Domino's Pizza UK & IRL Plc

Report and Financial Statements

2 January 2005

ERNST & YOUNG

3853345

Contents

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Financial highlights

for the 53 weeks ended 2 January 2005

	2004	*2003*	*2002*	*2001*	*2000*
Trading Weeks	53	52	52	52	53
System sales (£m)	174.3	142.3	118.9	98.4	76.1
Group sales (£m)	74.2	61.6	53.1	43.8	32.5
Operating profit (£000's)	9,138	5,966	4,563	3,214	2,457
Profit before tax (£000's)	8,821	6,537	4,239	2,862	2,189
Basic earnings per share (pence)	13.23	9.02	5.60	4.00	2.61
Dividends per share (pence)	5.25	3.50	2.00	1.33	0.80
Shareholders' funds (£000's)	13,316	10,680	11,701	9,598	8,098
Net (indebtedness) (£000's)	(4,218)	(4,243)	(6,308)	(5,760)	(5,663)
Capital gearing	31.7%	39.7%	53.9%	60.0%	69.9%
Stores at start of year	318	269	237	215	201
Stores opened	40	50	34	24	22
Stores closed	(1)	(1)	(2)	(2)	(8)
Stores at year end	357	318	269	237	215
Corporate stores at year end	18	17	35	34	31
Like-for-like sales growth (%)	6.6%	7.4%	11.2%	21.4%	4.8%

Registered No: 3853545

Directors

Colin Halpern	Executive Chairman
Stephen Hemsley	Chief Executive
Lee Ginsberg	Finance Director (Appointed 1 November 2004)
Christopher H R Moore	Sales and Marketing Director
Nigel Wray	Non-Executive
Yoav Gottesman	Non-Executive (Resigned 20 May 2004)
Gerald Halpern	Non-Executive
John Hodson	Non-Executive (Appointed 14 February 2005)

Secretary

Andrew Mallows	(Resigned 1 November 2004)
Lee Ginsberg	(Appointed 1 November 2004)

Nominated advisor and nominated broker

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EC2V 6LH

Auditors

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Luton
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Bankers

National Westminster Bank PLC
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478 Midsummer Boulevard
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Solicitors

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Registrars

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Chairman's statement

For us here at Domino's Pizza in the UK and Ireland, bigger seems to present us with more opportunities to get better at what we do. As our store numbers grow, so do our system-wide sales. In 2004, total sales from all stores reached a record-setting £174.3 million, a £32 million increase over 2003. And, keep in mind, 2003's system-wide sales grew by £23 million after breaking the then 2002's record. Simply put, more stores mean more sales.

At the close of 2004 we celebrated the launch of our 357th store and our system is now bigger than those of our two nearest competitors combined. We still foresee a time when up to 1000 Domino's Pizza stores will be operating in the UK and Ireland.

As the number of stores increases, the associated costs per store are reduced. For example, consider our National Advertising Fund (NAF) which finances our marketing campaigns and is made up of contributions from all stores. The NAF provides for the continuation of our very successful relationship with The Simpsons on Sky One as well as all of our TV advertisements and campaigns in support of new product developments. In 2004 our National Advertising Fund grew to £7 million, up from £5.7 million in 2003. When one considers that the costs incurred in a nationwide advertising campaign are the same whether there are ten or one hundred or even one thousand stores, it's easy to see that the returns and cost-effectiveness are going to be significantly improved with each new store that opens.

Our opportunities for future growth are more exciting than ever. More residential property is being built all over the country and in those new houses demand for, and access to, in-home entertainment is still on the rise. Demand for home-delivered pizza is following suit as people seek to enjoy more time in their homes. A quick look at the growth in our e-commerce business is clear evidence that more people are logging on, ordering a pizza and sitting down at home to enjoy as much leisure time there as possible.

Our e-commerce business is a success story in its own right, generating £8.2m in sales during 2004, a 41% increase over 2003. This success comes despite the fact that our IT infrastructure, which we revamped in 2004, had spent a good part of the year under construction. The resulting work saw a new and enhanced website and an improved interactive TV ordering platform on Sky Active, both aimed at making our customers' ordering experience more convenient, enjoyable and much faster.

At Domino's we benefit from a robust community of franchise partners, whose ranks grew to 147 from 128 between 2003 and 2004. Many of these hard-working people have become millionaires since joining our team and their success has been earned the old-fashioned way - through hard work and passion for their business, as well as their adherence to Domino's stringent quality standards which benefit the whole system as well as the individual.

This year, I am delighted to welcome two significant new appointments to our Board. Firstly, I should like to welcome Lee Ginsberg who joined us as Finance Director on 1 November 2004. Lee has extensive experience in the leisure and retail industry and is a very positive addition to the Company's strong senior management team.

Also recently appointed is John Hodson who joined us as Non-Executive Director on 14 February 2005. John's skills are certain to be an excellent asset to the Company.

With heartfelt gratitude, I must also recognise two accomplished men who have been instrumental in our success: Yoav Gottesman and Gerald Halpern. Yoav has helped us navigate our path to success and my brother Gerald has worked beside me for the past 11 years, providing insight that helped to give our business a strong foundation for growth. Yoav retired from the Board in May 2004 and Gerry will be retiring from our Board of Directors at the upcoming Annual General Meeting.

In closing, I should like to say 'thank you' to everyone in the Domino's team for a job well done again this past year. We couldn't have reached the peaks we've reached without the outstanding people in each

Chairman's statement

of our support departments and in each of our stores. And, of course, we thank you, our shareholders, whose confidence in us allows us to grow stronger each year. It is you who provide us with the resources to accomplish ever greater triumphs year after year and who make it possible for us to raise the benchmark at the start of each new year. We simply couldn't do it without you. We will work hard to earn your continued confidence in 2005.

Colin Halpern
Chairman

Chief executive's report

Introduction

2004 was another very successful year for your Company with sales reaching record levels both system-wide and at store level. Profitability also continued to grow very strongly as the benefits of our high operational gearing became still more apparent. Whilst we opened fewer new stores in 2004 than in 2003, our priority remains to only open in the right locations with the right operators, and this we achieved.

Our strong cash generation continued and, as indicated in previous statements, this will be returned to shareholders as long as it does not impact on the growth of the business. As a result, the share buy back programme was commenced during 2004 and it is proposed to significantly increase the dividend payment for the year.

Our continuing success results from a strong and talented management team who have an in-depth of understanding of the market in which we operate. Their innovative approach has helped to further strengthen our leadership position.

System sales

System sales, which are the sales of all stores in the Domino's system in the UK and Republic of Ireland, rose by 22.5% to £174.3m (2003: £142.3m) in the 53 weeks ended 2 January 2005. Like-for-like sales in the 268 stores open for more than twelve months grew by 6.6% (2003: 7.4%).

In 2005 Domino's Pizza celebrates 20 years in the UK market. In the last five years alone, total system sales have grown by over 174.5% from £63.5m in 1999 to £174.3m in 2004. This is an annual compound growth rate of 22.4%.

System expansion & managing growth

In 2004 we opened 40 new stores (2003: 50) and closed one (2003: one). As a result, the year-end store count in the UK and Ireland increased to 357 stores (2003: 318).

Forty new stores in 2004 was, however, a disappointment as we had set ourselves an internal target to repeat the 50 new store openings we achieved in 2003. There were two reasons for the shortfall. Firstly, as foreshadowed in my Interim statement, uncertainty arising from long-awaited changes in the planning Use Classes Order, which will result in Domino's Pizza stores requiring A5 (rather than A3) class, has caused delays in our obtaining the necessary consents.

The legislation that gave rise to these changes was announced in early 2004 but, after an extraordinary delay, it has only recently been confirmed that the new classes system will come into effect on 21 April 2005. Whilst we do not welcome the still stricter planning controls, we hope the elimination of uncertainty will allow the planning process to become more predictable.

