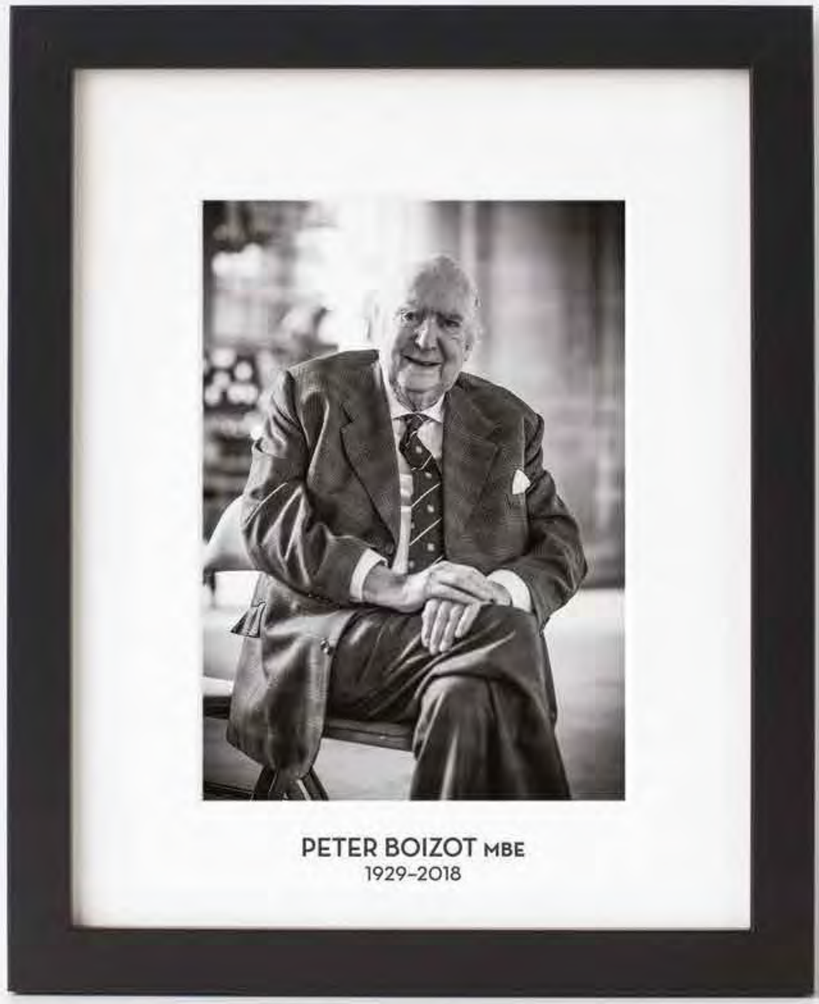
ANNUAL REPORT AND FINANCIAL STATEMENTS 2018

Our story



Our founder Peter Boizot threw open the doors of the first PizzaExpress on Wardour Street, Soho, in 1965. With it, he revolutionised the London restaurant scene. After university, Peter lived and worked in France, Germany and Switzerland before settling in Rome. On his return to London he was shocked to discover that he couldn't find pizza anywhere. Recognising its potential, he decided to make, sell and enjoy real Italian pizza.

Peter's mantra was authenticity. Shipping an authentic pizza oven from Naples, and sourcing real mozzarella from the only producer in London, he secured his first premises which opened in March 1965, selling squares of pizza in greaseproof paper through the front window at 10p a slice.

Peter teamed up with Italian designer Enzo Apicella, and together they introduced a wine menu, dining tables, our signature open kitchen and simple, attractive furnishings. Celebrities and journalists flocked to the restaurant and a brand was born.

Individual designs became a feature as the brand expanded, with Peter determined to avoid the business becoming a homogeneous, faceless chain. Instead, he saw PizzaExpress as a necklace and each restaurant as an individual gem. Enzo designed over 85 such gems.

Today, we operate over 620 restaurants in the UK & Ireland and internationally. Peter's passion for pizza is central to PizzaExpress, and the care and attention he paid to food and ambience continue to inspire us.

Contents

PizzaExpress at a glance—we...

...operate in
12
territories

...employ
14,000
team members

...serve customers in
627
restaurants

...generate over
£540m
of revenues*

...have raised
£800,000
for good causes*

* 52 weeks to 30 December 2018

Group chairman and CEO's statement

2018 was my first full year as the Group Chief Executive Officer of PizzaExpress and it was, no doubt, an exciting year: from achieving Superbrand status in the UK to successfully launching a new International franchise in the Philippines, we have had many achievements.

There have of course also been a number of challenges, from those that were unforeseen—such as the extreme weather experienced across the year in the UK & Ireland—to those that we were expecting, for example the labour and property cost pressures in the UK or the intensifying competition in China that we knew would impact us.

Our business performance in 2018 reflects these market dynamics with Group like-for-like (LFL)* sales down by (2.0)% and EBITDA* 15.3% lower than 2017.

Despite this, I would describe 2018 as a transformational year during which we invested in significant customer-led research to help us develop potentially game-changing insights which will enable our growth in the mid to long term.

A very exciting moment in 2018 was being awarded Superbrand status for the first time in March. Now in its 19th year, this annual list identifies the UK's best-loved brands, and in 2018 over 1,500 brands were judged for quality, reliability and distinction. It is notoriously challenging for brands to establish themselves in the restaurant industry, and therefore winning this award is testament to the past, present and future of PizzaExpress.

However, we also experienced great sadness in the year, as our founder Peter Boizot passed away in December. Peter opened the first PizzaExpress restaurant on Wardour Street, Soho, on 27 March 1965 and with it, he revolutionised the UK restaurant scene. Peter is widely credited with bringing casual dining to the UK high street, and his passion for food, drink, music and art sits at the core of PizzaExpress to this day. We will continue to carry forward Peter's legacy through the people and culture of our business.

UK & Ireland
The UK & Ireland remains the largest business we operate. The record-breaking weather across the year—from snow in the first half to sustained heat in the second half—inevitably had an impact on both the market and our performance and we experienced a slight LFL sales decline of (0.9)% in the year as a result.

Delivery remains a key part of our strategy. To continue building a strong platform for growth in this channel, we entered into an exclusive partnership with Deliveroo in November. Although still a relatively small part of our business, we consistently broke our weekly record for delivery sales in the final quarter of the year, demonstrating the importance and relevance of this channel to our customers.

*Non-statutory measure. See page 39 for full definition

The landscape in the UK & Ireland remains highly competitive and we recognise the critical need to innovate. For example, we were very proud to launch a fully vegan menu as part of our autumn offering. Our continued focus on the wider consumer trends of health and wellbeing saw us introduce wholemeal dough during the year, reduce the salt and sugar content in a number of our products and move all our loose pasta dishes to be gluten-free. Another example of our commitment in this area was the opening of our Global Innovation Centre in London in September. This unique facility will enable us to drive innovation in our food and beverage offering.

In technology, we launched our new customer app in March, which provides vastly enhanced functionality, including the ability to pay the bill using the app. In the first week of release, it was second only to WhatsApp in the free app download charts, demonstrating the enduring strength of the brand.

International
A highlight of 2018 in our International markets was being awarded a place in the Best 25 Workplaces in the UAE by 'Great Place to Work'. We were the only restaurant group to feature in the list and it is an achievement of which we are immensely proud—demonstrating our People First culture.

We also continued to expand our footprint worldwide, opening a total of 31 sites internationally (across our equity and franchise markets). This included our first openings in two new cities in Mainland China, as well as a new fast-casual format at Hongqiao Airport, Shanghai.

There were undoubtedly some challenges in our International markets in 2018 and we experienced a LFL sales decline of (7.5)%. Mainland China was particularly impacted as more competitors entered the market and the pace of innovation of local brands exceeded our own. In this context we have taken a measured and prudent approach to expansion in the short term. We have redeveloped the menu to bring our focus back to Pizza Leadership, ensuring pizza is at the heart of our menu, as well as reshaping our operational and marketing strategy. Importantly, our long-term plans in Mainland China remain unchanged, as does our confidence in the future growth in the market.

Charitable activity
Working with charities remains a fundamental part of our business and in the UK & Ireland we held our annual charity week in June. Our teams in restaurants and head office ('Restaurant Support') rallied to raise funds for our charity partners Macmillan Cancer Support and Enable Ireland. Teams arranged their own events including cake sales, tip tables and coffee mornings, as well as sponsored cycle rides, runs and mountain climbs.

Our International markets also made a significant contribution to charitable causes. For example, our team in Hong Kong continued to work closely with a number of charities including Feeding Hong Kong, the Chi Heng Foundation, Redress and The Child Welfare Scheme, as well as installing a donation container for clothes and non-perishable food items at one of our restaurants.

Across our markets I am delighted to say we raised £800,000 for charitable causes.

Results
Our Group revenue for 2018 was £543.0m (period ended 31 December 2017: £534.2m) representing growth of 1.6% from 2017, despite the slight decline in LFL sales of (2.0)%. Due to the sector-wide cost headwinds in the UK and the increasing mix of sales from our less mature International estate, our EBITDA for 2018 was £80.2m, 15.3% lower than the previous year. More details on our financial performance can be found on pages 39 to 41.

Outlook
Whilst we recognise that the food and beverage environment across all our markets is highly competitive, we remain positive about our ability to successfully compete. We recognise that our brand needs to remain relevant and this was the driving force behind the brand proposition work undertaken in 2018, which will shape the future of PizzaExpress. We are excited to be trialling aspects of the work in 2019.

We will continue to build on the innovation that we focused on in 2018, both through new formats in our core concepts where appropriate and by developing new concepts where the opportunity exists. We will also continue to build key strategic partnerships, such as those with Deliveroo and Welcome Break.

Our commitment to international growth remains undiminished and we will continue to focus on growing our estate in Mainland China in a measured and balanced way.

Our business would of course not exist without our people. I am truly grateful for the exceptional team members that we have at PizzaExpress. They are the heart of our business and throughout our future challenges and growth we will always ensure we retain our People First culture.

Finally, I would like to take this opportunity to thank our stakeholders and customers for their support during 2018. I firmly believe that our commitment to customer-led innovation places us well for continued success into 2019 and beyond.

Jinlong Wang
Group Chairman and Chief Executive Officer
29 April 2019

Strategic report

The Directors present their Strategic Report for 2018.

Business activities
The principal activity of the Group is the operation of pizza restaurants in the UK and the Republic of Ireland ('UK & Ireland'), and internationally ('International') comprising franchises and wholly-owned businesses. It also has licensing arrangements to enable the sale of PizzaExpress pizzas, salad dressings and other products through retail outlets.

Business model
We believe that key to our success is the simplicity of our core restaurant model which offers a menu oriented primarily around pizza. This focus allows us to deliver a freshly-prepared offering to a consistently high standard, and allows us to derive economies of scale in purchasing, as well as requiring a relatively low initial capital investment and ongoing operating costs. Our model is flexible and adaptable to different location types, sizes of restaurant and geographies. In the UK & Ireland we install and operate a single cooking platform—a pizza oven—which makes the replication of concept highly efficient. Our International businesses largely operate the same model but have a wider range of kitchen equipment as they offer a broader range of dishes including market-specific items.

Market review
We primarily operate in the restaurant segment of the **UK & Ireland** Eating Out market, which was valued at approximately £89.4bn in 2018. The restaurant segment consists predominantly of full-service branded restaurants (including chain casual dining restaurants) and independent full-service restaurants. The branded restaurant sub-segment was valued at £5.9bn in 2018 and is forecast to grow at a compound annual growth rate of 3.3% between 2018 and 2021 (source: MCA UK Restaurant Market Report, September 2018).

In the very near term, growth in this sub-segment is likely to moderate from levels experienced in recent years as the contribution from new outlets and immature sites continues to fall. Furthermore, trading conditions are expected to remain challenging due to well publicised cost inflation, an increasingly tight labour market, consumer spending caution and intense competition (source: MCA UK Eating Out Report, July 2018; MCA UK Restaurant Market Report, September 2018).

In addition, at the time of writing the outcome of the Brexit negotiations is unknown, but whatever the outcome, we are confident that we have adequate contingency plans to operate successfully through a period of unusual trading conditions.

Also, despite the near-term uncertainties, and as the pace of expansion of new outlets slows, we expect the increased focus on the customer experience to continue gathering pace. Great-tasting food, great service and good value in appealing restaurant settings are attributes that continue to be key strengths of our business. In what are undoubtedly difficult market conditions, we remain confident in our ability to leverage these attributes, be responsive to challenges and to continue to grow successfully.

The **International** markets in which we operate continue to offer good opportunities for long-term growth, although in the short term each territory presents its own set of operating dynamics. For example, consumer spend in **Mainland China** continued to grow in 2018 with the food and beverage market reaching RMB 4.4 trillion and is expected to rise to RMB 6.8 trillion in 2023 (Source: China's Catering Industry Development Prospects and Investment Forecast Analysis Report for 2018–2023, Forward Industry Research Institute). Restaurant chains and franchises are forecast to outperform the wider food and beverage (F&B) market growth, as is Western food, with delivery also being a significant growth area. This growth also means that there is a constant stream of new entrants to the market, which increases competition. In order to stay competitive, brands need to demonstrate perceived value for money as well as offering a personalised, digitalised experience.

In **Hong Kong** the economy grew in 2018 and the F&B market was positively impacted with total receipt values increasing year on year. Integration with China is growing closer and therefore the Mainland China economy is having an increasingly important impact on Hong Kong. The tourist industry also continues to grow in Hong Kong and non-Chinese restaurants are in higher growth than traditional Chinese restaurants. Continued capital investment in the infrastructure of the area will also offer further opportunities, such as the expected development of the Guangdong–Hong Kong–Macao Greater Bay Area.

The economy in the **UAE** has been impacted by lower oil prices as well as the challenges presented by the cessation of trade with Qatar amongst the Gulf Cooperation Council countries. However, despite these challenges, GDP was up by 2.3% in 2018. The rapid increase of infrastructure being put in place for Expo 2020 is creating an environment where there is an oversupply of goods and services across many areas of retail as well as the F&B environment, which has led to a more challenging landscape for many operators. We are not immune to these challenges but believe we have a resilient business model that is well placed to succeed.

In **Singapore**, the restaurant sector was in growth for the majority of 2018 and delivery saw a significant increase in 2018 with key operators such as Food Panda, Deliveroo and Grab Food competing for market share. Discount-based apps such as Eatigo, Eatsy and Entertainer have promoted value-based decision-making by consumers.

Trading results

The results of the Group for the period are set out on page 60 and show an operating profit for continuing operations in the 52-week period ended 30 December 2018 of £38.2m (52 weeks ended 31 December 2017: £60.6m) and a loss before taxation for the period of £55.0m (52 weeks ended 31 December 2017: loss of £28.7m). Further discussion on the results for the period is included on pages 39 to 41.

Strategy

Our strategy remains grounded in building on our incredible brand heritage of 54 years. This includes getting to our full potential in existing markets and across restaurant, retail and delivery channels. We also plan to leverage our brand equity to expand into new customer segments as well as new revenue growth channels and new concepts.

Delivery against our goals is grounded in our **People First** approach, **Customer-Centric** strategy and a commitment to **Execute with Excellence**.

People First Our People First strategy means delivering an industry-leading employee proposition by implementing training and development programmes alongside meaningful incentive and reward structures, designed to recruit, motivate and retain the best talent. As an illustration of this we hosted our first Global Leadership Conference in Manchester, UK with representation from all equity and franchise markets.

Customer-Centric Customer insight informs our brand proposition, marketing promotions and communication strategy and menu choices. This creates unique and memorable experiences that strengthen brand affinity, and drive loyalty and frequency. Increasingly we will leverage technology to deliver a more seamless experience at every customer touchpoint.

Execute with Excellence We will continue to optimise our operating model, whilst maintaining best-in-class standards. This includes effective cost management, leveraging technology, innovating the operating model for efficiency and embedding rigorous adherence to standard operating procedures across the entire portfolio.

The core pillars of our strategy are **Pizza Leadership**, in our existing channels and markets, and **New Revenue Growth**. Growth in the **UK & Ireland** is focused on delivering a superior customer experience across every one of our sites. To that end, we will look to enhance our existing PizzaExpress brand proposition in this market with customer-led product, menu and service innovations.

We will also drive incremental growth by optimising our retail and delivery channels and introducing new formats and franchise opportunities, such as Welcome Break. Based on sector trends, we continue to assess new opportunities to expand our reach to additional customer segments and day-parts in the fast-casual 'to-go' category.

Global Leadership Conference

Growth in our **International** segment is focused on expansion in Mainland China, with the aim of capitalising on strong growth in the dining-out market and increased market share of Western casual dining restaurants. Staying competitive in this market will require a focus on value for money, disruptive technology and an efficient supply chain ecosystem.

In addition, we continue to pursue franchise opportunities in local markets, where we believe working with a local partner will enable the business to grow successfully, without taking management resources away from our core equity markets. During 2018 we successfully launched our brand in the Philippines with the help of a new franchise partner, the Tasteless Food Group.

Finally, underpinning our strategy is the nurturing of a **High-Performance Culture** by embedding a leadership framework and balanced scorecard into ways of working, as well as our increasing commitment to corporate social responsibility. At the heart of this are the values that govern how we operate:

- ***Family*** a welcoming, caring, happy place to work
- ***Winning*** with energy, thought and determination we will succeed
- ***Pride*** if we are not proud, we are not doing it right
- ***Loyalty*** delighting customers will create lifelong affection
- ***Simplicity*** by keeping things simple, we can be brilliant

The following pages provide insight into our strategy along with examples of activities relating to each strategic pillar in 2018.

People First

We are—and will always remain—a people-focused business. With over 14,000 team members around the world, our people are absolutely at the heart of our business.

UK & IRELAND

In line with our People First ethos we have instilled our People Deal into everything we do, including:

- Creating a great place to work
- Leading a high-performance culture
- Developing a talent pipeline to support our growth

In 2018 we implemented several initiatives to enhance the development opportunities for our teams. We developed our leadership framework to signpost what great leadership is about at PizzaExpress, and all of our Operational Managers and Restaurant Support Directors and Managers went through our newly developed 'My Leadership' programme to focus upon and drive leadership capability.

We also launched our 'Leaders of the Future' programme, resulting in large numbers of aspirational restaurant team members attending a first-line leadership programme, accelerating many of them into management positions.

To aid recruitment we built, tested and deployed our nationwide Applicant Tracking and Onboarding System, which has digitised the start of our people journey, as well as making recruitment easier and more accessible for applicants and managers.

Significant development and career opportunities exist at all levels within the business. 70% of our newly appointed Restaurant Managers were promoted from within our business during 2018 and we continue to invest heavily in our people.

In an industry which has high employee turnover, we have seen our team turnover reduce at all levels throughout 2018, and we will continue to work on this. Team engagement remains critically important to us and we continue to survey our people regularly to build upon the strong engagement levels we already enjoy at PizzaExpress.

Qualifications and apprenticeships

As part of our talent pipeline, we increased participation in our Qualifications programme. This gives our team members the chance to study a National Vocational Qualification while working for PizzaExpress. In 2018, over 400 team members embarked on a qualification in Team Leading, Kitchen Services, Food and Beverage Services or Hospitality Supervision and Leadership.

