GONDOLA HOLDINGS

ANNUAL REPORT 2006

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Insalata Mista – Zizzi

Financial Highlights

Gondola Holdings is the market leader in the high growth UK casual dining sector and operates the PizzaExpress, ASK and Zizzi brands. The Group employs approximately 11,000 people, serving over 31 million meals a year in 520 restaurants.

Core Business (52 weeks)[1]

RESTAURANT SALES UP

7.0%

TO £384.4m

- Like for like sales up 4.1% to £360.5m
- EBITDA[2] up 6.3% to £89.2m
- EBITDA margin maintained at 22.6%
- Final dividend: 4.7p per share
  Total dividend: 7.0p per share
  - Equivalent 52 week dividend: 11.1p per share

Pro Forma Earnings and EPS (52 weeks)[3]

PROFIT AFTER TAX UP

5.3%

TO £33.6m

- EPS up 5.3% to 24.9p

Statutory Results (53 weeks)

GROUP SALES UP

6.8%

TO £404.4m

- Restaurant sales up 7.4% to £394.0m
- Profit before tax £18.2m after exceptional items of £12.6m
- Continued strong cash generation: £87.8m

Restaurant Estate Expansion

23

NEW RESTAURANTS

OPENED DURING THE YEAR

- 3 ASK
  9 PizzaExpress
  9 Zizzi
  2 others

Current Trading

- Strong sales momentum continues; like for like sales for the 11 weeks to 17 September 2006 up 7.1%. Total restaurant sales up 12.2%
- Two new restaurants opened to date. Five on site

1 'Core business' excludes restaurants disposed of prior to Gondola's IPO, with the 2005/06 core results based on the 52 weeks to 25 June 2006 for comparability against the prior 52 week financial year

2 EBITDA is defined as operating profit excluding exceptional costs, other income generated by sale of properties, depreciation, impairment charges, amortisation of intangibles and losses on disposal of fixed assets

3 Pro forma figures are stated after adjusting the core business results for the impact of the significant change in capital structure and the refinancing which took place in November 2005

Chairman's Statement

David Ross (Chairman)

Gondola's good results demonstrate the power of our brands, the strength of our business model and the commitment of our people. Our strong cash flow and healthy new site pipeline give us a great opportunity to add to the significant growth already being delivered from the core restaurant estate.

Total Group sales were up 6.8% to £404.4m and restaurant sales up 7.4% to £394.0m for the financial year. Profit before tax was £18.2m after exceptional items of £12.6m, and cash flow from operating activities was up 56.8% to £87.8m.

As planned, we opened 23 new restaurants during the year and although some opened later in the year than expected, the sites are performing in line with expectations. For the current year, we have increased our target for new restaurant openings to 25-30. Two are already opened, and we are on site at a further five.

Our strong performance reflects the Group's focus on our 'restaurant basics strategy', with food innovation and improved service standards helping to maintain the very positive sales momentum seen in recent years. At the same time, effective management of our cost base has enabled us to maintain profit margins in the face of challenging industry wide cost pressures, whilst continuing to invest in the quality of our food, our people and our restaurants.

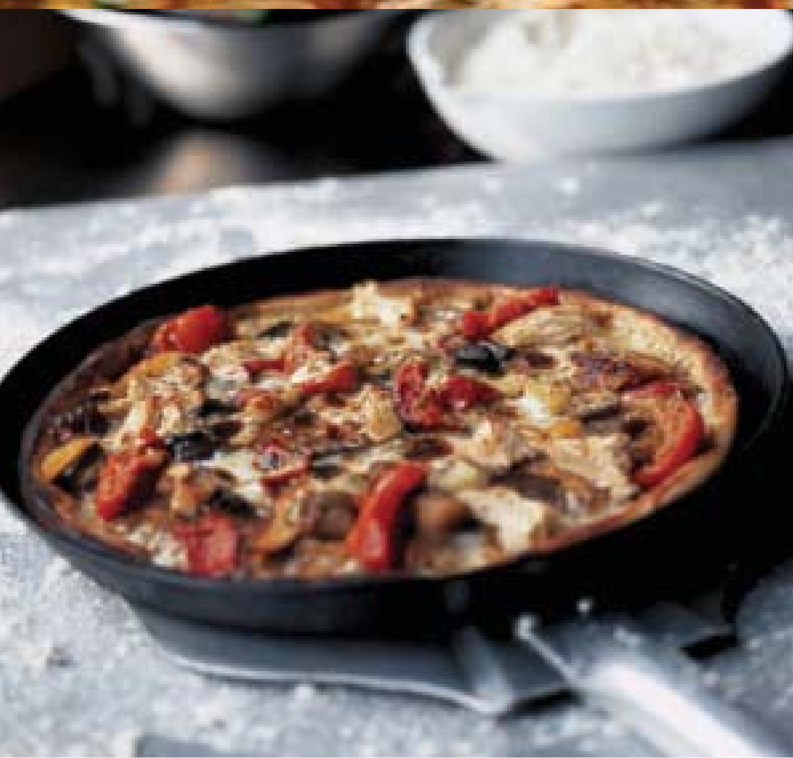
Our performance and our confidence in the Group's future prospects leads the board to recommend a final dividend of 4.7p per share, taking the total dividend to 7.0p per share for the period since IPO. This is equivalent to 11.1p per share for a full 52 week period, at the top end of our dividend payout policy of 35% to 45% of earnings per share. The final dividend will be payable to all shareholders registered on 10 November 2006 and will be paid on 30 November 2006.

With three of the most popular brands in the casual dining sector, a strong property pipeline and a highly experienced and motivated management team, Gondola is well placed to continue to benefit from the large and growing eating-out market in the UK and Ireland. In the first eleven weeks of the current year, like for like sales are up 7.1%. We are confident of delivering further good growth in shareholder value.

"With three of the most popular brands in the casual dining sector, a strong property pipeline and a highly experienced and motivated management team, Gondola is well placed to continue to benefit from the large and growing eating-out market in the UK and Ireland."








Gondola at a Glance

Group Strategy

Whilst the three core brands have their own distinct identities which the different management teams are set up to maintain, there are certain principles that they all follow:

- Focusing on the ‘restaurant basics strategy’ - namely delivering superior food, service and overall experience to the customer, whilst offering good value for money - to profitably grow the core estate
- Introducing new, innovative dishes whilst improving existing ‘classics’
- Sourcing high quality, seasonal ingredients
- Delivering exceptional customer service
- Recruiting and motivating high-calibre people
- Designing and maintaining stylish restaurants
- Delivering a profitable roll-out

Jo Fleet on Gondola's food strategy

(Executive Director,
CEO of ASK and Zizzi)

We are passionate about everything we do and that begins with our food. Customers look to Gondola's brands for a reliable, high quality dining experience that they know and trust, with food freshly prepared in each restaurant. This involves sourcing the best ingredients and using them to create some of the most innovative and exciting menus around.

Each of our brands' dedicated food teams are continually developing the menus and recipes to ensure we offer tempting new flavours and combinations, as well as improving our traditional favourites popular with regular customers.

We have made the sourcing of high quality ingredients a fundamental part of the supply chain function. With the flexibility to source from smaller, independent suppliers as well as large, established suppliers, the Group gets great quality products as well as value for money.

Our highly visible, open kitchens continue to pioneer the 'theatre of cooking' to customers as chefs hand-make fresh food in each restaurant. As food is made to order in the restaurants, customers are able to request how much of a certain ingredient is included in their dishes depending on their tastes and food requirements. If you would like more or less of any ingredient, just ask.

Harvey Smyth on Gondola's people strategy

(Executive Director,
CEO of PizzaExpress)

People are at the heart of any business, no more so than at Gondola and once again our employees have displayed commitment, enthusiasm and skill in all parts of the business.

The key to success has been in hiring high-calibre, motivated people who relish the opportunities and challenges that the Gondola brands present. In return we offer a fun, enjoyable working environment and great incentive, development and promotion prospects so that everyone can reach their full potential.

We have introduced a range of initiatives to ensure that staff perform at their very best, including centres of excellence, internal training and motivation programmes and employee incentive schemes. Training for staff across all areas of customer service continues to be linked to effective measurement of restaurant performance through Gondola's 'Mystery Diner' programme.

In 2006/07, the Group intends to further underline the motivational link between successful performance and reward with the implementation of a new range of share schemes.

Chris Heath on Gondola's property strategy

(Executive Director,
Group CFO and Commercial Director)

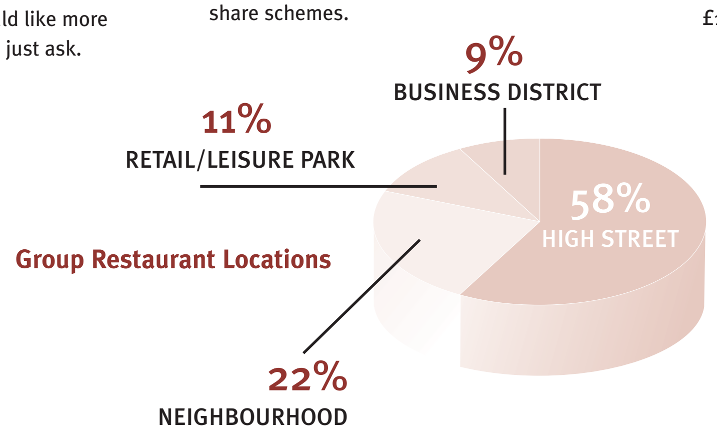
As well as maintaining our current estate to a high standard, our key strategy is to grow the estate through a disciplined roll-out of the core brands. By leveraging our experience and knowledge, we are able to deliver above average returns from our investment programme.

Having opened 23 restaurants in 2005/06, our current plan is to open 25 to 30 restaurants this year. We aim to maintain this rate of growth over the next decade, driven by a management team highly experienced in restaurant roll-outs.

While our brands broadly serve the same demographic profile of customers, each has a distinctive appeal for different occasions. This complementary usage profile allows us to locate our restaurants in close proximity to each other. The ability to co-locate and perform well in different types of locations provides Gondola with extensive scope for roll-out.

We actively look to open restaurants in older, more unusual buildings where we work sympathetically to enhance the building's features rather than simply impose a standardised fit-out. Gondola's commitment to maintaining the characterful, stylish environments of our existing estate is reflected in an investment of more than £17m in refurbishment, repairs and maintenance this year.

This dynamic approach to property is underpinned by a strong financial covenant which is highly attractive to landlords and developers.

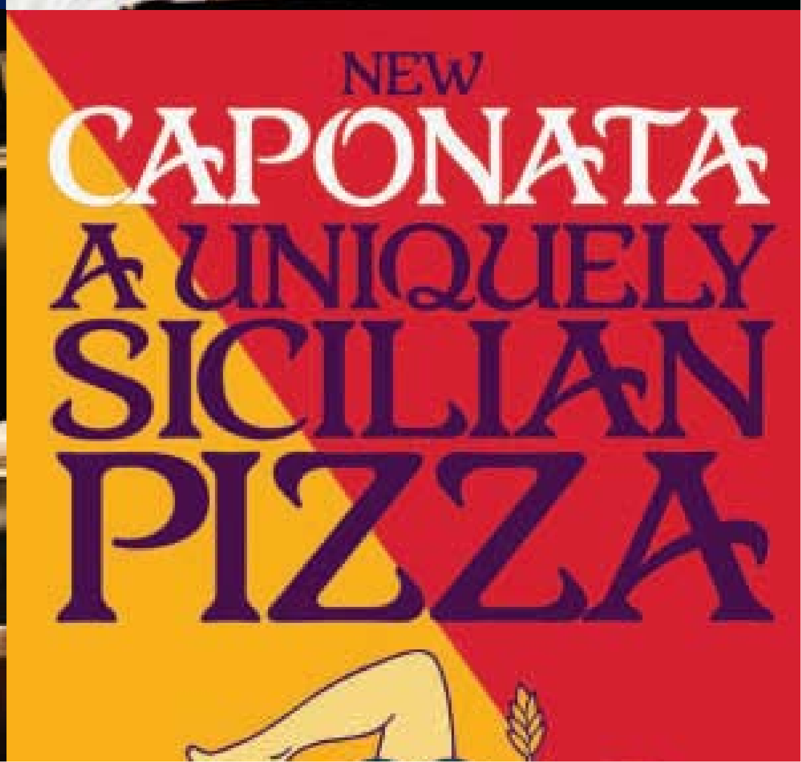


a local pizzeria, the nation's favourite

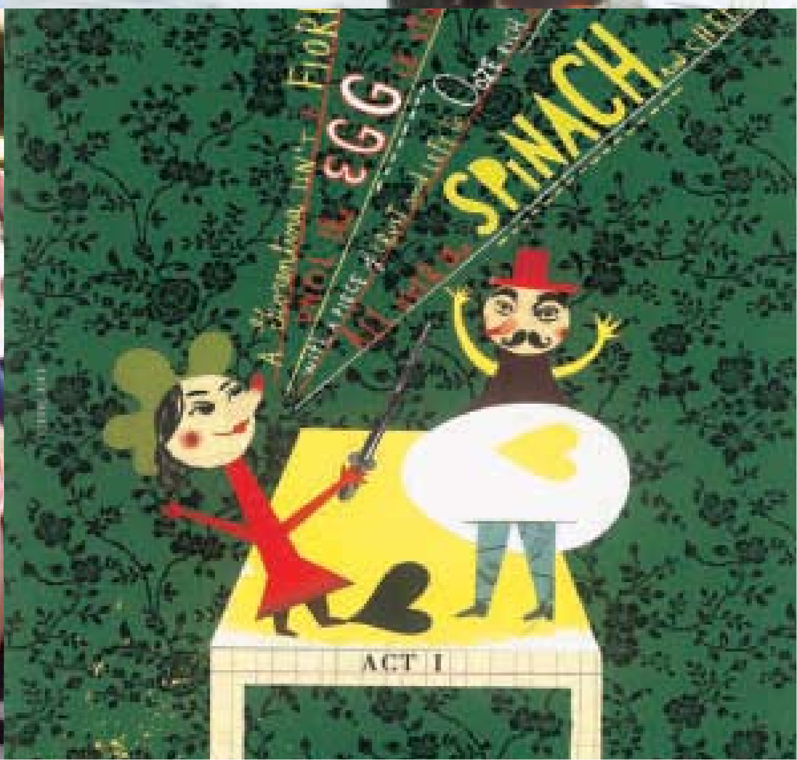
PizzaExpress, now an iconic brand, has been pioneering pizza on the UK high street since 1965.

With 320 restaurants across the country, its customers are loyal to the high quality food in familiar, contemporary surroundings.

For those with children, PizzaExpress is a no-compromise choice where the whole family can have a great meal.




Sicilian Passion
NOW ON THE MENU


SPINACH
EGG
ACT I

ASK

a stylish and relaxed Italian restaurant with a broad menu and appeal

A strong reputation for offering a broad menu of Italian dishes including pizza, pasta and salad and attentive service, makes ASK a popular destination.

Its informal, contemporary ambience lends itself to a wide range of dining experiences across its 110 restaurants, including business lunches and romantic dinners.



Eat Your Heart out at ASK
Special Valentines menu available all week.
Book early to avoid the Valentines Blues

ASK



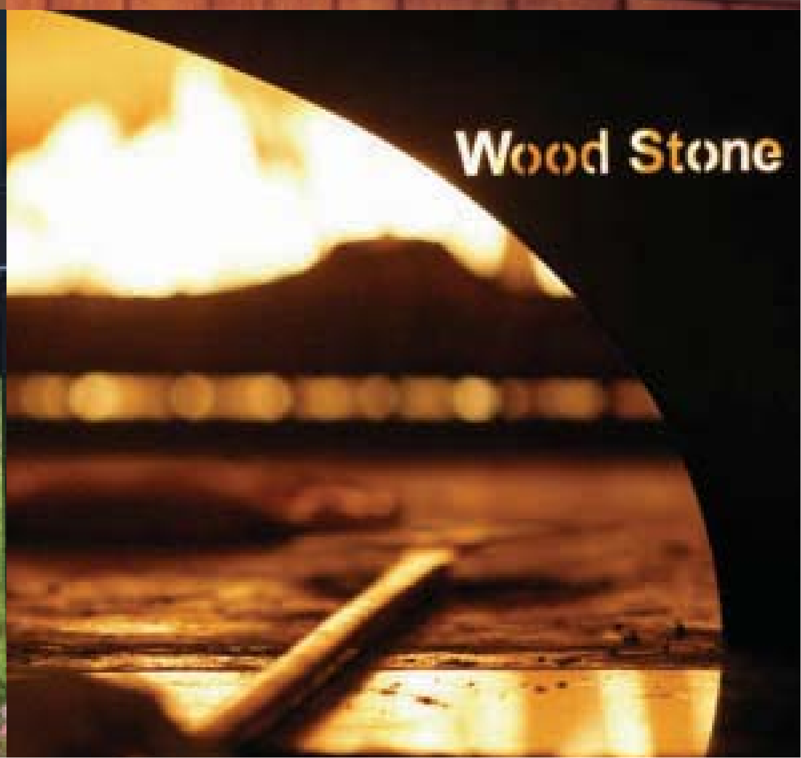
ASK
Egg
Hunt
ASK Egg Hunt
eggs

Zizzi

an authentic Italian experience in a contemporary restaurant environment

Zizzi prides itself on having an extensive, authentic Italian menu in its 82 restaurants.

Perceived as the most upmarket of the three brands, the restaurants are elegant and stylish, perfect for special occasions.




Zizzi

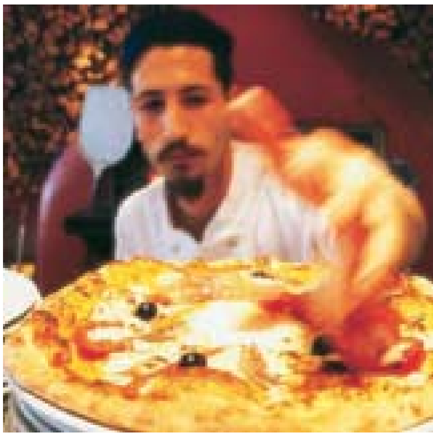

Zizzi


DINE WITH ME
love Zizzi xx
Valentine's Day
love Zizzi xx
Zizzi

Operational Review

Great food

We are continually looking for innovative ways to improve the quality and range of food available in all of our Group restaurants.



At ASK, a number of menu changes implemented in the first half of the year further improved the quality and presentation of existing dishes and also introduced some exciting new items to the range. Our 'specials' board continues to be a successful way of developing and testing new concepts and enabling ASK to introduce seasonal variations such as our heart-shaped pizza for Valentine's Day.

During the year Zizzi introduced a selection of very popular premium priced 'carne' dishes to its menu, which together with its range of seasonal dishes now represents some of the very best Italian cooking in the UK. Zizzi's menu breadth and innovation keeps the customer offer fresh and has enabled the brand to win new customers and maintain a high level of repeat business.

Having benefited from the very successful new menu launch in Autumn 2005, PizzaExpress introduced a new Sicilian-inspired menu in March this year. The menu features several new dishes from the Sicilian region of Italy, including a range of lighter salad dishes and the now famous 'Il Padrino' pizza. Although positioned as the highest of the premium priced pizzas on the menu, this has already established itself as a firm favourite with customers and has been one of the top ten selling pizzas since launch.

With the help of a Master of Wine, PizzaExpress has also completely revamped its wine offering and now has arguably one of the best Italian wine lists in the UK. Wines have been specially selected that perfectly match the flavour profiles of some of our most popular dishes and our teams have been trained to provide advice to customers to ensure that they can enjoy the perfect wine with their meal. Customers have responded well to the new wine list and we have already seen a marked increase in the amount of wine consumed in our restaurants. The 'experts' like it too, with the range of new house whites and reds being judged 'best house wines' by Wine & Spirit magazine in its recent review of wines offered by major UK restaurant groups.

Recognising the growth of the 'coffee culture' in the UK, all three brands are currently developing a new coffee and hot drinks range which will be progressively rolled-out across the entire restaurant estate during the next 12-18 months.

Both ASK and Zizzi refreshed their menus again in June, introducing a selection of menu items, including nine new pasta dishes in ASK. As we enter the new financial year, all three restaurant brands continue to develop and test innovative new dishes, and trials are already well underway in preparation for the launch of the new Autumn menu in PizzaExpress.

It is expected that these ongoing menu enhancements will continue to keep our customer offer fresh and exciting and generate further sales growth.

Great food in our restaurants is of paramount importance, but so is the restaurant ambience in which it is served. We have successfully undertaken a number of seasonal promotional activities across our restaurant estate helping to grow sales and add to a fun atmosphere in the restaurants. As an example, ASK started an 'ASK Mum Out' campaign for Mother's Day, and an 'egg-hunt' in the restaurants for younger customers over the Easter period. To promote the new Spring menu at PizzaExpress, and to continue its tradition of supporting the arts, the 'Il Padrino Express' roaming theatre programme was developed treating customers to a semi-improvised 15 minute pastiche inspired by 'The Godfather' film. This innovation brought a unique taste of live theatre to customers' tables in 8 cities across the UK.

These initiatives have been very well received by our customers and have been particularly successful at increasing customer flow at traditionally quieter times of the day.

Arancini - PizzaExpress

Trio Verde – PizzaExpress

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Penne Paesana - ASK

The best people

Gondola employs almost 11,000 customer facing staff. We continue to invest in the recruitment, training and motivation of our staff, recognising the vital contribution they make to the success of our individual restaurant brands and the Group as a whole.

During the last twelve months, ASK and Zizzi have both focussed on a series of internal training and motivation programmes, including the introduction of new sales competitions that have been linked to the menu changes, generating a sense of fun amongst all employees whilst also rewarding strong performance.

