28 months. The fair value is not materially different from the book value.

Financial liabilities

Financial liabilities consist primarily of floating rate bank borrowings of £4,500,000 at an interest rate of 1.5% over base rate and fixed interest rate finance leases of £238,000 at an average interest rate of 15.5%. In addition there are undrawn facilities of £1,500,000 which are available until 27 October 2000. The maturity profile of the group's financial liabilities is set out in notes 17 to 18. The fair value of the liabilities is not considered materially different from the book value.

20. SHARE CAPITAL

	Issued Number	Issued £	Authorised Number	Authorised £
On incorporation	2	2	100,000	100,000
15 November 1999				
Increase in authorised capital			3,900,000	3,900,000
Issue of shares	49,998	49,998	–	–
	50,000	50,000	4,000,000	4,000,000
Sub-division from £1 to 5p shares	950,000	–	76,000,000	–
	1,000,000	50,000	80,000,000	4,000,000
24 November 1999				
Acquisition of Domino's Pizza Group Limited	43,000,000	2,150,000	–	–
	44,000,000	2,200,000	80,000,000	4,000,000
24 November 1999				
Initial public offering	6,000,000	300,000	–	–
	50,000,000	2,500,000	80,000,000	4,000,000

The entire issued share capital of Domino's Pizza Group Limited was acquired in consideration for the issue to their shareholders of 44,000,000 shares of 5p each, fully paid. At the initial public offering, 6,000,000 ordinary 5p shares were placed at 50p each.

On 24 November 1999 participants in the Domino's Pizza Group Limited unapproved share option scheme (which had been in place since 31 March 1999) had the option of exchanging options over shares in DPG in return for equivalent options over ordinary shares in the company. Under this scheme, options over 4,127,102 ordinary shares were granted at 42p each. Options over a further 2,232,007 ordinary shares were granted on the same date, at 50p per share, under the Domino's Pizza Share Option (unapproved) scheme to all employees.

NOTES TO THE ACCOUNTS
at 26 December 1999

21. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

Group

	Share capital £000	*Share premium account £000*	*Profit and loss account £000*	*Total shareholders' funds £000*
At 28 December 1997	1,200	–	1,681	2,881
Profit for the year	–	–	808	808
At 27 December 1998	1,200	–	2,489	3,689
Share issue	370	3,455	–	3,825
Bonus issue	930	(755)	(175)	–
Expenses of issue	–	(598)	–	(598)
Profit for the year	–	–	827	827
Dividends	–	–	(331)	(331)
At 26 December 1999	2,500	2,102	2,810	7,412

Company

	Share capital £000	*Share premium account £000*	*Profit and loss account £000*	*Total shareholders' funds £000*
On incorporation	–	–	146	146
Profit for the year	–	–	–	–
Acquisition of Domino's Pizza Company Limited	2,200	–	–	2,200
Share issue	300	2,700	–	3,000
Expenses of issue	–	(598)	–	(598)
Dividends	–	–	(146)	(146)
At 26 December 1999	2,500	2,102	–	4,602

On 24 November 1999 all of the share capital of Domino's Pizza Group Limited was acquired by way of a share for share exchange. On the same date all of the share capital of DPGS Limited, DP Realty Limited, DP Group Development Limited and DP Capital Limited were transferred up to become direct subsidiaries of the company. All of the above were merger accounted with no adjustment resulting in respect of fair values and no adjustment to consolidated reserves.

22. PROFIT AND LOSS ACCOUNT

Profit after taxation amounting to £146,000 had been dealt with in the accounts of the company.

23. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of operating profit to net cash inflow from operating activities

	Proforma 1999 £000	*Proforma 1998 £000*
Operating profit	1,574	1,576
Depreciation charge	586	472
Amortisation charge	54	48
(Profit)/loss on sale of tangible and intangible fixed assets	(22)	4
(Increase)/decrease in stocks	(103)	10
(Increase) in debtors	(547)	(792)
Increase in creditors	947	1,289
	2,489	2,607

(b) Analysis of net debt

	At 29 December 1998 £000	*Cash flow £000*	*Inception of finance leases £000*	*At 27 December 1999 £000*
Cash at bank and in hand	1,082	3,499	–	4,581
Bank loans (within one year)	(200)	200	–	–
Bank loans (due after one year)	(2,800)	(1,700)	–	(4,500)
Amounts owed to parent undertaking	(400)	400	–	–
Finance leases	(305)	105	(37)	(237)
Net debt	(2,623)	2,504	(37)	(156)

(c) Reconciliation of net cash flow to movement in net debt

	Proforma 1999 £000	*Proforma 1998 £000*
Increase in cash	3,499	(52)
Cash inflow from increase in loans	(4,500)	(4,824)
Repayment of long-term loans	3,400	3,045
Repayments of capital element of finance leases and hire purchase contracts	105	140
Inception of finance leases	(37)	(330)
Movement in net debt	2,467	(2,021)
Net debt at 28 December	(2,623)	(602)

NOTES TO THE ACCOUNTS
at 26 December 1999

Net debt at 26 December	(156)	(2,623)

24. ULTIMATE HOLDING COMPANY AND RELATED PARTIES

In the opinion of the directors the immediate parent company is International Franchise Systems Inc., a company incorporated in the state of Delaware in the United States of America. Ultimate control rests with Woodland Limited Partnership, a limited partnership controlled by members of the Halpern family.

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

	1999	*1998*
	£000	*£000*
Current account:		
Opening debt due to International Franchise Systems Inc.	(8)	(38)
Transfer from loan account	(400)	(225)
Costs incurred by Domino's Pizza Group Limited on behalf of International Franchise Systems Inc	115	611
Costs incurred by International Franchise Systems, Inc on behalf of Domino's Pizza Group Limited	(4)	–
Transfer of funds to/(from) International Franchise Systems Inc.	446	(103)
Management charges from International Franchise Systems Inc.	(137)	(190)
Interest paid on loan account	(13)	(63)
Closing debt due to International Franchise Systems Inc.	(1)	(8)

	1999	*1998*
	£000	*£000*
Loan account:		
Opening debt due to International Franchise Systems Inc.	(400)	(625)
Transfer to current account	400	225
Closing debt due to International Franchise Systems Inc.	–	(400)

The loan from International Franchise Systems Inc. were repaid in the year and until that date attracted interest at the rate of 8% per annum.

STATUTORY GROUP PROFIT AND LOSS ACCOUNT
for the 12 weeks ended 26 December 1999

	Three months ended 26 December 1999 *£000*
TURNOVER	
Turnover: group and share of joint ventures' turnover	6,643
Less: share of joint ventures' turnover	(228)
GROUP TURNOVER	6,415
Cost of sales	(3,654)
GROSS PROFIT	2,761
Distribution costs	(846)
Administrative expenses	(1,412)
Other operating income	81
GROUP OPERATING PROFIT	584
Share of operating profit in joint venture	12
Amortisation of goodwill on joint venture	(1)
TOTAL OPERATING PROFIT: GROUP AND SHARE OF JOINT VENTURE	595
Interest receivable	10
Interest payable and similar charges	(40)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	565
Tax on profit on ordinary activities	(161)
PROFIT FOR THE FINANCIAL PERIOD	404