Employee engagement
In 2018 we ran two employee engagement surveys called 'Let's Talk...Feedback'. The aim of the surveys was to better understand what is important to our employees and how we can continue to make PizzaExpress a great place to work.

The surveys focused on questions around culture, engagement, management and development and working environment. Our response rate increased by almost 20% from the year before and we continue to use the data from the survey to create action plans at a national, regional and local level.

Wellbeing
Throughout October we focused on wellbeing, up from a week of activity last year. We concentrated on four key areas: mental health, physical wellbeing, financial wellbeing and work/life balance.

Activities to raise awareness included education on the importance of good mental health, how to spot symptoms in others and where our teams could get help. We reinforced our in-house counselling service and encouraged our teams to hold 'coffee chats' with each other to discuss issues.

Webinars for financial health were hosted, tips for better physical wellbeing were provided and finally we asked our teams what they wanted from a flexible working policy, which we will continue to develop with the aim of launching later in 2019.

Gender pay statement
We have seen a positive movement in our gender pay gap in 2018, reducing the median gap to 3.3%, an improvement of 1.6% compared with 2017. While our gender pay gap is considerably lower than the UK average of 19.3% (median, ONS, January 2018) we are continuing our work to address this gap to ensure we have a diverse workforce and the ability to attract applicants of different ages, backgrounds and nationalities.

The progress this year has come, in part, by an increasing number of women in higher-level roles. We have increased the number of women in the upper pay quartile by 2% over the last year. Our overall UK population is broadly balanced between men and women.

We continue to develop talent at all levels in our businesses. Diversity and inclusion remain at the heart of how we work and we remain committed to narrowing the gap in a sustainable way.

Our Group gender diversity is disclosed on page 49.

INTERNATIONAL

Supporting our teams
In **Mainland China** we introduced a Pizza Academy Training Centre to support the improvement of customer experience, upskill our team members and increase staff retention. We also launched the 'Pizza Star' programme in recognition of exceptional team members and developed a clearer incentive scheme for our teams. We combined these changes with the development of career planning for our restaurant staff.

We undertook an employee wide survey in **Hong Kong** for the first time in 2018, this was completed by a third-party provider and our scores compared well with other companies that undertook the same survey. Areas of particular strength were our cultural integrity and our responsible leadership, specifically around trust in our organisation, providing a safe workplace and the ability of leadership to listen to our people and make sound decisions. In particular, we are one of the few F&B establishments in Hong Kong that offer staff a five-day working week, the standard being six days.

We also launched the People Deal in Hong Kong in July and over the second half of the year started to integrate this within our policies and processes. To support this, we undertook an employee recognition programme, offering a voucher to allow each staff member to enjoy a PizzaExpress meal with their family or friends. The People Deal will be launched in **Singapore** in 2019 following the successful implementation in Hong Kong.

The people team in the **UAE** focused on employee engagement, for example through internal competitions such as a cooking challenge and a talent show, which centred on our teams' non-work-related talents. The people focus in this market means that 25% of employees have been working for PizzaExpress for more than five years. A significant achievement was being recognised as a one of the Best 25 Workplaces in the UAE by 'Great Place to Work', the only restaurant group to feature on the list.

Customer-Centric

UK & IRELAND

F&B innovation

The UK F&B team is responsible for the development of the overall food and beverage strategy including seasonal recipe innovation and category management as well as F&B policies such as nutritional strategy, product governance and new concepts.

As part of our commitment in this area, in September we opened our new Global Innovation centre in Central London. This facility is a dedicated F&B innovation space, supporting ideas and brand creation as well as product development and design. As a multi-use area it also supports training, photo shoots and meetings which has already transformed the focus and productivity of our innovation work.

Piattini range

In 2018 we tested a new menu design with focus on sharing plates or 'Piattini', designed to sit alongside pizzas. These Italian-inspired small plates—intended to be consumed as a snack, starter or as a side, either shared or individual—were developed using a phased test-and-learn approach. Dishes were designed to maximise customer choice, bread recipes were designed to perform an add-on role and the range ensured a balance of meat, fish, vegetarian and vegan options. Consumer and business metrics were monitored throughout the trial with customer measures for taste of food, team member knowledge and overall satisfaction seeing trial sites outperform the control restaurants.

The trial ran from February to September and successful recipes were launched in our autumn and Christmas menus. Following the introduction of these dishes we saw an increase in the number of customers enjoying starters as well as their pizza.

New product development and category management

Seasonal food menus An increased focus on consumer needs and trends saw strong performance of our seasonal menus in 2018. Our customer satisfaction survey, 'How Did We Dough', saw scores for taste of food increase, especially in the final quarter.

The summer menu resulted in increased average spend per head, as customers chose Romana pizzas (our larger, thinner pizza), desserts and cocktails. The Arrabbiata Prawns were launched following a successful Piattini performance as well as two successful Romana pizza specials, Barbacoa and Quattro Carne. The new desserts of the Affogato and vegan Semifreddo were also popular.

The autumn seasonal menu saw the launch of Chicken Wings—another strong Piattini performer—whilst our focus on customer choice saw the launch of a dedicated vegan menu. The Puttanesca Romana offered a vegan choice alongside the Ragu Romana and Carbonara Romana meat options. The new carrot cake was the first vegan dolcetti and became a bestseller in this range of mini desserts served with coffee or tea.


Pigs in Blankets

Our Christmas menu also proved popular with guests. The 'Pigs in Blankets' starter continued the strong performance trend of protein starters and was a hit with customers both in restaurants and on social media. The new Porchetta Romana pizza was also popular and vegan choices continued within the pizza category including the new Mushroom and Pinenut pizza. New product development in the desserts category also helped drive an overall increase in desserts participation and spend with our Gingerbread Cheesecake performing ahead of expectations.

Health and wellbeing To support responsible choices, the Vegan Giardiniera was launched on Leggera in June. Furthermore, all loose pasta was switched to gluten-free including a new recipe vegan gluten-free Penne Pepperonata in September.

Wholemeal dough was also introduced in our autumn menu, with all Leggera pizzas now coming on a wholemeal base as standard.

Beverages In 2018, our beverage range had improved focus on cocktails and non-alcoholic refreshment as customer demand for these types of drinks increases. More customers enjoyed cocktails, driven by the popularity of the Pink Gin & Tonic. Successful new product development meant iced coffee and premium lemonades were enjoyed by a wider range of customers.

Allergies and veganism

With the recent media coverage around the consequences of poor allergen controls, 2018 not only brought allergens into the limelight but also highlighted the need for brands to be careful about the promises they make.

This is not only important for consumer confidence but as we have seen consumers and the media are having an increasing impact over the direction of legislation—the recent consultation about allergen messaging on all foods being a clear example.

The increased media coverage in this area is demonstrated by a BBC TV *Watchdog* programme in November which focused on allergen control. PizzaExpress's clean sweep of perfect undercover visits was certainly a highlight of the year and a tremendous accolade that demonstrates the commitment of our teams.

A focus on allergies was a key part of the launch of our first vegan menu in the autumn. Although veganism is often a lifestyle choice, we know that many people will follow a vegan diet due to allergies or religious reasons so we introduced the same controls as we would for allergy-free meals. Our training focus was not just around processes but also getting our teams to understand the background behind customers' choices and the ethical and legal need to follow processes strictly.

We are also extremely pleased with the impact our focus in this area has had on our overall environmental health scores, with just over 94% of our restaurants rated as 5 or top-rating, an increase of 3.4% on 2017. Given the size of our estate this is a great achievement and we continue to strive for further increases in these scores in 2019.

Systems
During the year we launched a simplified system that combined the previous quality and safety systems. The new system allows for reporting of accidents and incidents, and the completion and closing-off of audits and action points. This create a one-stop shop for teams, and the reporting function makes it easier for Operations Managers to understand the complete picture of safety. The system also allowed us to host fire risk assessments online bringing us a step closer to a fully digital quality and safety function.

Charitable work
March 2018 marked two years since we began our charity partnership in the UK with Macmillan Cancer Support and just eight months later, in November, we reached the milestone of having raised £1.5 million.

Our annual Charity Week, held in June, helped us towards this milestone with a focused week of fundraising by our restaurant and restaurant support teams. In the UK, teams decorated their restaurants in Macmillan green and hosted a variety of fundraising activities. Our team members demonstrated the amazing passion and engagement they have for Macmillan by raising over £90,000 in Charity Week.

Throughout the year, several employees took on a range of fundraising events for Macmillan including the National Three Peaks Challenge in 24 hours, Macmillan Mighty Hike marathon walks, a fundraising trip to Cambodia, running events, a regional football tournament and even trekking to Everest Base Camp.

In the Republic of Ireland, our Milano teams continued to raise funds for our charity partner Enable Ireland, raising more than €5,000 in Charity Week and through a managers 'back to the floor' event held in Dublin, with all tips earned by the managers being donated to Enable Ireland.

Our fifth annual Snowball Dough Ball Day was held in November where customers could buy a portion of doughballs for a £1 donation. Together with our customers and teams we raised over £11,000 for Macmillan and Enable Ireland including, for the first time, making Snowball Dough Balls available in Tesco supermarkets nationwide, with a donation from every pack sold.

Blank Bills
Our restaurant teams are encouraged to create and celebrate special moments by surprising selected customers with a 'blank bill'—a free meal, courtesy of PizzaExpress. In 2018 our teams gave out over 3,200 blank bills to customers. Blank bill stories are shared regularly with teams through our company-wide internal communications channels.

One restaurant team decided to give a blank bill as an anniversary gift to a regular customer who was unable to celebrate with her husband in person as he was receiving hospice care. Another team spread some joy by handing a blank bill to a family that was sharing a Christmas meal the night before their young son was to be admitted to hospital.

Marketing
Mother's Day As our ability to leverage digital technology for communication continues to develop, we commissioned research which showed that young adults were most likely to use technology to express their feelings to their mum, with 38% of those aged between 18 and 34 using text messages and a further 29% using social media. However, four in 10 people said they did not feel they told their mum as much as they should that they loved her, and six in 10 think they should share their feelings with their mum more often.

Following our successful Christmas 2017 and Valentine's Day videos, for Mother's Day we invited children to read their messages to their mums in person. Our Mother's Day video featured a number of emotional messages generating over 1.1m views across a range of digital channels, a 7% increase in traffic to our website and a 17% increase in bookings for Mother's Day.

Piccolo Summer saw the second instalment of our Puffin partnership with Tom Fletcher's *The Creakers* with a co-branded Piccolo pack including family games and a competition to design your own Creaker, with the winning design printed on the book cover and signed by the author. Tom Fletcher, unprompted, shared his experience at PizzaExpress with his 1.6m followers receiving 6,400 likes on Instagram within 24 hours.


Gather Round Great Food

We also created a Piccolo AR-based game that allowed kids to see their doughball character creations brought to life on a voyage of discovery.

Christmas—Gather Round Great Food The lyrics of Kool and The Gang's well known song *Celebrate* provided the soundtrack to our Christmas campaign and for the second year encouraged consumers to 'Gather Round Great Food'. We created the ultimate Christmas video, entitled *Virtual Connections* in honour of our 2018 campaign. The emotional video brought together long-term friends from all over the world including Australia, US and Nicaragua to enjoy a pizza 'together'. Our video went live in December and caused a storm across social media platforms, with almost 1 million views on Facebook as well as being shared close to 1,000 times within the first few days.

INTERNATIONAL

Menu development


Birkin Pizza

We redeveloped our menu in **Mainland China** in the second half of 2018 to refocus on Pizza Leadership, putting our pizza credentials at the heart of the menu and reducing the number of other dishes available. Our most innovative launch was the 'Birkin' pizza at Christmas, a star-shaped pizza that was widely publicised on social media and received positive customer feedback.

The growing trend for plant-based food was not only in the UK, but also in our overseas markets. In **Hong Kong** we trialled various vegan alternatives, such as JUST and Beyond Meat products, and were the first pizza chain to offer a vegan pizza in Hong Kong. As part of the 'Food for Thought' campaign which we ran in the year to increase awareness around sustainable eating, vegetarian and vegan pizzas were created by our pizzaiolos in cook-offs, and then made available at selected restaurants.

In the **UAE**, menu development included creating an offering to complement the entertainment at our 'PE Live' sites. A bar menu was developed including items such as Wagyu Beef Sliders and Truffle Fries, as well as introducing an exciting range of cocktails.

We launched two new menus in **Singapore** in the year, focusing on simplicity in the kitchen. Stand-out new dishes were the Chicken Wings Rustiche, launched in April which quickly became our second most popular starter, and the Hawaiian, which launched in October and was the most popular Romana pizza for the subsequent month.

In our **Franchise** markets, the new menu launches have been aligned with our international equity markets and are now focused on two main menu launches a year plus specials for Ramadan, Christmas and Chinese New Year.

Charity

At our new site in Sai Ying Pun in **Hong Kong**, we installed containers for customers to donate clothes and non-perishable food items. Collected items were then sent to one of our charity partners, Feeding Hong Kong, with customers that donated being provided with a dine-in voucher as an incentive. We also raised over £100,000 for local charity partners, who in addition to Feeding Hong Kong, include the Chi Heng Foundation, Redress and The Child Welfare Scheme.

In the **UAE** we have continued to actively participate in helping the community and giving back, for example our team members collected over £2,000 for the floods in Kerala and the teams themselves raised funds to provide meals to children in need in the Philippines.

Marketing

In **Mainland China**, where our restaurants operate as PizzaMarzano, we worked hard to improve brand awareness. We focused on driving customer awareness through new and popular social media platforms such as Weibo and Douyin in order to access younger customers, who are now the key consumer group in the F&B market in China. We also partnered with the Rutang app to promote our Birkin pizza, which generated almost one million clicks in 10 days.

We used marketing campaigns such as 'There is Pizza, Then There is Romana' and 'Bigger, Thinner, Crispier' to highlight our thin pizza bases that are a key point of differentiation in the Chinese market, and invited popular WeChat food accounts to promote our new menu in several main cities.

There were several shared marketing campaigns in 2018 across our operations in **Hong Kong**, **UAE**, **Singapore** and international **Franchises**. For example, a football campaign aligned to the World Cup encouraged customers to participate in an online promotion through the Doughby Kicks game and receive restaurant discount vouchers.


#StripesConnected campaign

A key campaign in **Hong Kong** during the year was '#StripesConnected', drawing on the iconic PizzaExpress black and white stripes. Three dishes with a 'stripes' element were introduced, and HK$8 from the sale of every stripe pizza was donated to the Hong Kong Cancer Fund. In addition, any customers wearing stripes to a restaurant during specified times of the campaign received a discount on their bill and there was a mobile food truck visiting key locations around Hong Kong giving out free pizza.

Partnerships

Our business in the **UAE** partnered with Love Parties in 2018 and introduced a themed party evening on Thursdays. The evening is based on a combined offering which includes a happy hour, an evening brunch and an after-party with drinks offers. The success of the partnership means that it will be rolled out across other restaurants in the estate in 2019.

In **Singapore**, we partnered with Grab Food and Grab Pay to launch an exclusive 'One-for-one Mondays' offer in October, giving Grab customers the chance to enjoy two pizzas for the price of one when ordering with GrabFood or paying with GrabPay. Grab, with their 1.1 million monthly active users and database of over 4.5 million, supported the campaign with in-app push notifications and Instagram and Facebook posts.


Bluewater 2


The Crescent, Limerick

Execute with Excellence

UK & IRELAND

New openings and transformations

We opened four new company-owned restaurants in the UK & Ireland in 2018. Each is individually designed and maximises the original character of the building, often inspired by local well-known people or historical events. This included the following two sites.

Bluewater 2 The new restaurant, which opened in March 2018 in Bluewater Shopping Centre, is designed to create a great venue for both couples and families, offering a vibrant space with the option for larger or more intimate seating areas. The scheme includes timber screens with mesh panels and planting, geometric floor tiling, and bespoke lighting.

The features sit alongside warm oak flooring, birch ply grid panelling and bold teal and orange tiling. Seating options include larger runs of banquette, flexible loose furniture and more private booth seating. The artwork for this restaurant was inspired by the naval history of nearby Greenhithe where, in 1862, the Thames Nautical Training College was formed. The artworks are bold and bright to reflect the interior of the restaurant and feature geometric patterns alongside images reflecting the naval history.

The Crescent, Limerick This Milano restaurant opened in November 2018. The interior layout places the focus on the central kitchen with lustrous tiles and planted gantry. Vibrant colours are used throughout to contrast against more neutral tones of exposed concrete and services. Rich blue panelling and warm tan leather chairs create a variety of spaces to suit all customers. Whilst appealing to fashion-conscious shoppers, the scheme is also careful to provide discrete and comfortable zones for all.

A curated mix of photography and bespoke graphical prints are hung together to form impactful clusters of art that celebrate the fashion industry. Artwork shares images from the 1960s, when the brand was founded, to the current day. This collection wouldn't be complete without the inclusion of Limerick's own Celia Holman Lee. Described as Ireland's most successful model, Celia has had an amazing career and we are delighted to be able to include photographs of her earlier work.

Refurbishments

In addition to opening beautifully designed new restaurants, 21 'sparkles' were carried out through the year. These tightly focused projects targeted simple but effective enhancements to existing sites between our transformation cycles. Selective decoration and signage upgrades are matched with new furniture and finishes to ensure the restaurant stays looking sharp and relevant within its local catchment area.

Furnishings and finishes take their cues from the larger projects being worked on and may also benefit from updated artwork packages that can help provide an immediate feeling of change and improvement that help to drive customer, and team, engagement.

Supply chain and sustainability
In the UK & Ireland our Supply Chain team manage over 150 suppliers and 750 products as well as managing key services such as waste collections, washroom management and window cleaning. In addition to ensuring we support our restaurants with the products and services they need to serve our customers, in 2018 we also invested into further increasing our corporate social responsibility credentials in the following areas:

Sourcing We stopped purchasing any single-use non-recyclable plastics in relation to our consumables range in 2018. This has been achieved either by upgrading items (moving to paper straws and takeaway bags and biodegradable cutlery and dip pots) or removing items altogether (stirrers, toothpicks and pizza box tripods). We will continue to work on reducing plastics throughout the supply chain in 2019.

Waste management We continue to recycle as much waste as possible across food, glass and dry-mixed waste where we have control of the process. Our recycling rate (waste not categorised as 'general waste') is 69.8% in our restaurants. However, with our waste partner, Veolia, we divert 99.5% of all our waste away from landfill.

Through our 'Life Cycle' roll out with our supplier phs Group this year we are no longer sending any nappy or sanitary waste to landfill as it is processed to become refuse-derived fuel.

Where we have excess product outside of our restaurants—for example, in our depot network—we endeavour to donate as much of it to charity as possible. Our key partner is Fareshare and in 2018 we donated 670 cases of product via our distribution partner Best Foods and 840 cases of product via our distribution partner Reynolds. In total that stock was valued at over £35,000. Our supply chain team also volunteers at a Fareshare depot each year to pack food parcels.

Utilities management Our primary focus in 2018 was continuing to roll out LED lighting to our estate. The investment programme retrofitted 235 sites to take our total to 351 restaurants. Through doing this we are forecasting to save a further 2,966 tonnes of carbon a year, taking the overall project total to 4,216 tonnes of carbon a year.

In 2018 we moved our washroom services to phs Group and as part of the overall rollout we installed over 1,900 flow-saver taps across 385 restaurants which is predicted to save over 43,000 litres of water a year.