It is the strategy of the Company to expand the system as quickly as possible. We will not however, do this at any price and the quality of the franchisees that operate new stores continues to be of paramount importance.

This highly selective approach to expansion is the second reason for our opening fewer stores in 2004 than in the previous year. During 2004, although we saw another record number of applications from potential new franchisees, aided by our winning the British Franchise Association Franchisor of the Year award, there remained a lack of suitable franchisees in regions that we have identified for expansion and where we have secured new sites. We, therefore, declined to open a number of stores where there was neither a new franchisee of the standard required nor an existing franchisee ready to operate multiple stores. I am pleased to report that most of these sites have now opened or are scheduled to open in the first quarter of 2005 with franchisees who will be a credit to the system.

Chief executive's report

Trading results

Group turnover, which includes the sales generated by the Group from royalties, fees on new store openings, food sales and rental income, as well as the turnover of corporately owned and operated stores, grew by 20.5% to £74.2m (2003: £61.6m).

Group operating profit grew by 53.2% to £9.1m (2003: £6.0m) although there was an exceptional charge of £532,000 in 2003 related to a tender offer and the establishment of an Employee Benefit Trust ("EBT"). Excluding this, Group operating profit grew by 40.6%. During 2004 the Group incurred a loss on the sale of fixed assets of £47,000 compared with a profit of £775,000 in the previous year, almost all of which related to corporate store disposals in both years.

Interest paid rose to £0.4m (2003: £0.3m) as the result of a full year interest charge on the EBT. Net interest costs are covered 33.7 times by operating profits (2003: 29.3 times). After taking account of these items, profit before tax was up 34.9% to £8.8m from £6.5m.

The tax charge fell from 30% to 23% principally as a result of the non-recurrence of the tax effect of the previous year's store disposals; the relief available on the rollover of capital gains made in earlier years and the tax relief available to the Company on the exercise of employee options. As a result of the reduced tax charge, profits after tax were up 47.7% to £6.7m (2003: £4.6m).

Earnings per share and dividend

Basic earnings per share were up 46.7% to 13.23 pence from 9.02 pence. Diluted earnings per share increased by 51.0% to 12.67 pence from 8.39 pence.

As a result of the strong cash generation during the year, the Board is pleased to recommend a further significant increase in the dividend payment which, if approved, will give a final dividend of 3.05 pence per share (2003: 2.18 pence per share). This would give a total dividend for the year of 5.25 pence per share, a 50.0% increase over the 3.50 pence per share declared for 2003. The proposed dividend is 2.5 times covered by profits after tax (2003: 2.6 times).

Subject to shareholders' approval the final dividend will be payable on 29 April 2005 to shareholders on the register on 12 April 2005.

Cash flow and balance sheet

2004 has been another encouraging year in terms of our balance sheet and cash flows. Net cash inflow from operating activities reached £9.9m, up from £8.0m in 2003. This increase was attributable in the main to the higher operating profits which were £3.1m up on 2003.

The Group continues to generate increasingly strong cash flows and the model is proving to be even more robust as profitability grows and capital expenditure levels have reduced now that the infrastructure is in place. At the year end the Group had cash on hand of £4.8m (2003: £3.7m). The increase in cash on hand this year was even more reassuring given the underlying cash flows. During 2004 we spent £2.1m more than last year on fixed assets, primarily due to the purchase of the long leasehold interest of the commissary in Naas. Furthermore, we bought back shares at a cost of £1.6m, had higher outflows of £0.6m in tax and £0.9m in dividends but still increased cash balances by £1.1m.

During the year options over 2.4m shares were exercised generating a cash inflow of £1.1m (2003: £1.0m).

Towards the end of the year, the Employee Benefit Trust ("EBT") granted further reversionary interests in 600,000 of the Company's shares which were purchased by the EBT at a cost of £1.2m. This was financed

Chief executive's report

by a further bank loan of £1.2m guaranteed by the Company. The EBT now holds a total of 3,599,921 shares by the bank debt of £6.4m (2003: £5.2m). The Company has adopted the accounting treatment of UITF 38, Accounting for ESOP Trusts. The full cost of the shares has been deducted from shareholders' funds, with the debt being consolidated into the Group's balance sheet.

During the year DP Capital extended the leasing support provided to franchisees for the fit-out of new stores and the refit of existing stores, with new advances of £0.9m. After repayments, the balance outstanding at the year-end from this activity was £2.9m (2003: £3.1m). These facilities are financed by a limited recourse loan facility and the amount drawn down at the year-end stood at £2.6m (2003: £2.7m).

At the year-end, the Group had consolidated debt of £9.0m (2003: £8.0m) all of which related to the EBT loan and financing for DP Capital referred to above. After taking into account cash balances, net borrowings at the year-end stood at £4.2m (2003: £4.2m) representing 31.7% (2003: 39.7%) of shareholders' funds.

Although adoption of IFRS will only be mandatory for AIM listed companies from 2007, we have already made a preliminary assessment of the impact on the Group. Our evaluation has highlighted that the adoption of IFRS is not expected to have any significant impact on the Group's reported results.

Corporate stores

In recent years we have been exploring different structures to enable our shareholders to benefit from the significant profitability and exceptional returns on capital that can be obtained from a well-run Domino's Pizza store. Past experience has shown us that corporate ownership can dull the entrepreneurial spirit that is essential to that success, and impose overheads, that in a smaller business, might be avoided. We have, therefore, been exploring a number of alternatives, including joint ventures, to see if the partnership of corporate strength and the entrepreneurialism of a franchisee who has invested his or her own money into the business can reproduce the success experienced by so many of our franchisees. The results to date from our current joint ventures have been encouraging and, as a result, we have determined to incorporate most of the existing corporate stores into joint ventures.

We will attempt to establish as many of the joint ventures as possible using third party debt funding so that your Company's role will be that of an equity partner. This will enable us to maximise our returns and obtain the return of much of the capital previously invested. This will then become available for reinvestment in the core business or returned to shareholders.

Leading the market

In 2004, the take-away and home-delivered food market was estimated by Mintel to be worth £5.2bn, of which home delivery now constitutes 24%. The total value of the home delivered food market in the UK has increased in value by 62% since 1999 and is now estimated to be around £1.2bn. Pizza currently accounts for 43% of the home delivered food market and we estimate that Domino's can claim to deliver approximately one in ten home delivered meals in the UK.

Research suggests that the home delivery market will be worth in excess of £1.8bn by 2009 and this growth will be driven by continued pressure on consumers' time coupled with increasing access to convenient technologies that offer online, interactive and SMS ordering of home delivered food.

There has been considerable recent debate on the issue of healthy eating which has prompted us to review our responsibilities in this area. We believe that we have a role to play in supporting Government efforts to increase public health and awareness of nutritional issues. Your Company believes that its main responsibility is to provide customers with high quality food, about which they can access full information, and provide a menu which includes options to suit different lifestyles and dietary needs. The introduction in 2004 of reduced fat cheese, 'Delight' mozzarella, is a demonstration of this approach in action and we will continue to reinforce our commitment in these areas.

Chief executive's report

Through constant and close monitoring of the world in which we operate, and through innovation and practical changes that benefit our customers, I am confident that Domino's Pizza will continue to strengthen its leadership of the home delivered food market.

Building the brand

Brand-building activity continued to be an important focus in 2004, both externally to customers and internally to our own people.

The strength of our National Advertising Fund was leveraged with creative, high impact and closely targeted campaigns throughout the year, culminating in a highly successful launch for our new gourmet pizza, Double Decadence™. These campaigns benefited from the continued support of our sponsorship of The Simpsons on Sky one which ensures our brand has a continuous presence in homes across the UK and Ireland at peak pizza-ordering time.