In the first half of the financial year, PizzaExpress trialled and then rolled-out the new 'smart rota' staff scheduling process. This is an investment in the business, designed to optimise the number of waiting staff in the restaurants at all times, thus maintaining high levels of customer service and satisfaction and at the same time, generating additional sales.

In order to ensure that best practice restaurant operations are used consistently across the estate, PizzaExpress has recently established a number of restaurants as regional 'centres of excellence' and developed a series of 'How To' cards as a useful tool to promote consistency in staff training.

The results of these initiatives are carefully monitored to ensure that the experience our customers have in our restaurants is as good as it possibly can be. Through the extensive use of our 'Mystery Diner' programme and regular customer satisfaction surveys we are able to refine and improve our overall offering and give customers a reason to visit us again and again.

Chef – ASK

Operational Review continued

Great restaurants

The high quality of the Gondola restaurant estate is something of which we are very proud and something we are determined to preserve. Our restaurants are maintained to a very high standard with 28 restaurants undergoing a major refurbishment of over £80,000 per site, and a further 18 benefiting from capital investment of under £80,000.

As well as looking after our existing portfolio of restaurants, a key part of Gondola's strategy is to profitably expand our estate throughout the UK and Ireland. This is achieved through a disciplined roll-out strategy which focuses on low risk, high return sites across a diverse range of location types. Typically, two thirds of our new sites are co-located close to one or more of our existing restaurants, enabling us to leverage our extensive knowledge of the local market and optimise the returns from any new development. For all of our brands, there is a strong focus on design which enables us to work sympathetically with, and build upon, the existing characteristics of the site. Our aim is to create something a little bit special and provide a restaurant environment that our customers will never forget.

In line with plan, we opened 23 new restaurants in 2005/06. Two underperforming sites were disposed of during the year, resulting in a net increase in the number of restaurants of 21. New openings included 3 ASK, 9 Zizzi and 9 PizzaExpress. We also opened a second 'pizza by the metre' restaurant (called 'Yard', in London) and introduced a new concept called 'Bar & Grill' in Leamington Spa.

The timing of new openings in 2005/06 was more 'back-end weighted' than originally anticipated, with 16 of the 23 new restaurants opening in the second half, of which 6 opened in the final 5 weeks of the financial year. As a consequence, these restaurants made a lower than expected profit contribution to the 2005/06 results. However, since opening, they have performed well and are expected to make a full contribution this year.

ASK - Canterbury


ASK




For all of our brands, there is a strong focus on design which enables us to work sympathetically with, and build upon, the existing characteristics of the site.

Operational Review continued

Retail sales

Gondola reported retail and other sales down 12.6% to £10.4m. Retail EBITDA was up 64% to £4.1m.

Whilst restaurant sales remain the Group's core and dominant business, incremental rebate and royalty income generated by the sale of PizzaExpress branded products through the leading supermarket chains has continued to grow - especially following the launch of the range in Tesco last September.

As previously reported, the Group's distribution arrangements were changed during the 2004/05 financial year. As a result, our recorded grocery sales to our manufacturing partner Geest have decreased, whilst our profitability from this business has increased.

Though a relatively small part of the business, further growth is expected and this activity remains an important additional link between the PizzaExpress brand and its customers.

Current trading and outlook

The Group's positive sales momentum has continued into the new financial year, with like for like and total restaurant sales growth for the eleven weeks to 17 September of 7.1% and 12.2% respectively. This level of growth in part reflects the fact that trading for the same period last year was adversely affected by the London bombings. We expect to see a return to normal growth rates in subsequent months.

With two new restaurants opened to date, five more on-site and a strong pipeline of sites, we are confident of opening 25-30 new restaurants this year and anticipate a more evenly weighted opening programme than in 2005/06.

With three leading brands in the growing eating-out market and a strong sales momentum, the outlook for the Group remains positive.

"With three leading brands in the growing eating-out market and a strong sales momentum, the outlook for the Group remains positive."

ASK – Kensington

Financial Review

Basis of presentation

The reported statutory results cover the 53 weeks to 2 July 2006 and comparatives for the 52 weeks to 26 June 2005. They include the results for a small number of restaurants that were disposed of prior to IPO and certain non-recurring exceptional costs.

For clarity, the 'core business results' presented below exclude both the restaurants disposed of prior to the IPO and the exceptional costs mentioned above. Unless otherwise stated, all sales, profit and other income statement references are to a 52 week basis; all cash flow references are to a 53 week basis.

	Core Business Results [1]			Statutory Results	
Summary	**2005/06 52 wks Core £m**	**2004/05 52 wks Core £m**	*52 wks Change %*	**2005/06 53 wks Reported £m**	**2004/05 52 wks Reported £m**
Like for like restaurant sales	360.5	346.4	*4.1*	367.4	353.3
Total restaurant sales	384.4	359.4	*7.0*	394.0	366.9
Retail and other	10.2	11.9	*(14.3)*	10.4	11.9
Total sales	394.6	371.3	*6.3*	404.4	378.8
EBITDA - previous GAAP [2]	90.5	84.8	*6.7*	91.8	84.0
IFRS adjustments [3]	(1.3)	(0.9)		(1.3)	(0.9)
EBITDA - IFRS [4]	89.2	83.9	*6.3*	90.5	83.1
Margin	22.6%	22.6%		22.4%	21.9%
Depreciation and amortisation	(18.7)	(17.8)	*5.1*	(19.3)	(17.8)
EBIT [5]	70.5	66.1	*6.7*	71.2	65.3
Margin	17.9%	17.8%		17.6%	17.2%
Property disposal profit	0.5	2.4	(79.2)	0.5	2.4
Exceptional items [6]	-	-	-	(12.6)	(14.2)
Operating Profit	71.0	68.5	*3.6*	59.1	53.5

1 'Core' excludes restaurants disposed of prior to the IPO, with the 2005/06 core results based on the 52 weeks to 25 June 2006 for comparability against the prior 52 week financial year. The restaurants disposed of prior to IPO contributed approximately £2.1m and £(0.1)m of sales and EBITDA respectively for the 52 weeks to 25 June 2006
2 UK GAAP at the time the 2004/05 results were reported
3 Including charges for the pre-IPO employee incentive scheme (now also adopted under UK GAAP, £0.7m in 2005/06) and adjustments to the treatment of rent free periods (£0.1m in 2005/06). Also re-classifying £0.5m for amortisation of lease premiums to a charge against EBITDA
4 EBITDA is defined as EBIT plus depreciation, impairment charges, amortisation of intangibles and losses on disposal of fixed assets
5 EBIT is defined as operating profit excluding exceptional costs and other income generated by sale of properties
6 Exceptional items for 2005/06 comprised £7.8m of IPO costs and £4.8m incurred as a result of the disposal of non-core restaurants pre-IPO. 2004/05 items comprised £6.0m of supply chain reorganisation costs and £4.7m of costs associated with the acquisition of ASK Central, together with other amounts totalling £3.5m

Dough Balls - PizzaExpress

Financial Review continued

Pro forma analysis of earnings per share

The financial results for 2005/06 were impacted by the significant change in capital structure and the refinancing which took place in November 2005.

Management believe that a clearer picture of the Group's underlying performance is given by the following pro forma analysis, which shows what the finance and tax costs and resulting earnings per share would have been, had the current capital structure and financing arrangements been in place from the start of both accounting periods.

	Pro Forma [1] Core Business Results [2]			Statutory Results	
Earnings per share	**2005/06 52 wks Pro Forma £m**	**2004/05 52 wks Pro Forma £m**	*52 wks Change %*	**2005/06 53 wks Reported £m**	**2004/05 52 wks Reported £m**
Operating profit	71.0	68.5	*3.6*	59.1	53.5
Net finance costs	(22.3)	(22.3)	-	(40.9)	(72.7)
Profit/(loss) before tax	48.7	46.2	*5.4*	18.2	(19.2)
Taxation	(15.1)	(14.3)	*5.6*	(6.0)	11.0
Profit/(loss) after tax	33.6	31.9	*5.3*	12.2	(8.2)
Attributable to equity holders	£33.5m	£31.8m			
Number of shares in issue	134.7m	134.7m			
Earnings per share	24.9p	23.6p			

[1] Pro forma adjustments that have been made are as follows:

- to reduce the net interest charge, as the Group has paid a lower rate of interest on a lower level of borrowings following the refinancing. The same level of pro forma net borrowings has been assumed for 2004/05 for comparability purposes
- to exclude the impact of non-deductible costs associated with the IPO on the taxation charge and other one-off items, bringing it into line with the Group's effective tax rate for 2005/06 of approximately 31%
- to reduce minority interests to reflect the nominal interests retained following the IPO
- to increase the number of shares to reflect the number of shares currently in issue, as a result of the IPO

[2] 'Core' excludes restaurants disposed of prior to the IPO, with the 2005/06 core results based on the 52 weeks to 25 June 2006 for comparability against the prior 52 week financial year

PizzaExpress – Fulham Road

Financial Review continued

Sales momentum

The Group's positive sales momentum continued throughout the year, with like for like sales growth in the core business improving from +4.0% for the first 28 weeks, to +4.1% for 52 weeks. The improvement in the second half was achieved despite the combined impact of the World Cup and the exceptionally hot summer weather, which reduced the rate of revenue growth in the final weeks of the financial year.

Total restaurant sales growth in the core business was +7.0% for the financial year. Total sales (including retail and other sales) in the core business grew by +6.3% in the same period.

Management of cost base

Effective management of the Group's cost base has been a critical factor in maintaining margins, despite a series of industry wide cost pressures that would otherwise have impacted the business more heavily. The most notable increases have occurred in utilities costs, minimum wage levels, higher rent reviews and some specific food price increases (such as olive oil). These have all been mitigated by the Group's ability to generate substantial savings across a range of cost categories, whilst also enabling investment in the quality of its products.

EBITDA for the core business grew by 6.3% in 2005/06 to £89.2m. The overall EBITDA as a percentage of sales was maintained at 22.6% throughout the year.

IFRS impacts

As indicated in the Group's IPO prospectus and reported previously, the Group has adopted International Financial Reporting Standards (IFRS) for the first time in preparing its results for 2005/06. A summary of the impact of conversion to IFRS is included in the notes to the financial statements.

In summary, EBITDA is shown after:

- charging £0.7m in 2005/06 and £0.2m in 2004/05 in relation to the employee incentive scheme which operated prior to the IPO.
- charging £0.1m in 2005/06 and £0.2m in 2004/05 as an adjustment to the treatment of rent free periods.
- re-classifying £0.5m of amortisation of lease premiums in both years which, under IFRS, is treated as a rental charge, thus impacting EBITDA.

Exceptional costs

Exceptional costs for 2005/06 amounted to £12.6m, down from £14.2m in the previous year. Of the £12.6m, £7.8m were costs associated with the IPO, and £4.8m was incurred as a result of the disposal of non-core restaurants prior to the IPO. Exceptional costs in 2004/05 comprised £6.0m of supply chain reorganisation costs, £4.7m of costs associated with the acquisition of ASK Central, and £2.0m of accelerated depreciation, together with other amounts totalling £1.5m.

“The Group's positive sales momentum continued throughout the year, with like for like sales growth in the core business improving from +4.0% for the first 28 weeks, to +4.1% for 52 weeks.”

Capricciosa - PizzaExpress

Financial Review continued

Net finance expense

Total finance expense for 2005/06 amounted to £42.2m, a decrease of 43.0% compared to 2004/05. The refinancing undertaken in conjunction with the IPO significantly changed the nature of the Group's debt. As a result, this expense reflects the twenty week period up to the refinancing (which came into effect on 8 November 2005), combined with a period of thirty three weeks of significantly lower net debt and reduced rates of interest on the new facilities. After interest income, net finance expense was £40.9m.

New debt refinancing costs of £3.2m were incurred, and these will be amortised over the five year term of the new facilities. The total amortisation charge in 2005/06 amounted to £2.7m, the majority of which represented an additional write-off of costs associated with the previous debt facilities.

	2005/06 53 wks Reported £m	2004/05 52 wks Reported £m
Interest on bank loans	25.8	34.8
Other loan interest	11.9	28.5
Amortisation of debt issue costs	2.7	10.3
Other charges	1.8	0.5
Finance expense	42.2	74.1
Finance income – bank interest	(1.3)	(1.4)
Net finance expense	40.9	72.7

On a pro forma basis, net interest is estimated as follows:

	2005/06 52 wks Pro forma £m
Senior debt: £370m @ 6.0% interest	22.2
Revolving credit facility: £30m @ 0.5% commitment fee	0.2
Amortisation of debt issue costs	0.6
Interest income	(0.7)
Pro forma net finance expense	22.3

Zizzi - Cardinal Walk, Victoria

Financial Review continued

Taxation

The actual level of taxation expense for 2005/06 was impacted by a proportion of the exceptional costs associated with the IPO being non-deductible for taxation purposes, partly offset by certain prior year items. On a pro forma basis, tax is estimated as follows, incorporating an amount of non-deductible expenses, together with a proportion of capital expenditure which is not allowable for capital allowances.

	2005/06 52 wks Pro forma £m
Pro forma profit before tax	48.7
Add: non-deductible expenses and non-qualifying capital expenditure	1.5
Taxable profit	50.2
Standard tax charge @ 30%	15.1
Tax charge as % of pro forma profit before tax	31%

Minority interests and earnings per share

For 2005/06, £1.1m was attributable to minority interests as a result of shares held by investors in PizzaExpress Limited. The majority of this amount related to the period prior to the IPO, at which point the external shareholdings in this subsidiary were reduced to a nominal level.

Basic reported earnings per share attributable to equity holders for the period were 10.7p, compared to a loss per share in the prior comparable period of 25.1p. On a pro forma basis, profit after tax would have increased by 5.3% to £33.5m and earnings per share (after minority interests) would have increased by 5.3% to 24.9p for the core business.

Cash flow and net borrowings

Reported cash flow from operations increased by 56.8% to £87.8m. Net cash generated from operating activities, after tax, was £83.5m, an increase of 47.0%.

	2005/06 53 wks Reported £m	2004/05 52 wks Reported £m
Cash generated from operations	87.8	56.0
Taxation (paid)/received	(4.3)	0.8
Net cash flow from operating activities	83.5	56.8
Net cash used in investing activities	(60.5)	(18.1)
Net cash used in financing activities	(16.2)	(89.4)
Net increase/(decrease) in cash & cash equivalents	6.8	(50.7)

This strong and consistent cash generation underpins the Group's ability to continually invest in the existing portfolio of restaurants, fund the expansion of the core estate and meet the Group's financing obligations.

Net cash used in investing activities of £60.5m primarily reflected the £32.5m buy out of certain minority interests in PizzaExpress Limited prior to the IPO and £28.3m investment in property, plant and equipment for the expansion of the business.

Tuna Niçoise - ASK

Financial Review continued

	2005/06 53 wks Reported £m	2004/05 52 wks Reported £m
Expansionary capital expenditure		
- New leasehold sites	14.9	12.8
- New freehold sites	2.7	2.5
	17.6	15.3
Maintenance capital expenditure		
- Major refurbishments (>£80k)	4.9	2.3
- Minor refurbishments (<£80k)	1.4	1.4
- Other capital maintenance	4.3	3.6
	10.6	7.3
Other capital expenditure		
- IT systems and administration	2.2	0.7
Total additions to fixed assets	30.4	23.3
Net movement in related creditors	(2.1)	(0.9)
Total per cash flow statement	28.3	22.4

Net cash used in financing activities was £16.2m, down from £89.4m in the previous financial year. This primarily reflected the impact of refinancing and corporate restructuring in both financial years, together with net interest payments.

Free cash flow (defined as cash generated from operations, less net interest paid, tax paid and maintenance capital expenditure) was £15.6m, due to the part year impact of the pre-IPO capital structure (with significantly higher interest costs).

In 2005/06, the Group's net borrowings decreased from £557.8m to £340.8m. This was primarily due to the significant reduction in the first half of 2005/06 as a result of the impact of the refinancing and the Group's IPO, which raised proceeds of £135.1m.

	2005/06 Reported £m
Bank loans	370.0
Accrued interest	6.5
Loan notes	0.8
Interest rate swaps	0.8
Unamortised debt issue costs	(2.8)
Cash deposits	(34.5)
Net debt	340.8

Maintenance

To maintain the high quality of our restaurants, we have invested a total of £17.3m on our existing restaurant estate:

	2005/06 53 wks Reported £m	2004/05 52 wks Reported £m
Maintenance capital expenditure	10.6	7.3
Repairs and maintenance charged to income statement	6.7	6.3
Total invested in the estate	17.3	13.6

PizzaExpress – Belsize Park

Financial Review continued

Key Ratios

The Group's strong performance is also reflected in improvements in the levels of interest cover, fixed charge cover and ratio of net debt to EBITDA.

Interest cover	2005/06 52 wks	2004/05 52 wks
Core business EBIT (£m)	70.5	66.1
Pro forma net finance costs (£m)	22.3	22.3
Pro forma interest cover (times)	3.2x	3.0x

Fixed charge cover	2005/06 52 wks	2004/05 52 wks
Core business EBITDA (£m)	89.2	83.9
Add: core business rent (net of income) (£m)	35.3	32.1
Core business EBITDAR (£m)	124.5	116.0
Pro forma net finance costs (£m)	22.3	22.3
Add: core business rent (net of income) (£m)	35.3	32.1
Core business fixed charges (£m)	57.6	54.4
Fixed charge cover (times)	2.2x	2.1x

Net debt ratio	2005/06	2004/05
Net debt (£m)	340.8	557.8
Core business EBITDA (£m)	89.2	83.9
Net debt/EBITDA ratio (times)	3.8x	6.6x

Key business risks

The board has the primary responsibility for identifying the principal risks which the business faces and for developing appropriate policies to manage those risks. To assist with this process, the Group recently commissioned an independent review of its strategic and operational risks. Gondola's Executive Directors and the senior executives from both PizzaExpress and ASK Central participated fully in the review. Its outcomes have been used as the basis from which to develop a Group risk management strategy and process. It is envisaged that a similar review will be conducted on an annual basis.

Given the nature of the Group's businesses, the principal business risks relate to the following:

- consumer demand and prevailing economic conditions
- consumer tastes, relating to preferences and perceptions of eating out choices
- sourcing of fresh ingredients and maintenance of high standards of food safety
- cost pressures associated with labour, lease rentals, food supplies, utilities and other inputs
- securing of suitable new sites to achieve roll-out plans

Chris Heath
Group CFO and Commercial Director
20 September 2006

Reine Pizza - ASK

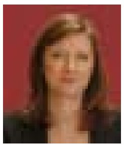
Board of Directors

David Ross
(Chairman)

David Ross was appointed Chairman of the Company in October 2005. He was one of the original founders of The Carphone Warehouse, and was appointed Finance Director in 1991, Chief Operating Officer in 1996, and Deputy Chairman in 2003. He is also currently a non-executive director of National Express Group plc, Wembley National Stadium Limited and Cosalt plc. David has a degree in law from Nottingham University, and is also a qualified Chartered Accountant.

Harvey Smyth
(Executive Director)

Harvey Smyth joined PizzaExpress in October 2003 as its Chief Executive Officer. He was previously Deputy Chief Executive Officer and UK Managing Director of Pret A Manger, having joined the company in 1996 as Finance Director. Harvey has a degree in biochemistry from Bristol University, and is also a qualified Chartered Accountant.



Julia ('Jo') Fleet
(Executive Director)

Jo Fleet joined ASK in 1998 and became Operations Director in 2002 having previously been Operations Manager responsible for all London branches of both ASK and Zizzi. Jo was promoted to Managing Director of ASK in January 2005 and is now its Chief Executive Officer. Prior to joining ASK, she spent 10 years with My Kinda Town as Operations Manager. Jo has a BA degree from Leeds University.

Chris Heath
(Executive Director)

Chris Heath joined the Company as Group Chief Financial Officer and Commercial Director in October 2005. He previously worked for Allied Domecq plc where he held a number of senior positions, including Global Finance Director, European Finance Director, Managing Director UK and Managing Director Spain. Chris is a member of the Chartered Institute of Management Accountants.

Manjit Dale
(Non-Executive Director)

Manjit Dale is co-founder of TDR Capital, a UK based private equity firm specialising in leveraged buyouts across Western Europe. He has over 10 years of private equity and consulting experience gained with a variety of organisations including Andersen Consulting, 3i plc, NM Rothschild, Bankers Trust and Deutsche Bank. He has invested in excess of £1 billion of equity in over 20 transactions during this period and has particularly strong experience in the UK leisure sector. He also holds non-executive positions at Pearl Group Ltd, and Rapala Normark NV. Manjit has a Masters Degree in economics from Cambridge University.

Julian Seaward
(Non-Executive Director)

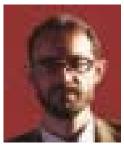
Julian Seaward has been a Private Equity Operating Partner since 2001, firstly for the Nomura Principal Finance Group, and subsequently for Deutsche Bank Capital Partners and then TDR Capital. Since joining TDR Capital, Julian has been responsible for PizzaExpress since January 2004, and for ASK since its acquisition in May 2004. He was previously a Partner at McKinsey & Company for eight years, leading the firm's support for several major clients and also the UK Property and Casualty Insurance Practice, and chairing the Worldwide Recruiting Leadership Group. Prior to joining McKinsey & Company in 1987, he worked for Price Waterhouse, where he qualified as a Chartered Accountant in 1981. Julian has a degree in mathematics from Cambridge University.

Robert 't Hooft
(Non-Executive Director)

Robert 't Hooft became a director of PizzaExpress in 2003, and is currently Managing and Founding Director of Nando's UK. Robert was born in South Africa and has a BA Hons degree from London University.

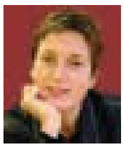
Zillah Byng-Maddick
(Independant Non-Executive Director)

Zillah Byng-Maddick joined the Company as a Non-Executive Director in October 2005. Zillah is currently Chief Financial Officer of Thresher Group, where she has worked for four years. Prior to joining the Thresher Group, she held finance positions at HMV Group and GE Capital. Zillah has a degree in management from Glasgow University, and is a member of the Chartered Institute of Management Accountants and an Associate of the Corporation of Treasurers.