Technology
Using technology to improve our customer and team member experience continued to be a core driver of our success in 2018.

In the UK & Ireland, having ensured all of our data platforms met the requirements of the General Data Protection Regulation, we successfully launched our new app in March. Supported by a successful marketing campaign our UK app enjoyed a number two ranking in the Apple Store and was downloaded by over 500,000 customers. As well as providing the ability to book a table and redeem a reward the app also enables payment to be made at table through the app, allowing the customer to take full control of the process including splitting a bill and leaving a gratuity. We have continued to extend the functionality of the app through the year with features including push notifications and digitising our staff discount.

In October we relaunched our digital Click and Collect platform on both our website and app making it easier for our customers to order and pay.

From a team perspective, we introduced our Digital Balanced Scorecard that allows all managers to see a consistent view of their site's performance across a number of operational metrics as well as more detailed supporting diagnostics. This has been embraced by our teams and we will seek to leverage this in the future to drive even higher site performance.

INTERNATIONAL

New openings
Across our International estate we opened 26 company-owned restaurants in 2018, 20 of these were in **Mainland China**, including our first restaurants in Xiamen and Nantong, meaning we are now present in 10 cities in China. We also opened a site at Hongqiao Airport in Shanghai (our second airport site in the Group after Hong Kong) which is a new format converging both casual and fast-casual products and services.

Additionally we reviewed our restaurant operations in Mainland China and took a back-to-basics approach to ensure consistent execution. One example of this is increasing the standardisation of kitchen equipment to make it easier and more efficient to replicate kitchen operations when opening new sites. We have also upgraded our ventilation equipment, which has cut energy use in our restaurants by 20%.

We reviewed our supply chain capabilities to ensure that we could supply our restaurants opening in new cities, as well as the airport site away from the centre of Shanghai. To reduce our wastage we reviewed our packaging sizes with our suppliers for some of our higher wastage products, such as vegetables and salad items. We successfully moved to smaller pack sizes which has had a positive impact on our food waste.

We opened two new restaurants in **Hong Kong** in 2018 including Lee Tung Avenue, which is a tree-lined pedestrian walkway to Hong Kong Island. The ground floor opens to the street with a smoothie and cocktail bar surrounded by high tables and chairs for a more casual experience, with the dining area and open kitchen located on the first floor. The design takes its inspiration from the old Wan Chai market; bird cages, metal gates, coloured tiles, neon signage and warm lights are mixed together with beautiful graffiti to bring a modern look with a vintage touch.

The use of a separate bar area is also present at Sai Ying Pun, where the Island Bar in the centre of the restaurant is the main feature giving the site a new and exciting configuration where customers can gather around for a small bite while waiting for their table or just enjoy the new drinks selection.

In the **UAE** we opened three restaurants during the year, including our first site in Sharjah, meaning that we are now present in six out of the seven emirates. The restaurant in Sharjah is in a premium location in a newly developed mall in between the universities and residential area. Also included in the openings in UAE in 2018 was Business Bay, the first new PE Live site in the International business. We have had several successful events, including performances from international artists such as Newton Faulkner.

We also opened a new restaurant in **Singapore** during the period, taking our total sites in the country to five. The site is in the newly refurbished Century Square Mall in Tampines, a 'heartlands' (suburban) hub in the east of Singapore and is our first site in the region in a residential area. PizzaExpress Century Square is a unique restaurant in that it has a compact kitchen (less than 40m²) with a separate seating and bar area bordering the main atrium of the mall. This has led to an innovative approach to storage and operational flow in the kitchen. We also focused on sourcing furniture, lighting, flooring and signage locally, rather than from overseas suppliers, which successfully resulted in a build-cost reduction compared to the other sites we have opened.

Our international **Franchise** partners opened five restaurants in 2018, one in Indonesia, two in India and two in our new market in the Philippines. Our franchisee in Qatar exited the market in 2018 due to the difficulties caused by the political and economic embargo imposed by neighbouring countries, meaning we now have franchise operations in six territories outside of the UK. Indonesia remains our biggest franchise market with 17 sites across Jakarta and in 2018 our franchise partner invested in a major refurbishment of the site at Pondok Indah Mall.

Technology

Technology is key in all our markets, particularly so in **Mainland China** where daily life is increasingly digitised. To tap into this, we launched gift cards on WeChat that customers can purchase on the app and send to their contacts. We also launched a game for Chinese New Year on WeChat and Dianping, which was played over 300,000 times across the platforms and generated more than 10,000 new followers on WeChat. Dianping is the most popular restaurant rating app in China, where consumers provide feedback on restaurants and share reviews.

From a restaurant perspective we completed the implementation of a new EPOS system in **Hong Kong**, which has improved the efficiency of food ordering by giving the kitchen additional food preparation time as the front of house staff can place orders directly from the table.

In **Singapore** we looked to innovate our social media with a chatbot added in mid-2018 to respond to simple consumer queries such as menu information, opening hours and booking requests.


Leggera Vegan Giardiniera

Pizza Leadership

UK & IRELAND

Retail

In 2018, we sold over 32 million pizzas through our chilled and frozen ranges including a vastly extended availability of Leggera pizzas through a listing with Tesco providing distribution in an additional 1,700 stores nationwide.

We broadened our range proposition with a focus on our Romana pizzas, through the launch of Romana seasonal specials (including the American Hottest) and we also launched an expanded dietary choice through an extended gluten-free range which now includes the American Hot and Vegan Giardiniera, the latter launched nationally with Tesco and Waitrose.

We continue to focus on quality and consistency and this has driven a 10% reduction in complaints year-on-year to what we believe to be an industry-leading level.

PE Boxed

Summer 2018 saw us bring music fans their favourite pizzas at Barclaycard British Summer Time in Hyde Park and All Points East in Victoria Park.

A love of music has been in the PizzaExpress DNA from the outset, inspired by Peter Boizot's love of jazz that saw our founder go on to open the legendary PizzaExpress Jazz Club on Dean Street Soho.

These events enabled us to engage directly with over one million music fans.

Delivery

We now have Deliveroo live in 307 restaurants and Deliveroo sales growth continued in 2018 with the achievement of new highs over the World Cup.

We were delighted to further cement our partnership with Deliveroo by signing an exclusive contract in the final quarter of 2018. We expect this to deliver considerable additional operational benefits as we move into 2019, which will build on the ever-improving operational metrics. The last quarter of the year saw the top ten record sales weeks with Deliveroo, including breaking the £100,000 barrier just after the year end on New Year's Day—a new record for a single day's sales.

Beef Ragu Romana

PE Live

PE Live brings live music and entertainment to guests in a PizzaExpress setting in five ticketed venues: Dean Street, The Pheasantry and High Holborn in London, and Maidstone and Birmingham. Technology behind the scenes has also enabled the business to scale its music presence with a more efficient artist booking solution. PizzaExpress Live, Holborn enjoyed a storming first full year, hosting ticketed shows seven days a week including music, comedy and evenings with well-known celebrities. The line-up in 2018 included Josh Widdicombe, Newton Faulkner, Annie Lennox, Steve Harley, The Manhattan Transfer, Howard Jones, Bradley Walsh and Judith Hill.

Also in the year, our PE Live venues at Holborn and the original Jazz Club in Dean Street, Soho hosted the Chortle Comedy Awards and The Parliamentary Jazz Awards.

INTERNATIONAL

Delivery

In our International markets, delivery has also continued to be a key revenue driver. We opened our first Deliveroo Editions site in Wan Chai in **Hong Kong** in June, closely followed by a second site in September and a site in **Singapore** in October. In our **Franchise** markets, we had already operated one delivery hub in Kuwait for some time and in 2018 we opened a second. These dedicated delivery sites allow us to access areas where we do not have a restaurant, or to increase our capacity in areas where the demand for delivery is high, without putting pressure on a restaurant to fulfil orders in addition to dine-in covers.

Events

In events outside of our restaurants, in **Mainland China** we provided catering services at Cirque du Soleil in Beijing at the beginning of the year, following the success in Shanghai at the end of 2017. We served over 20,000 performers and paying guests.

In the **UAE**, the highlight for our outdoor events business was the successful tender to be part of the Rugby Sevens in December and in **Hong Kong** we achieved record sales at the annual Clockenflap festival.

Retail

In terms of our retail business, in 2018 we successfully launched our first instore retail offering in Hong Kong in August, selling passata sauce both in store and through Deliveroo. We will continue to explore other opportunities in our International markets.


Meanwhile in Xintiandi

New Revenue Growth

UK & IRELAND

Welcome Break
2018 was the first full year of our franchise relationship with Welcome Break. Having opened at Oxford Services in late 2017, three further restaurants launched in 2018—at South Mimms, Fleet and Beaconsfield Services. Eye-catching design and excellent operational standards have combined to provide a compelling offering that allows us to access a new and different dining occasion.

Following this initial success we are now working to optimise the model in order to better serve multiple day-parts, and maximise trade from adjoining hotels. In 2019 we are looking forward to opening two further restaurants with Welcome Break at motorway service areas, at Cobham, Surrey and then at Leeds South.

INTERNATIONAL

In an exciting development in 2018, we launched a new concept in **Mainland China**, 'Meanwhile', a fine casual dining concept which combines luxury lifestyle brand values with the best of Italian-inspired food in an all-day dining experience. The dishes can either be ordered for an individual or for sharing. The Meanwhile concept has been developed based on an in-depth understanding of global lifestyle trends and targeted consumer research, in order to access the premium end of the market.

The first Meanwhile site opened in Xintiandi in Shanghai towards the end of 2018 and key learnings from this will be reviewed and refined, in order to determine our future strategy for the brand.

In **Hong Kong**, we developed a new virtual brand 'The Pasta Project' in August which is sold through Deliveroo in both Hong Kong and Singapore and uses international flavours to create innovative pasta dishes. The menu launched with eight pasta dishes and was later expanded to include starters and set menus.

In our **Franchise** markets, following the signing of the contract for the Philippines territory at the end of 2017, our franchise partner opened the first restaurant in Manila at the beginning of 2018, followed by a second restaurant in December. The launch in the new territory has received strong customer reviews, and we will continue to work closely with our local franchisee on future plans for the Philippines.

FUTURE DEVELOPMENTS

Going forward into 2019 and beyond we will continue to look for ways to develop our core brands, for example through new formats that are designed with specific sites in mind, and complementary channels, such as our PE Live and retail offerings. We will also look for opportunities to develop new concepts where appropriate, to access market segments outside of those relevant for our core brands.

Group financial performance

Key performance indicators
The senior management teams of each business unit review detailed weekly and periodic information on performance that covers a wide range of financial and non-financial measures to assist them in driving performance and monitoring progress against key targets.

The financial and non-financial KPIs that are used to monitor the business are set out below†.

	52 weeks ended 30 December 2018	52 weeks ended 31 December 2017	Variance
Group revenue from continuing operations	£543.0m	£534.2m	+1.6%
Group LFL* sales growth	(2.0)%	1.4%	(3.3)ppts
International LFL* sales growth	(7.5)%	8.2%	(15.7)ppts
UK & Ireland LFL* sales growth	(0.9)%	0.4%	(1.3)ppts
Group EBITDA* from continuing operations	£80.2m	£94.6m	(15.3)%
Group EBITDA* margin	14.8%	17.7%	(290)bps
Number of restaurants (Group)	627	607	20

Group EBITDA* reconciliation	52 weeks ended 30 December 2018	52 weeks ended 31 December 2017
Loss for the period from continuing operations	(55.8)	(31.6)
Add: taxation	0.8	2.9
Add: net interest	93.1	89.3
Add: exceptional items	6.7	4.4
Add: depreciation and amortisation	32.6	28.6
Add: loss on disposal of fixed assets	2.6	1.0
Add: share-based payment charge	0.2	0.0
Group EBITDA*	80.2	94.6

* Non-statutory reporting measures:

Like-for-like sales Like-for-like (LFL) sales growth is defined as sales from wholly-owned restaurants that have traded for a full financial year at the start of each financial year. Sites that are closed or disposed during a financial year are excluded from the LFL calculation from the beginning of the period in which the restaurant closes. Growth is measured by reference to the sales generated from LFL restaurants in the same period in the prior financial year.

Group EBITDA Group EBITDA is calculated as the result for the period excluding taxation, interest, depreciation and amortisation and before deducting share-based payment charges, exceptional items and profit/loss on disposal of fixed assets.

† Values shown at actual foreign exchange rates

Financial performance (continuing operations)
The Group achieved revenue growth of +1.6% in 2018 (period ended 31 December 2017: +6.3%) as a result of growth in the Group's primary revenue stream of restaurant sales due to new openings, which more than offset a like-for-like sales decline of (2.0)%. We opened 38 new restaurants in the year, of which 26 were in our International equity markets, with a further five opened by our International franchise partners. In the UK & Ireland, we opened four company-owned restaurants plus three sites with our UK franchise partner Welcome Break. Net of closures, 20 sites were opened across the Group in 2018.

UK & Ireland like-for-like sales were in decline at (0.9)% in the period (period ended 31 December 2017: 0.4%) and were impacted by the extreme weather conditions in 2018, with snow in the first quarter of the year and record breaking high temperatures at the end of the second quarter which continued in the third quarter.

In our International segment, LFL sales were in decline of (7.5)% primarily due to our business in Mainland China where trading was challenging, as local competitors gained further market share and were very effective in responding to changes in consumer demands.

Group EBITDA for 2018 was £80.2m (period ended 31 December 2017: £94.6m) which was a decline of 15.3% from the prior year and EBITDA margin was 14.8% (period ended 31 December 2017: 17.7%), 290bps lower than 2017. The decline is partly due to the increasing significance of the of the International segment of the business; as this continues to grow there is a higher proportion of sales at a lower margin, given the less mature nature of the operations compared to those in the UK & Ireland.

Additionally, an increasing number of our new openings in our International territories are in regions outside of Shanghai, Hong Kong and Dubai, where we do not have an established presence, and therefore within the International segment have a lower margin than restaurants within cities where we have been present for a number of years.

Further, the UK & Ireland segment has continued to be impacted by the sector-wide cost pressures, particularly relating to labour and property costs. Whilst we have successfully mitigated a significant portion of these cost pressures, there has been an unavoidable impact on our profitability in 2018.

Total operating profit from continuing operations was £38.2m (period ended 31 December 2017: £60.6m) a decrease of 37.0%, with margins down by 430bps as a result of the factors described above combined with an increase in depreciation and amortisation charges to £32.6m (period ended 31 December 2017: £28.6m) due to capital investment in new and existing restaurants. Operating profit also includes a fixed asset impairment of £6.7m (period ended 31 December 2017: £2.2m) relating to a number of loss-making sites, which remain a small portion of our overall estate.

Net interest charges of £93.1m (period ended 31 December 2017: £89.3m) resulted in a loss before tax of £55.0m (period ended 31 December 2017: loss of £28.7m). The key driver of the increase in loss before tax was the decline in operating profit discussed above. Of the total charge, £44.7m (period ended 31 December 2017: £41.0m) is non-cash in nature and relates predominantly to rolled up interest on the loan from parent.

The tax charge for the period was £0.8m (period ended 31 December 2017: £2.9m) which included a credit of £1.0m relating to previous periods following the finalisation of tax computations. The current year tax charge of £1.8m (excluding the credit relating to previous periods) (period ended 31 December 2017: £2.6m) was lower than the prior year due to the reduction in operating profit.

Net cash inflow from operating activities was £33.3m (period ended 31 December 2017: £35.6m), after payments of interest on the Group's Senior Secured and Senior Notes of £48.4m (period ended 31 December 2017: £48.3m). Net cash outflows from investing activities totalled a further £28.4m (period ended 31 December 2017: £44.5m), of which £29.2m (period ended 31 December 2017: £43.0m) related to the purchase of property, plant and equipment partly offset by proceeds from the disposal of assets. Closing cash at the end of the year was £47.9m (period ended 31 December 2017: £42.6m) a positive cash inflow of £5.3m on the prior period.

As at 30 December 2018 the Group's total external net debt stood at £607.7m (period ended 31 December 2017: £610.2m), comprising Senior Secured and Senior Notes of £655.6m (period ended 31 December 2017: £652.8m) and the period end cash balance of £47.9m (period ended 31 December 2017: £42.6m). Including a loan from parent of £466.9m (period ended 31 December 2017: £424.6m), total debt was therefore £1,122.5m (period ended 31 December 2017: £1,077.4m).

The Senior Secured Notes are due for repayment in August 2021 and the Senior Notes are due for repayment in August 2022. The loan from parent is due for repayment in August 2024. Further details on the Group's borrowings and financial risk management are set out in notes 18 and 21 respectively.

Tax strategy
The protection of our reputation and brand values is vitally important and accordingly our objective is to maintain a reputation as a responsible taxpayer, founded on open relationships with the tax authorities with which the Group's entities interact. The Group has a Board-approved Tax Charter setting out this approach and this has been shared with HMRC.

The Group ensures its tax teams are provided with sufficient training and support to be able to carry out and monitor these policies and procedures in practice. Thus, the Group is able to ensure that the correct amount of tax is paid to the correct authority in the required timeframe and all necessary information is submitted with the Group's tax returns.

Continued improvement of management controls and protection from tax risks is sought by evaluating the efficiency of measures undertaken to ensure early identification and assessment of any potential risks. These procedures are aligned with the tax strategy ultimately agreed by the Group's Board.

Day-to-day management of tax controls in the UK lies with the Tax Manager, with supervision from the finance team and business unit specialists within finance operations. Any developments or issues in the compliance processes or identified risks are regularly communicated and escalated appropriately to the Group's CFO. The CFO reports to the Board on a regular basis on key tax risks arising and on the nature of tax governance procedures. Ownership of the tax strategy, along with the wider business strategy, rests with the Group's Board.

Attitude of Group towards tax planning As part of the wider considerations when structuring commercial activities, the Group will also consider the tax laws of countries within which we operate. We will not undertake planning that is contrived or artificial and will ensure any planning has regard to the potential impact on our reputation and broader goals.

We will engage tax advisers to provide specialist expertise when tax law is opaque or new legislation is enacted in order to provide support to any positions we take on potentially ambiguous or complex taxation matters and to provide us with insight on industry practice.

Level of risk in relation to UK taxation that the Group is willing to accept The tax risk appetite of the Group is set at Board level in the context of the wider business strategy, taking into account financial, reputational and operational aspects. The Group aims to identify, assess and monitor risks as they arise. In particular, the Tax Manager takes responsibility for ensuring that changes in compliance requirements are adhered to, all processes with regard to tax are managed effectively and amicable relationships with tax authorities are maintained and are transparent.

The Group wishes to reinforce its integrity and tax transparency by ensuring that risks in relation to legislative and compliance obligations are considered and acted upon in a timely manner in order to keep risk exposure within the accepted levels which are set by the Board.

Approach of Group towards its dealings with HMRC The Group engages with tax authorities in the spirit of honesty and cooperative compliance. The Group seeks to ensure that measures are taken to minimise risk by ensuring early dispute resolution. However, if agreement cannot be met through transparent discussion with HMRC, and although this has not been applicable to date, the Group would seek to resolve such matters through more formal channels.

In order to limit tax-related uncertainty the Group will seek, and has sought in the past, to reach formal agreement in advance in relation to significant transactions as far as commercially practicable and will use external advisors to assist with uncertain tax positions as required.