Direct mail and local store marketing, which includes the distribution of over 150 million menus each year, are mainstays of our marketing activity and are complemented by the efforts of our franchisees to foster local loyalty through positive community relations campaigns.

Our e-commerce platforms go from strength to strength with sales in 2004 ahead by 41% on the prior year. Sales through the internet and interactive TV accounted for 5.2% of sales in the UK (2003: 4.5%).

Current trading and prospects

Trading in the first six weeks of the current year has got off to a good start with like-for-like sales up 6.6%. In the same period, e-commerce sales are 49% ahead of last year. Our store opening programme is also well on track to achieve our targets.

Our strategy remains the roll-out of new stores and the growth of like-for-like sales, whilst maintaining tight control of overheads. Achievement of this strategy will allow us to generate significant amounts of cash which, in the absence of any business need, will be returned to shareholders. We have made a promising start to 2005 in the achievement of all these objectives and, therefore, look forward to the year with confidence.

Conclusion and thanks

At the heart of your Company's success is our highly-focused approach– the delivery of hot, high quality pizza on time. Fulfilling this simple promise every day is a dedicated team of corporate and in-store team members to whom I offer my thanks and respect.

In particular, I should like to thank our franchisees. These men and women are the engine of our organisation and their enterprise, enthusiasm and round-the-clock dedication sets the pace for the rest of our business.

Stephen Hemsley
Chief Executive

Report on directors' remuneration

The remuneration committee consists of 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

Stephen Hemsley, Lee Ginsberg and Christopher Moore have entered into service agreements with the company, which are subject to a twelve months 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 under the terms of a management agreement. The agreement is reviewed annually and the level of compensation paid to IFS agreed by the remuneration committee.

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 2004 £000	*Bonus 2004 £000*	*Benefits 2004 £000*	*Pension contributions 2004 £000*	*Total 2004 £000*	*Total 2003 £000*
Executive directors:						
Colin Halpern	196	–	36	200	432	421
Stephen Hemsley	196	139	24	20	379	352
Lee Ginsberg	26	14	2	–	42	–
Christopher Moore	144	83	19	13	259	246
Non-executive directors:						
Gerald Halpern	48	–	–	–	48	55
Nigel Wray	24	–	–	–	24	24
Yoav Gottesman	15	–	–	–	15	48
	649	236	81	233	1,199	1,146

The value of benefits relates primarily to the provision of company car or equivalent allowance. Colin Halpern is not remunerated by the company. A management fee of £196,000 (2003: £185,000) was paid to IFS in respect of his services. Mr Halpern has indicated his intention to retire on his 70th birthday, which falls in 2006. In view of this the remuneration committee has determined to make pension contributions not previously paid during his previous eleven years of Chairmanship of the Company. Accordingly, the first of these contributions, amounting to £200,000, were made in 2003 and a pension contribution of £200,000 was also paid to IFS in 2004, with a further payment of £100,000 in 2005.

Report on directors' remuneration

Gerald Halpern is not directly remunerated by the company. A management fee of £48,000 (2003: £55,000) was paid to Chinese Pompano Inc, a company of which Gerald Halpern is a director, in respect of his services.

Nigel Wray is not directly remunerated by the company. A management fee of £24,000 (2003: £24,000) was paid to Brendon Street Investments Limited, a company of which Nigel Wray is a director, in respect of his services.

The company makes contributions of up to 10% of annual basic salary to personal pension plans of Stephen Hemsley, Lee Ginsberg and Christopher Moore.

Remuneration in 2003 included £19,000 for Stephen Hemsley and £13,000 for Christopher Moore in respect of pension contributions.

In 2003 a bonus of £129,000 was paid to Stephen Hemsley and £78,000 was paid to Christopher Moore.

Interest in options

The interests of the directors under the companies share option scheme are as follows.

Director	*Date of grant*	*Exercise price*	*As at 28 December 2003*	*Granted in year*	*Exercised in year*	*As at 2 January 2005*
Christopher Moore	31 March 1999	42.1p	415,654	–	415,654	–
Christopher Moore	24 November 1999	50.00p	207,827	–	207,827	–
Christopher Moore	4 August 2000	53.00p	90,000	–	90,000	–
Christopher Moore	1 January 2001	33.50p	278,794	–	278,794	–
Gerald Halpern	31 March 1999	42.1p	519,568	–	519,568	–
Gerald Halpern	24 November 1999	50.00p	80,432	–	80,432	–

Details of the exercise criteria for share options is contained in note 20.

Christopher Moore exercised a total of 992,275 options in October 2004, at a share price of 200.00p. The net gain from these exercised options was £1,565,000. Gerald Halpern exercised a total of 600,000 options in April 2004, at a share price of 190.00p. The net gain from these exercised options was £875,000. The total net value of these exercised options was £679,000.

In 2003 Stephen Hemsley exercised a total of 1,290,561 options, at a share price of 188.25p. The net gain from these exercised options was £1,805,000. Gerald Halpern exercised a total of 153,482 options in 2003, at a share price of 181.75p. The net gain from these exercised options was £198,000. Yoav Gottesman exercised a total of 346,379 options in 2003, at a share price of 169.375p. The net gain from these options was £432,000. The total net value of these exercised options was £2,435,000.

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%.

Report on directors' remuneration

In addition to the interest in options above, Stephen Hemsley and Christopher Moore hold reversionary interests over 2,000,000 and 590,000 shares respectively in Dominos Pizza UK and IRL plc. These interests are capable of vesting between 31 December 2005 and 31 December 2007 if specific performance criteria are met. These interests were granted at a price of £1.35 per share.

During the year a further reversionary interest was granted to Lee Ginsberg and Christopher Moore of 375,000 shares and 160,000 shares in Dominos Pizza UK and IRL plc. respectively. These interests are capable of vesting between 31 December 2006 and 31 December 2009 if specific performance criteria are met. These interests were granted at a price of 200 pence per share.

The market price of the company's shares on 2 January 2005 was 230 pence per share and the high and low share prices during the year were 235 pence and 190 pence respectively.

Directors' report

The directors present their report and the group accounts for the 53 weeks ended 2 January 2005.

Results and dividends

The group profit for the 53 weeks, after taxation and minority interests amounted to £6,731,000 (2003: £4,559,000).

The directors recommend a final ordinary dividend of 3.05 pence amounting to £1,531,000 making a total dividend for the year of £2,688,000 (2003: £1,757,000).

The final ordinary dividend, if approved, will be paid on the 29 April 2005 to ordinary shareholders whose names appear on the register on the 15 April 2005.

Principal activity and review of the business

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

The review of the business is contained in the Chief Executive's Report on pages 5 to 8.

Directors and their interests

The directors during the year under review and their interest in the share capital of the company, other than with respect to options to acquire ordinary shares (which are detailed in the analysis of options included in the Report on Directors' Remuneration) were as follows:

	At 2 January 2005 Ordinary shares	*At 28 December 2003 Ordinary shares*
Colin Halpern (i)	10,155,497	12,155,497
Stephen Hemsley (ii)	2,500,000	2,500,000
Christopher Moore	779,510	103,235
Nigel Wray (iii)	14,164,725	14,164,725
Gerry Halpern	50,000	50,000
Yoav Gottesman	409,000	700,000

(i) 9,679,405 are held by International Franchise Systems Inc., beneficially for HS Real Company LLC and 476,092 shares are held by HS Real Company LLC (HS Real Company LLC is owned by a discretionary trust, the beneficiaries of which are the adult children of Colin and Gail Halpern).

(ii) 1,209,439 shares are held by CTG Investment Limited, a discretionary trust of which Stephen Hemsley and his family are potential beneficiaries.

(iii) 7,614,000 shares are held by Abacus (CI) Ltd, which is beneficially owned by the family trusts of Nigel Wray, principal beneficiaries of which are Nigel Wray's children. 6,055,439 shares are held by Syncbeam Limited, a company wholly owned by Nigel Wray.