Richard Grigson
(Senior Independent Non-Executive Director)

Richard Grigson joined the Company as a Non-Executive Director in October 2005. He has been Senior Bursar of Peterhouse, Cambridge since 2003. Between 1989 and 2003, he worked in the investment banking divisions of CSFB and Morgan Stanley, latterly as a Managing Director, specialising in corporate finance advice for retail and luxury goods companies. Richard has a degree in Literae Humaniores from Oxford University.



Karen Jones
(Independent Non-Executive Director)

Karen Jones joined the Company as a Non-Executive Director in October 2005. She is currently also a non-executive director of Halifax Bank of Scotland (HBOS) and Royal National Theatre Enterprises Limited and a Governor of Ashridge Business School. She was Chief Executive of the Spirit Group until its sale in January 2006, and was part of the team that acquired Allied Domecq's pub portfolio in October 1999 and Scottish & Newcastle's pub estate in November 2003. Prior to joining the Spirit Group, she founded the Café Rouge restaurant chain, which was floated as the Pelican Group plc. Karen has a first-class honours degree in English and American literature from the University of East Anglia, and also studied at Wellesley College, Massachusetts, USA.

PizzaExpress – Oxford Castle

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IBC Corporate Directory

Zizzi – Capricciosa

Directors' Report

The directors present their first report together with the audited financial statements of the Company for the period from incorporation to 2 July 2006 and the consolidated financial statements of the Company and its subsidiaries (the "Group") for the 53 weeks ended 2 July 2006. The basis of preparation of the financial statements is set out in note 3 on page 70.

Principal activity and business review

The Company was incorporated on 19 September 2005 as a holding company. On 8 November 2005 it acquired 100 per cent. of the issued share capital of Gondola Group Limited. Details of this acquisition are given below. The principal activity of the Group's subsidiary undertakings is that of restaurateurs. The principal subsidiary undertakings are shown in note 17 to the consolidated financial statements.

A review of the Group's operations during the period and of future developments is included in the Operational and Financial Review, which forms part of this report.

Acquisition of Gondola Group Limited and Admission

- On 20 October 2005, the Company entered into a term and revolving credit facility of £400 million in aggregate (the "New Facility"). The New Facility is guaranteed by certain of its subsidiaries.
- On 2 November 2005, each of the issued and unissued ordinary shares of £1 each in the share capital of the Company was subdivided into four ordinary shares of 25p each.
- On 2 November 2005, the authorised share capital of the Company was increased from £50,000 to £50.0 million comprising 200,000,000 ordinary shares of 25p each.
- Under an agreement dated 2 November 2005, the Company agreed to acquire the entire issued share capital of Gondola Group Limited in consideration for the issue of shares in the Company. Each ordinary share of Gondola Group Limited was exchanged for 2 ordinary shares.
- The Company acquired the right to call for the purchase of the Gondola Group Limited Deep Discounted Bonds totalling £76.1 million and likewise assumed the obligation to purchase such instruments in each case in return for the issue of 22,791,133 ordinary shares of 25p each in the Company pursuant to put and call option deeds dated 2 November 2005.
- Under an agreement dated 2 November 2005, the Company agreed to acquire £16.3 million Gondola Group Limited unsecured loan notes in return for the issue of 4,890,579 ordinary shares of 25p each in the share capital of the Company.
- Under an agreement dated 2 November 2005, the Company agreed to purchase shares held by Fidelity and M&G in ASK Restaurants limited and PizzaExpress Limited in exchange for 13,561,987 shares in Gondola Holdings plc, plus £32.5 million Company Loan Notes.
- Under an agreement dated 2 November 2005, the Company agreed to purchase all the remaining Gondola Group Limited unsecured loan notes for cash.
- On 3 November 2005, the shareholders of the Company passed a special resolution to reduce the share premium account of the Company.
- With effect from 8 November 2005, the Company became the legal parent company of Gondola Group Limited and its subsidiaries.
- On 8 November 2005 the Company's shares were admitted to the Official List of the UKLA and to trading on the London Stock Exchange.

Directors and their interests

The directors of the Company during the period were:

David Ross	(appointed 5 October 2005)
Chris Heath	(appointed 5 October 2005)
Harvey Smyth	(appointed 5 October 2005)
Julia Fleet	(appointed 5 October 2005)
Manjit Dale	(appointed 4 October 2005)
Julian Seaward	(appointed 4 October 2005)
Robert 't Hooft	(appointed 4 October 2005)
Karen Jones	(appointed 5 October 2005)
Richard Grigson	(appointed 5 October 2005)
Zillah Byng-Maddick	(appointed 20 October 2005)
Hackwood Directors Limited	(appointed 19 September 2005 and resigned 4 October 2005)

Details of appointment letters and service contracts are shown in the Directors' Remuneration Report on page 59.

One third of directors retire by rotation. At the forthcoming AGM, the four directors up for re-election are David Ross, Zillah Byng-Maddick, Manjit Dale and Julia Fleet.

The interest of the directors in ordinary shares of 25p each in Gondola Holdings plc as at 2 July 2006 and 8 November 2005 (the date of admission to the Official List) were as follows:

	As at 2 July 2006	**As at 8 November 2005**
David Ross	945,712	795,712
Chris Heath	60,000	-
Harvey Smyth	1,633,464	1,633,464
Julia Fleet	198,534	198,534
Julian Seaward	738,979	738,979
Karen Jones	92,834	92,834
Richard Grigson	31,524	26,524
Zillah Byng-Maddick	10,612	10,612

Manjit Dale and Julian Seaward may be deemed to be interested in 40,686,483 ordinary shares in the Company, as a result of their affiliation with TDR Capital (see "major shareholdings – TDR Capital Nominees Limited" below).

Robert 't Hooft may be deemed to be interested in 23,972,858 ordinary shares in the Company, as a result of his affiliation with Capricorn and its related funds (see "major shareholdings – CVI Limited" below).

Further details of directors remuneration and interests and of the Company's share schemes, is provided in the Directors' Remuneration Report on page 60.

Substantial shareholders

The Company has been advised of the following major shareholdings as at 15 September 2006:

	Percentage of issued share capital
TDR Capital Nominees Limited	30.2%
CVI Limited	17.8%
Fidelity International Limited	6.3%
Jupiter Asset Management Limited	3.9%
Henderson Global Investors Limited	3.6%
Boussard & Gauvadan Asset Management LP	3.2%

Directors' responsibilities

The directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The directors are responsible for preparing financial statements for each financial year which give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the financial statements comply with IFRSs as adopted by the European Union; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 1985 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Provision of information to auditors

The directors confirm that as far as they are aware there is no relevant audit information of which the Company's auditors are unaware. The directors have taken all steps that ought to have been taken in their capacity as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Employees

The number of employees and their remuneration is set out in note 9 to the consolidated financial statements.

Our employees are the Group's 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.

All our employees have a performance review at least once a year, which includes consideration of skills development and career prospects. We aim to keep, 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.

Communication flows both ways, as we take the views of our employees seriously. Our aim has been to make it as easy as possible for our employees to air their opinions, express their ideas and voice any problems they may have. Examples include a cascade process of meetings to communicate key messages throughout the organisation, a weekly feedback process for operational issues and a bright ideas scheme.

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.

We don't tolerate harassment or bullying in any shape or form. Procedures are in place to respond to accusations of workplace discrimination, harassment and victimisation. An effective employee grievance procedure is in operation, and the policy is properly communicated to our people.

Applications from disabled persons are given full consideration providing the disability does not seriously affect the performance of their duties. Such persons, once employed, are given appropriate training and equal opportunities.

Marketplace

The Group is committed to providing a safe and secure environment for both its customers and its employees. To support and demonstrate this commitment we employ safety advisors to ensure legal compliance and to establish health and safety management procedures within the business.

Food hygiene is paramount. A dedicated food safety team focus on food management procedures within the business, auditing and monitoring our restaurants.

Each of our restaurants has its own pizzaiolo chefs who hand-make food using fresh, top quality ingredients. As the majority of the food is made right there and then, customers are able to request how much of a certain ingredient is included in their dishes depending on their tastes and food requirements. Customers are therefore able to request more, less or none of an ingredient if they so wish.

Whilst we do everything in our power to ensure that our customers have a great experience, we also aim to be responsive to any problems that arise. We are currently developing clear Group guidelines on dealing with complaints which we plan to launch in the forthcoming year.

The Group strives wherever possible to ensure that customers with disabilities are given the same level of service as any other customer.

Suppliers are seen as an integral part of our business ethos. We actively seek out suppliers who share our values and are committed to an ethical way of operating. We have a dedicated supply chain team and process in place to ensure that responsible business practices are incorporated into the procurement process and that best practice is shared.

We are also currently working closely with suppliers to introduce new dishes that reduce salt, sugar and fat content without compromising flavour and customer enjoyment.

Environment

We endeavour to protect our environment and are currently evaluating our environmental impact to establish a programme for continuous improvement.

As part of our existing refurbishment and new openings programme, the Group is committed to designing restaurants with energy and water saving devices.

We actively seek to open restaurants in older, more unusual buildings where we work with the building to enhance and preserve its features and heritage rather than simply impose a standardised fit-out.

Ordinary dividend

An interim dividend of 2.3p per ordinary share was paid on 28 April 2006. The directors now recommend for payment on 30 November 2006, a final dividend of 4.7p per ordinary share to shareholders on the register at the close of business on 10 November 2006. Combined with the interim dividend this makes a total distribution of 7.0p for the period since listing.

Charitable and political donations

The Group made significant contributions to community related initiatives and our PizzaExpress Veneziana sales donated £78,710 to 'Venice in Peril', the PizzaExpress Tricolore sales donated £7,116 to 'Focus on Food/Crondial Primary School', the gourmet pizza classic Italian salad sales donated £9,243 to 'Royal Hospital for neural disabilities' and the ASK Fiorentina pizza donated £12,436 to 'Action on Addiction'.

Payments to suppliers

The Group agrees terms and conditions for its business transactions with suppliers. Payment is then made on these terms and conditions being met by the supplier. Creditor days for the Group have been calculated at 41 days (2005: 40 days). The Company does not have any trade creditors.

Director's indemnity

Qualifying third party indemnity provisions (as defined in Section 309B(1) of the Companies Act 1985) are in force for the benefit of directors.

Financial risk management

The Group's financial risk management objectives and policies, including hedging policies, together with detail of the Group's exposure to risk are shown in note 3 to the consolidated financial statements.

Going Concern

The directors have a reasonable expectation that the Group has adequate resources to continue operating for the foreseeable future. For this reason, the going concern basis continues to be adopted in preparing the financial statements.

Annual General Meeting

The AGM will be held at 2.00pm on 7 November 2006 at Kettners, 29 Romilly Street, Soho, London W1D 5HP. The notice of meeting is enclosed with this report.

Auditors

During the period the Company commenced activity, and the directors appointed PricewaterhouseCoopers LLP to fill the casual vacancy. PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution concerning their re-appointment and authorisation for the directors to agree their remuneration will be proposed at the Annual General Meeting.

By order of the Board

Martin Eckersley
Secretary
20 September 2006

Corporate Governance Report

The Group is committed to high standards of corporate governance and the Board is accountable to the shareholders for good corporate governance. This statement describes how the Group applies the principles of Section 1 of the Combined Code on Corporate Governance, published in July 2003 by the Financial Reporting Council. Gondola Holdings plc first listed on 8 November 2005.

The Group has, during the period post flotation, complied with the provisions set out in Section 1 of the Code with the exceptions below:

- Code provision A.3.2 requires that at least half the board, excluding the chairman, should comprise non-executive directors who are deemed by the board to be independent. The Code provision has not been complied with during the period as the Board has three non-independent non-executive directors, three executive directors and only four independent non-executive directors, including the Chairman.

  The non-independent non-executive directors are Manjit Dale, Robert 't Hooft and Julian Seaward. They are not independent as they represent the interests of major shareholders.

  The Board considers that ensuring that individual directors with appropriate skills and experience participate fully and independently in decision making is more important than the precise split of independent non-executive directors. The Chairman ensures that the independent non-executive directors challenge the Group's management and are able to put forward their views.

- Code provision B.2.1 requires that the Board should establish a Remuneration Committee whose members are all independent non-executive directors. Two non-independent non-executive directors, Manjit Dale and Julian Seaward, are members of the Remuneration Committee as their skills and experience provide valuable assistance to the committee. The committee is chaired by, and has a majority of, independent non-executive directors, and hence the Board has concluded that this is sufficient to ensure the effectiveness of the committee.

The Board

The current board has been in place since October 2005 in preparation for the flotation of the Group. The Board considers that it is of an appropriate size for the requirements of the business, and that it has the appropriate balance of skills, knowledge and experience.

The Board comprises a chairman, three independent non-executive directors, three non-executive directors who are not deemed to be independent, and three executive directors. (The biographical details of all the directors are detailed on page 40). Richard Grigson has been appointed the senior independent non-executive director and is available to shareholders if contact through the normal channels of communication is inappropriate or has failed to resolve an issue.

The Board's role is to provide leadership to and to set the strategic direction of the Group. The Board monitors operational performance and is also responsible for establishing Group policies and internal controls to assess and manage risk.

The Board meets regularly throughout the year and, in addition to the routine reporting of financial and operational issues, reviews the performance of each of the brands in detail. There is a schedule of matters reserved for the Board and certain matters are delegated to the Board Committees and the executive directors. The schedule of reserved matters includes management of shareholder communication, annual budgets, strategic plans, approval of the dividend policy and approval of major capital expenditure. Items delegated to committees and the executive directors includes the approval of capital expenditure below the limit required for board sign off, disposal of low value assets and approval of updates to the annual budget throughout the year.

The Board is scheduled to meet between eight and twelve times each financial year. The Board met ten times in the current year. Karen Jones, Julian Seaward and Manjit Dale were each unable to attend one meeting; and Robert 't Hooft was unable to attend two meetings.

The Board believes that executive responsibility for overseeing the day-to-day management of the Group companies is appropriately shared by the Chief Executives of the core brands, namely Harvey Smyth for PizzaExpress and Julia Fleet for ASK and Zizzi, together with Chris Heath, the Group CFO and Commercial Director.

There is a clear division of responsibility between the Chairman and the executive directors.

The Chairman is responsible for:

- The leadership of the Board, ensuring its effectiveness and setting its agenda.
- Ensuring that the directors receive accurate, timely and clear information.
- Facilitation of the effective contribution of non-executive directors, and ensuring constructive relations between them and the executive directors.
- The annual evaluation of the performance of the Board and its committees.

The executive directors are responsible for:

- Setting the strategic direction of the Group.
- Preparing annual budgets and medium term projections for the Group and monitoring performance against plans and budgets.
- Overseeing the day-to-day management of the Group.
- Effective communication with shareholders.
- Preparing the interim and annual financial statements.

The Board has reviewed the commitments of the Chairman (see David Ross biography on page 40). The Board is of the opinion that Mr Ross is able to devote sufficient time to his duties as Chairman of the Group.

The Group Secretary acts as secretary to the Board and its committees. He is responsible for ensuring that the directors receive appropriate information prior to meetings, and for ensuring that governance requirements are considered and implemented. All Board directors have access to the Group Secretary, who can provide advice and services as required. If necessary, in executing their duties as directors, independent professional advice may be taken at the expense of the company.

The Nomination Committee leads the process for Board appointments and for succession planning and makes recommendations to the Board. New directors stand for election at the AGM following their appointment. Every director is required to retire by rotation and may stand for re-election if nominated by the Nomination committee at least every third year.

The Board undertakes a formal and rigorous annual evaluation of its own performance and that of its committees. The reviews were undertaken by meetings of the Chairman and the independent non-executive directors. The independent non-executive directors also met to appraise the performance of the Chairman. The results of the reviews were reported to the Chairman.

The Remuneration Committee has undertaken a review of the effectiveness of the executive directors during the year, reporting to the Chairman. Executive directors are included in the annual performance evaluation of all senior management. This includes a review of performance against objectives and a discussion of areas for development during an appraisal process.

The performance of all members of the Board and senior management is considered by the Remuneration Committee as part of the annual remuneration review process.

The Chairman will also review the performance of the independent non-executive directors as the anniversary of their appointment arises and annually thereafter.

Relations with Shareholders

The Group is committed to maintaining effective communication with shareholders in order to build understanding of its objectives. Three non-executive directors currently represent the largest shareholders of the Group.

The executive directors maintain regular dialogue with major shareholders, potential investors and market analysts throughout the year, taking professional advice from the Group's corporate brokers and communications advisers on a programme of proactive engagement with the investment community. The executive directors jointly ensure that the views of shareholders and the investment community are shared with the Chairman, who communicates these views to the board as a whole.

The Chairman discusses matters of strategy and governance with major shareholders.

In addition, the following activities are undertaken by the Chairman, executive directors and company secretary in order to ensure that members of the Board, and in particular the non-executive directors, develop an understanding of the views of the major shareholders and investment community:

- After each results presentation, a survey of investor views is commissioned and is reported to the Board.
- Comments are openly invited from both current and potential investors. On request, meetings are held between shareholders and some or all of the executive directors.
- Investor road shows are held after results presentations.
- The Group communicates with and invites feedback from the investment community via the Group's website.
- The Annual General Meeting will be used as an opportunity to gather the views of shareholders and to answer the questions of both private and institutional shareholders on all issues relevant to the Group.

Remuneration Committee

The committee is chaired by Karen Jones. Its other members are Richard Grigson, Zillah Byng-Maddick, Manjit Dale and Julian Seaward. Under the terms of the Combined Code, Julian Seaward and Manjit Dale are not deemed independent. However the Board considers that this group of individuals have the appropriate skills and experience required to carry out the responsibilities of the committee. The Remuneration Committee met four times during the period post flotation to the date of approval of these financial statements. Manjit Dale was unable to attend three meetings.

The Remuneration Committee has considered the following key areas during the period:

- A review of total remuneration of the Board and senior executives, benchmarked against similar companies. The review included bonuses, incentive payments and share options or other share awards, giving due regard to any relevant legal requirement, the provisions of the Combined Code and the UKLA Listing Rules and associated guidance in determining the total packages.
- Agreeing with the Board the framework for the remuneration of the Board and other senior executives.

- The determination of incentives for the Board and senior management to encourage enhanced performance by being rewarded in a fair and responsible manner for their individual contributions to the success of the Group.
- Approving design of and targets for performance related pay schemes operated by the Group and approving total annual payments under such schemes.
- Reviewing the design of share incentive plans for approval by the Board and shareholders.
- Determining the policy for and scope of pension arrangements for each executive director and other senior executives.
- Ensuring that contractual terms on termination and any payments made are fair to the individual and to the Group, that failure is not rewarded and that the duty to mitigate loss is fully recognised.
- Determining the total individual remuneration package of each executive director and other senior executives. Reviewing and noting annually the remuneration trends across the Group.
- Ensuring that all of the provisions regarding the disclosure of remuneration including pensions, as set out in the Directors' Remuneration Report Regulations 2002 and the Combined Code, are fulfilled.
- Establishing the selection criteria, selecting, appointing and setting terms of reference for any remuneration consultants who advise the committee and obtaining reliable up to date information about remuneration in other companies.
- Evaluating the performance of the executive directors.

Nomination Committee

The committee is chaired by David Ross. Its other members are Richard Grigson, Zillah Byng-Maddick, Karen Jones and Julian Seaward. The Nomination Committee met once during the year, at which all members were present.

The Nomination Committee has considered the following key areas:

- Succession planning for the Board and senior executives.
- A review of the structure and composition of the Board and committees.
- A review of the time required from non-executive directors. Performance evaluation of the non-executives will determine whether non-executive directors are spending enough time to discharge their duties.

Audit Committee

The committee is chaired by Zillah Byng-Maddick. Its other members are Richard Grigson and Karen Jones. Zillah Byng-Maddick has recent and relevant financial experience. Relevant senior management are invited to attend audit committee meetings as required. The committee met three times during the period post flotation to the date of approval of these financial statements with 100% attendance.

The committee meets at least twice a year and reports to the Board on all matters relating to the regulatory and accounting requirements that may affect the Group, together with the financial reporting and internal control procedures adopted by the Group. In addition, the committee is responsible for ensuring that an objective and professional relationship is maintained with the external auditors. It makes recommendations to the Board in relation to the appointment, re-appointment and remuneration of the external auditors.

Key areas considered by the audit committee during the year were:

- The review of the Group's financial statements and interim results statement prior to Board approval and reviewing the external auditors reports thereon.

- Reviewing any financial information contained in other documents, especially those of a price sensitive nature, prior to release.
- Establishing procedures to ensure that the Group monitors and evaluates risks appropriately. This takes the form of a risk register.
- Reviewing internal controls to establish an internal audit plan to monitor the effectiveness of those controls.
- The consistency of accounting policies across the Group and the accounting for any significant or unusual transactions where different approaches are possible.
- An assessment of the independence and objectivity of the external auditors, taking into account relevant UK professional and regulatory requirements and the relationship with the Group as a whole. The use of the external auditors for non audit services is carefully evaluated by the audit committee. Any non audit work is carried out by separate teams and is effectively segregated to the degree required to ensure independence.

Internal control

The Board is responsible for the Group's systems of internal control and risk management and for reviewing the effectiveness of those systems. These systems are designed to manage rather than eliminate risk of failure to achieve business objectives. Internal controls can only provide reasonable and not absolute assurance against material misstatement or loss. The Combined Code requires that directors review the effectiveness of the Group's system of internal controls. This relates to all controls covering financial, operational, compliance and risk management matters.