This Strategic Report was approved by the Board on 29 April 2019.

On behalf of the Board

Andy Pellington
Director

Directors' report

The Directors present their report and audited consolidated financial statements for the Group for the period ended 30 December 2018.

Directors

The Directors of the Company during the period to the date of approving this report were:

Jinlong Wang is the Group Chairman and CEO, having joined the PizzaExpress Group as Chairman in June 2015.

Jinlong has almost 30 years of experience in leadership, global business development, consumer branding, general management, and retail and restaurant chain operation.

Jinlong previously worked for Starbucks, where he served as president of Starbucks Asia Pacific and chairman of Starbucks Greater China. In these roles he led the growth of the business in China, playing a critical role in creating a coffee culture in a tea-drinking nation and establishing China as the second home market for Starbucks outside the US.

Jinlong currently serves on the board of Sonova Holding AG, and as chairman of PizzaExpress Group Holdings Limited. Jinlong received his bachelor's degree in international economics and trade from the University of International Economics and Trade in Beijing in January 1982 and his Juris Doctor from Columbia University School of Law in May 1988.

Andy Pellington is the Group CFO having joined the company in March 2014 just prior to the acquisition of the Group by Hony Capital. Alongside his responsibilities as Group CFO he also leads our international equity and franchise businesses outside of China.

He has extensive experience across all areas of the leisure and hospitality sector having served as a director of hotel, restaurant, pub and health club businesses including finance director roles at Whitbread and David Lloyd Leisure; this experience has been gained within both FTSE 100 and private equity-backed businesses.

He has successfully led a number of business transformation projects and undertaken a range of M&A activity as well as having broad general management experience of leading a broad range of functions. Andy holds an economics degree from Birmingham University and is a qualified accountant.

Jianzhong Gong has been a director since February 2015. Mr Gong graduated from Dongbei University of Finance and Economics. He currently serves as the chairman and CEO at Bank of China Group Investment Limited. With about 30 years' experience in banking and investment, Mr Gong has participated or taken a leadership role in numerous domestic and overseas investment projects.

Mingju Ma has been a director since March 2015. Mr Ma has served as vice president of Jin Jiang International Holdings Company Ltd since 2005, as general manager of the finance business division of Jin Jiang International, chairman of Shanghai Jin Jiang International Investment and Management Company Limited as well as director of Jin Jiang Investment. Mr Ma holds a master's degree in business administration from the Asia International Open University (Macau) and is a senior accountant.

Bing Yuan has been a non-executive director since 2014. Mr Yuan joined Hony in 2009 and is responsible for its equity investment operations. Mr Yuan serves as non-executive director of Haichang Holdings (stock code: 2255.HK), Hydoo International Holding (stock code: 1396.HK) and supervisor of Giant Network Group (stock code: 002558). Prior to joining Hony Capital, Mr Yuan was managing director of Morgan Stanley Asia Limited, and was responsible for Principal Investments. Mr Yuan holds a masters and juris doctorate degree from Yale University, as well as a bachelor of arts degree from Nanjing University.

Xiaoxin Shao has been a director since May 2016. Ms Shao has served as an investment director of Hony Capital since 2010, where she is responsible for cross-border investment activities. Prior to joining Hony Capital, Ms Shao served at Morgan Stanley Asia Limited from 2006 to 2010, mainly involved in Greater China financing and M&A activities. Ms Shao holds a master's degree in Electronic Engineering from Tsinghua University.

Hony Capital

Crystal Bright Developments Limited, a company registered in the British Virgin Islands, is the ultimate parent company of the Group, and private equity firm Hony Capital is the ultimate controlling party.

Hony Capital, founded in 2003 and sponsored by Legend Holdings Corporation, specialises in private equity and real estate investment. As a 'China expert' and company builder, it focuses on the Chinese market with 'value creation by providing value-added services' as its investment philosophy.

Hony Capital currently has RMB 80 billion under management. The investors of Hony Capital include Legend Holdings, the National Social Security Fund, China Life Insurance, Goldman Sachs, Temasek, Abu Dhabi Investment Authority, Kuwait Investment Authority and Canada Pension Plan Investment Board. The combination of domestic and international high-quality resources enhances the ability of Hony Capital.

Dividends

The Directors do not recommend the payment of a dividend (period ended 31 December 2017: £nil).

Political donations

The Group did not make any political donations during the period (period ended 31 December 2017: £nil).

Charitable donations

Details of the Group's charitable donations for the period are included in the Strategic Report.

Principal risks and uncertainties

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

The principal risks that the business faces are considered as:

Market risk In the UK market, the key risks that our business faces are the high level of competition and the impact of new brands. These factors are dealt with in more detail below. Internationally our key growth focus is Mainland China, where our business is still relatively immature. There is therefore a risk that our business will not be successful in this territory if we do not build a strong brand or maintain agility in our approach. To mitigate this risk we ensure that our local management team are experts in the China market, as well as drawing on the expertise of our investors, Hony Capital, where relevant. We also take key learnings from our home market in the UK, and adapt them for the local market using territory-specific insight. We ensure a rigorous review of both potential new sites in cities where we already operate and expansion into new cities through our internal approval processes.

Competition The casual dining market continues to be highly competitive with a focus on consumers expecting value for money and experiential dining. The Board closely analyses current market trends and adjusts the strategy of the Group as appropriate, for example through new partnerships, and formats. Where appropriate the Group also looks to diversify the risk associated with competition by exploring new concepts that are consistent with the Group's current offering.

Brand strength A key element of being able to compete in the market is our brand strength and customer perception with the risk being that a reduction in the connection our customers have with our brand may negatively impact our business. Invitations on UK & Ireland receipts ask customers to take part in our 'How Did We Dough?' customer satisfaction survey. The results from the survey are regularly presented to the Board in order to inform strategic priorities.

We strive to maintain our restaurants to the highest standard. This is achieved through our transformation programme which aims to deliver restaurant refurbishments on a regular cycle.

Foreign exchange rates The Group is exposed to movements in exchange rates through subsidiaries operating in a currency other than the Group's functional currency of GBP. The translation risk arising from this introduces an element of volatility to the Group's profit. This risk is partly mitigated by the range of currencies that subsidiaries within the Group operate in.

The Group is also exposed to movements in exchange rates through subsidiaries making purchases denominated in a currency other than their functional currency, the key risk being purchases made in Euros by Sterling-dominated entities and vice versa. To mitigate this risk, cash generated in foreign currencies is matched with payments made in the same currency where possible. Additionally, where possible, foreign exchange rates are fixed with key suppliers.

Where a large payment is expected in a currency other than a subsidiary's functional currency, the foreign exchange risk is managed through the use of forward contracts.

Operating cost increases Continued increases in certain key operating costs are monitored carefully by the Board and appropriate action taken to mitigate these factors, which can include operational efficiency measures and investment in technology. All key supply contracts are reviewed regularly to ensure that the prices we pay remain competitive. Where appropriate we will retender key supply contracts.

Brexit At the date of the approval of these financial statements there remains material uncertainty as to how and when the UK will exit from the European Union. At a Group level, a Brexit Steering Committee has analysed the potential impact of a 'no-deal' Brexit and put in place appropriate plans to mitigate the expected adverse consequences of leaving the EU without an agreement.

If there were a no-deal Brexit, the key impact on the business is expected to be the short-term availability of certain goods (mainly fresh produce) as these are imported from the EU by the Group's distribution partners and are not yet available from domestic producers.

To mitigate this risk, we have developed a plan that provides our UK restaurants with clarity and certainty about the menu we can reliably offer to customers in the event of such short-term disruption. Additionally, we have engaged with key suppliers to understand their own plans for Brexit and have been reassured by these discussions.

Consequently, we do not believe that the direct risks of a no-deal Brexit pose a material threat to the ongoing operations and profitability of PizzaExpress, but it is clear that our ability to accurately foresee all impacts and consequences is limited by continuing uncertainty about the overall direction of Brexit.

Employee retention In addition to the risk arising in the UK from the Brexit vote, there is an ongoing risk to employee retention for the Group. As in the whole sector, staff turnover continues to be a challenge for the Group as the labour market becomes increasingly competitive. Our employees are key to the success of our business through excellent customer service and therefore we must be able to retain the highest calibre of employees.

This risk is mitigated through continual review of reward structures to ensure that these are competitive relative to our industry counterparts, in addition to the provision of comprehensive training and development programmes.

Financial risk management
See note 21 on page 91 for details of the Group's financial risk management.

Research and development
The Group did not incur any research and development expenditure during the period.

Anti-bribery and corruption policy
The Group operates an anti-bribery and corruption policy in accordance with the Bribery Act 2010, which is accessible at http://corporate.pizzaexpress.com. This sets out PizzaExpress's commitment to maintaining the highest standards of ethics and ensuring compliance with all legal and regulatory requirements for preventing bribery and corruption.

Employment policy and equality
Serving millions of meals to customers a year, our people truly are our greatest asset and we believe in treating them as such: with respect, looking after their welfare and allowing them the freedom to be themselves and to flourish.

We encourage a work environment that is fair, open and communicative, with many benefits for our employees. Our employees have a performance review at least once a year, which includes consideration of skills development and career prospects. We aim to retain, develop and promote our best staff, offering a variety of training courses and development opportunities.

Informal, frank and open dialogue is encouraged at all levels of the Group. We aim to keep our employees informed of any changes and progress with the business on a regular basis in an engaging way.

We have a diverse workforce and an equal opportunities policy in place. We aim to employ people who reflect the diverse nature of society and value people and their contribution irrespective of age, sex, disability, sexual orientation, race, colour, religion, marital status or ethnic origin.

The table below shows the split of our workforce between male and female employees as at 30 December 2018.

	Men	Women	Total
Total employees (excluding Directors and Senior Management)	6,939	6,942	**13,881**
Directors	5	1	**6**
Senior Management*	36	20	**56**

*Defined to be the members of each local leadership team and their direct reports

In addition to the above we are proud that 60% of our Group Leadership Team roles are held by women.

Future developments
Details of the Group's future developments are included within the Strategic Report on page 37.

Going concern

The Directors note that as at 30 December 2018, the Group is in a net liabilities position of £112.3m (as at 31 December 2017: £57.9m) and a net current liabilities position of £20.9m (as at 31 December 2017: £23.1m). The Directors note that the first repayments of the Group's borrowings of £1,122.5m (period ended 31 December 2017: £1,077.4m) are not due until August 2021. In addition, the cash flow forecasts of the Group are closely monitored on a regular basis to ensure that the Group has sufficient cash to meet its liabilities as they fall due. In preparing these consolidated financial statements the Directors have reviewed these cash flow forecasts for the following 12 months from the date of approval of these financial statements and consider that these appropriately demonstrate the ability of the Group to meet its obligations for the foreseeable future including the ability of the Group to use its currently undrawn Revolving Credit Facility of £20m. This facility is readily available until August 2020. Board-approved budgets are prepared on a rolling basis covering a five-year period and in making their assessment of going concern, the Directors have taken into account the most recently approved Five-Year Plan as well as reviewing an appropriate sensitivity analysis thereon, which demonstrate that the Group is able to operate as a going concern. The Directors regularly review the risks facing the business and, where appropriate, adjust the strategy of the business accordingly. The Directors consider that the Group is well placed to mitigate the risks that it faces. As such, these financial statements have been prepared on a going concern basis.

Qualifying third party indemnity

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

Statement of Directors' responsibilities in respect of the financial statements

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

Company law requires the Directors to prepare financial statements for each financial 52-week period. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRS as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgments and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to auditors

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group and Company's auditors are aware of that information.

Post balance sheet events

There are no post balance sheet events to disclose.

Independent auditors

The independent auditors, PricewaterhouseCoopers LLP have indicated their willingness to continue in office, and a resolution that they will be reappointed will be proposed at the annual general meeting.

This Directors' report was approved by the Board on 29 April 2019.

On behalf of the Board

Andy Pellington
Director

Independent auditors' report

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

In our opinion:

- PizzaExpress Group Holdings Limited's Group financial statements and Company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the Company's affairs as at 30 December 2018 and of the Group's loss and cash flows for the 52-week period (the 'period') then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the 'Annual Report'), which comprise: the consolidated and Company statements of financial position as at 30 December 2018; consolidated statement of comprehensive income, the consolidated cash flow statement, and the consolidated and Company statements of changes in equity for the 52-week period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

BASIS FOR OPINION

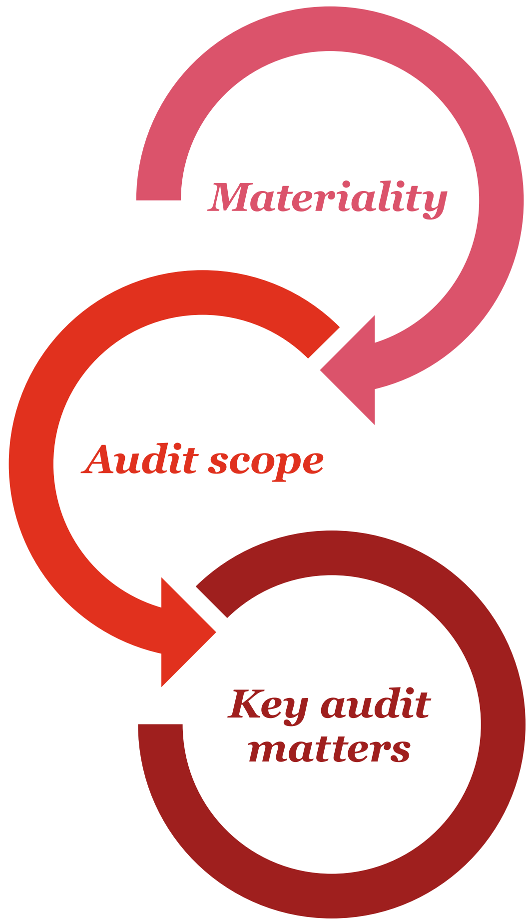
We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit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

Independence

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

OUR AUDIT APPROACH

Overview



- Overall Group materiality: £2.0 million (period ended 31 December 2017: £2.37 million), based on 2.5% of Group EBITDA (as defined on page 57)
- Overall Company materiality: £1.9 million (period ended 31 December 2017: £2.2 million), based on 1% of total assets

- We conducted work in the UK, Hong Kong and China. This included one full scope component with the remaining coverage obtained through full scope audit procedures on specified line items at a further two components
- The components where we performed audit work, taken together with our work on central corporate functions, accounted for 84% of Group EBITDA (as defined on page 57)
- The Company materiality level is capped based on the level of overall Group materiality. This resulted in the reduction in materiality compared to the previous period despite the assets-based benchmark

- Carrying value of goodwill and brand intangibles (Group)
- Recoverability of intercompany receivables (Company)

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgments, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgment, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Carrying value of goodwill and intangibles—Group The key audit matter identified is in respect of the risk of material misstatement in the valuation of goodwill and brand intangibles. The Group had £379.2 million of goodwill as at 30 December 2018 (31 December 2017: £379.2 million) and £515 million of brand intangibles as at 30 December 2018 (31 December 2017: £515 million). The carrying values of these assets are contingent upon future cash flows which may be impacted by developments in the market and the business performing below expectations. We consider this to be a key audit matter given the magnitude of the relevant balances and the significant judgment and estimation involved in the impairment assessments of these assets. The markets both in the UK & Ireland and International businesses have been challenging in 2018 and are expected to continue in the near future which adds a further level of judgment to this risk. The key assumptions in management's cash flow projections are: short- to medium-term profitability, long-term growth rate, and the discount rate. Changes in these assumptions could lead to an impairment in the carrying value of these assets.	To address this risk we have designed and performed a number of audit procedures over the impairment assessments performed by management. We tested the reasonableness of management's key assumptions and the sensitivities performed, including reconciling the expected performance per the five-year plan to historical performance achievements. Given the challenge within the market in the current period we also engaged with valuation and market specialists in the UK and Chinese markets to understand the headwinds and trends in the market likely to impact the business. We further challenged management to substantiate its assumptions including comparing certain assumptions to industry and economic forecasts, which included requesting management to perform additional sensitivity assessments. We also: • tested the integrity of the models; • performed a comparison of the performance of the business for the year to 30 December 2018 to the budget for the equivalent period to assess the accuracy of the budgeting process; • agreed the cash flow forecasts in the Board-approved five-year plans; • engaged our valuation and market specialists to assist in the assessment of the reasonableness of certain key assumptions, for example, the short to medium term growth rates, the discount rate and long-term growth rates. In performing our audit we challenged management on its forecasts based on our assessment of historical financial results and restaurant opening trends against budget and business performance against the market. In performing these assessments the audit team focused on applying an appropriate level of professional scepticism. This included requesting additional sensitivities to be prepared by management demonstrating alternative scenarios to the baseline model. Based on the work performed we found that the underlying financial information and assumptions used were supported by the evidence we obtained. We have also assessed the disclosures made in the financial statements, including sensitivity analysis and the reasonably possible downsides. Following our work management has extended the sensitivity disclosures to provide further information and clarity over the model sensitivities. We are satisfied that these disclosures are appropriate.

Key audit matter	How our audit addressed the key audit matter
Recoverability of intercompany receivables—Company The Company has intercompany receivables of £466.9m as at 30 December 2018 (£424.6m as at 31 December 2017) which are material to the financial statements. Judgment is required in assessing the recoverability of the intercompany receivable because the counterparty is in a net liability position. The receivable is ultimately supported by the underlying value of the business. If there were to be a reduction in the value of the business this could impact the recoverability of the intercompany receivable.	We obtained a listing of the intercompany balances as at the balance sheet date and traced these to the corresponding balance in the counterparty financial statements to confirm the accuracy of the balance. The accrued interest calculations were re-performed. We considered the ability of the counterparty to repay the balance if the need should arise. Given the counterparty is in a net liability position the ultimate recoverability is dependent upon the value achieved on the ultimate sale or refinancing of the Group. We carried out procedures to assess management's valuation of the underlying business in supporting the recoverability of the receivables. We tested the reasonableness of management's key assumptions and the sensitivities performed, including reconciling the expected performance in the five-year plan to historical performance achievements. Given the challenge within the market in the current period we also engaged with valuation and market specialists in the UK and Chinese markets to understand the headwinds and trends in the market likely to impact the business. We further challenged management to substantiate its assumptions including comparing certain assumptions to industry and economic forecasts, which included requesting management to perform additional sensitivity assessments. We also: • tested the integrity of the models; • performed a comparison of the performance of the business for the year to 30 December 2018 to the budget for the equivalent period to assess the accuracy of the budgeting process; • verified the cash flow forecasts to the Board-approved five-year forecast; • engaged our valuation and market specialists to assist in the assessment of the reasonableness of certain key assumptions, for example, the short- to medium-term growth rates, discount rate and long-term growth rates. We also challenged management to perform additional sensitivities on its baseline five-year plan, to enable us to assess the sensitivity of the assumptions used against the market trends. In addition to the above we have considered the impact of the application of IFRS 9. We have challenged management on the assumption of a nil expected credit loss (ECL) provision and subsequently management has provided us with a position paper supporting its conclusions. We have obtained the workings supporting the position paper and have considered the appropriateness of the basis of the calculations based on our audit work and knowledge of the Group. Based on the work performed we found that the underlying financial information and assumptions used were supported by the evidence we obtained.