During the period from the end of the financial year to 28 February 2005, there have been no changes in directors' shareholdings or their interests in share options.

Directors' report

Other significant shareholders

Directors' interests in the shares of the company have been disclosed above. The other significant shareholders holding more than 3% of the shares in the company, which have been disclosed to the company are FMR Corp and it's direct and indirect subsidiaries and Fidelity International Limited and it's direct and indirect subsidiaries which holds a 9.8% interest, Ogier Employee Benefit Trustee Limited acting as trustee of the Domino's Pizza UK & IRL Plc Employee Benefit Trust which holds a 6.6% interest and Moonpal Singh Grewal who is the beneficial holder of a 3.9% interest.

Share option schemes

In order to provide employee share incentives in the future the group had previously adopted two 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 Domino's Pizza Share Option (Unapproved) Scheme was introduced on 24 November 1999.

All participants in the Domino's Pizza Group Limited (Unapproved) Share Option Scheme were, on admission of the company to the Alternative Investment Market, offered the chance to release their options over shares in Domino's Pizza Group Limited in return for equivalent options over ordinary shares in the company under the Domino's Pizza Share Option (Unapproved) Scheme. Further details of options outstanding at the year-end are contained in note 20.

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%.

On 23 March 2004 the company established the Domino's Pizza UK & IRL plc 2003 Enterprise Management Incentive Scheme. Under the scheme the company can grant options to eligible full time employees. For details of the options granted and outstanding see note 20.

Company share buyback programme

During the year the company commenced its programme of buying back its own shares. A total of 800,000 shares of 5 pence each were purchased during the year at a total cost of £1,600,000 before expenses. The reason for the purchase of these shares is that the company has generated surplus cash and this is being returned to shareholders in the form of an enhanced dividend policy and share buybacks. These shares have been cancelled and no longer form part of the company's issued share capital.

Creditor payment policy

The company had no trade creditors at the end of the year, however, 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 2 January 2005, the group had an average of 25 days (2003: 31 days) purchases outstanding in trade creditors.

Directors' report

Corporate governance

The directors acknowledge the principles set out in the Combined Code issued by the committee on Corporate Governance and considers the main provisions in-so-far as they are appropriate to the company. At present the main facets are:

- The Board – at the year end the company had four executives 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, and major items of capital expenditure and senior personnel appointments.
- Audit Committee - which consists of Nigel Wray 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.
- Remuneration Committee - which consists of Nigel Wray 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 Procedures - ensuring authorisation levels and procedures and other systems of internal financial controls are documented, applied and regularly reviewed.

Directors' report

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.

Directors' report

Corporate social responsibility & charitable donations

Domino's Pizza is committed to delivering the highest standards of product, service, image and safety for our franchisees, team members, customers, the communities we serve and all other stakeholders affected by our operations.

Furthermore, we strive to be an equal opportunities employer and are committed to investing in our team members through market-leading remuneration, training and development. Our franchisees are contracted to adhere to high standards of employment practice.

The Company also ensures that its rapid expansion plans are underpinned by a culture of 'Responsible Growth'. This means that we aim to earn the respect, admiration and trust of local people and authorities by taking a responsible attitude towards the environment, construction, planning and local regeneration.

In 2004, the Company's charity of choice was the Make-A-Wish Foundation ® UK, an inspiring charity that grants the wishes of children who are living with life-threatening illnesses. As well as donating £20,000 lump sum to Make-A-Wish®, the Company's franchisees and stores undertook a wide range of fund-raising activities throughout the year.

Auditors

A resolution to re-appoint Ernst & Young LLP as the company's auditor will be put to the forthcoming Annual General Meeting.

By order of the board

Secretary

Independent auditors' report

to the members of Domino's Pizza UK & IRL plc

We have audited the Group's financial statements for the 53 weeks ended 2 January 2005 which comprise the Group profit and loss account, Group statement of total recognised gains and losses, Group balance sheet, Company balance sheet, Group statement of cash flows and the related notes 1 to 26. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Group is not disclosed.

We read the Directors' report, the Chairman's statement and the Chief executive's report and the Report on Director's remuneration and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the Group as at 2 January 2005 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 LLP

Registered Auditor

Luton

24 February 2005

Group profit and loss account

for the 53 weeks ended 2 January 2005

	Notes	2004 £000	2003 £000
Turnover			
Turnover: group and share of joint ventures' turnover		77,254	64,369
Less: share of joint ventures' turnover		(3,039)	(2,812)
Group turnover	2	74,215	61,557
Cost of sales		(43,815)	(34,101)
Gross profit		30,400	27,456
Distribution costs		(8,404)	(7,805)
Administrative expenses – pre-exceptional		(12,963)	(13,253)
Administrative expenses - exceptional		–	(532)
Administrative expenses		(12,963)	(13,785)
Group operating profit	3	9,033	5,866
Share of operating profit in joint venture		120	105
Amortisation of goodwill on joint venture		(15)	(5)
		105	100
Total operating profit: group and share of joint venture		9,138	5,966
(Loss)/profit on sale of fixed assets		(47)	775
Profit on ordinary activities before interest and taxation		9,091	6,741
Interest receivable		100	81
Interest payable and similar charges	6	(370)	(285)
Profit on ordinary activities before taxation		8,821	6,537
Tax on profit on ordinary activities	7	(2,058)	(1,958)
Profit on ordinary activities after taxation		6,763	4,579
Minority interests		(32)	(20)
Profit for the financial year attributable to members of the parent company		6,731	4,559
Dividends on equity shares	8	(2,688)	(1,757)
Profit retained for the financial year		4,043	2,802
Earnings per share - basic	9	13.23p	9.02p
- diluted		12.67p	8.39p

There are no recognised gains and losses other than the profit reported above.

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Group balance sheet

at 2 January 2005

	Notes	2004 £000	2003 £000
Fixed assets			
Intangible assets	10	1,520	1,430
Tangible assets	11	14,595	12,293
Investments in joint venture:	12		
Share of gross assets		1,449	1,582
Share of gross liabilities		(1,066)	(1,243)
		383	339
Total fixed assets		16,498	14,062
Current assets			
Stocks	13	2,700	1,843
Debtors:	14		
amounts falling due within one year		10,735	9,197
amounts falling due after more than one year		2,721	3,036
		13,456	12,233
Cash at bank and in hand		4,824	3,721
Total current assets		20,980	17,797
Creditors: amounts falling due within one year	15	(15,121)	(13,380)
Net current assets		5,859	4,417
Total assets less current liabilities		22,357	18,479
Creditors: amounts falling due after more than one year	16	(8,102)	(7,119)
Provision for liabilities and charges	7	(857)	(630)
		13,398	10,730
Capital and reserves			
Called up share capital	20	2,740	2,660
Share premium account	21	4,241	3,290
Capital Redemption Reserve	21	40	–
Own shares held by Employee Benefit Trust	21	(6,360)	(5,160)
Profit and loss account	21	12,655	9,890
Equity shareholders' funds		13,316	10,680
Minority interest		82	50
		13,398	10,730

Director

Company balance sheet
at 2 January 2005

	Notes	2004 £000	2003 £000
Fixed assets			
Investments in subsidiary undertakings	12	2,595	2,595
Investments in joint venture	12	205	205
		2,800	2,800
Current assets			
Debtors	14	12,118	9,394
		12,118	9,394
Creditors: amounts falling due within one year	15	(1,537)	(1,084)
Net current assets		10,581	8,310
Total assets less current liabilities		13,381	11,110
Creditors: amounts falling due more than one year	16	(6,360)	(5,160)
		7,021	5,950
Capital and reserves			
Called up share capital	20	2,740	2,660
Share premium account	21	4,241	3,290
Capital Redemption Reserve	21	40	-
Own shares held by Employee Benefit Trust	21	(6,360)	(5,160)
Profit and loss account	21	6,360	5,160
Equity shareholders' funds		7,021	5,950