A review of the effectiveness of the internal controls was conducted by the directors at the time of the flotation of the Group and has been updated to the date of approval of these financial statements.

The Group has a process to identify, evaluate and manage significant risks faced by the Group. This is reported in a risk register which is regularly updated and reviewed.

Key elements of the risk management and internal control systems include:

- Regular Board meetings to consider a schedule of matters reserved for directors' consideration.
- An annual review of Group strategy.
- Approval by the Board of annual business plans and budgets. Actual results are reported against budgets and the previous year. Risks are identified and action plans prepared accordingly.
- A risk management process (Group Risk Register) which identifies the key risks facing the Group, and how these risks are monitored and managed on an ongoing basis. This process has been put in place during the year and will be regularly updated in future.
- An organisation structure which is well established and which has clear lines of responsibility and delegation of authority.
- An investment appraisal process, requiring approval by the Board for major projects. A post investment appraisal system is in place to review the performance of capital investment.
- Authority limits for all employees.
- A full review of the risk profile of the Group has highlighted the key controls to be reviewed, and these will be addressed during the coming financial year. An internal audit process has been set up to undertake this review. This will report to the Audit committee. The risks will be regularly reviewed to ensure that significant controls are under review. Senior management have a responsibility to disclose any significant risks as soon as they become aware of such risks.
- Operational audits take place to ensure that financial controls and procedures operate as expected at each restaurant site.

- The Group has health and safety teams who carry out audits to ensure that restaurants are compliant with our standards on health and safety and food hygiene.
- The Audit Committee reviews major findings from external audits and the internal audit reviews will report to the audit committee.

During the last financial period the Group has undertaken an internal audit of procedures and controls operating at restaurants. This will be extended to cover the internal controls listed above and other key risk areas during the coming financial period.

Directors' Remuneration Report

This report has been prepared in accordance with Schedule 7A to the Companies Act 1985 (as amended by the Directors' Remuneration Report Regulations 2002). It also describes the Group's compliance with the Combined Code of corporate governance in relation to remuneration for the current and forthcoming financial years. The report has been approved by the Board for submission to shareholders at the forthcoming AGM. The Company's auditors have audited the report to the extent required by the relevant legislation, namely the sections headed "Directors' Remuneration", "Directors' interests in shares under the Partnership Plan" and "Directors' interests in shares". The Chairman of the Remuneration Committee will attend the AGM and will be available to answer shareholders' questions regarding the contents of this report.

The Committee

The Remuneration Committee is chaired by Karen Jones, with the other members being Zillah Byng-Maddick, Richard Grigson, Julian Seaward and Manjit Dale. As described more fully on page 49, Karen Jones, Zillah Byng-Maddick and Richard Grigson are all deemed independent non-executive Directors. Julian Seaward and Manjit Dale do not pass the relevant tests of independence. They bring, however, wide experience and an objective viewpoint which the Company believes makes their membership of the Committee appropriate.

The Executive Directors are invited to attend meetings as appropriate, but are not party to discussions regarding their own remuneration.

During the year the Committee received advice on remuneration matters from New Bridge Street Consultants LLP and The Kingsley Centre Limited, both of whom were appointed by the Committee. New Bridge Street Consultants LLP advises the Company on the technical aspects of the operation of the Company's incentive arrangements. The Kingsley Centre Limited advises the Company on its general Human Resources policy.

Terms of Reference

The role and responsibility of the Committee includes assisting the Board in setting the remuneration of the Chairman, the Executive Directors and other senior executives. The Committee also oversees the operation of the Company's share-based incentives described more fully below.

The Committee's terms of reference comply with the requirements of the Combined Code and are available from the Company Secretary and on the Company website.

Remuneration Policy

The Company's policy is to offer remuneration packages that attract, retain and motivate staff of suitable calibre and experience. Remuneration, particularly with respect to the executive directors and other senior executives, is designed to encourage the meeting of demanding financial and strategic objectives with the overriding aim of aligning executive rewards with the creation of shareholder value. Therefore, a significant portion of the executive directors' remuneration package is linked to performance.

When setting remuneration for executive directors, due regard is paid to pay practices elsewhere in the Group.

Remuneration package

The main elements of the remuneration packages of the executive directors are as follows:

- Base salary
- Annual cash bonus
- Pension
- Other benefits
- Participation in long-term share-based incentive arrangements

Base Salary

The Group's policy is that base salary levels should be set around or below the current market rate for the particular role so as to ensure that packages are appropriately performance-linked. Base salaries are reviewed annually, taking into account market practice prevailing at the time together with personal and corporate performance.

Basic annual salaries/fees for the forthcoming year have been reviewed and are effective from 3 July 2006 as follows:

Director	Annual salaries/fees £000
D Ross	100
C Heath	286
H Smyth	182
J Fleet	130
K Jones	40
R Grigson	40
Z Byng-Maddick	40
J Seaward	5
M Dale	nil
R 't Hooft	nil

Annual Bonus

The maximum bonus potential for executive directors is 200% of salary. Provisional bonuses are calculated by reference to the achievement of challenging financial performance based on budgeted EBITDA targets, at both operational and group levels, and strategic targets. The provisional bonus will then be adjusted (down but not up) to take account of personal performance.

Maximum bonus entitlements will be paid only in return for truly outstanding performance.

Pensions

The Company allows employees (including certain executive directors) to participate in a defined contribution personal pension arrangements. The pension provision of the executive directors is set out in more detail on page 60.

Other Benefits

Life assurance, permanent health insurance and private health cover are core benefits provided to all Executive Directors. Non-core benefits can include the provision of a fully expensed company car or, alternatively, a cash alternative.

Long-Term Incentives

(a) Prior to Admission to London Stock Exchange

Prior to Admission, the Company operated the "Partnership Plan" for eligible staff members. Participants were able to acquire ordinary shares ("partner shares") under this Plan with an interest-bearing loan provided to the majority of participants for this purpose. Vesting of shares under the Partnership Plan commenced immediately prior to Admission and takes place in three stages. Immediately prior to Admission, a market condition was applied to determine the number of shares participants may retain, the number that are retained subject to further market conditions and the balance which are bought back by the Company and cancelled or purchased by the Employee Benefit Trust. Following Admission, the shares that have ceased to be subject to a market condition vest in three tranches – on Admission, six months after Admission and the final tranche 12 months after Admission. The shares that remain subject to the market condition vest on a sliding scale which is applied 12 months after Admission. Any of these shares not vesting at this time will be bought back by the Company or purchased by an Employee Benefit Trust. Further details of the Partnership Plan can be found in the Listing Particulars relating to Admission.

(b) Following Admission to London Stock Exchange

New share plans were adopted by the Company immediately prior to Admission, namely the Performance Share Plan (renamed the "Executive Plan"), the Executive Share Option Plan, the Deferred Share Bonus Plan (renamed the "Management Plan"), the Sharesave Plan and the Share Incentive Plan. None of these were in operation during the period.

It is currently intended that the Executive Directors and senior management team will be provided with share based incentives through the Executive Plan. There is no intention to operate the Executive Share Option Plan at this stage. Executive Directors will be able to participate in the Share Incentive Plan, which is currently intended to be launched shortly and will be eligible to all employees.

Under the Executive Plan participants will be entitled to receive conditional awards of "performance shares" worth up to 150% of salary per annum that vest after three years subject to the achievement of stretching performance conditions. To further align the interests of senior executives and shareholders, under the Executive Plan the Committee may invite senior executives to lodge shares worth up to 50% of base salary and receive a conditional award over up to two matching shares for each share invested (on a gross basis).

For the forthcoming year, the Committee currently intends to operate the Executive Plan as follows:

- Performance share awards worth up to 1 x salary will be made to Executive Directors.
- Senior executives will be invited to lodge shares in the Plan worth up to 50% of salary for which they will receive a corresponding matching share award on a 1:1 net basis.
- Both performance share awards and matching share awards will be subject to Total Shareholder Return and EPS based performance conditions (neither of which can be "re-tested" if not met at the end of the relevant three year period):

TSR condition
50% of each award will be subject to a condition under which the Company's TSR will be compared to that of the following companies over the relevant three year period:

Café Nero, Domino's Pizza, Enterprise Inns, Fuller Smith & Turner, Greene King, Mitchells & Butler, Punch Taverns, Prezzo, Regent Inns, Restaurant Group, JD Weatherspoon, Whitbread, Wolverhampton & Dudley Breweries, Young & Co's Breweries, Carluccio's, La Tasca, Clapham House

30% of this portion of awards vest at the median, with full vesting at the upper quartile (with proportionate vesting between these points).

EPS condition
The remaining 50% of each award will be subject to a condition under which this portion of awards will vest based upon the Company's annual average adjusted EPS growth exceeding the CPI (Consumer Growth Index) over the relevant three year performance period. The EPS growth targets will be finalised shortly.

The Committee currently intends to apply these performance conditions as it believes they provide an incentive to drive both earnings growth and the generation of returns to shareholders.

The Committee will seek third party verification as required when determining the extent to which the performance conditions are satisfied.

The Committee will keep the operation of the Executive Plan under regular review to ensure that it remains appropriate, particularly regarding the performance conditions used and levels of grant.

To reward performance and encourage share ownership, the Management Plan will be operated for certain other employees. It is not currently intended that participation in the Executive Plan and Management Plan will be offered to the same participant in the same year.

(c) Other long-term incentives

Under his service agreement, Chris Heath received an award of ordinary shares with a value equal to £275,000. The shares will be issued, subject to Mr Heath's continued employment, in three equal tranches on the first, second and third anniversaries of the date of Admission. As the award related to his recruitment, it is not subject to performance conditions.

Service Contracts

(a)The dates of the executive directors' service contracts are as follows:

Executive Director	Date of current term of appointment	Notice period
Chris Heath	1 October 2005	Termination upon 12 months' notice
Harvey Smyth	29 September 2005	Termination upon 12 months' notice
Julia Fleet	6 May 2004	Termination upon 12 months' notice

The service contracts of the executive directors have no fixed term. Save for the arrangements described below, the service contracts do not provide for any benefits upon termination of employment.

In the event that Harvey Smyth's employment is terminated without notice, he is entitled to a payment of 12 months' basic salary in lieu of notice.

Chris Heath's employment may be terminated by making a payment in lieu of 12 months' basic salary.

Julia Fleet is entitled to an "exit payment" (the sum of 12 months basic salary, pension contributions at the then current rate, the bonus payment to which she would have been entitled for the financial year and the cost at the current rate of the provision of life assurance and private medical insurance) if she is (a) summarily terminated or terminated in breach of contract, (b) terminated in accordance with either the notice provision or in accordance with the long-term sickness provision or (c) within three months of a change in control.

(b)Non-executive directors serve pursuant to letters of appointment, details of which are as follows:

Non Executive Director	Date of joining the Board	Date of current appointment letter	End of term notice period
David Ross	5 October 2005	11 October 2005	5 October 2008 (1) (2)
Manjit Dale	4 October 2005	26 October 2005	4 October 2008 (1)
Julian Seaward	4 October 2005	26 October 2005	4 October 2008 (1)
Robert 't Hooft	4 October 2005	24 October 2005	4 October 2008 (1)
Karen Jones	5 October 2005	25 October 2005	5 October 2008 (1) (3)
Richard Grigson	5 October 2005	24 October 2005	5 October 2008 (1) (3)
Zillah Byng-Maddick	20 October 2005	28 October 2005	20 October 2008 (1) (3)

(1) All non-executive directors are subject to re-election at the end of their term.
(2) D Ross or the Company may terminate the appointment prior to the end of the term by serving not less than three month's notice on the other.
(3) K Jones, R Grigson and Z Byng-Maddick may resign from their positions prior to the end of the term at any time, but, if they do so, they are requested to give one month's written notice to the Company.

A committee of the Board comprising the executive directors determines the fees paid to the non-executive directors by reference to market norms and the time and commitment required. The Remuneration Committee sets the chairman's fees. Non-executive directors do not participate in the pension, bonus or share plans.

Outside Positions

At the discretion of the Board, an executive director is permitted to accept directorships or similar positions in non-competing ventures to the extent that they do not interfere or conflict with the director's obligations at the Company. Whether the director is permitted to retain remuneration received in that capacity will be determined on a case-by-case basis. There are, currently, no such positions held by the executive directors.

Directors' Remuneration (audited information)

The table below shows a breakdown of the various elements of pay received in their capacity as directors from their date of appointment to 2 July 2006:

Director and date of appointment		Salary & fees £000	Benefits in kind (4) £000	Annual bonus £000	Pension contribution (6) £000	**2006 Total £000**
Non Executive Chairman						
D Ross (from 5 October 2005)		75	-	-	-	**75**
Executive Directors						
C Heath (from 5 October 2005)	(1)(5)	208	11	133	31	**383**
H Smyth (from 5 October 2005)	(2)	130	1	-	-	**131**
J Fleet (from 5 October 2005)	(3)	93	10	-	19	**122**
Non Executive Directors						
K Jones (from 5 October 2005)		30	-	-	-	**30**
R Grigson (from 5 October 2005)		30	-	-	-	**30**
Z Byng-Maddick (from 20 October 2005)		28	-	-	-	**28**
J Seaward (from 4 October 2005)	(7)	5	-	-	-	**5**
M Dale (from 4 October 2005)		-	-	-	-	**-**
R 't Hooft (from 4 October 2005)		-	-	-	-	**-**
		599	22	133	50	**804**

(1) C Heath commenced his employment on 1 October 2005 at an annual basic salary of £275,000 per annum.
(2) H Smyth was employed for the full duration of the period at an annual basic salary of £175,000 per annum.
(3) J Fleet was employed for the full duration of the period at an annual basic salary of £125,000 per annum.
(4) Benefits in kind include the provision of a company car or cash alternative together with life assurance, permanent health insurance and private medical cover.
(5) C Heath is guaranteed to receive a bonus of at least 50% of his salary for the period from his appointment date to 30 June 2006 as set out in his service agreement. Thereafter, his bonus is performance-related as set out on page 57.
(6) Company contributions to C Heath's and J Fleet's personal pensions are based on 15% and 20% of basic salary respectively. The contribution to C Heath's personal pension remained unpaid at the period end.
(7) J Seaward was a director in Gondola Group Limited, the former parent company, prior to his appointment as a director of the Company.

Directors' Interests in shares under the "Partnership Plan" (audited information)

Details of directors' interests arising from the "Partnership Plan" are as follows:

Director	Interests under plan in Gondola Group Ltd at 27 June 05	Conversion to shares in Gondola Holdings plc	Forfeited shares on flotation	Interests under plan as at 2 July 2006
H Smyth	1,019,049	2,038,098	404,634	1,633,464
J Fleet	102,610	205,220	6,686	198,534
J Seaward	369,490	738,980	1	738,979

The interests shown in the table above are split between vested and unvested shares as detailed in the table below:

Director	Shares vested on flotation	Shares vested on 8 May 2006	Shares to vest on 8 November 2006	Deferred shares to vest on 8 November 2006	Total interests as at 2 July 2006
H Smyth	1,633,464	-	-	-	1,633,464
J Fleet	49,634	24,817	24,816	99,267	198,534
J Seaward	738,979	-	-	-	738,979

(1) Shares vesting on 8 November 2006 are conditional upon the directors being in employment as at that date.

(2) Deferred shares vesting on 8 November 2006 are subject to average market prices in the month of October 2006. Any unvested shares will be purchased either by the Company or the Employee Benefit Trust.

Directors' Interests in Shares (audited information)

The interests of the directors in the Company's shares, including those shown in the tables above, are detailed in the Director's Report on page 44.

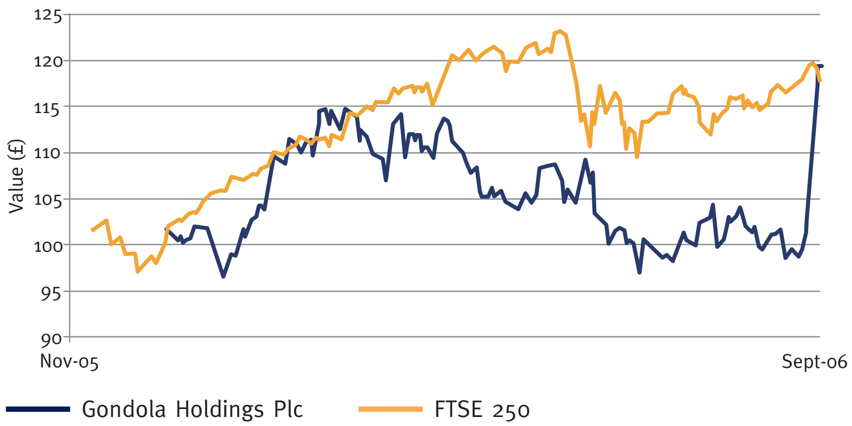
No changes have taken place in the interests of directors since 2 July 2006 .

Performance Graph

The graph below shows the Total Shareholder Return for the Company's ordinary shares since they began trading on 8 November 2005 compared with that of the FTSE250, which the Board considered to be an appropriate comparator group to use for these purposes. Total Shareholder Return comprises changes in share price plus dividends paid.

Total shareholder return

This graph shows the value, by 2 July 2006, of £100 invested in Gondola Holdings Plc on 8 November 2005 compared with the value of £100 invested in the FTSE 250 Index.



This Directors' Remuneration Report was approved by the Board of Directors on 20 September 2006 and was signed on its behalf by:

Karen Jones
Chairman of the Remuneration Committee
20 September 2006

Independent Auditors' Report

We have audited the group and parent company financial statements (the "financial statements") of Gondola Holdings plc for the period ended 2 July 2006 which comprise the Consolidated Income Statement, the Consolidated Statement of Recognised Income and Expense, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Cash Flow Statements and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Operational and Financial Review that is cross referred from the Business Review section of the Directors' Report. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Report reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Financial Highlights, the Chairman's Statement, Gondola at a glance, the Operational Review, the Financial Review, Board of Directors, the Directors' Report, the Corporate Governance Report and the unaudited part of the Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Independent Auditors’ Report continued

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors’ Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group’s and company’s circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group’s affairs as at 2 July 2006 and of its profit and cash flows for the period then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company’s affairs as at 2 July 2006 and cash flows for the period then ended;
- the financial statements and the part of the Directors’ Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
20 September 2006

Consolidated Income Statement

53 weeks ended 2 July 2006

	Note	Group 53 weeks ended 2 July 2006 £m	Group 52 weeks ended 26 June 2005 £m
Revenue	5	**404.4**	**378.8**
Cost of sales		(314.7)	(296.5)
Gross profit		**89.7**	**82.3**
Other income		0.5	2.4
Administrative expenses:			
Administrative expense before exceptional items		(18.5)	(17.0)
Exceptional items	8	(12.6)	(14.2)
		(31.1)	(31.2)
Operating profit	7	**59.1**	**53.5**
Finance income	10	1.3	1.4
Finance expense	10	(42.2)	(74.1)
Profit / (loss) before taxation		**18.2**	**(19.2)**
Taxation	11	(6.0)	11.0
Profit / (loss) after taxation		**12.2**	**(8.2)**
Attributable to:			
Equity shareholders		11.1	(11.1)
Minority interests	30	1.1	2.9
		12.2	**(8.2)**
Earnings / (loss) per share attributable to the equity holders	12		
Basic (pence)		**10.7**	**(25.1)**
Diluted (pence)		**10.7**	**(25.1)**

Consolidated Statement of Recognised Income and Expense

53 weeks ended 2 July 2006

	Group 53 weeks ended 2 July 2006 £m	Group 52 weeks ended 26 June 2005 £m
Profit/(loss) for the period	12.2	(8.2)
Release of hedging reserve as financing	1.3	-
Total recognised income/(expense) for the period	13.5	(8.2)
Recognition of fair value of derivative financial instrument, net of tax	(1.3)	-

The recognised income for the period of £1.1million (2005: £2.9 million) is attributable to minority interest.

As permitted by IFRS "First time Adoption of Financial Reporting Standards", the Group has adopted IAS 32 "Financial Instrument: Disclosure and Presentation" and IAS 39 "Financial Instrument: Recognition and Measurement" with effect from 27 June 2005 with no restatement of comparative information. This decreased shareholders' equity by £1.3 million at 27 June 2005.

Consolidated and Parent Company Balance Sheets

As at 2 July 2006

	Note	Group 2 July 2006 £m	Group 26 June 2005 £m	Company 2 July 2006 £m
ASSETS				
Non-current assets				
Intangible assets	14	322.9	288.7	-
Property, plant and equipment	16	207.4	198.4	-
Investments	17	-	-	12.8
Trade and other receivables	19	9.9	9.6	-
Total non-current assets		**540.2**	**496.7**	**12.8**
Current assets				
Inventories	18	9.7	9.5	-
Trade and other receivables	19	19.1	22.2	621.2
Cash and cash equivalents	20	34.5	28.1	0.1
Total current assets		**63.3**	**59.8**	**621.3**
Total assets		**603.5**	**556.5**	**634.1**
LIABILITIES				
Current liabilities				
Trade and other payables	21	(63.9)	(68.6)	(5.7)
Financial liabilities				
- Borrowings	22	(21.6)	(385.6)	(20.8)
- Derivative financial instruments	23, 24	(0.8)	-	-
Corporation tax liabilities		(4.4)	(0.9)	-
Total current liabilities		**(90.7)**	**(455.1)**	**(26.5)**
Non-current liabilities				
Borrowings and other liabilities	22	(353.5)	(200.4)	(352.9)
Deferred tax liabilities	25	(31.3)	(33.1)	-
Provisions	26	(1.3)	-	-
Total non-current liabilities		**(386.1)**	**(233.5)**	**(352.9)**
Total liabilities		**(476.8)**	**(688.6)**	**(379.4)**
NET ASSETS / (LIABILITIES)		**126.7**	**(132.1)**	**254.7**
EQUITY				
Capital and reserves				
Share capital	27	33.7	-	33.7
Share premium	28	147.3	1.3	147.3
Other reserves	29	(11.4)	-	-
Retained earnings	29	(43.6)	(152.4)	73.7
Attributable to equity holders		**126.0**	**(151.1)**	**254.7**
Equity minority interests	29	0.7	19.0	-
TOTAL EQUITY		**126.7**	**(132.1)**	**254.7**

The financial statements on pages 65 to 116 were approved by the Board of Directors on 20 September 2006 and were signed on its behalf by C Heath.