How we tailored the audit scope
We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate. The Group consolidation, financial statements disclosures and corporate functions were audited by the Group engagement team. This included our work over going concern, intangible asset impairment, tax, borrowings, consolidation level adjustments and net finance expense.

The Group management function is situated in the UK along with the largest component of the Group. There are other operations based in China, Hong Kong, United Arab Emirates and Singapore.

The largest trading entity in the UK, PizzaExpress (Restaurants) Limited is the only component requiring an audit of its complete financial information for the purposes of the consolidated Group audit.

In addition to this given the magnitude of certain other operations within the Group, the audit of certain financial line items within a number of other UK incorporated components; in the largest trading entity in China; and in the largest trading entity in Hong Kong are required for the purposes of the consolidated Group audit.

All work over the UK incorporated entities was performed by the Group audit team. Component teams were engaged for the audit procedures required in China and Hong Kong. These teams were formally instructed by PwC UK. Our Group engagement team's involvement in the work performed over the overseas entities included regular communication throughout the audit process where the component auditors' planned response to areas of focus was discussed. The Group engagement team attended planning calls ahead of the commencement of the audit and clearance calls once the component audit work was completed. In addition the Group audit team performed a working paper review of the work performed by the component teams.

INDEPENDENT AUDITORS' REPORT

Materiality
The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgment, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	£2.0 million (period ended 31 December 2017: £2.37 million)	£1.9 million (period ended 31 December 2017: £2.2 million)
How we determined it	2.5% of Group EBITDA	1% of total assets
Rationale for benchmark applied	Based on the key performance measures discussed in the annual report, Group EBITDA is the primary measure used by the shareholders in assessing the performance of the Group and is a generally accepted auditing benchmark. Group EBITDA is calculated as the result for the period excluding taxation, interest, depreciation and amortisation and before deducting share-based payment charges, exceptional items and profit/loss on disposal of fixed assets.	As the Company is a holding company we believe total assets is the primary measure used by the shareholders in assessing the performance of the entity, and is a generally accepted auditing benchmark. Please note that the materiality has been capped at a lower level than the underlying statutory benchmark to ensure this remains below the Group materiality.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £1.9 million and £0.75 million. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.1 million (Group audit) (31 December 2017: £0.12 million) and £0.1 million (Company audit) (31 December 2017: £0.12 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

CONCLUSIONS RELATING TO GOING CONCERN
ISAs (UK) require us to report to you when:

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

We have nothing to report in respect of the above matters. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group's trade, customers, suppliers and the wider economy.

REPORTING ON OTHER INFORMATION

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' report for the period ended 30 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' report.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities set out on pages 50 and 51, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

OTHER REQUIRED REPORTING

COMPANIES ACT 2006 EXCEPTION REPORTING

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

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

We have no exceptions to report arising from this responsibility.

Sarah Quinn
Senior Statutory Auditor
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Uxbridge
29 April 2019

Consolidated Statement of Comprehensive Income

For the period from 1 January 2018 to 30 December 2018

	Note	52 weeks ended 30 December 2018 £000	52 weeks ended 31 December 2017 £000
Continuing operations			
Revenue	3	543,018	534,243
Cost of sales		(417,519)	(397,285)
Gross profit		**125,499**	**136,958**
Administrative expenses		(87,317)	(76,348)
Operating profit excluding exceptional items		44,856	64,965
Exceptional items	5	(6,674)	(4,355)
Operating profit	6	**38,182**	**60,610**
Finance income	7	293	53
Finance costs	7	(93,434)	(89,361)
Net finance costs		**(93,141)**	**(89,308)**
Loss before taxation		**(54,959)**	**(28,698)**
Tax on loss	10	(792)	(2,939)
Loss for the financial period from continuing operations		**(55,751)**	**(31,637)**
Discontinued operations			
Loss for the financial period from discontinued operations	25	-	(9,076)
Loss for the financial period		**(55,751)**	**(40,713)**
Other comprehensive income/(loss)			
Items that may be reclassified to profit or loss			
Currency translation differences		1,215	(1,678)
Total comprehensive loss for the financial period		**(54,536)**	**(42,391)**
Total comprehensive loss for the financial period attributable to equity shareholders arises from:			
–Continuing operations		(54,536)	(33,315)
–Discontinued operations		-	(9,076)
		(54,536)	**(42,391)**

The notes on pages 64 to 99 form part of these consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Financial Position

As at 30 December 2018
Registration number: 09115780

	Note	30 December 2018 £000	31 December 2017 £000
Intangible assets	11	900,580	899,837
Property, plant and equipment	12	222,166	237,806
Trade and other receivables falling due after more than one year	13	6,256	5,236
Investments	14	182	174
Non-current assets		**1,129,184**	**1,143,053**
Inventories	15	12,127	11,022
Trade and other receivables falling due within one year	13	35,606	37,128
Corporation tax debtor		581	-
Cash and cash equivalents	16	47,934	42,552
Current assets		**96,248**	**90,702**
Trade and other payables falling due within one year	17	(113,641)	(112,405)
Corporation tax creditor		(3,486)	(1,435)
Current liabilities		**(117,127)**	**(113,840)**
Net current liabilities		**(20,879)**	**(23,138)**
Borrowings	18	(1,122,483)	(1,077,417)
Provisions for liabilities	19	(1,563)	(1,283)
Deferred tax liability	20	(96,591)	(99,136)
Non-current liabilities		**(1,220,637)**	**(1,177,836)**
Net liabilities		**(112,332)**	**(57,921)**
Called up share capital	24	-	-
Share premium	24	4,500	4,500
Accumulated losses		(116,832)	(62,421)
Total equity		**(112,332)**	**(57,921)**

The notes on pages 64 to 99 form part of these consolidated financial statements.

The financial statements on pages 60 to 99 were authorised for issue by the Board of Directors on 29 April 2019 and were signed on its behalf.

Andy Pellington
Director

Consolidated Statement of Changes in Equity
For the period from 1 January 2018 to 30 December 2018

	Called up share capital £000	Share premium £000	Accumulated losses £000	Total equity £000
As at 2 January 2017	**–**	**4,500**	**(20,047)**	**(15,547)**
Loss for the financial period	–	–	(40,713)	(40,713)
Currency translation differences	–	–	(1,678)	(1,678)
Total comprehensive loss for the financial period	–	–	(42,391)	(42,391)
Share-based payment charge	–	–	17	17
Total transactions with owners, recognised directly in equity	–	–	17	17
As at 31 December 2017	**–**	**4,500**	**(62,421)**	**(57,921)**
As at 1 January 2018	**–**	**4,500**	**(62,421)**	**(57,921)**
Loss for the financial period	–	–	(55,751)	(55,751)
Currency translation differences	–	–	1,215	1,215
Total comprehensive loss for the financial period	–	–	(54,536)	(54,536)
Share-based payment charge	–	–	125	125
Total transactions with owners, recognised directly in equity	–	–	125	125
As at 30 December 2018	**–**	**4,500**	**(116,832)**	**(112,332)**

The notes on pages 64 to 99 form part of these consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Cash Flow Statement
For the period from 1 January 2018 to 30 December 2018

	Note	52 weeks ended 30 December 2018 £000	52 weeks ended 31 December 2017 £000
Loss for the financial period		(55,751)	(40,713)
Share-based payment charge	9	187	33
Depreciation and amortisation		32,561	29,307
Impairment of property, plant and equipment	12	6,674	2,226
Taxation charge		792	2,922
Net finance expense		93,141	89,311
Loss on disposal of business		–	6,154
Loss on disposal of assets		2,582	1,068
Increase in inventories		(978)	(1,565)
Decrease/(increase) in trade and other receivables		510	(6,729)
Increase in trade and other payables		3,306	5,791
Increase in provisions		217	128
Other non-cash items		(115)	11
Net cash inflow from operations		**83,126**	**87,944**
Taxation paid		(1,409)	(4,059)
Interest paid		(48,401)	(48,323)
Net cash inflow from operating activities		**33,316**	**35,562**
Purchase of property, plant and equipment		(29,201)	(43,040)
Income on disposal of property, plant and equipment		991	493
Purchase of intangible assets	11	(219)	(1,375)
Purchase of subsidiary undertakings, net of cash acquired		–	(1,479)
Purchase of shares		(8)	–
Proceeds from disposal of business		–	899
Interest received		82	52
Net cash outflow from investing activities		**(28,355)**	**(44,450)**
Net increase/(decrease) in cash and cash equivalents		**4,961**	**(8,888)**
Cash and cash equivalents at the beginning of the period		42,552	52,008
Exchange gain/(loss) on cash and cash equivalents		421	(568)
Cash and cash equivalents at the end of the period	16	**47,934**	**42,552**

The notes on pages 64 to 99 form part of these consolidated financial statements.

The cash flow statement includes cash flows relating to discontinued operations in the prior period. The net cash flows for operating and investing activities for discontinued operations are disclosed in note 25.

1 General information

PizzaExpress Group Holdings Limited (the 'Company') is a private limited company limited by shares, domiciled and incorporated in the United Kingdom. The Company's registered office is Hunton House, Highbridge Estate, Oxford Road, Uxbridge, UB8 1LX.

The Company and its subsidiaries (together, the 'Group') operate an international chain of pizza restaurants, as well as receiving royalty income from sales of retail products, income from the sale of dough products and franchise fees.

2 Summary of significant accounting policies

The principal accounting policies are outlined below. These policies have been consistently applied to all periods presented, unless otherwise stated.

Basis of preparation
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) interpretations as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS.

The consolidated financial statements have been prepared on the historical cost basis. Separate financial statements are prepared for the Company as a single entity as required by law. These have been prepared under Financial Reporting Standard 101 and are included on pages 100 to 110.

Going concern
The Directors note that as at 30 December 2018, the Group is in a net liabilities position of £112,332,000 (as at 31 December 2017: £57,921,000) and a net current liabilities position of £20,879,000 (as at 31 December 2017: £23,138,000). The Directors note that the first repayments of the Group's borrowings of £1,112,483,000 (period ended 31 December 2017: £1,077,417,000) are not due until August 2021.

In addition, the cash flow forecasts of the Group are closely monitored on a regular basis to ensure that the Group has sufficient cash to meet its liabilities as they fall due. In preparing these consolidated financial statements the Directors have reviewed these cash flow forecasts for the following 12 months from the date of approval of these financial statements and consider that these appropriately demonstrate the ability of the Group to meet its obligations for the foreseeable future.

Furthermore, the Group has an undrawn Revolving Credit Facility of £20,000,000 currently readily available until August 2020. Board-approved budgets are prepared on a rolling basis covering a five-year period and in making their assessment of going concern, the Directors have taken into account the most recently approved Five-Year Plan, which demonstrates that the Group is able to operate as a going concern. The Directors regularly review the risks facing the business and, where appropriate, adjust the strategy of the business accordingly. The Directors consider that the Group is well placed to mitigate the risks that it faces. As such, these financial statements have been prepared on a going concern basis.

2 Summary of significant accounting policies (continued)

Disclosure for new accounting standards effective during the current period
IFRS 9, 'Financial Instruments' and IFRS 15 'Revenues from Contracts with Customers' are new accounting standards that are effective for periods beginning on or after 1 January 2018. The Group has therefore adopted these standards for the first time in the period ended 30 December 2018 using the modified retrospective approach. There were no adjustments to the financial statements required on transition to either IFRS 9 or IFRS 15. There were no other standards effective from 1 January 2018 that had an impact on the Group.

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost; fair value through other comprehensive income; and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income, not recycling. An expected credit losses model replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there are no changes to classification and measurement, except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright-line hedge effectiveness tests. IFRS 9 is effective for accounting periods beginning on or after 1 January 2018. The Group has implemented IFRS 9 with effect from 1 January 2018 and this has not had a significant impact on the Group. The classification and measurement basis for the Group's financial assets and liabilities has not been changed by adoption of IFRS 9, and in addition as the Group does not have any hedges in place, there has been no impact of the changes in hedge accounting. The main impact of adopting IFRS 9 was likely to arise from the implementation of the expected loss model, however the Group has assessed the impact of moving from an incurred loss model and has concluded there is no significant difference in the impairment calculated under IFRS 9 compared to that under IAS 39.
- IFRS 15, 'Revenue from contracts with customers', deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18, 'Revenue', and IAS 11, 'Construction contracts', and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018. The Group has implemented IFRS 15 from 1 January 2018 and has carried out a review of existing contractual arrangements as part of this process including restaurant sales, franchise/licensing income and sales of dough. There is no material change for any of these revenue streams and therefore IFRS 15 has not had a significant impact on the Group.

2 Summary of significant accounting policies (continued)

New standards, amendments and interpretations
IFRS 16, 'Leases' is a new standard effective for annual periods beginning on or after 1 January 2019, and has not been applied in preparing these consolidated financial statements. The first year of adoption for the Group will be the annual period beginning on 30 December 2019. The standard addresses the definition of a lease, recognition and measurement of leases, and it establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17, 'Leases', and related interpretations. The transition to IFRS 16 will have a significant impact for the Group on the statement of comprehensive income, as well as on reported assets and liabilities. During the current period, the Group has made progress in determining its transition approach, collating the lease data required under the new standard and assessing system requirements. The Group will finalise this work during 2019 but currently expects to transition using the modified retrospective (asset recalculated) approach. Due to the complexity and significant data requirements needed to calculate the impact of transition, it is currently not possible to quantify this impact. It is noted that as at 30 December 2018 the Group had future operating lease commitments of £554,789,000 (see note 27) however this does not reflect any discounting to present value which is required by IFRS 16.

There are no other standards issued but not yet in effect that are expected to have a material impact on the Group.

Critical accounting estimates and areas of judgment
The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income, expenses and related disclosures. The estimates and underlying assumptions are based on historical experience and other relevant factors. This approach forms the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates may be necessary if there are changes in the circumstances on which the estimate was based or as a result of new information. Such changes are recognised in the period in which the estimate is revised.

The key assumptions about the future and key sources of estimation uncertainty that have a risk of causing a material adjustment to the carrying value of assets and liabilities within the next 12 months are described below.

Significant estimate: key assumptions used for value in use and fair value less costs to sell calculations
The Group tests its indefinite life intangible assets for impairment annually by reference to value in use or fair value less costs to sell. These are calculated using Board-approved budgets covering a five-year period. After this five-year period the cash flows are continued into perpetuity using a growth rate specific to the market. The key assumptions are discount rate, long-term growth rate and forecast cash flows (including number of new site openings). Long-term growth rates are based on external research demonstrating expected long-term growth for each of the markets to which the asset relates. Further details on the inputs into the goodwill impairment reviews and related sensitivities are included in note 11.

2 Summary of significant accounting policies (continued)

Tangible assets and finite life intangible assets are also reviewed annually for indications of impairment. Where there is an indication of impairment, value in use for the cash generating unit is calculated using the same methodology as above. A sensitivity analysis of the impairment review for property, plant and equipment is included in note 12.

The key assumptions about the future and key sources of estimation uncertainty that have a risk of causing a material adjustment to the carrying value of assets and liabilities in more than 12 months are described below.

Significant estimate: useful lives of intangible and tangible assets
Depreciation and amortisation are provided in order to write down to estimated residual values the cost of each asset over its estimated useful economic life. These useful economic lives require the use of management judgment. These estimates are regularly reviewed. Notes 11 and 12 provide details on the depreciation and amortisation recognised in the current and comparative period.

Basis of consolidation
The consolidated financial statements of the Group incorporate the financial statements of the Company and those entities controlled by the Company. The accounting reference date for the Group is 31 December and the financial statements are prepared to the Sunday falling nearest this date each year.

Subsidiaries
Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Acquisition related costs are expensed as incurred.

Intra-Group transactions, balances, and unrealised gains and losses on transactions between Group companies are eliminated on consolidation.

All subsidiaries other than PizzaExpress (Hong Kong) Limited and PizzaExpress Singapore PTE Limited have coterminous accounting reference dates of 31 December, and those incorporated in the UK, Ireland and UAE prepare statutory financial statements to the Sunday falling nearest to their accounting reference date. PizzaExpress (Hong Kong) Limited and PizzaExpress Singapore PTE Limited have accounting reference dates of the closest Sunday to 31 December.

Business combinations
All acquisitions are accounted for using the acquisition method of accounting. The cost of an acquisition is the aggregate of the fair values of the assets transferred, liabilities incurred or assumed and equity instruments issued.

Costs directly relating to an acquisition are expensed to the statement of comprehensive income. The identified assets and liabilities and contingent liabilities are measured at their fair value at the date of acquisition. The excess of the fair value of consideration to acquire the business over the aggregate fair value of the Group's share of the net identified assets and liabilities is recorded as goodwill.

2 Summary of significant accounting policies (continued)

Disposal of subsidiaries
When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss. Where the disposal of a subsidiary also meets the definition of discontinued operations, the policy for discontinued operations is also followed.

Revenue
Revenue represents net invoiced sales of restaurants (including food and beverages and both dine-in and delivery sales), royalties from retail sales, sales of dough products and franchise fees, all excluding value added tax.

Revenue from restaurant sales is recognised when the goods or services have been delivered to the customer. Revenue is recognised net of discounts provided. Revenue from vouchers and gift cards is recognised on redemption. If the Group does not expect all such vouchers or gift cards to be redeemed, breakage is recognised based on the historical pattern of redemption. If there is not sufficient information to predict whether the Group will be entitled to such breakage, revenue is recognised on expiry of the voucher or gift card. A contract liability is recognised for any vouchers or gift cards outstanding at the statement of financial position date, adjusted for breakage.

Royalties from retail sales and franchise fees are recognised in revenue in line with the underlying sales of the retail products/franchisee. Revenue from such arrangements is mainly based on these underlying sales. However in situations where fees are received for distinct performance obligations, revenue is recognised once these have been fulfilled.

Revenue from the sale of dough products is recognised on dispatch, as this is when control transfers to the third party.

Allocation of costs
Cost of sales includes the cost of goods sold, direct labour costs and restaurant overheads. Administrative expenses include central and area management, administration and head office costs.

2 Summary of significant accounting policies (continued)

Holiday pay accrual
A liability is recognised to the extent of any unused holiday pay entitlement which is accrued at the statement of financial position date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the statement of financial position date.

Intangible assets (excluding goodwill and brand)
Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

Amortisation is provided at the following annual rates in order to write down to estimated residual values the cost of each asset over its estimated useful economic life on a straight-line basis:

Computer software and trademarks	5–15 years

Goodwill and brand
Goodwill arising on consolidation represents the excess of consideration transferred over the interest in the net fair value of the net assets acquired. Brand values arising on consolidation relate to externally acquired, separable brand names and are valued at the date of acquisition. Where brand values are not considered to have an indefinite useful life, they are amortised over their useful life.

An impairment review is carried out annually for goodwill and indefinite life brand values, or when circumstances arise that may indicate an impairment is likely. The carrying value of the goodwill allocated to each group of cash generating units is compared to its recoverable amount being the higher of its value in use and its fair value less costs to sell. Any impairment is charged immediately to the consolidated statement of comprehensive income.

2 Summary of significant accounting policies (continued)

Property, plant and equipment
Tangible fixed assets are stated at original historical purchase cost less accumulated depreciation.

Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Depreciation is provided at the following annual rates in order to write down the cost of each asset over its estimated useful economic life on a straight-line basis:

Equipment	20% per annum
Furniture and fittings	10% per annum

Short leasehold assets are depreciated over the length of the lease except where the anticipated renewal or extension of the lease is sufficiently certain so that a longer estimated useful life is appropriate. Current legislation and the terms of the lease contracts are such that the majority of leases are readily extendable. The maximum depreciation period for short term leasehold properties is 30 years.

Assets under construction include tangible fixed assets acquired for restaurants under construction including costs directly attributable to bringing the asset into use. Assets are transferred to short leasehold, equipment or furniture and fittings when the restaurant opens. No depreciation is provided on assets under construction as these assets have not been brought into working condition for intended use by the Group.

Operating leases
Rentals paid under operating leases are charged to the statement of comprehensive income on a straight-line basis over the term of the lease. The benefits of lease incentives are taken to the statement of comprehensive income on a straight-line basis over the lease term. Contributions received from landlords as an incentive to enter into a lease are treated as deferred income within creditors and are taken to the statement of comprehensive income on a straight-line basis over the lease term. Rentals received under operating leases are credited to the statement of comprehensive income on a straight-line basis over the term of the lease.

Exceptional items
Exceptional items are material items of income and expense that, because of the unusual nature and expected infrequency of the events giving rise to them, merit separate presentation to allow an understanding of the Group's underlying financial performance.

Pensions
Contributions to defined contribution personal pension schemes are charged to the statement of comprehensive income in the period in which they become payable.

2 Summary of significant accounting policies (continued)

Taxation
The tax expense represents the sum of current tax and deferred tax.

Current taxation
Current tax payable is based on taxable profit for the period which differs from accounting profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and those items never taxable or deductible. The Group's liability for current tax is measured using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred taxation
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the taxable profit nor the accounting profit.

Deferred tax is calculated at the substantively enacted tax rates at the balance sheet date that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in comprehensive income, except when it relates to items credited or charged directly to equity, in which case the deferred tax is dealt with in equity, or items charged or credited directly to other comprehensive income, in which case the deferred tax is also recognised in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets and liability and when the Group intends to settle its current tax assets and liabilities on a net asset basis.

Discontinued operations
Discontinued operations are operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes from the rest of the Group, and that have been sold, closed or not yet sold but classified as held for sale. Discontinued operations represent a separate major line of business or geographical area of operations or are part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations.

Discontinued operations are disclosed as a single amount in the statement of comprehensive income comprising the total of the post-tax profit or loss of the discontinued operations and the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets constituting the discontinued operation. The cash flow statement is presented as if the discontinued operation had not been classified as discontinued with disclosures of net cash flows attributable to the operating, investing and financing activities of the discontinued operations presented in the notes.

2 Summary of significant accounting policies (continued)

Inventories
Inventories are valued at the lower of cost and net realisable value. Cost is based on the purchase cost on a first-in, first-out basis. Inventories comprise food and drink and items that are utilised in the rendering of services to customers.

Rebates receivable from suppliers
Where a rebate agreement with a supplier covers more than one period the rebates are recognised in the financial statements in the period in which they are earned.

Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and in hand, including credit and debit card receipts awaiting clearance into a Group bank account, and short-term deposits with maturities of less than three months.

Foreign currency
The Group's presentational currency is GBP. Transactions denominated in foreign currencies are recorded at the spot rate applicable at the date of the transaction. Monetary assets and liabilities expressed in foreign currencies held at the statement of financial position date are translated at the closing rate. The resulting exchange gain or loss is dealt with in the statement of comprehensive income and presented with administrative expenses. The results of foreign subsidiaries are translated at the average rate. The statement of financial position of foreign subsidiaries are translated at the closing rate. The resulting exchange differences are dealt with through reserves and are reported in other comprehensive income.

2 Summary of significant accounting policies (continued)

Financial instruments
Financial assets and financial liabilities are recognised when the Group has become a party to the contractual provisions of the instrument. Financial instruments are de-recognised when they are discharged or when the contractual terms expire. The Group's accounting policies in respect of financial instruments transactions are explained below.

Financial assets
Financial assets comprise cash and cash equivalents and trade and other receivables. The Group classifies all of its financial assets as assets at amortised cost as they are held within a business model with the objective to collect contractual cash flows and these contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion'). They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised using an expected credit loss approach. The expected credit loss is the is the difference between the cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive discounted at the original effective interest rate. The Group used the simplified expected credit loss model (the lifetime expected loss allowance) for receivables that do not have a significant financing component. Any short-term trade receivables are assumed to not have a significant financing component.

In the period ended 31 December 2017, the Group reported under IAS 39 and therefore impairment provisions were recognised when there was objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group would be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable.

Financial liabilities
Financial liabilities comprise borrowings and trade and other payables. The Group classifies all of its financial liabilities as liabilities at amortised cost. Financial liabilities at amortised cost are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument.

The Group does not hold or issue derivative financial instruments for trading purposes.

2 Summary of significant accounting policies (continued)

Provisions
Provisions are recognised when the Group has a present legal obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reliably estimated. Where the effect of the time value of money is material, the provision is based on the present value of future outflows, discounted at the pre-tax discount rate that reflects the risks specific to the liability.

Share-based payments
The Group operates share schemes under which shares and share options are granted to certain employees. The schemes meet the definition of equity-settled and cash-settled share-based payment schemes. The costs of equity-settled transactions are measured at fair value at the date of grant. The costs of cash-settled transactions are measured at fair value at the date of grant and then revalued at each reporting date. The costs are expensed on a straight-line basis over the vesting period and are adjusted to reflect the actual number of share that are expected to vest.

Employee benefit trust
The Group operates an employee benefit trust (EBT) in conjunction with the share schemes in place. As the Group is considered to have control over the EBT it is consolidated as a subsidiary and the shares held by the trust are shown as an investment, as they relate to an entity outside the Group which is consolidated.

Segmental reporting
Operating segments are identified using the level of information that is regularly reviewed by the Chief Operating Decision Maker (CODM) in order to allocate resources. The CODM has been identified as the Group Board of Directors. The Group Board of Directors reviews financial information split between UK and Ireland and International. This split is also consistent with budget approval and the level at which segment management exists.

The key focus of segmental information that is regularly reviewed is revenue and earnings before interest, tax, depreciation and amortisation (EBITDA). As such, the statement of comprehensive income segmental information disclosed is for revenue, operating profit and depreciation and amortisation (by virtue of the fact that the latter is included in operating profit for statutory reporting purposes). Net finance costs and tax are reviewed by the CODM at a Group level as opposed to a segmental level.

Statement of financial position information is only reviewed at a Group level by the CODM and therefore no split of segmental information is disclosed in these financial statements. The CODM does not regularly review assets and liabilities disaggregated by the Group's reportable segments.

The Group is also required to disclose financial information by material product and geography, irrespective of the identified reportable operating segments. In determining what constitutes material in respect of geography, the Group applies a threshold of 10% of total Group revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Revenue

Business segment analysis
The split of revenue by business segment is as follows:

	52 weeks ended 30 December 2018 £000	52 weeks ended 31 December 2017 £000
Restaurant income	527,634	517,784
Merchandising income	9,818	10,778
Wholesale income	4,051	4,095
Franchise income	1,515	1,586
	543,018	534,243

Geographical segmental analysis
The split of revenue by material geographical segment is as follows:

	52 weeks ended 30 December 2018 £000	52 weeks ended 31 December 2017 £000
UK & Ireland	441,401	440,496
China	80,899	77,744
Other international geographies	20,718	16,003
	543,018	534,243

4 Segmental reporting

As outlined in the Group's accounting policy, the Group has two reportable segments, being the UK & Ireland and International.

	52 weeks ended 30 December 2018 £000	52 weeks ended 31 December 2017 £000
Revenue		
UK & Ireland	441,401	440,496
International	101,617	93,747
	543,018	534,243
Operating profit/(loss)		
UK & Ireland	50,423	61,072
International	(12,241)	(462)
	38,182	60,610
Depreciation and amortisation		
UK & Ireland	(21,909)	(20,515)
International	(10,652)	(8,111)
	(32,561)	(28,626)
Exceptional items		
UK & Ireland	(4,874)	(4,355)
International	(1,800)	–
	(6,674)	(4,355)

5 Exceptional items

	52 weeks ended 30 December 2018 £000	52 weeks ended 31 December 2017 £000
Impairment of property, plant and equipment	6,674	2,226
Compensation for loss of office and related costs	–	2,129
	6,674	4,355

Further details on the impairment charge are included in note 12. The compensation for loss of office and related costs in the period ended 31 December 2017 relates to management restructuring.

6 Operating profit

Operating profit has been arrived at after charging/(crediting):

	Note	52 weeks ended 30 December 2018 £000	52 weeks ended 31 December 2017 £000
Rent—operating leases		69,039	63,491
Rental income		(1,159)	(1,377)
Share-based payment charge		187	33
Depreciation of property, plant and equipment	11	31,096	27,665
Loss on disposal of property, plant and equipment		2,582	1,000
Amortisation of intangible assets	12	1,465	961
Loss on disposal of intangible assets		1	19
Increase in provisions		217	128
Exchange differences		(178)	(101)
Inventories recognised as an expense		96,225	96,985

During the period the Group incurred costs relating to services provided by the Group's auditors:

	52 weeks ended 30 December 2018 £000	52 weeks ended 31 December 2017 £000
Audit of Group and Company	68	61
Audit of subsidiary companies	299	310
Other assurance services	70	71
	437	442

7 Finance income and finance costs

Finance income	52 weeks ended 30 December 2018 £000	52 weeks ended 31 December 2017 £000
Other interest income	293	53

Finance costs	52 weeks ended 30 December 2018 £000	52 weeks ended 31 December 2017 £000
Interest on loan notes	47,431	47,458
Interest on shareholder loan	42,335	38,496
Amortisation of loan issue costs	3,195	2,958
Other interest costs	473	449
	93,434	89,361

8 Staff costs

The aggregate remuneration for the employees of the Group comprised:

	52 weeks ended 30 December 2018 £000	52 weeks ended 31 December 2017 £000
Wages and salaries	177,937	167,490
Social security costs	12,222	11,334
Other pension costs	2,848	1,928
	193,007	180,752

See note 9 for details of the share-based payment expense.

The average monthly number of persons (including Executive Directors) employed by the Group during the period was:

	52 weeks ended 30 December 2018 No	52 weeks ended 31 December 2017 No
Restaurants	13,596	14,095
Central	441	415
Total average headcount	**14,037**	**14,510**

The aggregate remuneration to Directors of the Group comprised:

	52 weeks ended 30 December 2018 £000	52 weeks ended 31 December 2017 £000
Aggregate emoluments	992	876
Share-based payment charge	117	31
Compensation for loss of office	–	1,656
	1,109	2,563

The compensation for loss of office in the prior period includes waiver of a loan to a previous Director and settlement of the related personal tax element. See note 28 for further details.

The highest paid Director received remuneration of £630,000 (period ended 31 December 2017: £358,000) and the share-based payment charge was £nil (period ended 31 December 2017: £31,000).

During the period one (period ended 31 December 2017: no) Director received share options under the long-term incentive schemes.

See note 28 for details of Key Management Personnel remuneration.

9 Share-based payments

The Group operates share schemes under which shares and share options (collectively 'awards') in the parent entity of the Company, Pizza Deliziosa Limited, are granted to certain senior employees of the Group. The awards are not subject to any performance conditions but are subject to forfeiture on cessation of employment. The awards only deliver a return to the employees on the sale of the indirect parent entity in which the shares are held and only in the event that the proceeds for the sale exceed the level of debt held in the subsidiaries of Pizza Deliziosa Limited, the indirect parent entity of the Company.

Movements in the number of awards issued to employees under the scheme and their related weighted average exercise prices are as follows:

	52 weeks ended 30 December 2018		52 weeks ended 31 December 2017	
	Weighted average exercise price per share £	Shares/ Share options No	Weighted average exercise price per share £	Shares/ Share options No
At the beginning of the period	465.37	48,175	465.37	67,475
Granted	565.57	30,135	465.37	15,800
Cancelled	465.37	(350)	465.37	(300)
Forfeiture of shares (purchased by Employee Benefit Trust)	465.37	(850)	465.37	(34,800)
At the end of the period	**505.89**	**77,110**	**465.37**	**48,175**

The above table includes both shares and share options awarded to employees. As at 30 December 2018 50,550 (31 December 2017: 49,700) shares were held by the Employee Benefit Trust, including 35,485 (31 December 2017: 5,900) shares over which options were held by employees.

During the period ended 30 December 2018, the vesting period of shares and share options in issue was modified from December 2018 to December 2020. This change did not have an impact on the fair value calculation of the awards.

Awards outstanding at the end of the period have the following expiry date and exercise prices:

	52 weeks ended 30 December 2018		52 weeks ended 31 December 2017	
Grant-vest	Weighted average exercise price per share £	Shares/ Share options No	Weighted average exercise price per share £	Shares/ Share options No
December 2014–December 2020	465.37	24,850	465.37	24,600
March 2015–December 2020	465.37	750	465.37	1,500
April 2015–December 2020	465.37	1,750	465.37	1,750
March 2016–December 2020	485.43	5,825	465.37	6,075
June 2017–December 2020	465.37	13,800	465.37	14,250
June 2018–December 2020	565.57	30,135	–	–
At the end of the period	**505.89**	**77,110**	**465.37**	**48,175**

9 Share-based payments (continued)

Assumptions used in valuation of awards granted during the period ended 30 December 2018 and the comparative period are as follows:

Model	Black-Scholes	Black-Scholes
Grant date	Jun 18	Jun 17
Share price	£401.72	£368.23
Exercise price	£565.57	£465.37
Volatility	32.74%	24.40%
Expected term	2.6 years	1.6 years
Risk-free rate	1.10%	1.10%
Dividend yield	0.00%	0.00%
Fair value per share	£41.26	£17.42
Acquisition cost	£ nil	£ nil
Fair value less acquisition cost	£41.26	£17.42
Number of shares subject to award as at 30 December 2018	30,135	13,800

The expense recognised in the period relating to share-based payments transactions is £187,000 (period ended 31 December 2017: £33,000).

10 Tax on loss

	52 weeks ended 30 December 2018 £000	52 weeks ended 31 December 2017 £000
Corporation tax		
Current tax on losses for the period	2,074	2,840
Adjustments in respect of previous periods	1,231	637
Taxation charge for the period	**3,305**	**3,477**
Deferred tax		
Origination and reversal of timing differences	(327)	(194)
Adjustments in respect of previous periods	(2,186)	(344)
Taxation credit for the period	**(2,513)**	**(538)**
Total taxation charge for the period	**792**	**2,939**

10 Tax on loss (continued)

The tax assessed for the period is higher (period ended 31 December 2017: higher) than the standard rate of corporation tax in the United Kingdom of 19.00% (period ended 31 December 2017: 19.25%). The differences are reconciled below:

	52 weeks ended 30 December 2018 £000	52 weeks ended 31 December 2017 £000
Loss before taxation	(54,959)	(28,698)
Loss multiplied by standard rate of corporation tax in the UK of 19.00% (period ended 31 December 2017: 19.25%)	(10,442)	(5,524)
Effects of:		
Depreciation on non-qualifying assets	750	738
Interest not deductible for tax purposes	8,597	7,826
Expenses not deductible for tax purposes/(income not taxable)	814	(408)
Effect of overseas tax at lower rate	(1,143)	(872)
Losses carried forward	3,157	757
Adjustments in respect of previous periods	(955)	293
Capital gains	14	129
Total taxation charge for the period	**792**	**2,939**

Factors that may affect future tax charges
Any changes in the rate of UK corporation tax will have an impact on the future tax charge. Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2016 (on 6 September 2016). These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 17% from 1 April 2020. These changes had been substantively enacted at the balance sheet date and therefore their impact is included in these financial statements. No further applicable changes were announced since 6 September 2016.

Based on current capital investment plans, the Group expects to be able to claim capital allowances in excess of depreciation in future years.

11 Intangible assets

31 December 2017	Goodwill £000	Trademarks £000	Computer software £000	Brand £000	Total £000
Cost					
As at 2 January 2017	380,923	450	3,526	518,662	903,561
Additions	–	245	1,130	–	1,375
Disposal of subsidiaries	(1,616)	–	(96)	(3,662)	(5,374)
Disposals	–	–	(1,586)	–	(1,586)
Transfers	–	–	2,762	–	2,762
Foreign exchange	(74)	(17)	(11)	–	(102)
As at 31 December 2017	**379,233**	**678**	**5,725**	**515,000**	**900,636**
Accumulated amortisation					
As at 2 January 2017	–	(34)	(1,391)	(153)	(1,578)
Charge for the period (continuing operations)	–	(66)	(895)	–	(961)
Charge for the period (discontinued operations)	–	–	(11)	(155)	(166)
Disposal of subsidiaries	–	–	16	308	324
Disposals	–	–	1,567	–	1,567
Foreign exchange	–	17	(2)	–	15
As at 31 December 2017	**–**	**(83)**	**(716)**	**–**	**(799)**
Net book value					
As at 31 December 2017	**379,233**	**595**	**5,009**	**515,000**	**899,837**
As at 2 January 2017	380,923	416	2,135	518,509	901,983

30 December 2018	Goodwill £000	Trademarks £000	Computer software £000	Brand £000	Total £000
Cost					
As at 1 January 2018	379,233	678	5,725	515,000	900,636
Additions	–	210	9	–	219
Disposals	–	–	(3)	–	(3)
Transfers	–	–	1,983	–	1,983
Foreign exchange	–	11	13	–	24
As at 30 December 2018	**379,233**	**899**	**7,727**	**515,000**	**902,859**
Accumulated amortisation					
As at 1 January 2018	–	(83)	(716)	–	(799)
Charge for the period	–	(85)	(1,380)	–	(1,465)
Disposals	–	–	2	–	2
Foreign exchange	–	(11)	(6)	–	(17)
As at 30 December 2018	**–**	**(179)**	**(2,100)**	**–**	**(2,279)**
Net book value					
As at 30 December 2018	**379,233**	**720**	**5,627**	**515,000**	**900,580**
As at 31 December 2017	379,233	595	5,009	515,000	899,837

11 Intangible assets (continued)

Goodwill and Brand

The goodwill balance has been allocated to the following cash generating units at 30 December 2018 and 31 December 2017:

	UK & Ireland £000	China £000	UAE £000	Total £000
Brand	515,000	–	–	515,000
Goodwill	324,459	51,118	3,656	379,233
	839,459	**51,118**	**3,656**	**894,233**

The goodwill recognised in relation to UK & Ireland relates to the acquisition of the ordinary share capital of PizzaExpress Operations Limited (formerly Gondola Investments Limited), PizzaExpress (Franchises) Limited and PizzaExpress Greater China Limited. The goodwill recognised in relation to China relates to PizzaExpress (Hong Kong) Limited and its subsidiaries. The goodwill recognised in relation to UAE relates to the acquisition of Jordana Restaurants LLC. Each of these acquisition groups is considered to be a group of cash generating units and represents the lowest level at which management monitors goodwill.

The brand recognised as an intangible asset at 30 December 2018 relates to the PizzaExpress brand. This is considered to have an indefinite life due to the history, profit and market position of the trade name.

The intangible asset relating to the Firezza brand was disposed in the previous period as part of the sale of the Firezza business during the period ended 31 December 2017.