Director

ERNST & YOUNG

Group statement of cash flows

at 2 January 2005

	Notes	2004 £000	2003 £000
Net cash inflow from operating activities	23(a)	9,943	8,010
Returns on investments and servicing of finance			
Interest received		100	81
Interest paid		(308)	(183)
Interest element of finance lease payments		(7)	(8)
		(215)	(110)
Taxation			
Corporation tax paid		(2,021)	(1,407)
Capital expenditure and financial investment			
Payments to acquire intangible fixed assets		(200)	(239)
Payments to acquire tangible fixed assets		(3,905)	(1,783)
Receipts from sales of tangible and intangible fixed assets		417	4,075
Receipts from repayment of joint venture loan		108	78
Payments to acquire finance lease assets and advance of franchisee loans		(946)	(2,030)
Receipts from repayment of finance leases and franchisee loans		1,098	936
		(3,428)	1,037
Acquisitions and disposals			
Purchase of subsidiary undertaking and un-associated businesses		(280)	30
		(280)	30
Equity dividends paid		(2,235)	(1,297)
Net cash inflow before financing		1,764	6,263
Financing			
Issue of ordinary share capital		1,071	1,009
New long-term loans		3,299	6,757
Repayments of long-term loans		(2,198)	(8,984)
Repayment of capital element of finance leases and hire purchase contracts		(23)	(49)
Purchase of shares by Employee Benefit Trust		(1,200)	(5,160)
Purchase of own shares		(1,610)	–
		(661)	(6,427)
Increase/(decrease) in cash	23(c)	1,103	(164)

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Notes to the financial statements

at 2 January 2005

1. Accounting Policies

Basis of preparation

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

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 30 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.

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 period to 2 January 2005.

Goodwill

Positive goodwill arising on acquisitions of a subsidiary, associate or business is capitalised, classified as an asset on the balance sheet and amortised on a straight-line basis over its estimated useful economic life up to 20 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

If a subsidiary, associate or business is subsequently sold or closed, any goodwill arising on acquisition that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on sale or closure.

Intangible assets

Intangible assets acquired separately from a business are capitalised at cost. Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition, subject to the constraint that, unless the asset has a readily ascertainable market value, the fair value is limited to an amount that does not create or increase any negative goodwill arising on the acquisition. Intangible assets created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred.

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

Franchise fees	-	over 20 years
Interest in leases	-	over the life of the lease

The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Significant property developments

Interest incurred on finance provided for significant property development is capitalised up to the date of completion of the project. These costs are then depreciated in accordance with the group's policy for the relevant class of tangible fixed assets.

Notes to the financial statements

at 2 January 2005

1. Accounting Policies (continued)

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
Equipment	-	over 2 to 10 years
Leasehold building improvements	-	over the life of the lease
Motor vehicles	-	over 18 months to 3 years

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.

Stocks

Stocks comprise raw materials, consumables and goods for resale (being equipment for resale to franchisees) 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 tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax, with the following exceptions:

- Provision is made for tax on gains from the revaluation (and similar fair value adjustments) of fixed assets, or gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.

- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

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.

Notes to the financial statements

at 2 January 2005

1. Accounting Policies (continued)

Leasing and hire purchase commitments

As lessee

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.

As lessor

Amounts receivable under finance leases are included under debtors and represent the total amount outstanding under lease agreements less unearned income. Finance lease income, having been allocated to accounting periods to give a constant periodic rate of return on the net cash investment is included in turnover. Income and expenditure from the rental of leasehold properties and equipment have been included in the gross income in turnover and the related expenditure within cost of sales.

Employee Benefit Trusts

The company has adopted UITF 38 Accounting for ESOP Trusts. Shares in the company held by the trustees of the employee benefit trust are stated at cost and included as a deduction to shareholders' funds. The trust has waived its entitlement to dividends. The group will meet the expenses of the trust as and when they fall due. When options are granted the difference between market price and the grant price is amortised to the profit and loss account over the performance period.

Exchange of non- monetary assets

Exchange of non-monetary assets for an interest in joint venture, associate or subsidiary is accounted for in accordance with UITF 31. Gains are recognised to the extent that the fair value of consideration received exceeds that part of the non-monetary assets no longer owned, including related goodwill. If the gain is unrealised, this is reported in the Statement of Total Recognised Gains and Losses.

Pensions

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

Revenue recognition

Revenue is recognised as follows:

Pizza delivery	- on delivery
Commissary and equipment sales	- on delivery
Royalties (based on system sales)	- on delivery
Franchise sales	- on commencement of franchisee trading
Finance lease interest income	- on commencement of franchisee trading
Rental income on leasehold properties	- on a straight line basis in accordance with the lease terms

Notes to the financial statements

at 2 January 2005

2. Turnover and segmental analysis

The principal components of turnover are royalties received, commissary and equipment sales, sale of franchises, pizza delivery sales, rental income on leasehold properties and finance lease interest income, stated net of value added tax after eliminating inter-company transactions. All of the turnover is in one continuing business segment being the development on the Domino's Pizza Franchise System and originates in the United Kingdom and the Republic of Ireland. The directors believe that full compliance with the requirements of SSAP 25 'Segmental Reporting' would be seriously prejudicial to the interests of the group as it would require disclosure of commercially sensitive information. All the turnover of the Joint Ventures relates to the United Kingdom.

Geographical analysis	*Turnover by origin*		*Turnover by destination*	
	2004	*2003*	*2004*	*2003*
	£000	*£000*	*£000*	*£000*
Group turnover				
United Kingdom	68,913	57,925	68,041	57,303
Republic of Ireland	5,302	3,632	6,174	4,254
	74,215	61,557	74,215	61,557

3. Operating Profit

This is stated after charging / (crediting):

	2004	*2003*
	£000	*£000*
Auditors' remuneration - audit services*	94	84
- non-audit services	154	232
Depreciation of owned assets	1,329	1,152
Depreciation of assets held under finance leases and hire purchase contracts	57	58
Amortisation of intangible fixed assets	133	180
Operating lease rentals - land and buildings	5,536	4,430
- plant, machinery and vehicles	1,329	1,282
Rental income on leasehold property	(5,462)	(4,376)
Foreign exchange profit	(25)	(118)

* Of which £2,000 (2003: £2,000) relates to the company

Exceptional items

Recognised in operating profit

During 2003, the group incurred expenses of £532,000 in setting up the Employment Benefit Trust and making a tender offer of shareholders to buy shares. This was settled in cash in 2003 and included in operating cash outflow.

Recognised below operating profit

The Group sold two corporate stores and realised a loss on disposal of £56,000 (2003: profit £775,000). In addition a profit of £9,000 was realised on the disposal of a joint venture store.

Notes to the financial statements

at 2 January 2005

4. Directors' emoluments

	2004	*2003*
	£000	*£000*
Emoluments	966	914
Pension contributions	233	232
	1,199	1,146

Further information concerning directors' emoluments are disclosed within the report on Director's Remuneration.

5. Staff costs

	2004	*2003*
	£000	*£000*
Wages and salaries	10,403	10,087
Social security costs	942	888
Other pension costs	330	314
	11,675	11,289

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

	2004	*2003*
	No.	*No.*
Administration	112	98
Production and distribution	133	112
Corporate stores	471	550
	716	760

6. Interest payable and similar charges

	2004	*2003*
	£000	*£000*
Bank loans and overdrafts	–	176
Bank loan in relation to the EBT	298	47
Other interest payable	9	–
Finance charges payable under finance leases and hire purchase contracts	7	9
	314	232
Interest on joint venture	56	53
	370	285

Notes to the financial statements

at 2 January 2005

7. Tax on profit on ordinary activities

a) Analysis of tax charge in the year.