Consolidated and Parent Company Cash Flow Statements

53 weeks ended 2 July 2006

	Note	Group 53 weeks ended 2 July 2006 £m	Group 52 weeks ended 26 June 2005 £m	Company 19 September 2005 to 2 July 2006 £m
Cash flow from operating activities				
Cash generated from operations	33	87.8	56.0	(1.0)
Taxation (paid)/received		(4.3)	0.8	-
Net cash generated from operating activities		**83.5**	**56.8**	**(1.0)**
Cash flow from investing activities				
Purchase of property, plant and equipment		(28.3)	(22.4)	-
Purchase of intangible assets		(0.6)	(0.3)	-
Proceeds from sale of property, plant and equipment		2.8	6.7	-
Interest received		1.3	1.4	0.1
Acquisition of minority interest	33	(32.5)	-	(32.5)
Disposal of subsidiaries		(3.2)	-	-
Acquisition of PizzaExpress	33	-	(0.4)	-
Acquisition of ASK	33	-	(3.1)	-
Net cash used in investing activities		**(60.5)**	**(18.1)**	**(32.4)**
Cash flow from financing activities				
Proceeds from issue of ordinary shares under global offer		135.1	-	135.1
Proceeds from issue of ordinary shares in subsidiary		22.4	1.3	-
Loans proceeds received		370.0	312.1	370.0
Loans paid to group companies		-	-	(355.5)
Loans repaid		(468.7)	(362.4)	(91.8)
Issue of loans to employees to acquire shares		-	(0.8)	-
Receipt of loans from employees in connection with the partnership plan		0.3	1.0	-
Redemption of loan notes		(0.4)	(4.4)	-
Interest paid		(58.6)	(39.7)	(7.9)
Issue costs of debt finance		(3.3)	(0.9)	(3.3)
Issue costs of global offer		(10.4)	-	(10.1)
Transfer from restricted bank account		0.4	4.4	-
Dividends paid		(3.0)	-	(3.0)
Net cash (used)/raised in financing activities		**(16.2)**	**(89.4)**	**33.5**
Net increase/(decrease) in cash and cash equivalents		**6.8**	**(50.7)**	**0.1**
Cash and cash equivalents 27 June 2005		26.9	77.6	-
Cash and cash equivalents 2 July 2006	20	**33.7**	**26.9**	**0.1**

Notes to the Financial Statements

1 Development of the Group

Gondola Holdings plc (the "Company") was incorporated on 19 September 2005 in the United Kingdom. The Company is fully domiciled in the United Kingdom.

With effect from 8 November 2005, the company became the parent company of Gondola Group Limited and its subsidiary companies. This business combination, effected through an exchange of equity interests, has been accounted for as a reverse acquisition in accordance with IFRS 3 'Business Combinations'. The key features of this basis of consolidation are:

- The consolidated income statement includes the results of Gondola Group Limited and its subsidiaries for the 53 week period ended 2 July 2006, with the results of Gondola Holdings plc from 8 November 2005.
- The comparative figures in the income statement are the results of Gondola Group Limited and its subsidiaries for the 52 week period ended 26 June 2005.

The consolidated profit and loss reserves of the Group include the pre Gondola Holdings plc acquisition profit and loss reserves of Gondola Group Limited and its subsidiaries. The Company's income statement is presented for the period since incorporation.

The principal companies within the Group during the period are disclosed in Note 17.

The principal activity of Gondola Holdings plc ("Gondola") and its subsidiaries (the "Group") is operating restaurants and the retail sale of food and beverages.

On 8 November 2005, Gondola Holdings plc's shares were admitted to the Official List of the UKLA and to trading on the London Stock Exchange.

2 Statement of compliance with IFRS

The consolidated financial statements of Gondola Holdings plc for the period ended 2 July 2006 were authorised for issue by the Board of directors on 20 September 2006.

These consolidated financial statements have been prepared for the first time in compliance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations as adopted by the European Union as at 2 July 2006. The Company's financial statements have been prepared on the same basis and as permitted by section 230 (3) of the Companies Act 1985, no income statement is presented for the Company.

From 28 June 2004, comparative consolidated financial information, previously published under UK Generally Accepted Accounting Principles, has been restated on an IFRS basis for the opening balance sheet as at 28 June 2004 and for the year ended 26 June 2005. The change in the group's reported performance and financial position on adopting IFRS was fully disclosed in the Price Range Prospectus document published on 3 November 2005, which is available from the Company's head office and website (www.gondolaholdings.com). The IFRS transition adjustments are disclosed in note 38 in accordance with IFRS 1 (First Time Adoption of IFRS).

The IASs and IFRSs below, which are relevant to the group's operations, have been adopted with effect from 27 June 2005:

IAS 32 Financial Instruments: Disclosure and Presentation
IAS 39 Financial Instruments: Recognition and Measurement

2 Statement of compliance with IFRS (continued)

2.1 First Time Adoption and Accounting Policies

IFRS 1 provides a number of optional exemptions to the general principles of full retrospective application of IFRS. The Group elected to take advantage of the following optional exemptions from full retrospective application at the date of transition to IFRS:

Business combinations — A first-time adopter may elect not to apply IFRS 3 “Business Combinations” retrospectively to business combinations that occurred before the date of transition to IFRS. The Group has elected to take advantage of this exemption. Business combinations that occurred before the date of transition have been consolidated in accordance with the appropriate UK Financial Reporting Standards. Any unamortised goodwill at 27 June 2004 has been recognised in the IFRS financial information at amortised cost, calculated in accordance with UK GAAP, after being tested for impairment at that date.

Cumulative translation differences — A first-time adopter need not comply retrospectively with the requirement in IAS 21 “The Effects of Changes in Foreign Exchange Rates” to classify translation differences arising before the date of transition as a separate component of equity. A first-time adopter may instead reset the cumulative translation differences for all foreign operations to zero at the date of transition to IFRS. The Group has elected to take advantage of this exemption and to present only those exchange differences arising on the retranslation of foreign operations since 27 June 2004, to a separate component of equity.

Financial instruments — In its first financial statements a first-time adopter need not restate the comparative information in compliance with IAS 32 “Financial Instruments: Disclosure and Presentation” and IAS 39 “Financial Instruments: Recognition and Measurement”. The Group has elected to take advantage of this exemption.

3 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

3.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations as adopted for use in the EU, effective for the period ended 2 July 2006, and with those parts of the Companies Act, 1985 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain financial assets and liabilities. During the year the IASB and IFRIC have issued the following standards and interpretations which have an effective date post the financial statements:

IFRS 7, ‘Financial Instruments: Disclosures’
IAS 1, ‘Amendment: Presentation of financial statements-Capital disclosures’
IAS 21, ‘Amendment: Net Investment in Foreign Operations’
IAS 39, ‘Fair Value Option’
IAS 39, ‘Amendment to IAS 39 and IFRS 4: Financial guarantee contracts’
IFRIC 4, ‘Determining whether an arrangement contains a lease’
IFRIC 5, ‘Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds’
IFRIC 6, ‘Waste electrical and electronic equipment’
IFRIC 7, ‘Applying IAS 29 for the first time in hyper-inflationary economies’
IFRIC 8, ‘Scope of IFRS 2, ‘Share-based payment’’
IFRIC 9, ‘Re-assessment of embedded derivatives’

The directors do not anticipate that the adoption of the above standards and interpretations will have a material impact on the financial statements of the Group. Adoption of IFRS 7 requires additional disclosures of capital and financial instruments for periods commencing on or after 1 January 2007. There will be no effect on reported income or net assets.

The principle accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

3.2 Basis of consolidation

The financial information comprises a consolidation of the accounts of the Company and all its subsidiaries. The Group has no joint ventures or associate undertakings. The accounts of the Group's subsidiaries are made up to 2 July 2006.

Subsidiaries include all entities over which the Group has the power to govern the financial and operating policies. Subsidiaries are fully consolidated from the date on which the Group has the power to control. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

3.3 Changes in accounting policies

The consolidated financial statements of the Group up to 26 June 2005 had been prepared in accordance with Generally Accepted Accounting Principles in the United Kingdom (UK GAAP). The comparative figures within this report for the full year ended 26 June 2005 are restated for IFRS except for IAS 32, "Financial Instruments: Disclosure and Presentation" and IAS 39, "Financial Instruments: Recognition and Measurement". Full details of the restatement and reconciliations of the UK GAAP financial information for the year ended 26 June 2005 are in note 37.

The Group has adopted IAS 32, 'Financial instruments: recognition and measurement' and IAS 39, 'Financial instruments: presentation and disclosure' from 27 June 2005. In preparing the comparative figures within this report the Group has utilised the exemption under IFRS1, 'First time adoption of IFRS' to only apply IAS 32 and IAS 39 from 27 June 2005 and has therefore applied the hedge accounting rules of UK GAAP for comparative figures. As a result, the change in accounting policy has no impact on the results of the 52 weeks ending 26 June 2005. The impact on the opening balance sheet at 27 June 2005 is set out in note 37.

3 Summary of significant accounting policies (continued)

3.4 Revenue recognition

Turnover is measured at the fair value of the consideration received or receivable and represents net invoiced sales of food and beverages, including royalties from retail sales and from franchisees but excluding value added tax. Turnover of restaurant services is recognised when the food and services have been provided. Wholesale income is recognised on product delivery. Royalties on franchise and retail sales are included in turnover when due under the terms of the relevant agreements.

Volume related rebates receivable from suppliers are credited to the carrying value of the stock to which they relate. Where a rebate agreement with a supplier covers more than one year the rebates are recognised in the period in which they are earned.

3.5 Segmental reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment, that are subject to risks and returns that are different from those of segments operating in other economic environments.

Internally reported business or geographical segments that exhibit similar long-term financial performances and are subject to similar risks and returns are combined as a single business or geographical segment.

Revenues and expenses are allocated to business segments based on the type of activity to which they relate. Assets and capital expenditure are allocated to particular business segments if they substantially relate to a single identifiable segment. Assets and capital expenditure that relate to a range of services falling under different business segments are reported as unallocated.

3.6 Other operating income

Other operating income comprises gains/losses on the disposal of properties.

3.7 Foreign currency

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in sterling ("GBP"), which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(c) Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into pounds sterling as follows:

i. Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
ii. Income and expenses for each income statement are translated at average exchange rates; and

iii. All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, are taken to shareholders' equity. Cumulative translation differences at the date of transition, 28 June 2004, have been set to zero, as allowed by IFRS 1.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at closing rate. On disposal of a foreign entity, accumulated exchange differences are recognised in the income statement in the same period in which the gain or loss on disposal is recognised.

3.8 Exceptional items

The Group presents a total net figure, on the face of the income statement, for 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 financial performance.

Such events include the disposal of business assets and costs relating to any Listing or restructuring.

3.9 Dividends

Equity dividends are recognised when they become legally payable. In the case of final dividends, this is when the dividends are approved by the shareholders at the AGM. However in the case of interim dividends, they are recognised when paid.

3.10 Borrowings

Borrowings are recognised initially at cost, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement in finance expense, over the period of the borrowings, using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

3.11 Retirement benefit cost

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits to the employee for service in the current and prior periods.

Contributions to defined contribution pension schemes are charged to the income statement in the year to which they relate.

The Group does not participate in any defined benefit retirement schemes.

3.12 Financial instruments

The policy applied for derivatives and financial instruments for the period ended 26 June 2005 was FRS 13 (UK GAAP). The derivative instruments used by the Group to manage its interest rate risk are interest rate swaps. Interest differential under interest rate swap agreement are recognised in the income statement by adjustment of interest expense over the life of the agreement.

For the period ended 2 July 2006, the interest rate swaps are carried on the balance sheet at fair value (marked to market) with changes in value recognised in the income statement.

3 Summary of significant accounting policies (continued)

3.13 Share-based payments

The Group operates an equity-settled share-based compensation plan (the “Partnership Plan scheme”). The fair value of the employee services received in exchange for the award of shares is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares at the date awarded. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of shares that eventually vest. Market vesting conditions are factored into the fair value of the shares awarded. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium when the options are exercised.

3.14 Leased assets

Finance leases

Leases of property, plant and equipment in which the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property, plant and equipment or the present value of minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant periodic rate of interest on the remaining balance of the liability for each period. The corresponding rental obligations, net of finance charges, are included in other long-term payables. These payments are split between capital and interest elements using the annuity method. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

Operating leases

All other leases are classified as operating leases. Payments made under operating leases, net of lease incentives or premiums received, are charged to the income statement on a straight line basis over the period of the lease.

Rent free periods and contributions received from landlords towards the cost of additions to leased land and buildings are treated as deferred income and are amortised to the income statement evenly over the period of the lease.

Premium paid on the inception or extension of the lease is treated as a prepayment and charged to the income statement over the period of the lease.

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease.

3.15 Pre-opening costs

Pre-opening costs are expensed as incurred.

3.16 Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial information, except where the difference arises from:

- The initial recognition of goodwill;
- The initial recognition of an asset or liability in a transaction other than a business combination affecting neither accounting or taxable profit; and
- Investments in subsidiaries where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax is calculated using tax rates that are expected to apply to the period when the temporary differences reverse, based on rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- The same taxable group company; or
- Different group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

3.17 Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment includes labour and overhead costs arising directly from the construction or acquisition of an item of property, plant and equipment.

Assets under construction comprise tangible fixed assets acquired for restaurants under construction, including costs directly attributable to bring the asset into use. Transfers to the appropriate category of property, plant and equipment are made when the restaurant opens.

No depreciation is provided on freehold land or assets under construction. On other property, plant and equipment depreciation is provided on the difference between the cost of an item and its estimated residual value in equal annual instalments over the estimated useful lives of the asset as follow:

Plant	20 per cent. per annum
Fixtures	10 per cent. per annum
Motor vehicles	25 per cent. per annum
Computer equipment	20-33 per cent. per annum

Short leasehold improvements are depreciated over the length of the lease except where the anticipated renewal or extension of the lease is sufficiently certain for a longer estimated useful life to be appropriate. Current legislation and the terms of the lease contracts are such that all of the leases are readily extendible by an additional 14 years. The maximum depreciation period for short-term leasehold properties is 30 years.

3 Summary of significant accounting policies (continued)

3.17 Property, plant and equipment (continued)

Other leasehold improvements that are not expected to have a useful life comparable to the terms of the lease are classified as fixtures and depreciated accordingly.

The cost of freehold properties and long leasehold improvements is amortised over the lesser of 50 years and the outstanding term of the lease.

Assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its recoverable amount.

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate that their carrying values may not be recoverable. Any impairment in the value of property, plant and equipment is charged to the income statement.

Surpluses and deficits on disposals of property, plant and equipment are determined by reference to sale proceeds and net book values. These are recognised in the income statement as other income.

3.18 Intangible assets

(a) Goodwill

Goodwill on acquisition of subsidiaries represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised, but tested annually for impairment, or when a triggering event occurs, and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. The Group has no investment in associates or joint ventures.

Goodwill is allocated on initial recognition to groups of cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in a restaurant.

(b) Software and licences

Costs that are directly associated with the purchase and implementation of identifiable software products by the Group are recognised as intangible assets.

Expenditures that enhance and extend the benefits of computer software programmes beyond their original specifications and lives are recognised as a capital improvement and added to the original cost of the software.

Software is stated at cost less amortisation on a straight line basis over five years.

3.19 Impairment of non-financial assets

Impairment tests on goodwill are undertaken annually at the balance sheet date. Other non-current assets are reviewed whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (i.e. the smallest identifiable group of assets in which the asset belongs for which there are separately identifiable cash flows). Cash flows are then discounted at a pre-tax discount rate to provide a value in use.

3.20 Inventories

Inventories are stated at cost, and subsequently at the lower of cost and net realisable value. Cost is based on the purchase cost on a first-in, first-out basis.

3.21 Trade receivables

Trade receivables are recognised and carried at the original transaction value and principally comprise amounts due from the credit card companies. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

3.22 Cash and cash equivalents

Cash and cash equivalents include cash-in-hand, deposits held at call with banks and other highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and bank and short-term deposits. Cash balances held in restricted bank accounts as security for secured loan note borrowings are excluded from the definition of cash for purposes of the cash flow statement. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

3.23 Provisions

Provisions comprise liabilities of uncertain timing or amount. Provisions are recognised when the Group has a present legal or constructive obligation arising as a result of past events, which is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Property provisions are recognised for unavoidable lease payments representing the difference between the rentals due and any income expected to be derived from the vacant properties being sub-let.

Provisions are discounted to present value where the effect is material using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to liability. The amortisation of the discount is recognised as a finance cost.

Legal provisions comprise legal fees and expected settlement costs.

3.24 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the issue proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of acquisition as part of the purchase consideration.

Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

3 Summary of significant accounting policies (continued)

3.25 Financial risk management

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk, cash flow risk and interest rate risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the Group under policies approved by the Board of Directors (the "Board"). The Group identifies, evaluates and addresses financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk and the use of derivative financial instruments.

(a) Foreign exchange risk

The Group operates mainly in the UK and has a small subsidiary in Ireland and, as a result, the Group's balance sheet can be affected by movements in Euros. This currency exposure is not material as at the date of this report. Currency exposures are reviewed regularly.

Foreign exchange risk may arise from future commercial transactions as the Group purchases certain goods from European suppliers and during the period ended 2 July 2006 hedged these commitments naturally with cash generated from operations in Ireland.

The finance function is responsible for managing the net position in each foreign currency.

(b) Credit risk

The Group has no significant concentrations of credit risk. The nature of the operations results in a large customer basis and a significant proportion of cash sales. The Group has policies that limit the amount of credit exposure to any financial institution.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group aims to maintain flexibility in funding by keeping a minimum specific amount of liquid resources available. The Group manages its exposure to liquidity risk through pre-funding of cash flow, maintaining a diversity of funding sources and spreading debt repayments over a range of maturities.

(d) Cash flow and interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group has not entered into any new interest rate swaps to manage its interest rate risk.

3.26 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3.26.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of goodwill

The Group tests whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 3.18(a). The recoverable amounts of groups of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (note 15).

The 2 July 2006 and 26 June 2005 impairment tests provide substantial headroom. Should the estimated gross margins have been 10% lower than management's estimates used in these calculations, the Group would still not need to reduce the carrying value of goodwill.

(b) Estimated impairment of tangible fixed assets

The Group considers each trading outlet to be a cash-generating unit (CGU) and each CGU is reviewed annually for indicators of impairment.

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 to use. In the absence of any information about the fair value of a CGU, the recoverable amount is deemed to be its value in use (note 15).

(c) Income taxes

The Group is subject to income taxes in UK and Ireland. At each period end, judgement is required in determining the provision for income taxes. The Group recognises liabilities for anticipated tax issues based on best estimates at the balance sheet date. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(d) Share based payments

The company operates the Partnership Plan scheme (note 32). Under the scheme, shares vest unconditionally with employees on and following an exit event as defined in the scheme (i.e. listing or trade sale). The share based payment expense is recognised in each period as it is incurred, based on a simulation model. The key assumptions of this model are presented in note 32.

(e) Onerous lease provisions

Onerous lease provisions are based on estimated unavoidable lease payments. These estimates may differ from actual outcomes.

3.27 Contingent liabilities and assets

A contingent liability is a possible obligation that arises from past events. Existence will only be confirmed by the resolution of one or more uncertain future events, which are not wholly within the control of the Group. It can also be a present obligation whose probable outflow cannot be reliably measured. The Group discloses contingent liabilities in the notes to the financial statements and when a change in the circumstances occurs a provision will be made.

4 Refinancing

On 20 October 2005, the Group entered into a multicurrency term and revolving facilities agreement arranged and underwritten by HSBC plc and The Royal Bank of Scotland plc, whereby the lenders have agreed to provide up to £400m in two facilities:

- Facility A, a term loan of £370.0 million repayable by instalments over 5 years with an initial interest charge of 125 basis points above LIBOR; and
- Facility B, a multicurrency revolving credit facility of up to £30.0 million.

Facility A was fully drawn down on 8 November 2005.

On 8 November 2005, the company issued 27,681,712 ordinary shares to the holders of the Gondola Group Limited loan notes and deep discounted bonds to settle £92.4 million of the amounts due at that date.

On 8 November 2005, the company issued 42,187,500 new ordinary shares listed on the London Stock Exchange at a price of £3.20, giving total proceeds of £135.0 million.

The Group used the net proceeds from the issue of new shares and funds available under the new facilities to:

- Repay all outstanding debt under the senior and second lien credit agreements of £370.5 million on 8 November 2005.
- Redeem outstanding unsecured loan notes £32.5 million.
- Redeem outstanding Gondola Group Limited loan notes and deep discounted bonds of £93.2 million.

The early redemption of senior credit facilities gave rise to a £2.3 million charge to the income statement, arising from the accelerated amortisation of debt issuance costs. Costs of £3.2 million incurred in raising the debt have been deferred and set against the gross value of the new debt.

The costs of the flotation were £10.4 million of which costs incurred in issuing the shares amounting to £2.6 million have been charged against the share premium account. A further £7.8 million of costs have arisen as a result of the listing exercise, but not eligible to be set against the share premium, have been reflected in exceptional costs in the Income Statement.

5 Segmental Reporting

Based on an analysis of risks and returns, the Directors consider that the Group's activities are carried out under two identifiable business segments: restaurant sales and other. No segmentation within restaurant sales is considered to be appropriate, as all brands exhibit similar long-term financial performances and are subject to similar risks and returns.