Each goodwill and brand value is tested annually for impairment by reference to value in use or fair value less costs to sell. This is calculated using Board-approved budgets covering a five-year period. After this five-year period the cash flows are continued in perpetuity using market-specific growth rates. The key assumptions are discount rate, long-term growth rate and forecast cash flows (including number of new site openings, existing site growth, cost increases and capital expenditure). Long-term growth rates are based on external research demonstrating expected long-term growth for each of the markets to which the goodwill relates.

The table sets out the key assumptions used for the value in use and fair value less costs to sell calculations.

	UK & Ireland	China	UAE
Model	Value in use	Fair value less costs to sell	Value in use
Fair value hierarchy level	n/a	Level 3	n/a
Pre-/post-tax discount rate	Pre	Post	Pre
Period ended 30 December 2018			
Discount rate	8.0%	8.7%	10.0%
Long-term growth rate	2.0%	3.0%	2.0%
Period ended 31 December 2017			
Discount rate	8.0%	8.7%	10.0%
Long-term growth rate	2.0%	3.0%	2.0%

A sensitivity analysis has been performed on the value in use and fair value less costs to sell calculations by adjusting the key assumptions. This analysis has shown that neither a 1% increase in discount rate nor a 1% decline in long-term growth rates would result in an impairment. Sensitivity has also been performed on total cash flows, showing that a 5% decline in annual cash flows in each year compared to the Board-approved budgets would not result in an impairment. The Directors are therefore comfortable that at the present time no reasonably possible change in assumptions would result in an impairment.

12 Property, plant and equipment

31 December 2017	Assets under construction £000	Short leasehold £000	Furniture and fittings £000	Equipment £000	Total £000
Cost					
As at 2 January 2017	7,473	187,038	61,890	21,528	277,929
Additions	22,945	7,230	8,662	4,953	43,790
Disposal of subsidiaries	(3)	(2,113)	(1,277)	(12)	(3,405)
Disposals	(322)	(2,088)	(441)	(231)	(3,082)
Transfers	(23,381)	9,452	7,626	3,541	(2,762)
Foreign exchange	161	(1,228)	(773)	(584)	(2,424)
As at 31 December 2017	**6,873**	**198,291**	**75,687**	**29,195**	**310,046**
Accumulated depreciation and impairment					
As at 2 January 2017	–	(22,673)	(13,786)	(8,180)	(44,639)
Charge for the period (continuing operations)	–	(14,053)	(8,632)	(4,980)	(27,665)
Charge for the period (discontinued operations)	–	(152)	(363)	–	(515)
Disposal of subsidiaries	–	(119)	283	–	164
Disposals	–	1,081	48	90	1,219
Impairment charge	–	(2,226)	–	–	(2,226)
Transfers	–	(19)	(83)	102	–
Foreign exchange	–	777	319	326	1,422
As at 31 December 2017	**–**	**(37,384)**	**(22,214)**	**(12,642)**	**(72,240)**
Net book value					
As at 31 December 2017	**6,873**	**160,907**	**53,473**	**16,553**	**237,806**
As at 2 January 2017	7,473	164,365	48,104	13,348	233,290

The disposal of subsidiaries relates to the disposal of Firezza Holdings Limited and its subsidiary Firezza Holdings Limited on 5 November 2017. See note 25 for further details.

12 Property, plant and equipment (continued)

30 December 2018	Assets under construction £000	Short leasehold £000	Furniture and fittings £000	Equipment £000	Total £000
Cost					
As at 1 January 2018	6,873	198,291	75,687	29,195	310,046
Additions	16,098	1,422	5,761	3,283	26,564
Disposals	–	(8,354)	(1,234)	(1,731)	(11,319)
Transfers	(21,055)	8,012	7,575	3,485	(1,983)
Foreign exchange	27	1,321	669	569	2,586
As at 30 December 2018	**1,943**	**200,692**	**88,458**	**34,801**	**325,894**
Accumulated depreciation and impairment					
As at 1 January 2018	–	(37,384)	(22,214)	(12,642)	(72,240)
Charge for the period	–	(15,186)	(9,782)	(6,128)	(31,096)
Disposals	–	5,403	723	1,621	7,747
Impairment charge	–	(6,674)	–	–	(6,674)
Foreign exchange	–	(771)	(339)	(355)	(1,465)
As at 30 December 2018	**–**	**(54,612)**	**(31,612)**	**(17,504)**	**(103,728)**
Net book value					
As at 30 December 2018	**1,943**	**146,080**	**56,846**	**17,297**	**222,166**
As at 31 December 2017	6,873	160,907	53,473	16,553	237,806

Transfers relate to movements out of the assets under construction category to other property, plant and equipment categories and to intangibles.

For the purposes of tangible asset impairment reviews, the Group considers each trading outlet to be a cash generating unit (CGU) and each CGU is reviewed annually for indicators of impairment of tangible assets. In assessing whether an asset has been impaired, the carrying value of the CGU is compared to its recoverable amount. The recoverable amount is the higher of its fair value and its value in use.

The Group estimates value in use using a discounted cash flow model. Future cash flows are based on assumptions from the business plans and cover a five-year period. A sensitivity analysis has been performed on the value in use calculation by adjusting the key assumptions. This analysis has shown that neither a 1% increase in discount rate nor a 1% decline in long-term growth rates would result in a change in the impairment charge that has been recognised. Sensitivity has also been performed on total cash flows, showing that a 5% decline in annual cash flows in each year compared to the Board-approved budgets would not result in an impairment.

The impairment charge in the current and comparative financial period relates to assets held at a small number of loss-making CGUs.

13 Trade and other receivables

	30 December 2018 £000	31 December 2017 £000
Amounts falling after more than one year		
Non-current rental deposits	5,677	4,885
Other receivables	579	351
	6,256	5,236

	30 December 2018 £000	31 December 2017 £000
Amounts falling due within one year		
Trade receivables	6,205	7,099
Prepayments	18,543	18,231
Accrued income	2,156	3,810
Taxation and social security	3,157	2,006
Other receivables	5,545	5,982
	35,606	37,128

Other receivables falling due within one year include current rental deposits of £1,747,000 (period ended 31 December 2017: £1,664,000). At 30 December 2018 there was a provision of £146,000 (31 December 2017: £87,000) held in relation to trade receivables.

The fair values of the financial instruments included within trade and other receivables falling trade within one year are not considered to be materially different from their carrying value due to their short-term nature. For non-current trade and other receivables, fair value is also not considered to be materiality different from carrying value.

14 Investments

	Investments £000
Cost	
As at 1 January 2018	174
Additions	8
As at 30 December 2018	**182**
Net book value	
As at 30 December 2018	**182**
As at 31 December 2017	174

The increase in investments during the year relates to shares in a parent company that have been purchased by the Employee Benefit Trust (EBT). As described in note 2, the Group has control over the EBT and it is therefore consolidated within these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 Inventories

	30 December 2018 £000	31 December 2017 £000
Food and drink	5,559	5,277
Equipment	6,568	5,745
	12,127	11,022

Equipment relates to items utilised in the rendering of services to customers.

16 Cash and cash equivalents

	30 December 2018 £000	31 December 2017 £000
Cash at bank and in hand	47,934	42,552

Included in cash and cash equivalents is £7,793,000 (31 December 2017: £7,447,000) relating to credit and debit card receipts for sales made immediately prior to the period end that had not yet cleared into the Group's bank accounts but cleared post period end.

17 Trade and other payables

	30 December 2018 £000	31 December 2017 £000
Amounts falling due within one year		
Trade payables	22,173	23,316
Accruals	67,650	67,854
Deferred income	5,603	5,052
Other payables	2,584	2,237
Taxation and social security	15,631	13,946
	113,641	112,405

The fair values of the financial instruments included within trade and other payables is not considered to be materially different from their carrying value due to their short-term nature.

18 Borrowings

	30 December 2018 £000	31 December 2017 £000
Senior Notes and Senior Secured Notes	655,567	652,836
Loan from parent	466,916	424,581
	1,122,483	1,077,417

The Senior Notes and Senior Secured Notes are actively traded on the Irish Stock Exchange and therefore sit within level 1 of the fair value hierarchy. At 30 December 2018, the carrying value of financial instruments within the liability was £665,000,000 (31 December 2017: £665,000,000) and the equivalent market value was £462,185,000 (31 December 2017: £622,870,000).

The loan from the parent is listed on The International Stock Exchange however the loan is not actively traded. As such, the financial liability sits within level 3 of the fair value hierarchy and the fair value is not considered to be materially different to carrying value.

The Group's loan facilities as at 30 December 2018 comprise:

Senior Notes and Senior Secured Notes
The loan notes comprise Senior Notes and Senior Secured Notes, in addition to debt issue costs offset against the loan balance and premiums on issue of the notes.

The Senior Secured Notes of £465,000,000 (31 December 2017: £465,000,000) carry interest at a fixed rate of 6.625% and are due for repayment at the maturity date in August 2021. The Senior Secured Notes are listed on the Irish Stock Exchange (Global Exchange Market).

Debt issue costs of £15,928,000 (31 December 2017: £15,928,000) have been capitalised and offset against the loan note principal balance. The issue costs are being amortised over the term to maturity and at 30 December 2018, unamortised issue costs amounted to £6,896,000 (31 December 2017: £9,223,000). A premium of £2,888,000 (31 December 2017: £2,888,000) has been added to the loan note liability and is being amortised over the term to maturity. At 30 December 2018 the unamortised premium was £1,346,000 (31 December 2017: £1,810,000).

The Senior Notes of £200,000,000 (31 December 2017: £200,000,000) carry interest at a fixed rate of 8.625% and are due for repayment at the maturity date in August 2022. The Senior Notes are listed on the Irish Stock Exchange (Global Exchange Market).

Debt issue costs of £7,188,000 (31 December 2017: £7,188,000) have been capitalised and offset against the loan note principal balance. The issue costs are being amortised over the term to maturity and at 30 December 2018, unamortised issue costs amounted to £3,883,000 (31 December 2017: £4,751,000).

The Senior Notes and Senior Secured Notes are secured against assets held by the Group, as explained in note 26.

18 Borrowings (continued)

Loan from parent
The loan from parent of £307,617,000 (period ended 31 December 2017: £307,617,000) is unsecured, accrues interest at a compound fixed rate of 10% per annum and is due for repayment at the maturity date in August 2024. Interest of £42,335,000 (period ended 31 December 2017: £38,496,000) was accrued against the loan during the period. The loan includes interest of £116,964,000 accrued during previous financial periods (31 December 2017: £78,468,000). Interest shall accrue and be aggregated with the principal balance until such time that the loan is repaid.

On 14 August 2015, PizzaExpress Group Holdings Limited listed the principal value of the loan from the parent of £307,617,000 on The International Stock Exchange. This did not have any impact on the terms of the loan.

19 Provisions for liabilities

	52 weeks ended 30 December 2018 £000	52 weeks ended 31 December 2017 £000
As at the beginning of the period	1,283	1,289
Charged during the period	652	418
Disposal of subsidiaries	–	(140)
Utilised during the period	(435)	(290)
Release of discount	32	34
Foreign exchange movement	31	(28)
As at the end of the period	**1,563**	**1,283**

Provisions for liabilities relate to onerous lease and dilapidation provisions. These provisions represent operating leases on properties no longer in use, until the end of their leases or until the Directors estimate the properties can be sublet, as well as an estimate of dilapidations payable on leases held by the Group. This provision is expected to be utilised within the next five years.

20 Deferred tax liability

	52 weeks ended 30 December 2018 £000	52 weeks ended 31 December 2017 £000
As at the beginning of the period	99,136	100,291
Disposal of subsidiaries	–	(690)
Credit for the period	(2,513)	(538)
Foreign exchange movement	(32)	73
As at the end of the period	**96,591**	**99,136**

The deferred tax liability can be analysed as follows:

	30 December 2018 £000	31 December 2017 £000
Capital allowances in excess of depreciation	8,337	10,694
Carried forward fair value of brand on consolidation	87,550	87,550
Other timing differences	704	892
	96,591	99,136

The Group expects to realise the deferred tax liability after more than 12 months.

The Group has an unrecognised deferred tax asset of £5,132,000 (31 December 2017: £2,509,000) related to unused tax losses. The asset has not been recognised as it is not probable that the losses will be utilised in the foreseeable future.

21 Financial risk management

The main financial risks associated with the Group have been identified as liquidity risk, interest rate risk, foreign exchange risk and credit risk. The Directors are responsible for managing these risks and the policies adopted are set out below.

Liquidity risk

The Group finances its operations through a mixture of equity (Company share capital, reserves and retained earnings) and debt. The Group manages its liquidity risk by monitoring its existing facilities for both financial covenant and funding headroom against forecast requirements based on short term and long-term cash flow forecasts. The Group's existing facilities include an undrawn Revolving Credit Facility of £20,000,000 currently readily available until August 2020.

Maturity analysis

The following table sets out the contractual undiscounted maturities including estimated cash flows of the financial liabilities of the Group at 30 December 2018 and 31 December 2017.

	Less than 1 year £000	1 to 2 years £000	2 to 5 years £000	Over 5 years £000	Total £000
30 December 2018					
Loans and borrowings	–	–	665,000	466,916	1,131,916
Trade and other payables	78,967	501	–	–	79,468
	78,967	**501**	**665,000**	**466,916**	**1,211,384**
Future interest payments*	28,207	48,063	65,315	330,962	472,547
31 December 2017					
Loans and borrowings	–	–	665,000	424,581	1,089,581
Trade and other payables	80,590	–	–	–	80,590
	80,590	**–**	**665,000**	**424,581**	**1,170,171**
Future interest payments*	28,040	48,063	113,378	373,297	562,778

*Future interest is contractual payments on loans and borrowings which relates to future periods and therefore not accrued at the end of the financial period

The £1,131,916,000 (period ended 31 December 2017: £1,089,581,000) of loans and borrowings are due for repayment as follows:

	30 December 2018 £000	31 December 2017 £000
August 2021	465,000	465,000
August 2022	200,000	200,000
August 2024	466,916	424,581
	1,131,916	**1,089,581**

21 Financial risk management (continued)

Interest rate risk
Interest rate risk reflects the Group's exposure to fluctuations in interest rates in the market. All of the financial liabilities of the Group are either non-interest bearing or charged at a fixed rate of interest.

The following table sets out the interest rate risk associated with the Group's financial liabilities at 30 December 2018.

	Fixed rate £000	Floating rate £000	Non-interest bearing £000	Total £000
30 December 2018				
Loans and borrowings	1,131,916	–	–	1,131,916
Trade and other payables	–	–	79,468	79,468
	1,131,916	**–**	**79,468**	**1,211,384**
31 December 2017				
Loans and borrowings	1,089,581	–	–	1,089,581
Trade and other payables	–	–	80,590	80,590
	1,089,581	**–**	**80,590**	**1,170,171**

The financial assets of the Group amounting to £68,716,000 (period ended 31 December 2017: £62,937,000) include cash and cash equivalents amounting to £47,934,000 (period ended 31 December 2017: £42,552,000) which are interest bearing. All other financial assets are non-interest bearing.

At present the Group does not manage its interest rate risk through interest rate swap contracts or any other derivatives.

Foreign currency risk
The Group is exposed to changes in foreign currency rates. Foreign exchange risk arises from future commercial transactions as the Group purchases certain goods from European suppliers. This is partially mitigated at the Group level by a subsidiary company generating income in Euros. Additionally, where possible, foreign exchange rates with key suppliers are fixed.

The Group has subsidiaries whose functional currency is not sterling and is therefore exposed to translation risk in relation to these entities.

Where the Group expects to undertake a significant transaction in a foreign currency, foreign exchange forward contracts are utilised. As the Group continues to expand internationally it will consider whether it is appropriate to develop a formal hedging strategy.

21 Financial risk management (continued)

Credit risk
The Group's credit risk predominantly arises from trade receivables and cash and cash equivalents.

Trade and other receivables comprise mainly rebates, franchise and royalty fees due, as well as amounts due for sales made through a third party. Credit risk is considered to be low, based on historical experience.

Credit risk also arises on cash and cash equivalents held with banks.

An analysis of the ageing of trade receivables is given below.

	30 December 2018 £000	31 December 2017 £000
Current	4,846	5,670
0–30 days	531	526
30–60 days	235	242
More than 60 days	593	661
	6,205	**7,099**

As at 30 December 2018, trade or other receivables of £146,000 were impaired (as at 31 December 2017: £87,000). There was no material impact on the expected loss allowance on moving from IAS 39 to IFRS 9.

Capital management
The Group's policies seek to protect returns to shareholders by ensuring the Group will continue to trade profitably in the foreseeable future. The Group also aims to optimise its capital structure of debt and equity so as to minimise its cost of capital.

The capital of the Group is summarised as follows:

	30 December 2018 £000	31 December 2017 £000
Total borrowings	1,122,483	1,077,417
Less cash and cash equivalents	(47,934)	(42,552)
Net debt	1,074,549	1,034,865
Total equity	(112,332)	(57,921)
Total capital	962,217	976,944

The Group manages its capital with regard to the risks inherent in the business and the sector within which it operates by monitoring its actual cash flows against debt maturities, financial covenants and the cash flow forecasts reviewed by the Directors.

22 Financial instruments

The following tables categorise the Group's financial assets and liabilities included in the consolidated statement of financial position.

	30 December 2018	31 December 2017
	£000	£000
Financial assets		
Trade and other receivables	20,096	20,385
Cash and cash equivalents	47,934	42,552
	68,030	62,937
Financial liabilities		
Trade and other payables	79,468	80,590
Loans and borrowings	1,131,916	1,089,581
	1,211,384	1,170,171

The Group's financial instruments are all measured at amortised cost.

Fair value estimation
The different levels of fair value have been defined as follows:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 Inputs for the asset or liability that are not based on observable market data (that is unobservable inputs).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23 Pensions

The Group operates a defined contribution pension scheme and the pension costs charged to the statement of comprehensive income are the amounts paid by the Group to the scheme during the period.

The pension contribution recognised in the statement of comprehensive income during the period was £2,848,000 (period ended 31 December 2017: £1,928,000). Contributions totalling £499,000 (period ended 31 December 2017: £230,000) were outstanding at period end and are shown in other creditors.

24 Called up share capital and share premium

	30 December 2018		31 December 2017	
	No	£000	No	£000
Called up share capital				
100 (31 December 2017: 100) Ordinary shares of £1 each	100	-	100	-
Share premium				
Share premium		4,500		4,500

The Company was incorporated on 3 July 2014 with the issue of one Ordinary £1 share for total consideration of £1. On 18 August 2014 a further 99 Ordinary £1 shares were issued for total consideration of £4,499,999.

25 Discontinued operations

Firezza Holdings Limited and Firezza Limited
During the prior period, on 5 November 2017, PizzaExpress Limited disposed of Firezza Holdings Limited and its subsidiary Firezza Limited. These operations have been classified as discontinued operations in accordance with IFRS 5 'Non-current assets held for sale and discontinued operations'.