The charge based on the profit for the year comprises.

	2004	*2003*
	£000	*£000*
UK Corporation tax:		
Profit for the period	2,162	1,778
Adjustment in respect of the previous period	(345)	139
	1,817	1,917
Joint venture tax	14	15
Total current tax	1,831	1,932
UK deferred tax:		
Origination and reversal of timing differences in respect of:		
Profit in the period	227	26
Total deferred tax	227	26
Tax on profit on ordinary activities	2,058	1,958

b) Factors affecting tax charge for the period.

	2004	*2003*
	%	*%*
Corporation tax at the statutory rate	30.0	30.0
Effects of:		
Expenses not deductible for tax purposes	4.8	4.8
Accounting depreciation not eligible for tax purposes	1.6	2.4
Goodwill amortised and sold	0.3	4.0
Adjustments relating to prior years corporation tax	(3.9)	2.1
Originating timing differences	–	0.6
(Accelerated)/decelerated capital allowances	0.1	(0.7)
Share option exercise deduction	(12.1)	(13.7)
Total current tax rate	20.8	29.5

Notes to the financial statements

at 2 January 2005

7. Tax on profit on ordinary activities (continued)

c) Deferred taxation - Group

Deferred tax provided in the accounts is as follows:

	2004 £000	2003 £000
Accelerated capital allowances	857	847
Other timing differences	–	(217)
	857	630

Deferred tax provided at 28 December 2003	630
Charges to profit and loss account	227
Deferred tax provided at 2 January 2005	857

d) Factors that may affect future tax charges

No provision has been made for deferred tax where potentially taxable gains have been rolled over into replacement assets. Such gains would become taxable only if the assets were sold without it being possible to claim rollover relief. The amount not provided is £191,000 (2003: £156,000) in respect of this. At present, it is not envisaged that any tax will become payable in the foreseeable future.

Due to a change in Legislation, the company is able to receive a tax credit when new shares are issued to satisfy the exercise of share options. The timing of the exercise and hence resultant tax credit is at the discretion of the option holder.

8. Dividends

	2004 £000	2003 £000
Equity dividends on ordinary shares:		
Interim paid 2.20p (2003: 1.32p)	1,157	674
Final proposed 3.05p (2003: 2.18p)	1,531	1,083
	2,688	1,757

Notes to the financial statements

at 2 January 2005

9. Earnings per ordinary share

The calculation of basic earnings per ordinary share is based on earnings of £6,731,000 (2003: £4,559,000) and on 50,883,095 (2003: 50,568,399) ordinary shares.

The diluted earnings per share is based on earnings of £6,731,000 (2003: £4,559,000) and on 53,108,892 (2003: 54,376,497) ordinary shares. All of the difference relates to share options, which takes into account theoretical ordinary shares that would have been issued, based on average market value of all outstanding options likely to be exercised.

10. Intangible fixed assets

Group	*Goodwill*	*Franchise fees*	*Interest in leases*	*Total*
	£000	*£000*	*£000*	*£000*
Cost:				
At 28 December 2003	722	787	623	2,132
Additions	194	74	126	394
Disposals	(104)	(8)	(70)	(182)
At 2 January 2005	812	853	679	2,344
Amortisation:				
At 28 December 2003	144	444	114	702
Provided during the year	41	44	48	133
Disposals	(10)	(1)	-	(11)
At 2 January 2005	175	487	162	824
Net book value:				
At 2 January 2005	637	366	517	1,520
At 28 December 2003	578	343	509	1,430

Notes to the financial statements
at 2 January 2005

10. Intangible fixed assets (continued)

During 2005 the group purchased Triple A Pizza Limited and an unincorporated business. The provisional fair values for the acquisition of the businesses were as follows:

	Provisional fair value £000
Equipment	84
Stock	2
Net Assets	86
Goodwill	194
	280
Discharged by cash	280

11. Tangible fixed assets

Group

	Freehold land and buildings £000	*Leasehold improvements £000*	*Motor vehicles £000*	*Equipment £000*	*Total £000*
Cost:					
At 28 December 2003	7,008	1,305	55	7,351	15,719
Additions	1,263	695	8	2,023	3,989
Disposals	–	(157)	(49)	(245)	(451)
At 2 January 2005	8,271	1,843	14	9,129	19,257
Depreciation:					
At 28 December 2003	398	21	49	2,958	3,426
Provided during the year	125	68	8	1,185	1,386
Disposals	–	(15)	(49)	(86)	(150)
At 2 January 2005	523	74	8	4,057	4,662
Net book value:					
At 2 January 2005	7,748	1,769	6	5,072	14,595
At 28 December 2003	6,610	1,284	6	4,393	12,293

The net book value of equipment includes an amount of £168,000 (2003: £225,000) in respect of assets held under finance leases and hire purchase contracts, the depreciation charge on which was £57,000 (2003: £58,000).

Included within freehold land and buildings is an amount of £1,690,000 (2003: £1,690,000) in respect of land which is not depreciated. Also included is an amount of £154,000 (2003: £154,000) of capitalised interest.

Notes to the financial statements

at 2 January 2005

12. Investments

	2004 £000	2003 £000
Group		
Investments:		
Joint venture	383	339

	£000
At 28 December 2003	339
Share of profit retained by joint venture	44
At 2 January 2005	383

Included within the investment in joint venture is an amount of £217,000 (2003: £232,000) of goodwill arising on acquisition.

Company	*Subsidiary undertaking £000*	*Joint venture £000*	*Total £000*
Fixed asset investment			
Cost:			
At 28 December 2003 and 2 January 2005	2,595	205	2,800

At 2 January 2005 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			
Domino's Pizza Group Limited	England	100% ordinary	Operation and management of franchise business
DP Pizza Limited	Eire	100% ordinary	Food service business
DPGS Limited	England	100% ordinary	Management of pizza delivery stores
DP Realty Limited	England	100% ordinary	Property management
DP Group Developments Limited	England	100% ordinary	Property development
DP Newcastle Limited	England	80% ordinary	Management of pizza delivery stores
DP Capital Limited	England	100% ordinary	Leasing of equipment

Notes to the financial statements

at 2 January 2005

12. Investments (continued)

Name of company	*Country of incorporation*	*Proportion held*	*Nature of business*
Joint venture			
Full House Restaurants Limited	England	41% ordinary	Management of pizza delivery stores
Dominoid Limited	Scotland	50% ordinary	Management of pizza delivery stores
Indirectly held subsidiary			
Livebait Limited	England	100% ordinary	Property management
American Pizza Company Limited	England	100% ordinary	Management of pizza delivery stores
Triple A Pizza Limited	England	100% ordinary	Management of pizza delivery stores

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 equal quarterly instalments of £12,000, which commenced on 30 June 2001. The loan bears interest at a rate of 2% above National Westminster base rate. At 2 January 2005 the balance outstanding on the loan was £60,000 (2003: £185,000).

Sales of £1,777,000 (2003: £1,654,000) were made to Full House Restaurants Limited during the year. The company received interest of £9,000 (2003: £12,000) in respect of the loan.

At 2 January 2005, there was a receivable of £76,000 (2003: £120,000) from Full House Restaurants Limited, which has arisen through normal trading activities.

On 11 November 2002, a 50% interest in Dominoid Limited was acquired. Two stores were sold to Dominoid Limited and the group recognised an unrealised gain of £55,000. The consideration for the sale was satisfied by the issue of a Loan Note by Dominoid Limited of £442,000, which is repayable on demand at least one year after date of the agreement. The loan bears interest at a rate of 2.5% above Royal Bank of Scotland base rate. At 2 January 2005 the balance outstanding on the loan was £442,000 (2003: £442,000).

Sales of £852,000 (2003: £1,037,000) were made to Dominoid Limited during the year. The company received interest of £31,000 (2003: £29,000) in respect of the loan.