The activities of the Group are carried out in a single geographical segment, UK, Ireland and Jersey, subject to similar risks and rewards.

Consequently, the Group has considered business segmentation as the primary segmentation, with one separately reportable segment, restaurant services. No geographical segmentation is disclosed, as the Group operates as a single geographical segment.

The segment results for the period ending 2 July 2006 was as follows:

	53 weeks to 2 July 2006			52 weeks to 26 June 2005		
	Restaurant Services £m	Other Segments £m	Total £m	Restaurant Services £m	Other Segments £m	Total £m
Total gross turnover	394.0	10.4	**404.4**	366.9	45.3	412.2
Inter-segment sales				-	(33.4)	(33.4)
Turnover	394.0	10.4	**404.4**	366.9	11.9	378.8
Operating profit	55.1	4.0	**59.1**	50.4	3.1	53.5
Finance costs-net			**(40.9)**			(72.7)
Profit/(loss) before taxation			**18.2**			(19.2)
Taxation			**(6.0)**			11.0
Profit/(loss) after taxation			**12.2**			(8.2)

Other items included in the income statement and capital expenditure are as follows:

	Restaurant Services £m	Other Segments £m	Total £m	Restaurant Services £m	Other Segments £m	Total £m
Depreciation and amortisation	17.0	0.1	**17.1**	15.7	0.1	15.8
Accelerated depreciation	-	-	**-**	2.0	-	2.0
Impairment	1.6	-	**1.6**	1.7	-	1.7
Capital expenditure (tangible and intangible)	31.0	-	**31.0**	23.6	-	23.6

The segment assets and liabilities at 2 July 2006 were as follows:

	Restaurant Services £m	Other Segments £m	Unallocated £m	Total £m
Total assets	274.3	6.5	322.7	603.5
Total liabilities	(101.2)	(0.1)	(375.5)	(476.8)

Unallocated items consists of Assets: goodwill (£322.2 million) and debtors (£0.5 million); and Liabilities: loans and related accrued interest (£374.5 million) and other creditors (£1.0 million).

The segment assets and liabilities at 26 June 2005 were as follows::

	Restaurant Services £m	Other Segments £m	Unallocated £m	Total £m
Total assets	255.8	11.4	289.3	556.5
Total liabilities	(87.1)	(4.7)	(596.8)	(688.6)

Unallocated items consists of Assets: goodwill (£288.2 million) and debtors (£1.1 million); and Liabilities: loans and related accrued interest (£585.9 million) and other creditors (£10.9 million).

6 Operations not included in the global offering

From the total Group operations, the operations not included in the Group following the global offering represent current trading restaurants and administrative costs of Café Pasta Limited, Pandora Express 2A Limited and PizzaExpress (Franchises) Limited, which were sold to another company owned by TDR Capital and Capricorn on 20 October 2005. The results for the 53 week financial period ended 2 July 2006 can be analysed between operations included in the Group following the global offering and operations not included in the Group following the global offering as follows:

	Operations included in the global offering £m	Operations not included in the global offering £m	Total operations £m
53 weeks ended 2 July 2006			
Turnover	402.3	2.1	404.4
Cost of sales	(312.3)	(2.4)	(314.7)
Gross profit / (loss)	90.0	(0.3)	89.7
Other income	0.5	-	0.5
Administrative expenses before exceptional costs	(18.5)	-	(18.5)
Operating exceptional costs	(12.6)	-	(12.6)
Operating profit / (loss)	59.4	(0.3)	59.1
52 weeks ended 26 June 2005			
Turnover	371.3	7.5	378.8
Cost of sales	(288.6)	(7.9)	(296.5)
Gross profit / (loss)	82.7	(0.4)	82.3
Other income	2.4	-	2.4
Administrative expenses before exceptional costs	(16.6)	(0.4)	(17.0)
Operating exceptional costs	(14.2)	-	(14.2)
Operating profit / (loss)	54.3	(0.8)	53.5

7 Group operating profit

Group operating profit is stated after charging / (crediting) in the periods ended:

	Group 53 weeks ended 2 July 2006	Group 52 weeks ended 26 June 2005
Staff costs (note 9)	133.8	124.9
Cost of inventories recognised as an expense	78.5	81.2
Minimum lease payments	38.2	35.8
Rental income	(1.4)	(1.7)
Repairs and maintenance	6.7	6.3
Amortisation of intangible assets (note 14)	0.4	0.1
Depreciation of property, plant and equipment (note 16)	16.7	15.7
Accelerated depreciation	-	2.0
Impairment of tangible fixed assets (notes 15 and 16)	1.6	1.7
Profit on disposal of properties	(0.5)	(2.4)
Loss on disposal of plant and equipment	0.6	0.3
Exceptional administrative items (note 8)	12.6	14.2
Auditors' fees:		
- Statutory audit fees and expenses (2)	0.4	0.2
- Tax compliance services	0.1	0.1
- Fees in relation to ASK acquisition	-	0.2
- Fees in relation to the 'global offering' (1)	2.2	-
	2.7	0.5

(1) Of the fees paid in the period ended 2 July 2006, £0.4 million was capitalised against share premium as a cost of equity.
(2) Includes an amount of £0.1 million relating to the audit fee for the Company.

8 Exceptional items

	Group 53 weeks ended 2 July 2006 £m	Group 52 weeks ended 26 June 2005 £m
Flotation costs	7.8	-
Loss on disposal of the operations not included in the global offering	4.8	-
Costs in relation to reorganisation of group supply chain	-	6.0
Accelerated depreciation of property, plant and equipment	-	2.0
Costs incurred on acquisition of ASK	-	4.7
Other exceptional costs	-	1.5
	12.6	**14.2**

During the period ended 2 July 2006, £7.8 million of the exceptional costs were incurred in relation to the flotation of the Company on the London Stock Exchange. A further £4.8 million of asset write off and provisions were incurred on the disposal of operations not included in the global offering.

During the period ended 26 June 2005, £6.0 million of the exceptional costs were incurred in relation to the reorganisation of the Group's supply chain process in respect of the distribution of food products to the restaurants which resulted in the closure of the warehousing business. Accelerated depreciation of £2.0 million was recorded against tangible fixed assets for the relocation of the PizzaExpress head office. Costs incurred on acquisition of ASK of £4.7 million were professional fees incurred in connection with researching the acquisition and negotiating the sources of finance for the acquisition.

Other operating exceptional costs in 2005 included £0.6 million relating to an aborted bond issue, £0.3 million in establishing a management equity scheme and £0.6 million in relation to loyalty bonuses and research costs incurred as a result of the acquisition of ASK by Gondola.

9 Employees and Directors

a) Employee costs (including directors) comprise:

	53 weeks ended 2 July 2006 £m	52 weeks ended 26 June 2005 £m
Wages and salaries (including bonus)	122.9	115.4
Short-term non-monetary benefits (1)	1.2	0.7
Social security costs	8.6	8.2
Defined contribution pension costs	0.4	0.4
Share-based payment (note 32)	0.7	0.2
	133.8	124.9
Attributable to:		
Operations to be included in the Group following the IPO	133.0	122.1
Operations not included in the Group following the IPO	0.8	2.8
	133.8	124.9
Disclosed within:		
Cost of sales	123.9	115.2
Administrative expenses	9.9	9.7
	133.8	124.9

(1) Short-term non-monetary benefits consist of car leasing costs, health insurance and staff entertaining/gifts.

b) Employee numbers (including executive directors)

	Number	Number
The average number of persons employed by the Group during the period was:		
Restaurants and distribution	10,890	10,560
Administration	193	181
	11,083	10,741

There were no employees of the Company. Six employees' remuneration was recharged to the Company from certain of its subsidiary companies at a cost of £0.5 million.

c) Key management compensation

	53 weeks ended 2 July 2006 £m	52 weeks ended 26 June 2005 £m
Salaries/fees and short term benefits	2.2	1.8
Company contribution to money purchase pension schemes	0.1	-
Share-based payment expense	0.2	0.2
	2.5	2.0

The key management personnel of the Group comprise members of the Gondola Holdings plc, ASK Restaurants Limited and Pizza Express (Restaurants) Limited board of directors and the operating board. The number of key management personnel for 2006 was 20 (2005: 14).

d) Directors remuneration

Details of directors' remuneration and their interests in the Company are shown in the Directors' Remuneration Report on page 60 which form part of these financial statements.

10 Net financing expenses

	53 weeks ended 2 July 2006 £m	52 weeks ended 26 June 2005 £m
Finance Income		
Bank interest receivable	(1.3)	(1.4)
	(1.3)	(1.4)
Finance Expense		
Interest on loans		
- Loan notes – secured	-	0.2
- Bank loans – senior facilities	23.3	23.6
- Bank loans – mezzanine facility	-	9.1
- Bank loans – second lien	2.5	1.9
- Deep discounted bonds	6.3	14.1
- Unsecured loan notes – 16%	5.6	14.4
Amortisation of debt issue costs on bank loans	2.7	10.3
Other interest payable and similar charges	1.8	0.5
	42.2	74.1
	40.9	**72.7**

The total finance expense incurred during the period since the new loan facilities were set up is £14.9m made up from: £14.2m on senior facilities, £0.5m amortisation of debt issue costs and £0.2m other interest payable.

11 Taxation

	53 weeks ended 2 July 2006 £m	52 weeks ended 26 June 2005 £m
Corporation tax charge/(credit)		
Current tax expense relating to UK operations	6.5	(2.3)
Adjustments in respect of current tax of previous periods relating to UK operations	1.3	0.9
	7.8	(1.4)
Deferred tax		
Origination and reversal of temporary timing differences	0.9	(9.2)
Over-provision in respect of prior years	(2.7)	(0.4)
	(1.8)	(9.6)
Total tax charge/(credit)	**6.0**	**(11.0)**

The reasons for the difference between the actual tax charge for the period and the standard rate of corporation tax in the UK applied to profits for the period are as follows:

	53 weeks ended 2 July 2006 £m	52 weeks ended 26 June 2005 £m
Profit/(loss) before tax	18.2	(19.2)
Expected tax charge based on the standard rate of corporation tax in the UK of 30 per cent.	5.5	(5.8)
Expenses not deductible for tax purposes	2.2	-
Effect of overseas tax at lower rate	(0.3)	(0.2)
Effect of losses not recognised	-	(1.6)
Tax adjustments relating to non-qualifying assets from acquisition	-	(3.8)
Origination and reversal of temporary differences	-	(0.1)
(Over)/under-provision in respect of prior years	(1.4)	0.5
	6.0	**(11.0)**

12 Earnings per share attributable to the equity holders

The calculation of the basic and diluted earnings/(loss) per shares has been based on the profit for the 53 weeks ended 2 July 2006 and 104,291,997 shares, being the weighted average number of shares of the Company, after taking into account the restructuring of the share capital on 8 November 2005.

	53 weeks ended 2 July 2006 £m	52 weeks ended 26 June 2005 £m
Numerator		
Profit/(loss) attributable to shareholders	11.1	(11.1)
Exceptional operating costs	12.6	14.2
Tax effect on exceptional costs	(1.3)	(4.1)
Minority interest share of exceptional costs	-	(0.3)
Prior year adjustments for tax	(1.4)	0.5
Earnings/(loss) before exceptional costs	21.0	(0.8)
Denominator		
Weighted average number of shares (millions)	104.3	44.2
Basic earnings/(loss) per share (pence per share)	10.7	(25.1)
Diluted earnings/(loss) per share (pence per share)	10.7	(25.1)
Basic earnings/(loss) per share before exceptional costs (pence per share)	20.1	(1.8)
Diluted earnings/(loss) per share before exceptional costs (pence per share)	20.1	(1.8)

13 Dividends paid and proposed

Group and Company	53 weeks ended 2 July 2006 £m	52 weeks ended 26 June 2005 £m
Declared and paid in the year		
Equity dividend on ordinary shares		
Interim dividend paid for 2005/06 – 2.30 pence (2004/05 - £nil)	3.0	-
Proposed for approval at AGM:		
Equity dividend on ordinary shares		
Final dividend for 2005/06 – 4.70 pence (2004/05 - £nil)	6.3	-

14 Intangible assets

Group	IT software £m	Goodwill £m	Total £m
Cost:			
At 27 June 2004	0.3	288.2	288.5
Additions	0.3	-	0.3
At 26 June 2005	**0.6**	**288.2**	**288.8**
Additions	0.6	34.0	34.6
At 2 July 2006	**1.2**	**322.2**	**323.4**
Amortisation:			
At 27 June 2004	-	-	-
Amortisation charge for the period	(0.1)	-	(0.1)
At 26 June 2005	**(0.1)**	**-**	**(0.1)**
Amortisation charge for the period	(0.4)	-	(0.4)
At 2 July 2006	**(0.5)**	**-**	**(0.5)**
Net book value at 2 July 2006	**0.7**	**322.2**	**322.9**
Net book value at 26 June 2005	0.5	288.2	288.7

An impairment review based on value in use was carried out on the Group's goodwill during the period (note 15).

Company

The company has no intangible assets.

15 Impairment

Goodwill

Details of goodwill allocated to groups of cash-generating units for which the amount of goodwill so allocated is significant in comparison to total goodwill are as follows:

	£m
PizzaExpress sub-group	168.2
ASK sub-group	154.0
	322.2

The goodwill for PizzaExpress sub-group and ASK sub-group represents goodwill for a portfolio of sites. No significant amount has been allocated for any particular site.

The assumptions relating to the value in use calculations are common to both groups of cash-generating units. Recoverable amounts for the 53 weeks ended 2 July 2006 of the above groups of cash-generating units have been determined from value in use calculations based on cash flow projections from formally approved budgets covering the three-year period to June 2009, the assumptions being the same for each cash-generating unit. Major assumptions are as follows (EBITDA growth rate applies only to the period beyond the formal budgeted period with the value in use calculation based on an extrapolation of the budgeted cash flows):

	Pizza Express (per cent.)	ASK (per cent.)
Discount rate (pre-tax)	10.5	10.5
EBITDA growth rate	2.5	2.5
Risk-free rate	4.5	4.5

The pre-tax discount rate represents management's best estimate of the weighted average cost of capital, taking into account the expected level of debt and equity. It also indicates a small company/specific risk premium.

As at 2 July 2006 and 26 June 2005, an impairment of goodwill has not been required.

Impairment losses of tangible fixed assets

In the period, the total impairment losses of tangible fixed assets recognised in the income statement was £1.6 million (2005: £1.7 million). This relates to six marginal or loss making sites, three of which the Group intends to dispose of and for the remaining three the Group plans to continue to operate them and turn their trading performance around.

The Group considers each trading outlet to be a cash-generating unit (CGU) and each CGU is reviewed annually for indicators of impairment. 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 to use. In the absence of any information about the fair value of a CGU, the recoverable amount is deemed to be its value in use.

The Group estimates value in use using a discounted cash flow model. The future cash flows are based on assumptions from the business plans and cover a three year period. Cashflows beyond the budget period are extrapolated using a 2.5% growth rate (2005: 2.5%). This rate does not exceed long-term growth rates for the relevant markets.

The discount rate employed is the Group's estimated weighted average cost of capital before tax and reflects the relevant risks of assets being tested for impairment. The pre-tax discount rate used for 2006 is 10.5% (2005: 13.0%).

16 Property, plant and equipment

Group

	Assets under construction £m	Freehold and long leasehold improvements £m	Short leasehold improvements £m	Plant fixtures, and motor vehicles £m	Total £m
Cost:					
At 27 June 2004	**2.5**	**4.0**	**165.6**	**37.4**	**209.5**
Additions	5.5	3.1	9.2	5.5	23.3
Transfers	(5.4)	(1.8)	6.0	1.2	-
Disposals	-	(4.0)	-	(0.9)	(4.9)
At 26 June 2005	**2.6**	**1.3**	**180.8**	**43.2**	**227.9**
Additions at cost	11.3	1.8	9.6	7.7	30.4
Transfers	(9.7)	0.8	7.0	1.9	-
Disposals	-	(1.2)	(1.7)	(1.3)	(4.2)
Disposal of subsidiaries	-	-	(0.3)	-	(0.3)
At 2 July 2006	**4.2**	**2.7**	**195.4**	**51.5**	**253.8**
Depreciation and impairment:					
At 27 June 2004	**-**	**0.2**	**4.0**	**5.9**	**10.1**
Depreciation charge for the period	-	0.1	7.8	7.8	15.7
Transfers	-	(0.2)	0.2	-	-
Accelerated depreciation	-	-	1.9	0.1	2.0
Impairment loss (note 15)	-	-	1.7	-	1.7
Disposals	-	-	-	-	-
At 26 June 2005	**-**	**0.1**	**15.6**	**13.8**	**29.5**
Depreciation charge for the period	-	0.1	8.7	7.9	16.7
Impairment loss (note 15)	-	-	1.6	-	1.6
Disposals	-	-	(0.5)	(0.8)	(1.3)
Disposal of subsidiaries	-	-	(0.1)	-	(0.1)
At 2 July 2006	**-**	**0.2**	**25.3**	**20.9**	**46.4**
Net book value at 2 July 2006	**4.2**	**2.5**	**170.1**	**30.6**	**207.4**
Net book value at 26 June 2005	2.6	1.2	165.2	29.4	198.4

A floating charge is in place over all assets of the Company and a number of its subsidiaries in relation to senior facilities (note 4).

Company

The Company has no fixed assets.

17 Investments

Investment in subsidiary undertakings

	Company £ m
Cost	
At incorporation	-
Additions	12.8
At 2 July 2006	**12.8**

The principal subsidiaries of the Company at 2 July 2006, all of which have been included in these consolidated financial statements, are as follows:

	Note	Principal activity	Country of incorporation	At 2 July 2006 Proportion of ordinary voting share held %	At 26 June 2005 Proportion of ordinary voting share held % (iii)
PizzaExpress Limited	(i)	Holding Company	UK	99.6	89.6
PizzaExpress (Restaurants) Limited	(i)	Restaurants	UK	99.6	89.6
Bookcash Trading Limited	(i)	Restaurants	UK	99.6	89.6
PizzaExpress (Wholesale) Limited	(i)	Distribution	UK	99.6	89.6
Agenbite Limited	(i)	Restaurants	Ireland	99.6	89.6
PizzaExpress Merchandising Limited	(i)	Branded Sales	UK	99.6	89.6
PizzaExpress (Jersey) Limited	(i)	Restaurants	Jersey	99.6	89.6
ASK Central Limited		Holding Company	UK	100	100
ASK Restaurants Limited		Restaurants	UK	100	100
PandoraExpress 1 Limited		Holding Company	UK	100	100
Gondola Group Limited		Holding Company	UK	100	100
Gondola Finance Limited		Holding Company	UK	100	100
Riposte Limited		Holding Company	UK	100	100

(i) Minority interests hold 0.4 per cent. (2005: 10.4 per cent) equity in PizzaExpress Limited.
(ii) On 20 October 2005 the following subsidiaries were disposed of to PandoraExpress LP, a related party (note 34).

	Principal activity	Country of incorporation	At 2 July 2006	At 26 June 2005
PizzaExpress (Franchises) Limited	Franchising	UK	-	100
Café Pasta Limited	Restaurants	UK	-	100
PandoraExpress 2A Limited	Restaurants	UK	-	100

(iii) The shares were held by Gondola Group Limited, the former parent company.

18 Inventories

	Group 2 July 2006 £ m	Group 26 June 2005 £ m	Company 2 July 2006 £ m
Raw materials and consumables	**9.7**	9.5	-

19 Trade and other receivables

	Group 2 July 2006 £ m	Group 26 June 2005 £ m	Company 2 July 2006 £ m
Trade debtors	**6.1**	9.1	-
Other debtors	**6.7**	1.1	0.1
Amounts due from corporate shareholders	**-**	0.3	-
Amounts due from subsidiary undertakings	**-**	-	621.1
Operating lease premiums	**10.4**	10.1	-
Prepayments and accrued income	**5.8**	11.2	-
	29.0	31.8	621.2
Less non current portion: operating lease premiums	**(9.9)**	(9.6)	-
Current portion	**19.1**	22.2	621.2

20 Cash and cash equivalents

	Group 2 July 2006 £ m	Group 26 June 2005 £ m	Company 2 July 2006 £ m
Cash at bank and in hand	**19.4**	23.9	0.1
Short-term bank deposits	**14.3**	3.0	-
Cash and cash equivalents for cash flow purposes	**33.7**	26.9	0.1
Restricted cash	**0.8**	1.2	-
	34.5	28.1	0.1

The restricted cash relates to amounts held on deposit as security for secured loan notes with £0.8 million (2005 £1.2 million) on deposit with The Royal Bank of Scotland as security for Riposte Limited secured loan notes (see note 22).

21 Trade and other payables

	Group 2 July 2006 £ m	Group 26 June 2005 £ m	Company 2 July 2006 £ m
Trade creditors	**13.1**	15.1	-
Other creditors	**7.0**	17.9	-
Amounts owed to group undertakings	**-**	-	5.4
Other tax and social security payable	**12.8**	13.8	-
Accruals and deferred income for operational expenditure	**31.0**	21.8	0.3
	63.9	68.6	5.7

22 Borrowings and other liabilities

	Group 2 July 2006 £ m	Group 26 June 2005 £ m	Company 2 July 2006 £ m
Borrowings - current liabilities			
Loan notes – secured	**0.8**	1.2	-
Bank loans – senior facilities	**20.8**	343.6	20.8
Bank loans – second lien	**-**	40.8	-
	21.6	385.6	20.8
Borrowing and other liabilities - non current liabilities			
Bank loans – senior facilities	**352.9**	-	352.9
Deep discounted bonds	**-**	95.9	-
Unsecured loan notes – 16%	**-**	104.4	-
Other creditors	**0.6**	0.1	-
	353.5	200.4	352.9

Secured loan notes

On 6 May 2004, Riposte Limited, a subsidiary undertaking, issued £5.6 million of £1 par value secured loan notes as part of the consideration paid to shareholders on the acquisition of ASK Central Limited. The payment of principal on the loan notes was guaranteed by The Royal Bank of Scotland plc and an amount of £5.6 million was held on deposit. These loan notes bear interest at a rate of 0.5 per cent. below LIBOR for six-month sterling deposits.