Analysis of the result of discontinued operations is as follows:

	52 weeks ended 30 December 2018	52 weeks ended 31 December 2017
Revenue	–	7,092
Expenses	–	(9,904)
Loss before tax of discontinued operations	**–**	**(2,812)**
Tax	–	17
Loss after tax of discontinued operations	**–**	**(2,795)**
Loss on disposal of subsidiary	–	(6,281)
Total loss for the year financial period from discontinued operations	**–**	**(9,076)**

	52 weeks ended 30 December 2018	52 weeks ended 31 December 2017
Cash flow		
Net cash outflows from operating activities	–	(2,070)
Net cash outflows from investing activities	–	(2,123)
Total cash outflows	**–**	**(4,193)**

26 Contingent liabilities

Various subsidiaries in the Group are guarantors to Senior Secured Notes and Senior Notes issued by the subsidiaries PizzaExpress Financing 2 Limited and PizzaExpress Financing 1 Limited respectively. These guarantees are over substantially all of the assets held by the Group.

The amounts outstanding at the balance sheet date in relation to these notes were £477,773,000 (period ended 31 December 2017: £477,831,000) for the Senior Secured Notes and £207,133,000 (period ended 31 December 2017: £207,192,000) for the Senior Notes, including accrued interest.

Various subsidiaries are also potential guarantors to a Revolving Credit Facility (RCF) made available to PizzaExpress Financing 2 Limited, who may request that any of its subsidiaries become a guarantor to the facility. The RCF is currently not drawn down.

27 Operating lease arrangements

The Group leases restaurants, offices and warehouses under non-cancellable operating lease agreements. The lease terms vary depending on geographical location but are typically between 15 and 25 years in the United Kingdom and between three and five years internationally. The majority of lease agreements are renewable at the end of the lease period at market rate. At 30 December 2018, the total future value of the Group's minimum lease payments under non-cancellable operating leases expiring in the following periods were:

	30 December 2018 £000	31 December 2017 £000
Lessee		
Not later than one year	68,102	57,841
Later than one year and no later than five years	201,990	193,667
Later than five years	284,697	304,485
	554,789	555,993
Lessor		
Not later than one year	797	953
Later than one year and no later than five years	2,694	3,640
Later than five years	1,463	3,032
	4,954	7,625

28 Related party transactions

As at 30 December 2018, a loan of £466,916,000 (as at 31 December 2017: £424,581,000) is outstanding which was previously received by the Company from Crystal Bright Developments Limited, the parent entity of PizzaExpress Group Holdings Limited. This loan accrues interest at a compound fixed rate of 10% per annum and is due for repayment at the maturity date in August 2024. The total loan outstanding includes interest of £42,335,000 (period ended 31 December 2017: £38,496,000) accrued during the period and interest of £116,964,000 (31 December 2017: £78,468,000) accrued during previous financial periods. Interest shall accrue and be aggregated with the principal balance until such time that the loan is repaid.

During the period the Group was charged £400,000 (period ended 31 December 2017: £400,000) by an indirect parent company in relation to monitoring fees, of which £202,000 (period ended 31 December 2017: £202,000) was included in accruals at period end.

During the prior period, a loan of £825,000 made to R Hodgson, a former Director of the Group, was waived and the related personal tax element of £605,000 was settled by the Group. There were no amounts outstanding in relation to this loan at 30 December 2018 or 31 December 2017.

Amounts paid to Key Management Personnel, aside from those members of Key Management Personnel that were also Directors during the period, totalled £781,000 (period ended 31 December 2017: £615,000) and contributions to defined contribution pension schemes in relation to these individuals were £20,000 (period ended 31 December 2017: £27,000). The share-based payment charge was £176,000 (period ended 31 December 2017: £41,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29 Parent and ultimate parent undertakings

PizzaExpress Group Holdings Limited is wholly owned by Pizza Deliziosa Limited, a company registered in the Cayman Islands. PizzaExpress Group Holdings Limited is the largest group for which financial statements are prepared. Consolidated financial statements are also prepared by PizzaExpress Financing 1 PLC, a direct subsidiary of the Company and the smallest group for which consolidated financial statements are prepared.

The Directors consider Crystal Bright Developments Limited, a company registered in the British Virgin Islands, to be the ultimate parent company, and private equity firm Hony Capital to be the ultimate controlling party.

30 Post balance sheet events

There are no post balance sheet events to disclose.

Company Statement of Financial Position
As at 30 December 2018
Registration number: 09115780

	Note	30 December 2018 £000	31 December 2017 £000
Investments in subsidiaries	5	4,500	4,500
Fixed assets		**4,500**	**4,500**
Trade and other receivables falling due after more than one year	6	466,916	424,581
Trade and other receivables falling due within one year	6	34	34
Cash and cash equivalents		–	1
Current assets		**466,950**	**424,616**
Trade and other payables falling due within one year	7	(72)	(73)
Current liabilities		**(72)**	**(73)**
Net current assets		**466,878**	**424,543**
Borrowings	8	(466,916)	(424,581)
Non-current liabilities		**(466,916)**	**(424,581)**
Net assets		**4,462**	**4,462**
Called up share capital	9	–	–
Share premium	9	4,500	4,500
Accumulated losses		(38)	(38)
As at the beginning of the financial period		(38)	(38)
Result for the financial period attributable to equity shareholders		–	–
Total equity		**4,462**	**4,462**

The notes on pages 102 to 110 form part of these financial statements.

The financial statements on pages 100 to 110 were authorised for issue by the Board of Directors on 29 April 2019 and were signed on its behalf.

Andy Pellington
Director

Company Statement of Changes in Equity
For the period from 1 January 2018 to 30 December 2018

	Called up share capital £000	Share premium £000	Accumulated losses £000	Total equity £000
As at 2 January 2017	–	4,500	(38)	4,462
Result for the financial period	–	–	–	–
Total comprehensive result for the financial period	–	–	–	–
As at 31 December 2017	**–**	**4,500**	**(38)**	**4,462**
As at 1 January 2018	**–**	**4,500**	**(38)**	**4,462**
Result for the financial period	–	–	–	–
Total comprehensive result for the financial period	–	–	–	–
As at 30 December 2018	**–**	**4,500**	**(38)**	**4,462**

The notes on pages 102 to 110 form part of these financial statements.

Notes to the Company Financial Statements
For the period from 1 January 2018 to 30 December 2018

1 General information

PizzaExpress Group Holdings Limited is a private limited company limited by shares, domiciled and incorporated in the United Kingdom. The Company's registered office is Hunton House, Highbridge Estate, Oxford Road, Uxbridge, UB8 1LX.

The Company is a holding company for an international chain of pizza restaurants.

2 Summary of significant accounting policies

Basis of preparation
The financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and the Companies Act 2006 applicable to companies reporting under FRS 101 ('FRS 101'). The financial statements have been prepared on the historical cost basis.

The principal accounting policies are outlined below.

Disclosure exemptions adopted
In the preparation of the Company financial statements of PizzaExpress Group Holdings Limited, the following disclosure exemptions have been adopted:

- the requirements of IFRS 7 Financial Instruments: Disclosures;
- paragraph 79(a)(iv) of IAS 1;
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a)–119(c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers;
- paragraph 73(e) of IAS 16 Property, Plant and Equipment;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134–136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- the requirements of paragraphs 134(d)–134(f) and 135(c)–135(e) of IAS 36 Impairment of Assets.

The above disclosures, where applicable, are included within the consolidated financial statements.

2 Summary of significant accounting policies (continued)

Critical accounting estimates and areas of judgment
The preparation of the financial statements in conformity with FRS 101 requires management to make estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income, expenses and related disclosures. The estimates and underlying assumptions are based on historical experience and other relevant factors. This approach forms the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Significant judgment: recoverability of intercompany receivables
Intercompany receivables are tested for impairment by taking into account the liquidity of the intercompany counterparty, as well as historical experience. An impairment is recognised if the cash flows that are expected to be received, discounted at the original effective interest rate where applicable, are lower than the cash flows that are due to the Company.

Company statement of comprehensive income
As permitted by Section 408 Companies Act 2006, the Company has not presented its own statement of comprehensive income. The Company's result for the financial period was £nil (period ended 31 December 2017: £nil) and its other comprehensive income was £nil (period ended 31 December 2017: £nil).

Disclosure for new accounting standards effective during the current period
IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers are new accounting standards that are effective for the period ended 30 December 2018. Adoption of these new standards had no material impact on the Company. There are no other new standards, amendments or interpretations, effective for the first time for the period ending 30 December 2018 that have had a material impact on the Company.

New standards, amendments and interpretations
IFRS 16, 'Leases' is a new standard effective for annual periods beginning on or after 1 January 2019, and has not been applied in preparing these financial statements. The first year of adoption for the Company will be the annual period beginning on 30 December 2019.

Investments
The value of the investment in each subsidiary held by the Company is recorded at cost less any impairment in the Company's balance sheet.

2 Summary of significant accounting policies (continued)

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

Financial assets and financial liabilities are recognised when the Company has become a party to the contractual provisions of the instrument. Financial instruments are de-recognised when they are discharged or when the contractual terms expire. The Company's accounting policies in respect of financial instruments transactions are explained below.

Financial assets
Financial assets comprise cash and cash equivalents and trade and other receivables. The Company classifies all of its financial assets as assets at amortised cost as they are held within a business model with the objective to collect contractual cash flows and these contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion'). They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised using an expected credit loss approach. The expected credit loss is the is the difference between the cash flows that are due to the Company in accordance with the contract and the cash flows that the Company expects to receive discounted at the original effective interest rate. The Company used the simplified expected credit loss model (the lifetime expected loss allowance) for receivables that do not have a significant financing component. Any short-term trade receivables are assumed to not have a significant financing component. For long-term intercompany receivables where there has not been a significant deterioration in credit quality since the initial recognition of the receivable, impairment is assessed using the 12-month expected credit loss approach. Where it is determined that there has been a significant deterioration in credit quality, the lifetime expected credit loss approach is used.

In the period ended 31 December 2017, the Company reported under IAS 39 and therefore impairment provisions were recognised when there was objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company would be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable.

Financial liabilities
Financial liabilities comprise borrowings and trade and other payables. The Company classifies all of its financial liabilities as liabilities at amortised cost. Financial liabilities at amortised cost are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument.

The Company does not hold or issue derivative financial instruments for trading purposes.

3 Staff costs

The Company has no employees other than the Directors, who did not receive any remuneration (period ended 31 December 2017: £nil).

All Directors were remunerated by PizzaExpress Group Limited during the period. This company did not make any recharge to the Company as it is not possible to make an accurate apportionment of the Directors' emoluments in respect of each of the companies of which they are Directors.

The Company does not operate a defined benefit pension scheme and did not make any contributions to defined contribution pension schemes for Directors. No Directors had any interests in any options for shares in the Company.

4 Audit fee

The audit fee of £3,000 (period ended 31 December 2017: £3,000) relating to the Company for the period was borne by, and included within, the financial statements of PizzaExpress Group Limited, an indirect subsidiary of the Company.

5 Investments in subsidiaries

	Investments in subsidiaries £000
Cost and net book value	
As at 31 December 2017 and 30 December 2018	**4,500**

Name of subsidiary	Country of incorporation	Shares held	Principal activity
PizzaExpress Financing 1 PLC*	United Kingdom	100%	Financing
PizzaExpress Financing 2 PLC	United Kingdom	100%	Financing
PizzaExpress Group Limited	United Kingdom	100%	Holding Company
PizzaExpress International Holdings Limited	United Kingdom	100%	Holding Company
PizzaExpress (Franchises) Limited	United Kingdom	100%	International Franchises
PizzaExpress Operations Limited	United Kingdom	100%	Holding Company
PizzaExpress (Wholesale) Limited	United Kingdom	100%	Distribution
PizzaExpress Merchandising Limited	United Kingdom	100%	Branded Sales
PizzaExpress UAE Holdings Limited	United Kingdom	100%	Holding Company
PizzaExpress Limited	United Kingdom	100%	Holding Company
Al Rollo Limited	United Kingdom	100%	Restaurants
PizzaExpress (Jersey) Limited	Jersey	100%	Restaurants
Agenbite Limited	Eire	100%	Restaurants
Bookcash Trading Limited	United Kingdom	100%	Restaurants
Roll&Shake Limited	United Kingdom	100%	Restaurants
PizzaExpress Beijing Limited	China	100%	Restaurants
PizzaExpress (Restaurants) Limited	United Kingdom	100%	Restaurants
Jordana Restaurants LLC	UAE	49%	Restaurants
PizzaExpress (Hong Kong) Limited	Hong Kong	100%	Restaurants
PizzaExpress China Limited	Hong Kong	100%	Holding Company
PizzaExpress Shanghai Limited	China	100%	Restaurants
PizzaExpress PRD Limited	Hong Kong	100%	Holding Company
PizzaExpress (Shenzhen) Limited	China	100%	Restaurants
PizzaExpress Shanghai Foods Limited	China	100%	Restaurants
Shanghai Tongshiyin Restaurant Management Co	China	100%	Non trading
PizzaExpress Singapore PTE Limited	Singapore	100%	Restaurants
PandoraExpress 1 Limited	United Kingdom	100%	Dormant
PandoraExpress 2 Limited	United Kingdom	100%	Non trading
PandoraExpress 3 Limited	United Kingdom	100%	Non trading
PandoraExpress 4 Limited	United Kingdom	100%	Non trading
PandoraExpress 5 Limited	United Kingdom	100%	Non trading
PandoraExpress 6 Limited	United Kingdom	100%	Dormant
PandoraExpress 7 Limited	United Kingdom	100%	Non trading
Riposte Limited	United Kingdom	100%	Non trading
Hunton House Limited	United Kingdom	100%	Non trading
Speed 3969 Limited	United Kingdom	100%	Dormant
Wayracer Limited	United Kingdom	100%	Dormant
The Gourmet Pizza Company Limited	United Kingdom	100%	Dormant
Halfcity Limited	United Kingdom	100%	Dormant
PizzaExpress (West) Limited	Jersey	100%	Dormant
September 1993 Limited	United Kingdom	100%	Dormant
PizzaExpress (Soho) Limited	United Kingdom	100%	Dormant

*Direct shareholdings

5 Investments in subsidiaries (continued)

The registered address of all subsidiaries incorporated in the United Kingdom is Hunton House, Highbridge Estate, Oxford Road, Uxbridge, UB8 1LX.

The registered address of all other subsidiaries is outlined below.

Name of subsidiary	Registered address
PizzaExpress Beijing Limited	57 Xingfucun Middle Road, Chaoyang District, Beijing, China
Agenbite Limited	A38 Main Street, Swords, Dublin, County Dublin, Republic of Ireland
Pizza Express (Jersey) Limited	PO Box 179, 40 Esplanade, St Helier, Jersey, Channel Islands, JE4 9RJ
Pizza Express (West) Limited	PO Box 179, 40 Esplanade, St Helier, Jersey, Channel Islands, JE4 9RJ
Jordana Restaurants LLC	323 Oud Metha Offices, Behind Citibank Building, Oud Metha Road, Dubai, UAE. PO Box 71274
PizzaExpress (Hong Kong) Limited	No 928, 9th Floor, One Island South, 2 Heung Yip Road, Wong Chuk Hang, Hong Kong
PizzaExpress China Limited	Room 2310 Dominion Centre, 43–59 Queen's Road East, Wanchai, Hong Kong
Pizza Express PRD Limited	No 926, 9th Floor, One Island South, 2 Heung Yip Road, Wong Chuck Hang, Hong Kong
PizzaExpress (Shenzhen) Limited	Room 02-R, 13th Floor, Tower 3, Kerry Plaza, 1 Zhong Xin Si Road, Futian District, Shenzhen
PizzaExpress (Shanghai) Limited	Room A207, 700 Huangpu South Road, Huangpu District, Shanghai
PizzaExpress Shanghai Foods Limited	Room 907, Floor 9, WE International Hub, 501 Jiujiang Road, Huangpu District, Shanghai, China
Shanghai Tongshiyin Restaurant Management Company	Room 907, Floor 9, WE International Hub, 501 Jiujiang Road, Huangpu District, Shanghai, China
PizzaExpress Singapore PTE Limited	60 Paya Lebar Road, #08–43, Paya Lebar Square, Singapore 409051

6 Trade and other receivables

	30 December 2018 £000	31 December 2017 £000
Amounts falling after more than one year		
Amounts owed from Group undertakings	466,916	424,581

Amounts owed from Group undertakings due after more than one year are due from a subsidiary company and accrue interest at a compound fixed rate of 10% per annum. The principal and accrued interest is repayable on 18 August 2024.

	30 December 2018 £000	31 December 2017 £000
Amounts falling due within one year		
Amounts owed from Group undertakings	34	34

7 Trade and other payables

	30 December 2018 £000	31 December 2017 £000
Amounts falling due within one year		
Amounts owed to Group undertakings	72	73

8 Borrowings

	30 December 2018 £000	31 December 2017 £000
Shareholder loan	466,916	424,581

The shareholder loan of £307,617,000 (period ended 31 December 2017: £307,617,000) is unsecured, accrues interest at a compound fixed rate of 10% per annum and is due for repayment at the maturity date of 18 August 2024. Interest of £42,335,000 (period ended 31 December 2017: £38,496,000) was accrued against the loan during the period. The loan includes interest of £116,964,000 accrued during previous financial periods (31 December 2017: £78,468,000). Interest shall accrue and be aggregated with the principal balance until such time that the loan is repaid.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

9 Called up share capital and share premium

	30 December 2018 Nº	30 December 2018 £000	31 December 2017 Nº	31 December 2017 £000
Called up share capital				
100 (31 December 2017: 100) Ordinary shares of £1 each	100	–	100	–
Share premium				
Share premium		4,500		4,500

The Company was incorporated on 3 July 2014 with the issue of one Ordinary £1 share for total consideration of £1. On 18 August 2014, a further 99 Ordinary £1 shares were issued for total consideration of £4,499,999.

10 Contingent liabilities

The Company did not have any contingent liabilities as at 30 December 2018 or 31 December 2017.

11 Related party transactions

As at 30 December 2018, a loan of £466,916,000 (as at 31 December 2017: £424,581,000) is outstanding which was previously received by the Company from Crystal Bright Developments Limited, the parent entity of PizzaExpress Group Holdings Limited. This loan accrues interest at a compound fixed rate of 10% per annum and is due for repayment at the maturity date in August 2024. The total loan outstanding includes interest of £42,335,000 (period ended 31 December 2017: £38,496,000) accrued during the period and interest of £116,964,000 (31 December 2017: £78,468,000) accrued during previous financial periods. Interest shall accrue and be aggregated with the principal balance until such time that the loan is repaid.

As at 30 December 2018, a loan of £307,617,000 (as at 31 December 2017: £307,617,000) is outstanding which was previously made by the Company to its direct subsidiary PizzaExpress Financing 1 PLC. The loan accrues interest at a compound fixed rate of 10% per annum and is due for repayment at the maturity date in August 2024. Interest of £42,335,000 (period ended 31 December 2017: £38,496,000) was accrued against the loan during the period. Interest is aggregated with the principal balance until such time that the loan is repaid, at which point the interest also becomes payable.

12 Parent and ultimate parent undertakings

PizzaExpress Group Holdings Limited is wholly owned by Pizza Deliziosa Limited, a company registered in the Cayman Islands.

The directors consider Crystal Bright Developments Limited, a company registered in the British Virgin Islands, to be the ultimate parent company, and private equity firm Hony Capital to be the ultimate controlling party.

13 Post balance sheet events

There are no post balance sheet events to disclose.

19 PIZZA EXPRESS 65