At 2 January 2005, there was a receivable of £36,000 (2003: £17,000) from Dominoid Limited, which has arisen through normal trading activities.

Notes to the financial statements

at 2 January 2005

13. Stocks

	2004 £000	Group 2003 £000
Raw materials and goods for resale	2,700	1,843

14. Debtors

	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
Trade debtors	3,109	2,540	–	–
Amounts owed by group undertakings	–	–	12,118	9,394
Amounts owed by joint venture	497	627	–	–
Other debtors	4,557	3,809	–	–
Prepayments and accrued income	2,353	2,165	–	–
Net investment in finance leases	2,940	3,092	–	–
	13,456	12,233	12,118	9,394

Amounts falling due after more than one year included above are:

	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
Trade debtors	238	136	–	–
Amounts owed by joint venture	436	553	–	–
Other debtors	74	125	–	–
Net investment in finance leases	1,973	2,222	–	–
	2,721	3,036	–	–

The aggregate rentals receivable in respect of finance leases was £1,354,000 (2003: £1,004,000), and the interest element of this is included in turnover.

The cost of assets acquired for the purpose of letting under finance leases was £4,948,000 (2003: £4,692,000).

Notes to the financial statements

at 2 January 2005

15. Creditors: amounts falling due within one year

		Group		Company
	2004	2003	2004	2003
	£000	£000	£000	£000
Other loans (note 17)	916	811	–	–
Finance lease creditors (note 18)	24	34	–	–
Trade creditors	4,318	3,461	–	–
Corporation tax	814	1,041	–	–
Other taxes and social security costs	1,217	1,498	–	–
Other creditors	1,909	823	–	–
Accruals and deferred income	4,386	4,628	–	–
Proposed dividend	1,537	1,084	1,537	1,084
	15,121	13,380	1,537	1,084

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

		Group		Company
	2004	2003	2004	2003
	£000	£000	£000	£000
Bank loans (note 17)	6,360	1,098	6,360	1,098
Finance lease creditors (note 18)	18	31	–	–
Other loans (note 17)	1,724	5,990	–	4,062
	8,102	7,119	6,360	5,160

Bank loans

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 and an unlimited guarantee provided by the company. At 2 January 2005 the balance due under these facilities was £6,360,000 all of which is in relation to the EBT (2003: £1,098,000). The loans will bear interest at 1% over base.

Other loans

The remaining loans are repayable in equal instalments over a period of up to five years, these are unsecured.

Notes to the financial statements

at 2 January 2005

17. Loans

	Group		*Company*	
	2004	*2003*	*2004*	*2003*
	£000	*£000*	*£000*	*£000*
Amounts falling due:				
In one year or less or on demand	916	811	–	–
Due between one and two years	775	775	–	–
In more than two years but not more than five years	7,309	6,313	6,360	5,160
	9,000	7,899	6,360	5,160

18. Obligations under leases and hire purchase contracts

Amounts due under finance leases and hire purchase contracts:

Group	*2004*	*2003*
	£000	*£000*
Amount payable:		
Within one year	32	40
In two to five years	20	40
	52	80
Less: finance charges allocated to future periods	(10)	(15)
	42	65

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

	Land and buildings		*Other*	
	2004	*2003*	*2004*	*2003*
	£000	*£000*	*£000*	*£000*
Operating leases that expire:				
Within one year	84	55	155	178
In two to five years	550	354	1,007	884
In over five years	5,205	4,415	–	–
	5,839	4,824	1,162	1,062

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Notes to the financial statements

at 2 January 2005

19. Derivatives and other financial instruments

The group's principal financial instruments are bank loans, other loans, finance leases and cash.

The financial instruments are principally in place to finance the head office facility and associated equipment, provide finance to franchisees and to provide finance for the EBT loan. 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.

Interest rate risk profile of financial assets

The interest rate profile of the financial assets of the group as at 2 January was as follows:

2004	*Total £000*	*Fixed rate financial asset £000*	*Floating rate financial asset £000*	*Financial asset on which no interest is paid £000*	*Average period to maturity*
Trade debtors	238	–	238	–	
Other debtors	73	–	–	73	85 months
Joint venture loan	496	–	496	–	
Finance lease receivable	2,940	2,940	–	–	28 months
Cash	4,824	–	4,824	–	
	8,571	2,940	5,558	73	

The floating rate financial assets are based on the group's bank base rate plus a fixed percentage. The average interest on the fixed rate financial asset is 11%.

2003	*Total £000*	*Fixed rate Financial asset £000*	*Floating rate financial asset £000*	*Financial asset on which no interest is paid £000*	*Average period to maturity*
Trade debtors	136	–	136	–	
Other debtors	125	–	–	125	87 months
Joint venture loan	627	–	627	–	
Finance lease receivable	3,092	3,092	–	–	35 months
Cash	3,691	–	3,691	–	
	7,671	3,092	4,454	125	

The fair value of the financial assets is not considered materially different from book value.

Notes to the financial statements

at 2 January 2005

19. Derivatives and other financial instruments (continued)

Interest rate risk profile of financial liabilities

The interest rate profile of the financial liabilities of the group as at 2 January was as follows:

2004	*Total £000*	*Fixed rate financial liability £000*	*Floating rate financial liability £000*
Bank loan	6,360	–	6,360
Other loan	2,640	2,640	–
Finance leases	42	42	–
	9,042	2,682	6,360

2003	*Total £000*	*Fixed rate financial liability £000*	*Floating rate financial liability £000*
Bank loan	1,098	–	1,098
Other loan	2,739	2,739	–
EBT Loan	4,062	–	4,062
Finance leases	65	65	–
	7,964	2,804	5,160

The average interest on the fixed rate financial liability is 7.1% (2003: 7.2%). This is fixed over a weighted average period of 55 months (2003: 55 months). The bank loan attracts interest at a rate of 1% over base rate.

The maturity profile of the group's financial liabilities is set out in notes 17 and 18.

The fair value of the financial liabilities is not considered materially different from book value.

Un-drawn committed facilities at 2 January 2005 amounted to nil (2003: £3,000,000) in respect of the bank loan, and £4,500,000 in respect of other loans relating to a limited recourse loan facility. The bank loan facility expired in 2004 (2003: expiry date 9 November 2004). Of the other loan facilities, £3,000,000 expires on 5 March 2005 and £1,500,000 expires 30 November 2005.

Notes to the financial statements

at 2 January 2005

20. Share capital

	Issued allotted and fully paid Number	£	Authorised Number	£
At 28 December 2003	53,199,008	2,659,967	80,000,000	4,000,000
Additions in the year	2,409,542	120,461	–	–
Share buy-ins	(800,000)	(40,000)	–	–
At 2 January 2005	54,808,550	2,740,428	80,000,000	4,000,000

During the year 2,409,542 shares of 5 pence each with a nominal value of £120,461 were issued at between 33.5 pence and 76.0 pence for total cash consideration received of £1,071,000 to satisfy options that were exercised.

As at 2 January 2005, the following share options were outstanding:

Date of grant	*Option price* £	*Outstanding at 28 December 2003*	*Granted during the year*	*Exercised or lapsed during the year*	*Outstanding at 2 January 2005*
Domino's Pizza (unapproved)Scheme					
24 November 1999	42.1p	1,943,786	–	(1,388,470)	555,316
24 November 1999	50.0p	746,240	–	(413,635)	332,605
4 August 2000	53.0p	344,867	–	(161,266)	183,601
1 January 2001	33.5p	278,794	–	(278,794)	–
25 October 2001	55.0p	365,758	–	(122,876)	242,882
11 March 2002	74.5p	100,000	–	–	100,000
2 April 2002	76.0p	75,000	–	(75,000)	–
		3,854,445	–	(2,440,041)	1,414,404
EMI Scheme					
23 March 2004	206.5p	–	481,000	(7,250)	473,750
		3,854,445	481,000	(2,447,291)	1,888,154

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Notes to the financial statements

at 2 January 2005

20. Share capital (continued)

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 Domino's Pizza Group Limited in return for equivalent options over ordinary shares in the company under the Domino's Pizza Share Option (Unapproved) Scheme.