The loan notes are redeemable at par at the holder's option on any interest payment date, which is set at 31 May and 30 November in any year. Unless previously redeemed, the loan notes will be redeemed by Riposte Limited on 30 November 2007.

As at 2 July 2006, the unredeemed loan notes amount to £0.8 million, which are secured by a deposit of £0.8 million included in cash at bank and in hand in the balance sheet as at 2 July 2006 (note 20).

Senior facilities

Arising from the listing of the company on the London Stock Exchange the Group's finances were restructured resulting in the purchase of all outstanding unsecured loan notes and deep discounted bonds. Other loans were restructured and a new credit facility was put in place (note 4). At 26 June 2005, all bank loans were reclassified as payable within one year as the terms of the loans required repayment in the event of a flotation.

The initial costs of these loans totalled £3.2 million and are being amortised over the period from drawdown of the loan to the anticipated repayment, being five years from drawdown. The unamortised amount of these costs was £2.8 million as at 2 July 2006 of which £0.7 million is netted off the current borrowings (2005: £2.3 million) and £2.1 million off the non-current borrowings (2005: £nil). Interest accrued on the senior facilities was £6.5 million (2005: £10.3 million).

Deep discounted bonds and unsecured loan notes

All deep discounted bonds and unsecured loan notes outstanding at 26 June 2005 were fully redeemed during the period out of the proceeds from the issue of new shares and funds available under the new refinancing facilities (note 4).

Maturity of borrowings and other liabilities

The maturity profile of the carrying amount of the group's non-current liabilities, at 2 July 2006 was as follows:

Group	Debt £m	Other liabilities £m	2 July 2006 Total £m	Debt £m	Other liabilities £m	26 June 2005 Total £m
In more than one year but not more than two years	**19.4**	**-**	**19.4**	-	-	-
In more than two years but not more than five years	**333.5**	**0.1**	**333.6**	-	-	-
In more than five years	**-**	**0.5**	**0.5**	200.3	0.1	200.4
	352.9	**0.6**	**353.5**	200.3	0.1	200.4

Company	At 2 July 2006 £m	At 26 June 2005 £m
In more than one year but not more than two years	**19.4**	-
Between two and five years	**333.5**	-
	352.9	-

Borrowing facilities

The group has the following undrawn committed borrowing facilities available at 2 July 2006 in respect of which all conditions precedent had been met at that date:

	Floating rate £m	Fixed rate £m	2 July 2006 Total £m	26 June 2005 Total £m
Expiring in more than 2 years	**30.0**	**-**	**30.0**	20.0

The unused facility incurs commission fees of 0.5 per cent. The facility, if utilised, would carry interest at a variable market rate.

23 Financial instruments

Short-term debtors and creditors

Short-term debtors and creditors have been excluded from all of the following disclosures, other than the currency risk disclosures.

Interest rate risk profile of financial liabilities

The interest rate risk profile of the Group's and Company's financial liabilities at each period end, after taking account of the interest rate swap contracts used to manage the interest and currency profile was as follows:

	Group at 2 July 2006 £m	Group at 26 June 2005 £m	Company at 2 July 2006 £m
Fixed rate	-	310.3	-
Floating rate	374.5	275.6	373.7
	374.5	585.9	373.7

All the Group's and Company's creditors falling due within one year (other than bank and other borrowings) are excluded from the above tables either due to the exclusion of the short-term items or because they do not meet the definitions of a financial liability, such as tax balances.

The effect of the Group's interest rate swaps is to classify £nil (2005 - £110.0 million) of sterling floating rate borrowings in the above table as a fixed rate. The interest rate swaps cease to hedge the new facilities.

Weighted Average Interest Rates – Fixed Rate Borrowings	Group at 2 July 2006 per cent	Group at 26 June 2005 per cent	Company at 2 July 2006 per cent
Weighted Average Interest Rates – Senior Facilities (A,B,C,D) (hedged element)			
In one year or less, or on demand (weighted average period for which rate is fixed is less than one year)	-	5.3	-
Weighted Average Interest Rates – DDBs			
More than five years (weighted average period is 10 years for 2005)	-	17.8	-
Weighted Average Interest Rates – Unsecured loan			
More than five years (weighted average period is 10 years for 2005)	-	16.0	-

Interest Rate Risk of Financial Assets	£m	£m	£m
Sterling – Cash deposits			
Fixed rate	4.6	3.0	-
Floating rate	16.8	18.3	-
No interest	13.1	6.8	0.1
	34.5	28.1	0.1

The Group has no financial assets, excluding short-term debtors, other than sterling cash deposits of £34.5million (2005 - £28.1 million) which are part of the financing arrangements of the Group. The sterling cash deposits comprise amounts placed on immediate access deposit. The fixed rate cash deposits in sterling were placed with banks on a three-day rolling basis and earn interest at 4.2 per cent. (2005: on a seven-day rolling basis and earning interest at 4.67 per cent.). Floating rate cash earns interest based on LIBOR and is available on demand. Cash deposits earning no interest comprise cash in hand and is available on demand.

Current exposures

At 2 July 2006 the Group had euro-denominated current liabilities, being the functional currency of the relevant Group company, of less than £0.3 million (2005: £0.1 million). Other than this, the Group had no material net foreign currency monetary assets and liabilities that were not denominated in the functional currency of the relevant Group company involved.

Borrowing facilities

The Group had an undrawn committed revolving facility of £30.0 million at 2 July 2006 in respect of which all conditions precedent had been met. The facility is tied to the Senior A loan banking facility which is due to expire in 2010. The facility, if utilised, would carry interest at a variable market rate. The unused facility incurs commitment fees at LIBOR plus 1.25 per cent. The unused facility incurs commission fees at 0.5 per cent. The Group has no uncommitted borrowing facility at 2 July 2006.

Maturity of financial liabilities

Borrowings are repayable as follows:

	Group at 2 July 2006 £m	Group at 26 June 2005 £m	Company at 2 July 2006 £m
Bank Debt – Senior Facilities			
In one year or less, or on demand	20.8	343.6	20.8
In more than one year but not more than two years	19.4	-	19.4
In more than two years but not more than five years	333.5	-	333.5
Secured Loans			
In one year or less, or on demand	0.8	1.2	-
Bank Debt – Second Lien			
In one year or less, or on demand	-	40.8	-
Deep Discounted Bonds			
More than five years	-	95.9	-
Unsecured Loan Notes			
More than five years	-	104.4	-

23 Financial instruments (continued)

Fair values of financial assets and financial liabilities

The following table provides a comparison by category of the carrying amounts and the fair values of the Group's financial assets and financial liabilities at the period end. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale and excludes accrued interest. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting expected cash flows at prevailing interest rates. Set out below the table is a summary of the methods and assumptions used for each category of financial instrument.

Group	At 2 July 2006 Book value £m	At 2 July 2006 Fair value £m	At 26 June 2005 Book value £m	At 26 June 2005 Fair value £m
Loan notes – secured	(0.8)	(0.8)	(1.2)	(1.2)
Short-term bank loans – senior facilities	(20.8)	(20.8)	(343.6)	(343.6)
Bank Loans – due after one year	(352.9)	(352.9)	-	-
Short-term bank loans – second lien	-	-	(40.8)	(40.8)
Deep discounted bonds	-	-	(95.9)	(94.5)
Unsecured loan notes	-	-	(104.4)	(107.8)
Cash deposits	34.5	34.5	28.1	28.1
Derivative financial instrument held to manage the interest rate profile				
Interest rate swaps	(0.8)	(0.8)	-	(1.8)
	(340.8)	(340.8)	(557.8)	(561.6)

Company	At 2 July 2006 Book value £m	At 2 July 2006 Fair value £m
Short-term bank loans – senior facilities	(20.8)	(20.8)
Bank loans – due after one year	(352.9)	(352.9)
Cash deposits	0.1	0.1
	(373.6)	(373.6)

Summary of Methods and Assumptions

The fair value of the secured loan notes which are repayable on demand approximates to the carrying amount due to the short maturity of these instruments.

The fair value of short term bank borrowings and cash deposits approximates to the carrying value reported due to the short maturity of these instruments.

The fair value of long term bank loans – senior facilities approximates to the carrying value reported in the balance sheet as they bear interest at floating rates, where payments are reset to market rates at intervals of less than one year.

Deep discounted bonds and unsecured loans are liabilities which are not traded in an open market. They are particularly sensitive to the discount rate used, as the principal and the total interest compounded are repayable in one lump sum at the end of the period. In order to estimate the fair value of these liabilities, the expected future cash flows were discounted at estimated rates specific to each liability and determined through the consideration of a number of factors including changes in the market since issue.

24 Derivative financial instruments

Interest rate swaps

The Group has adopted IAS 32, 'Financial instruments: recognition and measurement' and IAS 39, 'Financial instruments: presentation and disclosure' from 27 June 2005. In preparing the comparative figures within this report the Group has utilised the exemption under IFRS1, 'First time adoption of IFRS' to only apply IAS 32 and IAS 39 from 27 June 2005 and has therefore applied the hedge accounting rules of UK GAAP for comparative figures.

Under the fair value of the interest rate swaps is calculated as the potential termination cost of the swap as at the balance sheet date.

The Group's prior year policy was to hedge the interest risk using interest rate swaps. The table below shows the extent to which the Group has recognised and unrecognised gains and losses in respect of financial instruments used as hedges at the end of the year. The interest rate swaps have ceased to hedge the new facilities.

All the gains and losses on the hedging instruments are expected to be matched by losses and gains on the hedged transactions or positions. No forward currency contracts are outstanding at each period. There are no deferred gains or losses at each balance sheet date.

	Recognised Losses £m	**Unrecognised Losses £m**
Arising in the period ended 26 June 2005	-	(1.8)
Gains and losses on hedges at 26 June 2005	-	(1.8)
Adoption of IAS 32 and IAS 39	(1.8)	1.8
Restated losses on hedges at 27 June 2005 and 2 July 2006	(1.8)	-

25 Deferred tax liabilities

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 30% (2005: 30%).

The movement on the deferred tax account is as shown below:

	Accelerated Capital allowances £m	Other temporary differences £m	Total £m
At 28 June 2004	40.5	2.2	42.7
Credited in the period	(9.6)	-	(9.6)
At 26 June 2005	30.9	2.2	33.1
Effect of adopting IAS 32 & 39	-	(0.5)	(0.5)
At 26 June 2005 as restated	30.9	1.7	32.6
Credited in the period	(1.8)	-	(1.8)
Recognised in statement of recognised income and expense	-	0.5	0.5
At 2 July 2006	29.1	2.2	31.3

At 2 July 2006, the Group had unrecognised deferred tax assets of £nil (2005: £0.7 million) arising from accelerated capital allowances, and £4.7 million (2005: £4.7 million) arising from tax losses. The directors consider that it is not probable that sufficient suitable profits will arise to utilise the unrecognised losses.

The deferred tax liability includes an amount of £11.1 million, which relates to assets that are not eligible for any tax allowances and which were acquired as part of a business combination before the date of transition to IFRS.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

26 Provisions

Group	Onerous contracts £m
At 27 June 2005	**-**
Charged to income statement	1.3
At 2 July 2006	**1.3**

Provisions are discounted where the effect of the time value of money is material.

The onerous contract provisions are all non-current and relate to sites which were excluded from the 'global offering' and will return to the Group on 1 July 2007, if not disposed of prior to that date.

Onerous contract provisions have been discounted using a rate of 5% (2005 – nil). The provisions are expected to be utilised between 13 to 23 years.

27 Share Capital

The Company was incorporated on 19 September 2005. The comparative share capital movements relate to that of Gondola Group Limited, which was acquired by the Company on 8 November 2005.

	Gondola Holdings plc At 2 July 2006		Gondola Group Ltd At 26 June 2005	
Authorised	**Number**	**£m**	**Number**	**£**
Ordinary shares of 25p each	200,000,000	50.0	-	-
Ordinary A shares of £1 each	-	-	100	100
Ordinary B shares of £1 each	-	-	100	100
Ordinary C shares of £0.0005 each	-	-	26,000,000	13,000
		50.0		13,200

	Gondola Holdings plc At 2 July 2006		Gondola Group Ltd At 26 June 2005	
Issued and fully paid	**Number**	**£m**	**Number**	**£**
Ordinary A shares of £1 each				
At beginning and end of the period	-	-	100	100
Ordinary B shares of £1 each				
At beginning and end of the period	-	-	100	100
Ordinary C shares				
At beginning of the period 10,000 shares of £1 each	-	-	10,000	10,000
Subdivision of existing ordinary C shares into shares of £0.0005 each	-	-	20,000,000	10,000
Issue of shares of £0.0005 each	-	-	5,186,210	2,593
At end of the period	-	-	25,186,210	12,593
Ordinary shares of 25p each				
Issue of shares of £1 each on incorporation	50,000	0.1	-	-
Subdivision of ordinary shares of £1 each into shares of 25p each	200,000	0.1	-	-
Issue of shares of 25p each	134,478,196	33.6	-	-
At end of the period	134,678,196	33.7	-	-
At end of the period	**134,678,196**	**33.7**	**25,186,410**	**12,793**

Gondola Holdings plc

The Company was incorporated on 19 September 2005 with an authorised share capital of £50,000 comprising 50,000 ordinary shares of £1 each.

On 2 November 2005, each of the issued and unissued ordinary shares of £1 each in the share capital of the Company were subdivided into four ordinary shares of 25p each.

On 2 November 2005, the authorised share capital of the Company was increased from £50,000 to £50.0 million comprising 200,000,000 ordinary shares of 25p each.

27 Share Capital (continued)

On 8 November 2005, the Company issued 42,187,500 ordinary shares listed on the London Stock Exchange at a price of 320 pence per share, giving total proceeds of £135.0 million. In addition 51,046,997 ordinary shares were issued to purchase the entire issued share capital of Gondola Group Limited. A further 41,243,699 ordinary shares were issued as settlement of all outstanding deep discounted bonds and unsecured loan notes within Gondola Group Limited.

Gondola Group Limited

By a written resolution of the shareholders of Gondola Group Limited, passed on 25 February 2005, the shareholders of Gondola Group Limited resolved amongst other things:

- To sub-divide each of the existing ordinary C shares into 20,000,000 ordinary C shares of £0.0005 each;
- To increase the authorised share capital of Gondola Group Limited to £13,200, divided into 100 ordinary A shares of £1 each, 100 ordinary B shares of £1 each and 26,000,000 ordinary C shares of £0.0005 each by the creation of an additional 6,000,000 ordinary C shares of £0.0005 each; and
- To amend the Gondola Group Limited Articles to recognise that the authorised share capital of Gondola Group Limited at the date of the adoption of the Gondola Group Limited Articles should be 13,200 divided into 100 ordinary A shares of £1 each, 100 ordinary B shares of £1 each and 26,000,000 ordinary C shares of £0.0005 each.

5,186,210 ordinary C shares of £0.0005 each were issued on 28 February 2005 to various employees under the Partnership Plan scheme (note 32). These shares are beneficially owned and were converted into shares of Gondola Holdings plc on acquisition.

28 Share premium

The Company was incorporated on 19 September 2005. The comparative share premium movements relate to that of Gondola Group Limited, which was acquired by the Company on 8 November 2005.

	Gondola Holdings plc £m	Gondola Group Ltd £m
At 27 June 2004	-	-
Premium on shares issued during the year under the share option scheme	-	1.3
At 27 June 2005	-	1.3
Premium on shares issued during the period	249.9	-
Costs of equity funding on flotation	(2.6)	-
Transfer to retained earnings	(100.0)	-
At 2 July 2006	**147.3**	**1.3**

On 3 November 2005, the shareholders of the Company passed a special resolution to reduce the share premium account and transfer to retained earnings the sum of £100 million. Confirmation by the Companies Court and registration with the Companies Registrar has been obtained to confirm the capital reduction.

29 Shareholders' funds and statement of changes in equity

Group

	Share capital £m	Share premium £m	Other reserves £m	Retained Earnings £m	Total £m	Minority interest £m	Total equity £m
At 26 June 2004	-	-	-	(51.5)	(51.5)	16.1	(35.4)
Total recognised loss for the period	-	-	-	(11.1)	(11.1)	2.9	(8.2)
Ordinary shares issued	-	1.3	-	-	1.3	-	1.3
Accrued share based payments	-	-	-	0.2	0.2	-	0.2
Appropriation (1)	-	-	-	(90.0)	(90.0)	-	(90.0)
At 26 June 2005	-	1.3	-	(152.4)	(151.1)	19.0	(132.1)
Effect of adopting IAS 32 & 39	-	-	-	(1.3)	(1.3)	-	(1.3)
At 26 June 2005 as restated	-	1.3	-	(153.7)	(152.4)	19.0	(133.4)
Total recognised income for the period	-	-	-	12.4	12.4	1.1	13.5
Transfer share premium to reserves	-	(100.0)	-	100.0	-	-	-
Ordinary shares issued (2)	33.7	246.0	(11.4)	-	268.3	-	268.3
Acquisition of minority interests	-	-	-	-	-	(19.4)	(19.4)
Accrued share based payments	-	-	-	0.7	0.7	-	0.7
Equity dividends	-	-	-	(3.0)	(3.0)	-	(3.0)
At 2 July 2006	**33.7**	**147.3**	**(11.4)**	**(43.6)**	**126.0**	**0.7**	**126.7**

(1) On 30 June 2004, the Group issued £90.0 million in unsecured loan notes to PandoraExpress LP. This represents the value transferred out of the Group as a result of the reorganisation of the group companies prior to the flotation and has been treated as an appropriation in the financial statements.

(2) The other reserves arose on the Company's acquisition of Gondola Group Limited.

Company

	Share capital £m	Share premium £m	Other reserves £m	Retained Earnings £m	Total £m	Minority interest £m	Total equity £m
At 26 June 2005	-	-	-	-	-	-	-
Total recognised loss for the period	-	-	-	(23.3)	(23.3)	-	(23.3)
Ordinary shares issued	33.7	247.3	-	-	281.0	-	281.0
Transfer share premium to reserves (note 28)	-	(100.0)	-	100.0	-	-	-
Equity dividends	-	-	-	(3.0)	(3.0)	-	(3.0)
At 2 July 2006	**33.7**	**147.3**	**-**	**73.7**	**254.7**	**-**	**254.7**

Notes to the Financial Statements continued

30 Changes in equity of minority interests

Profit/(loss) distribution

The profit/(loss) after taxation is attributable to equity holders and minorities as follows:

	53 weeks ended 2 July 2006 £m	52 weeks ended 26 June 2005 £m
Equity holders	11.1	(11.1)
Minority interest	1.1	2.9
	12.2	(8.2)

At 26 June 2005, various minority shareholders held a 10.4 per cent holding in PizzaExpress Limited.

On 20 October 2005, Fidelity and M&G subscribed for 1,315,048 newly issued ordinary shares of 25p each in ASK Restaurants Limited which represents 10.07 per cent of the issued share capital of that company.

On 8 November 2005, Gondola Holdings plc purchased all shares held by Fidelity and M&G in ASK Restaurants Limited and PizzaExpress Limited.

There was a resultant minority holding of 0.4 per cent in PizzaExpress Limited only which was held by various shareholders.

31 Commitments

Operating leases – lessee

The Group acts as a lessee in a large number of property lease agreements in relation to restaurant buildings. The leases are typically of a period of 20-40 years and, in accordance with the current legislation and the terms of the lease contracts, all of the leases are readily extendible by an additional 14 years. Lease rental is periodically revised, based on the market conditions. There are no financial covenants or other restrictions associated with the operating lease agreements.

As at 2 July 2006 total future minimum lease payments are due as follows:

Group

	As at 2 July 2006 £m	As at 26 June 2005 £m
Within one year	36.1	34.8
Later than one year and less than five years	140.8	136.1
After five years	458.1	453.5
	635.0	624.4

The financial commitments for operating lease amounts payable calculated as a percentage of turnover have been based on the minimum payment that is required under the terms of the relevant lease. As a result the amounts charged to the income statement are different to the financial commitment at the year end.

Company

The Company has no operating leases.

Capital commitments

Capital expenditure contracted but not provided as at 2 July 2006 was £1.2 million, relating to three new restaurants (26 June 2005 - £2.1 million).

32 Share-based payments

Partnership Plan

Prior to Admission, the Company operated the "Partnership Plan" for eligible staff members. Participants were able to acquire ordinary shares ("partner shares") under this Plan with an interest-bearing loan provided to the majority of participants for this purpose. Vesting of shares under the Partnership Plan commenced immediately prior to Admission and takes place in three stages. Immediately prior to Admission, a market condition was applied to determine the number of shares participants may retain, the number that are retained subject to further market conditions and the balance which are bought back by the Company and cancelled or purchased by the an Employee Benefit Trust. Following Admission, the shares that have ceased to be subject to a market condition vest in three tranches – on Admission, six months after Admission and the final tranche 12 months after Admission. The shares that remain subject to the market condition vest on a sliding scale which is applied 12 months after Admission. Any of these shares not vesting at this time will be bought back by the Company or purchased by an Employee Benefit Trust. Further details of the Partnership Plan can be found in the Listing Particulars relating to Admission.