On 23 March 2004, the company established the Domino's Pizza UK & IRL plc Enterprise Management Incentive Scheme (EMI Scheme). Under the scheme 481,000 options were granted at 206.5p, the market

price on the date of the grant. The options are only exercisable if the growth in the Company's EPS during that Performance Year exceeds the growth in RPI during that Performance Year by at least 5%. The EMI options lapse after 10 years or in certain other circumstances connected with leaving the company.

In respect of all outstanding options under these schemes, options may be exercised as follows:

One year after date of grant - maximum 1/3 of options held
Two years after date of grant - maximum 2/3 of options held

Three years after date of grant - in full

The options expire 10 years after the date granted.

In 2003 the Domino's Pizza UK and IRL plc Employee Benefit Trust was established for the benefit of employees. The trust was established to hold and deal in the Company's shares under two new share incentive schemes. These are the Domino's Pizza UK and IRL plc 2003 Enterprise Management Incentive Scheme, under which the company may grant options over Ordinary Shares to eligible full time employees. During the year options over 481,000 shares were granted under this scheme. Employee Benefit Trust also operates a long-term incentive plan under which senior executives may be incentivised by the grant to them of reversionary interests over a portion of the assets of the trust. During the year further reversionary interests were granted over 600,000 shares. At 2 January 2005, the Trust held 3,599,921 shares, which had a historic cost of £6,360,000. These shares had a market value at 2 January 2005 of £8,279,818.

At 2 January 2005 reversionary interests over 3,425,000 shares in Domino's Pizza UK and IRL plc have been granted. Further details are contained in the report on Directors Remuneration on page 9.

Notes to the financial statements

at 2 January 2005

21. Reconciliation of shareholders' funds and movement on reserves

	Share capital £000	*Share premium £000*	*Capital redemption £000*	*Own shares £000*	*Profit & loss £000*	*Total shareholders' funds £000*
Group						
At 29 December 2002	2,546	2,395	–	–	6,760	11,701
Proceeds from share issue	114	895	–	–	–	1,009
Own shares held by EBT	–	–	–	(5160)	–	(5,160)
Profit for the year	–	–	–	–	4,559	4,559
LTIP Share Option Charge	–	–	–	–	328	328
Dividends	–	–	–	–	(1,757)	(1,757)
At 28 December 2003	2,660	3,290	–	(5,160)	9,890	10,680
Proceeds from share issue	120	951	–	–	–	1,071
Share buy back	(40)	–	40	–	(1,610)	(1,610)
Own shares held by EBT	–	–	–	(1,200)	–	(1,200)
Profit for the year	–	–	–	–	6,731	6,731
LTIP Share Option Charge	–	–	–	–	332	332
Dividends	–	–	–	–	(2,688)	(2,688)
At 2 January 2005	2,740	4,241	40	(6,360)	12,655	13,316

	Share capital £000	*Share premium £000*	*Capital redemption £000*	*Own shares £000*	*Profit & loss £000*	*Total shareholders' funds £000*
Company						
At 29 December 2002	2,546	2,395	–	–	–	4,941
Proceeds from share issue	114	895	–	–	–	1,009
Profit for the year	–	–	–	–	6,589	6,589
LTIP Share Option Charge	–	–	–	–	328	328
Dividends	–	–	–		(1,757)	(1,757)
Own shares held by EBT	–	–	–	(5160)	–	(5,160)
At 28 December 2003	2,660	3,290	–	(5,160)	5,160	5,950
Proceeds from share issue	120	951	–	–	–	1,071
Share buy back	(40)	–	40	–	(1,610)	(1,610)
Profit for the year	–	–	–	–	5,166	5,166
LTIP Share Option Charge	–	–	–	–	332	332
Dividends	–	–	–	–	(2,688)	(2,688)
Own shares held by EBT	–	–	–	(1,200)	–	(1,200)
At 2 January 2005	2,740	4,241	40	(6,360)	6,360	7,021

During the period June 2004 to December 2004 the company bought back tranches of ordinary shares of 5p. each totalling 800,000 shares for £2 per share.

Notes to the financial statements

at 2 January 2005

22. Profit and loss account

Profit after taxation amounting to £3,556,000 (2003: £6,589,000) has 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

	2004	*2003*
	£000	*£000*
Operating profit	9,033	5,866
Depreciation charge	1,386	1,210
Amortisation charge	133	180
LTIP charge	333	328
(Increase) in stocks	(857)	(433)
(Increase) in debtors	(1,505)	(707)
Increase in creditors	1,420	1,566
	9,943	8,010

(b) Analysis of net debt

	At 28 December 2003	*Cash flow*	*Other non-cash movements*	*At 2 January 2005*
	£000	*£000*	*£000*	*£000*
Cash at bank and in hand	3,721	1,103	–	4,824
EBT Loans	(5,160)	(1,200)	–	(6,360)
Other loans (within one year)	(811)	1,097	(1,202)	(916)
Other loans (due after one year)	(1,928)	(998)	1,202	(1,724)
Finance leases	(65)	23	–	(42)
Net debt	(4,243)	25	–	(4,218)

Additionally, a loan in respect of the purchase of freehold land and buildings of £1,101,000 was taken out and fully repaid during the year.

Notes to the financial statements

at 2 January 2005

23. Notes to the statement of cash flows

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

	2004	*2003*
	£000	*£000*
Increase/Decrease in cash	1,103	(164)
Cash inflow from increase in loans	(3,278)	(6,757)
Repayment of long-term loans	2,177	8,984
Repayments of capital element of finance leases and hire purchase contracts	23	49
Inception of finance leases	–	(47)
Movement in net debt	25	2,065
Net debt at 29 December 2003	(4,243)	(6,308)
Net debt at 2 January 2005	(4,218)	(4,243)

(d) Exceptional items

During 2003 the company established an employee benefit trust. A further loan of £1,200,000 was taken out and this loan was used to fund the purchase of 600,000 shares in the company. At 2 January 2005 the Employee Benefit Trust held a total of 3,599,921 shares in the Company.

24. Capital commitments

Amounts contracted for but not provided in the accounts amounted to £ nil for the group and £ nil for the company (2003: £nil and £nil respectively).

25. Contingent liabilities

Additional consideration up to a maximum of £500,000 in cash, may become payable for the acquisition of American Pizza Company Limited, dependent upon certain conditions being met. Due to the remote probability of these conditions being met, the directors consider a provision of these amounts to be inappropriate.

Notes to the financial statements

at 2 January 2005

26. Related parties

During the period, the group traded with International Franchise Systems Inc., in the normal course of business and at normal market prices. Colin Halpern is a director of International Franchise Systems Inc

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

	2004	*2003*
	£000	*£000*
Current account:		
Costs incurred by Domino's Pizza Group Limited on behalf of International Franchise Systems Inc.	424	237
Costs incurred by International Franchise Systems Inc., on behalf of Domino's Pizza Group Limited	(8)	(1)
Transfer of funds to/from International Franchise Systems Inc.	16	1
Management charges from International Franchise Systems Inc.	(432)	(421)
Closing debt due to International Franchise Systems Inc.	–	(184)

During the period, the group purchased services to the value of £48,000 (2003: £55,000) in the normal course of business and at normal market prices from Chinese Pompano Inc., a company in which Gerald Halpern is a director. At the balance sheet date the amount due to Chinese Pompano Inc., was £nil (2003: £nil).

Transactions between the group and its joint ventures are set out in note 12.

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