The number of shares granted and outstanding are detailed as follows:

	Number
Shares granted in Gondola Group Limited during the period to 26 June 2005	5,186,210
At 26 June 2005	5,186,210
Shares forfeited pre Admission	(139,288)
Additional grants	37,289
	5,084,211
Conversion to shares in Gondola Holdings plc	10,168,422
Shares forfeited on Admission	(1,382,768)
Additional grants at market value	77,261
At 2 July 2006	**8,862,915**

The shares in Gondola Group Limited were originally acquired by the employees at a price of 25.7p per share, which was agreed with the Inland Revenue to be the fair value of the shares for a minority shareholder. This was converted to an equivalent price of 12.8p per share in Gondola Holdings plc.

32 Share-based payments (continued)

The Monte Carlo Simulation Model was used to value these awards.

Equity-settled	Monte Carlo Simulation Model
Valuation model used:	
Weighted average share price at grant date	55p
Purchase price (based on share price paid on award and 5% interest cost on loan)	27p to 30p
Estimated period to exit	1 year
Expected volatility for enterprise value	11.5%
Expected dividend growth rate	0%
Risk-free interest rate	4.71%
Weighted average fair value	16.3p
Partnership Plan scheme expense (for 52 weeks ended 26 June 2005)	£0.2 m
Partnership Plan scheme expense (for 53 weeks ended 2 July 2006)	£0.6 m
Total Partnership Plan scheme expense	£0.8 m

The market vesting condition was factored into the valuation of the awards by using a simulation model and taking into account the probability of meeting the vesting condition at different target levels.

As the equity value of the core operations will depend on the Enterprise value of the Company at the exit event, the fair value of the awards has been determined by simulating the Enterprise value of the Company using geometric Brownian motion. For this purpose, the volatility assumption is measured at the standard deviation of expected Enterprise value. This is based on a statistical analysis of historical daily Enterprise value (as per the interpretation used for the plan rules) for similar listed companies.

The Group did not enter into any share-based payment transactions with parties other than employees during the current or previous periods.

Other share-based awards

Under his service agreement, Chris Heath received an award of ordinary shares with a value equal to £275,000. The shares will be issued, subject to Mr Heath's continued employment, in three equal tranches on the first, second and third anniversaries of the date of Admission.

The share-based expense relating to this award in the period was £0.1 million (2005: nil).

33 Notes to cash flow statement

(a) Cash flow from operating activities

	Group 53 weeks ended 2 July 2006 £m	Group 52 weeks ended 26 June 2005 £m	Company 19 September to 2 July 2006 £m
Profit/(loss) after tax	12.2	(8.2)	(23.5)
Adjustments for:			
Taxation	6.0	(11.0)	-
Depreciation	16.7	15.7	-
Accelerated depreciation	-	2.0	-
Impairment expense – property, plant and equipment	1.6	1.7	-
Amortisation of software	0.4	0.1	-
Profit on disposal of properties	(0.5)	(2.4)	-
Loss on disposal of plant and equipment	0.6	0.3	-
Amortisation of lease premiums	0.5	0.5	-
Exceptional charge relating to global offer	7.8	-	7.5
Exceptional charge relating to disposal of subsidiaries	3.5	-	-
Exceptional charge relating to fees incurred on refinancing	-	4.7	-
Onerous contract provision	1.3	-	-
Cash payment relating to fees incurred on acquisition of ASK	(9.2)	(6.1)	-
Share based payment – employee share plan	0.7	0.2	-
Finance costs – net	40.9	72.7	14.8
	82.5	**70.2**	**(1.2)**
Decrease/(increase) in trade and other receivables	1.4	(4.8)	(0.1)
(Increase)/decrease in inventories	(0.3)	3.1	-
Increase/(decrease) in trade and other payables	4.2	(12.5)	0.3
Cash generated from operations	**87.8**	**56.0**	**(1.0)**

The cash payment relating to fees incurred on acquisition of ASK included £9.0 million paid to Capricorn. This was included within other creditors as at 26 June 2005.

(b) Cash flow from investing activities

During the period ended 2 July 2006, the Group paid £32.5 million to purchase outstanding loan notes held by Fidelity and M&G.

During the period ended 26 June 2005, the Group paid £0.4 million deferred consideration in relation to the acquisition of PizzaExpress (June 2003). This occurred due to payment of stamp duty and was accounted for as cost of investment.

During the period ended 26 June 2005, the Group also paid £3.1 million deferred consideration in relation to the acquisition of ASK (May 2004). This was accounted for as a reduction in the short-term creditor outstanding at 27 June 2004.

34 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Transactions with TDR Capital and Capricorn (significant shareholders of the Company)

During the period, the Group sold its leasehold interest in an ASK Restaurant site in Chiswick for £0.2 million to Relish Restaurants Limited, a company which is ultimately owned by TDR Capital and Capricorn, who are both significant shareholders of the Company.

On 20 October 2005, the shares in PandoraExpress 2A Limited, a subsidiary company of the former parent, Gondola Group Limited, were sold for £1 to PandoraExpress LP Limited, a company owned by TDR Capital and Capricorn. PandoraExpress 2A Limited included the "Non-core Group" of restaurants which were excluded from the global offering. If any of the loss making restaurants remain with PandoraExpress 2A at 27 June 2007, the leases for those premises will revert to the Group. If, prior to 27 June 2007, any of the underperforming restaurants operated by the PandoraExpress 2A report positive EBITDA over a consecutive 6-month period, PandoraExpress 2A may require the Group to acquire any such restaurant business at a price equal to two times annualised EBITDA.

Management services (including payroll processing and accounting) were provided by the Group to PandoraExpress 2A Limited and its subsidiaries. A fee of £0.4 million (2005: £0.3 million) was paid for these services.

Transactions with directors and senior managers

During the period, ASK paid a total of £0.7 million (2005 - £0.5 million) in rents and insurance to Kropifko Properties Limited, a company of which Adam Kaye and Sam Kaye, who are directors of ASK Restaurants Limited, are directors and in which both have interests, £nil (2005 - £nil) was owed to Kropifko Properties Limited at the balance sheet date.

During the period, ASK paid a total of £0.1 million (2005 - £0.1 million) in rents and insurance to KLP Limited, a company of which Adam Kaye and Sam Kaye are directors and in which both have interest. No amount was owed to KLP Limited at either balance sheet date.

During the period, ASK paid a total of £0.3 million (2005 - £0.2 million) to Red Pepper Solutions, an organisation in which Andrew Fleet (who is a non-executive director of ASK Restaurants Limited, and is the husband of Julia Fleet) is the sole owner. These payments were for both hardware and software supplies together with the maintenance and licensing of the restaurant stock control system. £0.1 million (2005: nil) was owed to Red Pepper Solutions at the balance sheet date.

Harvey Smyth is a limited partner of PandoraExpress LP. In consideration for an investment of £312,504 (of which £50,000 is deferred), Mr Smyth had the following interests immediately prior to the Listing:

- £312,504 fixed coupon 8% unsecured loan notes 2015 of PandoraExpress LP.
- The right to receive 1.47 per cent. of receipts received by the partnership from PandoraExpress 2A and its subsidiaries (this increases to 4.41 per cent. on flotation).
- The right to receive 3.18 per cent. of receipts received by the partnership from PandoraExpress S.a.r.l., a subsidiary of PandoraExpress LP (this increases to 9.53 per cent. on flotation).

During the period, Kandahar Group became landlords of three restaurant units. Kandahar Group is a property company owned by a trust of which the son of David Ross is beneficiary. As this transaction took place at the end of the period, no payments of rent have been made direct to Kandahar Group by the period end.

Partnership plan loans to and from directors and senior managers

Under the terms of the Partnership Plan scheme, loans were granted to participants to purchase shares in Gondola Group Limited. These loans bear interest of 5 per cent. The following loans were outstanding as at 2 July 2006 owed by directors and members of senior management:

	As at 2 July 2006	As at 26 June 2005
Harvey Smyth (director)	£277,026	£262,662
Julian Seaward (director)	£100,431	£95,662
Helen Burgess	£566	£3,927
Mark Crawford	£566	£3,927
Julie MacDonald	£566	£3,927

In conjunction with, and in order to participate in the Partnership Plan scheme, certain directors and senior managers were asked to provide an interest free loan to the Gondola Group Limited in order to demonstrate their commitment to the Group. Each loan is repayable on 8 November 2006 by the Group in accordance with the relevant agreement between Gondola Group Limited and the relevant directors and senior management.

The following loans were outstanding as at 2 July 2006 due from Gondola:

	As at 2 July 2006	As at 26 June 2005
Adam Kaye	£396,687	£396,687
Sam Kaye	£396,687	£396,687
Martin Eckersley	£85,544	£85,544
Julia Fleet (director)	£34,068	£34,068
Nigel Garfitt	£24,472	£24,472
Neil Blows	£20,404	£20,404
Jackie Freeman	£20,408	£20,408
Simon Blagden	-	£12,735

35 Contingencies

Warrants

On 1 July 2003, warrants for the purchase of 942 D Shares in PandoraExpress 3 Limited, a subsidiary of PandoraExpress 1 Limited, were issued to certain third parties, being Uberior Trading Limited and Hutton Collins Mezzanine Partners LP. In January 2004, TDR Capital acquired an interest in certain of the warrants owned by Hutton Collins Mezzanine Partners LP. The warrants were exercisable on a listing or a sale of any issued share capital of Pandora Express 1 Limited, PandoraExpress 2 Limited or PandoraExpress 3 Limited.

The warrants became exercisable on 30 June 2004, on the sale of PandoraExpress 1 Limited to Gondola Group Limited.

These warrants were exercised on 20 October 2005.

36 Events after the balance sheet date

A final dividend of 4.7 pence per share amounting to a dividend of £6.3 million was proposed by the directors at their meeting on 20 September 2006, and is subject to approval at the forthcoming AGM. These financial statements do not reflect this dividend payable.

37 IAS 39 transition balance sheet

The Group adopted IAS 32, “Financial instruments: presentation and disclosure” and IAS 39 “financial instruments: recognition and measurement” from 27 June 2005. In the preparation of the comparative figures within this report under IFRS, the Group applied the hedge accounting rules of UK GAAP, taking advantage of the exemption under IFRS 1, “First time adoption of IFRS”. Under this exemption, interest rate swaps, commodity and foreign exchange contracts that were previously accounted for as fair value hedges under UK GAAP were not measured at fair value within the financial statements. On adoption of IAS 39 the differences between the financial instruments previously reported carrying value and their fair value has been reflected within opening reserves.

IAS 39 required the Group to recognise transitional adjustments in accounting for its financial instruments. This affects the treatment of the Group’s interest rate swaps, which were previously treated as cash flow hedges of forecasted transactions and were not recognised prior to their date of settlement. These instruments are considered to be non-qualifying hedging instruments at the date of transition and have been recognised at fair value. The effect is to increase the Group’s liabilities by £1.8m, with an associated deferred tax asset of £0.5m, giving a net decrease in net liabilities at 27 June 2005 of £1.3m

The interest rate swaps expire on 31 May 2007.

Restatement of consolidated balance sheet to include IAS 32 and IAS 39

	27 June 2005 £m	IAS 39 transition adjustment £m	Restated including IAS 39 £m
ASSETS			
Non-Current Assets			
Intangible Assets	288.7		288.7
Property, plant and equipment	198.4		198.4
Trade and other receivables	9.6		9.6
Total non-current assets	**496.7**		**496.7**
Current assets			
Inventory	9.5		9.5
Trade and other receivables	22.2		22.2
Cash and cash equivalents	28.1		28.1
Total current assets	**59.8**		**59.8**
Total assets	**556.5**		**556.5**
LIABILITIES			
Current liabilities			
Trade and other payable	(68.6)	(1.8)	(70.4)
Borrowings	(385.6)		(385.6)
Corporation tax liabilities	(0.9)		(0.9)
Total current liabilities	**(455.1)**	**(1.8)**	**(456.9)**
Non-current liabilities			
Borrowings and other liabilities	(200.4)		(200.4)
Deferred tax liabilities	(33.1)	0.5	(32.6)
Total non-current liabilities	**(233.5)**	**0.5**	**(233.0)**
Total liabilities	**(688.6)**	**(1.3)**	**(689.9)**
NET LIABILITIES	**(132.1)**	**(1.3)**	**(133.4)**
EQUITY			
Capital and reserves			
Attributable to equity holders	(151.1)	(1.3)	(152.4)
Minority interests	19.0		19.0
TOTAL EQUITY	**(132.1)**	**(1.3)**	**(133.4)**

38 IFRS transition

Reconciliations of profit for the 52 weeks period ended 26 June 2005

The Group has prepared reconciliations between the profit/(loss) for the period ended 26 June 2005 recorded under UK GAAP and IFRS, 26 June 2005 being the last period reported under UK GAAP.

Profit and loss account reconciliation for the 52 weeks ended 26 June 2005

	Sub-note	UK GAAP £m	Effect of transition to IFRS £m	IFRS £m
Turnover		378.8	—	378.8
Cost of sales		(296.5)	—	(296.5)
Gross profit		82.3	—	82.3
Other income		2.4	—	2.4
Administrative expenses		(45.6)	14.4	(31.2)
Analysed as:				
Administrative expenses (before exceptional items)	i, ii, vii	(31.4)	14.4	(17.0)
Exceptional items		(14.2)	—	(14.2)
Operating profit		**39.1**	**14.4**	**53.5**
Finance income		1.4	—	1.4
Finance expense		(74.1)	—	(74.1)
Loss before tax		**(33.6)**	**14.4**	**(19.2)**
Taxation	iii, viii	7.1	3.9	11.0
Loss after tax		**(26.5)**	**18.3**	**(8.2)**

Reconciliations of equity as at 28 June 2004 and 26 June 2005

The Group has prepared reconciliations between the shareholders' equity recognised under UK GAAP and under IFRS as at 28 June 2004, the date of transition to IFRS, and as at 26 June 2005, the balance sheet date of the last UK GAAP accounts.

Equity reconciliation as at 28 June 2004

	Sub-note	UK GAAP £m	Effect of transition to IFRS £m	IFRS £m
ASSETS				
Non-current assets				
Intangible assets	v	288.2	0.3	288.5
Property, plant and equipment	iv, v	210.6	(11.2)	199.4
Trade and other receivables	iv	—	10.4	10.4
Total non-current assets		**498.8**	**(0.5)**	**498.3**
Current assets				
Inventories		12.6	—	12.6
Trade and other receivables	iv	15.4	0.5	15.9
Cash and cash equivalents		83.2	—	83.2
Total current assets		**111.2**	**0.5**	**111.7**
Total assets		**610.0**	**—**	**610.0**
LIABILITIES				
Current liabilities				
Trade and other payables		(84.8)	—	(84.8)
Borrowings		(302.2)	—	(302.2)
Corporation tax liabilities		(1.6)	—	(1.6)
Total current liabilities		**(388.6)**	**—**	**(388.6)**
Non-current liabilities				
Borrowings and other liabilities		(214.1)	—	(214.1)
Deferred tax liabilities	vi, viii	(23.0)	(19.7)	(42.7)
Total non-current liabilities		**(237.1)**	**(19.7)**	**(256.8)**
Total liabilities		**(625.7)**	**(19.7)**	**(645.4)**
NET LIABILITIES		**(15.7)**	**(19.7)**	**(35.4)**
EQUITY				
Called up share capital		—	—	—
Share premium		—	—	—
Retained earnings	vi, viii	(31.8)	(19.7)	(51.5)
Minority interest		16.1	—	16.1
TOTAL EQUITY		**(15.7)**	**(19.7)**	**(35.4)**

Equity reconciliation as at 26 June 2005

	Sub-note	UK GAAP £m	Effect of transition to IFRS £m	IFRS £m
ASSETS				
Non-current assets				
Intangible assets	i, v	273.4	15.3	288.7
Property, plant and equipment	iv, v	209.0	(10.6)	198.4
Trade and other receivables	iv	—	9.6	9.6
Total non-current assets		**482.4**	**14.3**	**496.7**
Current assets				
Inventories		9.5	—	9.5
Trade and other receivables	iv	21.7	0.5	22.2
Cash and cash equivalents		28.1	—	28.1
Total current assets		**59.3**	**0.5**	**59.8**
Total assets		**541.7**	**14.8**	**556.5**
LIABILITIES				
Current liabilities				
Trade and other payables	ii	(68.4)	(0.2)	(68.6)
Borrowings		(385.6)	—	(385.6)
Corporation tax liabilities		(0.9)	—	(0.9)
Total current liabilities		**(454.9)**	**(0.2)**	**(455.1)**
Non-current liabilities				
Borrowings and other liabilities		(200.4)	—	(200.4)
Deferred tax liabilities	iii, vi, viii	(17.3)	(15.8)	(33.1)
Total non-current liabilities		**(217.7)**	**(15.8)**	**(233.5)**
Total liabilities		**(672.6)**	**(16.0)**	**(688.6)**
TOTAL NET LIABILITIES		**(130.9)**	**(1.2)**	**(132.1)**
EQUITY				
Called up share capital		—	—	—
Share premium		1.3	—	1.3
Retained earnings	i, ii, iii, vi, viii	(151.2)	(1.2)	(152.4)
Minority interest		19.0	—	19.0
TOTAL EQUITY		**(130.9)**	**(1.2)**	**(132.1)**

Adjustments

Explanations of the adjustments made to the UK GAAP income statement and balance sheets are as follows:

Sub-note	Explanation
(i)	Under UK GAAP, goodwill has been amortised over its estimated expected useful life up to a maximum of 20 years. Under IFRS 3, goodwill is considered to have an indefinite life and so is not amortised, but is subject to annual impairment testing. Therefore the annual goodwill charge made under UK GAAP will not be recorded under IFRS from 28 June 2004, the IFRS transition date. The IFRS restatement results in a reduction in the 26 June 2005 amortisation charge of £14.8 million, thereby increasing operating profit and reducing retained loss. Net assets at 26 June 2005 are increased by the same amount.
(ii)	As part of the operating lease agreements for buildings, the Group received a number of lease incentives, in the form of free rental periods and compensations for leasehold improvements. Under IFRS, lease incentives are spread over the lease term. Under UK GAAP, they are spread over the shorter of lease term or the period until the first rent review. This has resulted in an increase in liabilities of £0.2 million at 26 June 2005 (28 June 2004: £nil) with a corresponding increase in lease expense (gross of tax effects) for the period then ended.
(iii)	The deferred tax effect of adjustment (ii) was a £0.1 million reduction in the liability at 26 June 2005 (28 June 2004: £nil) with a corresponding reduction in deferred tax expenses of £0.1 million for the period then ended.
(iv)	Under IFRS, lease premiums paid are recognised as an expense on a straight-line basis over the lease term. Under UK GAAP, the Group recognised these payments as part of tangible fixed assets, depreciating the cost over the lease period. The impact of the adjustment is an increase in prepayments of £10.1 million at 26 June 2005 (being £9.6 million non-current and £0.5 million current) (£10.9 million at 28 June 2004, being £10.4 million non-current and £0.5 million current) with a corresponding decrease in fixed assets of £10.1 million at 26 June 2005 (£10.9 million at 28 June 2004). In addition, £0.5 million of depreciation (under UK GAAP) has been reclassified as rental expense under IFRS for the period to 26 June 2005. There is no impact on profit or net assets as a result of this adjustment.
(v)	Software costs have been reclassified from within property, plant and equipment to intangible assets. The impact of the reclassification at 26 June 2005 was £0.5 million (£0.3 million at 28 June 2004). The software depreciation charge of £0.1 million recognised under UK GAAP during the period ended 26 June 2005 was reclassified as amortisation.
(vi)	The deferred tax adjustment associated with capital gains previously rolled over into newly acquired assets and payable when the acquired assets are disposed of was £2.3 million at 26 June 2005 (£2.3 million at 28 June 2004). No income statement effect was recognised during the period.
(vii)	Under UK GAAP, share-based awards are accounted for on an intrinsic basis. Under IFRS 2, an expense is recognised in the income statement for grants of equity instruments in relation to employee options. The expense recognised is based on the fair value of the shares or options at the date of grant and is recognised over the vesting period of the scheme.
(viii)	Under IFRS, on a business combination, a deferred tax balance is recognised on the difference between the fair value of an acquired asset and its equivalent tax value. Under UK GAAP, as deferred tax is computed based on timing differences, no similar deferred tax effect is recognised for assets acquired through a business combination. This difference only impacts assets that are not eligible for any tax allowances. The effect of this difference is an additional deferred tax liability of £13.6 million recognised at 26 June 2005 (£17.4 million at 27 June 2004). A corresponding tax credit of £3.8 million is recognised in the income statement for the period ended 26 June 2005.

Adjustments continued

Cashflow statement for the 52 weeks ended 26 June 2005

The key changes to the cash flow statement include:

- presenting a statement showing movements in cash and cash equivalents, rather than just cash. Cash under UK GAAP comprised only amounts accessible in 24 hours without penalty less overdrafts repayable on demand. The components of cash equivalents are shown in note 20, and
- classifying tax cash flows as relating to operating activities.

Corporate Directory

Directors	David Ross	- Non-Executive Chairman
	Chris Heath	- Executive Director
	Harvey Smyth	- Executive Director
	Julia Fleet	- Executive Director
	Manjit Dale	- Non-Executive Director
	Julian Seaward	- Non-Executive Director
	Robert 't Hooft	- Non-Executive Director
	Karen Jones	- Non-Executive Director
	Richard Grigson	- Non Executive Director
	Zillah Byng-Maddick	- Non-Executive Director

Secretary	Martin Eckersley
Registered Office	20 High Street, St. Albans, Herts AL3 4EL.
Company Number	5566787
Auditors	PricewaterhouseCoopers LLP, 1 Embankment Place, London, WC2N 6RH.
Corporate Advisers	Merryl Lynch International, 2 King Edward Street, London EC1A 1HQ Deutsche Bank, Winchester House, 1 Great Winchester Street, London EC2N 2DB
Registrars	Lloyds TSB Registrars, PO Box 1350, Highdown House, Goring-by-Sea, West Sussex BN99 6QZ